EMERGING TRENDS OF SMALL AND MEDIUM ENTERPRISES IN GHANA; A STUDY OF BUSINESSES AT ANLOGA WOOD CLUSTER, KUMASI

A Thesis submitted to the Postgraduate Studies

Kwame Nkrumah University of Science and Technology, Kumasi

in partial fulfilment of the requirements for the degree of Master of Science in Development Policy and Planning

By

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February, 2009

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CERTIFICATION

I hereby declare that this submission is my own work towards the MSc. Development Policy and Planning and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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ABSTRACT

Private sector development has been recognized as the engine of growth throughout the world, especially in developing countries where public or State Enterprises failed to yield expected results and there is the need to broaden ownership and participation in the economy. Small and Medium Enterprises (SMEs) operate in the private sector of Ghana and provide the economy with benefits of diversifying production, employment avenue, developing entrepreneurs and avenue to ensure indigenous based industrialisation and others.

However, SME sector in Ghana is characterized by inherent limitations such as small size, existence of financing gap, rudimentary nature of ownership and management, operating without business plan, as well as demand and supply side constraints that adversely affect the sector. In Ghana the sector was also inactive and inefficient until, 1983, when the nation undertook the Economic Recovery Programme to resuscitate the public and private sectors.

Currently, SMEs clustering, networking and strong inter-firm linkages are emerging trends that allow small firms to overcome their size constraints in manufacturing and service delivery whilst business and strategic planning, marketing by network and niche as well as bridging the SME-financing gaps are some of the innovative management practices deployed to manage the value creating activities of SMEs to become focused more productive.

The study was carried out at Anloga Wood Cluster, a suburb of Kumasi in the Ashanti Region of Ghana. It focused on emerging trends of organizing SMEs and the effect of such trends on SMEs activities within the SWOT framework and make recommendations which can help improve SMEs operation in the cluster. The research employed both case study and exploratory research approaches and applied both probability and non-probability procedures to collect primary data through structured questionnaires and personal interviews. A total of 150 SMEs were sampled and same number of questionnaires was administered using the stratified sampling technique.

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The study revealed that clustering of SMEs, networking and inter-firm linkages are emerging at Anloga Wood Cluster. These findings have the effect of external economies that result in cost savings and improved profitability and cashflows. Other managerial trends that are emerging include business planning and marketing by network and niche.

Following the findings the study concluded that the creation of vibrant SMEs do not occur in vacuum and therefore SMEs need to be proactive to adopt current proven practices that meet their resource constraints to help them overcome their inherent size and managerial constraints.

However, the study recommended establishment of real or support services, continuous entrepreneurial education, cluster development within the context of local economic development and the need for explicit National SME Policy to local and central governments as well as other stakeholders in the sector to improve SMEs performance.

ACKNOWLEDGEMENT

I feel indebted to the following people who helped me throughout my studies and research work.

First and foremost, I thank The Almighty God for granting me His grace, strength and health in pursuing my studies for two years.

My second appreciation goes to my supervisor, Prof. Romanus Dinye who guided me through this study, and provided intellectual guidance to this work. It is a duty to acknowledge my intellectual and practical debt to him.

Thirdly, my sincere thanks go to all lecturers of the Department of Planning especially Dr. K. D. Kessey (Head of Department) and Mr. B.K. Annor– Anim (Course Director) who provided a congenial academic and administrative atmosphere for me to pursue my academic work. Their tuition and guidance for the past two years has given me intellectual insight and contributed to bringing me this far.

I would also like to extend my sincere gratitude to the executives of Small Scale Carpenters Associations, especially Rev. Fugah and Hope who provided me with relevant data for this study.

I also extend special thanks to my life time friend, Hannah Amponsah Boadiwaa, my mom (Vera), dad (John), my brothers, Adamtey, Henry and Maxwell and sisters Rosemary, Korkor and Lily for their love, support and encouragement throughout my studies at the University.

Lastly, I thank all my course mates, friends and everyone who in way or another supported and encouraged me.

God bless you all.

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List of Acronyms

GDP	-Gross National Product
GoG	- Government of Ghana
GPRS I	-Ghana Poverty Reduction Strategy
GPRS II	-Growth and Poverty Reduction Strategy
IFC	-International Finance Corporation
ICT	-Information and Communications Technology
ILO	-International Labour Organisation
JIT	-Just-In-Time
LED	-Local Economic Development
NBSSI	-National Board for Small Scale Industries
NGO	-Non-Governmental Organisation
OECD	-Organisation of Economic Cooperation and Development
R&D	-Research and Development
SMEs	-Small and Medium Enterprises
SSCA	-Small Scale Carpenters Association
SWOT	-Strength Weakness Opportunity and Threats analysis.
UNCTAD	-United Nations Conference for Trade and Development
UNIDO	-United Nations Industrial Development Organisation
WITC	-Wood Industries Training Centre

USD -United State Dollar

CHAPTER ONE

GENERAL INTRODUCTION

1.1 General Introduction and Background

Current development paradigm recognizes active private sector as the engine of growth and development in the developing world. This viewpoint hinges on Neoclassical economic thinking that postulates private ownership brings greater efficiency and rapid growth, promotes individual initiative and broaden the ownership and participation in the national and international economy.

Small and Medium Enterprises (SMEs), which is the area of interest to this study, operate in the private sector and are recognised as the backbone of economies in the developing world including Ghana in terms of production, employment creation, entrepreneurship development and poverty reduction (Quartey, 2001).

These developmental roles played by SME sector had enable it received substantial policy attention at both country (local) and international level. Literature assigns three reasons to policy attention SMEs receive lately. First, it is argued that the whole country gains from having strong SME sector as it broadens and diversifies private sector activities. Secondly, strong SME sector will not emerge unless there is public or state support to redress informational asymmetry and market failures that characterised SMEs and finally, programmes to support SMEs are justified on welfare grounds rather than economic efficiency (Schmitz and Humphrey, 1995).

In Sub- Sahara Africa, SMEs are heterogeneous in nature, operate in all sectors of the economy but mostly found in the informal sector of the economy. Recent studies indicate that SME's sector over the world contributes over a third of domestic recorded output and employ 40 to 70 percent of the labour force (Todaro and Smith, 2006).

In Ghana the SME's sector dominates the industrial structure with about 90 percent of registered firms, employs about 70 percent of labour force and contributes less than 30 percent to Gross Domestic Product (GDP) (Briggs and Weijer, 2007). This evidence indicates that SMEs are characterized by low productivity relative to large

firms and factors such as lack of economies of scale due to small size, low investment in technical and managerial skills, lack of innovation and competitiveness are some inherent limitations blamed for the poor productivity of the SME sector in developing countries like Ghana for decades.

However, new ways of organising SMEs and their activities to ameliorate some of problems associated with size constraints, low investments, and utilisation of technical and managerial skills as well as applying innovative and less costly business practices that fit SMEs circumstances and resources are emerging. Literature identifies concentration of SMEs at specific geographic areas, networking and inter-firms cooperation in sharing resources, adoption of strategic business planning, niche and network marketing approaches, export orientation of SMEs activities, bridging SMEs financing gaps and provision of technological services to SMEs by government or private consortiums to meet quality assurance standards of regulatory agencies as some new trends emerging all over the world to revitalise the SMEs sector into productive one (Nadvi, 1995).

The rationale of this study is to find out new trends of organising SME's and their activities and how such trends are transforming SMEs in Ghana into viable entities.

1.2 Problem Statement

Small and medium enterprises development is an important issue that needs to be addressed appropriately if Ghana's vision of industrialization and achieving middle income status in the medium to long- term is to be realized. A strong and viable SME sector provides positive developmental effects at both macro and micro levels in the economy. At the macro- level SMEs facilitate the dispersal of enterprises and development infrastructures in both urban and rural areas. They also contribute to value creation and total output of the country, provide avenue to diversified production, and help the economy to withstand vulnerabilities of the global economic system. At the micro-level, SMEs provide employment for their owners and workers and are closely associated with equitable distribution of income hence, poverty alleviation effects (OECD, 2005).

They also provide forward and backward linkages in the production and distribution chain. Some operate as suppliers of inputs and intermediate services, subcontractors whilst others help move products to final consumers.

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Economic history of Ghana suggests that the private sector and for that matter the SME sector was virtually non-existence during 1957 to 1966 due to public sector led industrialization strategy adopted by Dr. Kwame Nkrumah's regime after independence. The sector also suffered from severe economic decay in the mid 1970's to 1983 that led to the Economic Recovery Programme. The sector lacked incentives to attract investment, as well as congenial institutional, legal and regulatory environment to grow (Aryeetey, 1994).

The sector has been traditionally referred to as "the poor cousin of large enterprises" because of its small size and inherent limitations such as limited access to financial resources for investment, limited product range and market, and rudimentary ownership- management structure. These limitations are compounded by government policy biases towards large firms' development (UNCTAD, 2005).

For decades, governments viewed SMEs as weak economic actors because most economic development policies were based on the dual economic concept which perceived large firms to be modern and efficient with great managerial and financial resource while SMEs were deemed to be unproductive entities lacking sufficient management skills and financial backing to compete in the modern economy (OECD, 2005). These problems above have culminated into demand and supply side constraints. Demand side constraints develop because SMEs produce for unsophisticated and limited market. Supply side constraints relate to limited access to productive inputs, technical and financial resources (Dawson, 1993).

However, the desire by many governments in developing countries to create diversified economic base, improve productivity and incomes and reduce poverty have given a renewed impetus to SMEs development. On national and international fronts, new ways of organising SMEs and their activities are emerging. These new trends are designed to help mitigate some of the constraints to SMEs development. The rationale for the renewed commitment to SMEs development hinges on the concern that if issues concerning SME's development are not adequately addressed, Ghana's SMEs sector risks decline and will trail behind its global counterparts in Asia and other parts of the world. This would slow down the country's projected growth rate of 8 percent per annum to enable it achieve a middle income country by 2015.

Anloga Wood Cluster in the Ashanti Region of Ghana, which is the study area, houses SMEs that manufacture wood products for both domestic and exports market. SMEs in the cluster are constrained and possess the characteristics mentioned above.

The study asks the under listed research questions emanating from the research problem.

1. What are the emerging trends of SMEs operations in Ghana?
2. What approach have Ghana adopted to develop her SME's sector?
3. What are the inter-firm linkages between SMEs in the Anloga Wood Cluster?
4. Are SMEs at the Anloga Wood Cluster export oriented?

1.3 Goal and Objectives of the Study:

The research seeks to identify new methods and practices of organising and managing SMEs in Ghana and how such changes can transform business entities to become efficient and viable entities and make recommendation to inform policy.

The research seeks to achieve the following set of specific objectives:

1. To identify the emerging trends of SMEs and establish factors that promotes or hinders such trends.
2. To identify Ghana's approach to develop her SMEs sector into vibrant one.
3. Establish the kind of inter-firm linkages between SMEs and other firms.
4. Establish the types of products SME's export.
5. Make recommendation for development interventions.

1.4 Scope of the Research

Conceptually, the research is based on 'Propagative' Industrial Development Model which is characterized by the presence of small business and clusters. This model creates clusters of interrelated small firms that need small amounts of start-up capital, lesser entrance barriers, greater cooperation and competition with other firms in the cluster, and do not depend excessively on government funds. It also focuses on the adoption and application of new practices and methods of organizing SMEs to help them overcome their inherent limitations of small size and scarcity of finance, and

spur SMEs to become productive and profitable. It is also based on the informal economy.

The SME's sector can be categorized into agriculture, manufacturing and service. This research focused on manufacturing SMEs at the timber sub-sector.

Geographically, the research focused on SMEs located at Anloga Wood Cluster, a suburb of Kumasi Metropolis in the Ashanti Region of Ghana. Ashanti Region was chosen for the research because, according to Industrial Census by the Ghana Statistical Services 2003, it is the second most industrialised Region in Ghana. Ashanti Region also houses the Suame Light Engineering and Anloga Wood Clusters that are appropriate for the study, hence the selection of Anloga Wood Cluster for this research.

In terms of time, the research focused on contemporary ways of organising SME's activities that are emerging from 1983 to 2008 when private sector development was given greater attention.

1.5 Choice of Anloga Wood Cluster

Anloga cluster was chosen for this study for two reasons. First, the study focused on manufacturing SMEs that add value to inputs or create value in the production chain as well as SMEs that depict certain level of inter-firm linkages in their activities with other firms. Secondly, SMEs at Anloga Wood Cluster are located within one of the largest clusters of small scale manufacturing entities in the country and they provide avenue to study whether emerging trends in SMEs operations such as networking and collaboration among small firms, strategic business planning, SMEs marketing and export orientation which are prevalent in other clusters around developing world are appearing in Ghanaian SMEs clusters.

1.6 Definition of Concept

According to Storey (1994), there is no single, uniform acceptable, definition for SMEs. For the purpose of this research, the number of employees' criteria was employed to define SMEs because it is easy to identify and use than other criterion such as capitalization, growth rate and turnover which are very sensitive for disclosure purposes.

Small enterprises are firms that employ between five (5) and nineteen (19) worker.

Medium enterprises are firms that employ twenty (20) and ninety- nine (99) workers.

Emerging trends refers to new methods of value creation and business practices that SMEs are adopting to organise their activities and operation in order to overcome their inherent constraints or limitations such as lack of economies of scale due to small size, lack of access and scarcity of finance, non-adoption of strategic planning among SMEs and others.

1.7 Justification of the Study

Every sound industrial regime must have a strong indigenous base and the SME's sector presents such opportunity for local entrepreneurs to own and participate in the industrialization process of Ghana. This research is relevant for three reasons:

1. It will aid in addressing growth and development issues confronting the SMEs sector in Ghana.
2. Output of the research will be useful guide to entrepreneurs and prospective entrepreneurs in managing SMEs, especially those at the Anloga Wood Cluster.
3. The research would also contribute to knowledge and available literature on SMEs.

1.8 Limitation of the Study

The study was limited by non- availability of up-to-date register of all SMEs at the Cluster, unreliable information, limited time and financial resources to do extensive research. However, these limitations were managed effectively to ensure validity and reliability of the research. Personal observation was employed to authenticate the register of estimated population. Again multiple source evidences were employed to check the reliability and accuracy of information provided by respondents to questionnaires.

1.9 Organization of the study

The report of the study is organized into five chapters. Chapter one, the introductory chapter, deals with the background of the study, problem statement, objectives and scope of the study as well as justification of the study. Chapter two discussed the theoretical and conceptual frameworks that guided the investigations throughout its execution. This chapter includes a brief review of the concepts and theories on SMEs development, emerging trends in SMEs operations, Ghana's approach to develop her SMEs sector and conditions necessary for SMEs growth in Ghana.

The third chapter described the research design and methodology employed for the study. It describes the population, sample size, and the sampling procedure adopted. Chapter four gives a brief description of the study area and value creating activities at the study area. It also analysed and interpreted data gathered from the field survey. Finally, chapter five contains findings and their implications, recommendations and conclusion.

Reference materials consulted and appendices are compiled at the end of the report.

1.10 Conclusion

The problem statement, objectives of the study and scope informed the body of theories and concepts to review, the research methodology to adopt for the study and the rest of the work.

CHAPTER TWO

THEORETICAL AND CONCEPTUAL FRAMEWORK

2.1 Introduction

SMEs refer mainly to profit oriented firms operating in private sector of the economies around the world possessing certain characteristics such as employing less than certain number of employees, lower growth rate and smaller capital base.

SMEs are diverse and heterogeneous in terms of their operations, technologies, size of entities, products and services they offer for sale, markets they serve, employment levels and management structures (Biggs, 2002; OECD, 2005). SMEs also operate in all sectors of an economy; namely agricultural, service and industrial sectors around the world. SMEs function in diverse markets at all levels- rural, local, national, regional and international and because of their diversity they possess different capital and management sophistication and growth orientation (Ayyagar et al, 2007).

This chapter reviews relevant literature on importance of SMEs, emerging trends in organising SMEs, Ghana's approach to develop the SMEs sector and the basic conditions required for SME growth.

2.2 Definition of SMEs

SMEs have been defined differently by different countries, authors and institutions with varied philosophies. According to Storey (1994), there is no single uniform definition for SMEs. Biggs (2002) asserted that definitions for SMEs vary between countries depending on market size; other quantitative and qualitative factors while in the view of Kayanula and Quartey (2001), variables such as capitalisation, growth rate, and number of employees are mainly employed to define SMEs.

One of the standard definitions of SMEs is given by United Nations Industrial Development Organisation (UNIDO) 1995, which is based on a country's level of industrialisation. UNIDO classifies firms with employment strength below 500 in industrial countries as SMEs. It categorises firms that employ between 499 and 100 workers as medium scale whilst those employing 99 workers or less as small firms. In the developing regions it classifies firms that employ between 20 and 99 workers as medium scale firms whilst small firms refers to entities employing between 5 and 19 workers (cited from Kayanula and Quartey, 2001).

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Other definitions also introduce capital or fixed assets in addition to level of employment. In Ghana, the National Board for Small-Scale Industries (NBSSI), the main governmental institution charged with the responsibility of SMEs development, uses multiple criteria of fixed assets and employment size to distinguish SMEs from large scale enterprises. The NBSSI defines small enterprises as firms employing not more than twenty-nine (29) persons with plant and machinery value (excluding land, buildings and vehicles) not exceeding 10 million cedis or US $9506 using 1994 exchange rate. Medium size firms employ between thirty and ninety- nine (30- 99) workers and a capital base ranging from $10,000 to $100,000 as medium size (NBSSI, 2000).

From the definitions above, it can be inferred that there is no agreed definition for SMEs. All definitions placed emphasis on certain key variables that are perceived to be constituents or characteristics of SMEs. It has also been established that countries with larger economies have higher threshold or cut-off point in defining SMEs whilst in developing countries where the economies and average firm sizes are smaller, lower thresholds are used in defining SMEs. This confirms International Labour Organisation (ILO) study in which 50 definitions of SMEs were identified in seventy- five (75) countries (from Kayanula and Quartey, 2001).

2.3 SMEs and the Informal Economy:

Most small enterprises in the world operate in the informal economy and with regard to the developing world SMEs consist of small 'survivalist' firms which are less productive and operate in the informal economy. According to OECD (2005) Empirical evidence suggests that the higher the concentration of SMEs in an economy, the bigger the informal sector and therefore the SME sector and the informal economy are interlinked. The concept of informal economy is broad and generally defined as all unreported income from production of goods and services that would generally would generally be taxable if reported to stated authorities. However, ILO (2003) defined the informal economy as 'all economic activities by workers and economic units that in law or in practice not covered or insufficiently covered by formal arrangements'.

According to Dualists, "the informal economy is a separate marginal economy not directly linked to the formal economy, providing income or a safety net for the poor" (OECD, 1997). The Structuralist also perceives the informal economy as subordinated economic activity to the formal economy. According to them the informal sector is a subordinate of the formal sector (Castells and Portes 1989). Finally, Legalist School sees the informal economy as entities that are excluded from formal economy because of cumbersome and costly government regulations that stifle private enterprise (ILO, 2003).

The contribution of the informal sector to GDP in the developing world is enormous. In Africa for example the informal economy as a share of GDP is estimated to be 41 percent (OECD, 2002). In the Ghanaian economy the informal sector accounts for about 22 per cent of GDP since 1989 (ILO, 2003). The informal economy is diverse and cut across all sectors of the economy. According to Aboagye and Yankson (1992) over 40 per cent of informal sector engaged in trade, 30 percent involved in manufacturing and about 18 per cent in services.

2.3.1 Some Salient characteristics of the Ghanaian informal sector

The informal sector is broad and economic units that operate in the sector are heterogeneous in nature and possess certain characteristics. The following are some of the salient characteristics associated with the informal economy:

i. *Size of economic units* - Informal sector enterprises small in size and are individually-owned and operated generally for less than five years duration (Aboagye and Yankson, 1992). Often, the size is determined in terms of number of employees including apprentices and family members engaged or the capital invested. According to Aboagye and Yankson (1992) the average size of employment in the Ghanaian informal sector is four though the number may vary with the nature and type of activity.

ii. *Entrepreneurs and ownership of economic units*- The informal economy consist of enterprises owned and operated by own-account workers, either alone or in partnership with members of the same or other households, which may employ family workers and employees on an occasional basis (Aryeetey 1994). According to Chen (2004) economic units engaged in the informal economy operate with the primary objective of generating

employment and incomes to the persons concerned. These units typically operate at a low level of organization, with little or no division between labour and capital as factors of production and generate little or no profit.

iii. *Employment*- According to Chen (2004) majority of individuals acting within the informal economy are unpaid family workers and apprentices. OECD (2005) contended that employees of informal enterprises are not visible like formal sector firms.

iv. *Capital investment and Technology*- Informal sector operators work with equipments which are simple. According to Aboagye and Yankson (1992) investment in the informal sector is low and mostly operators use their savings to acquire second hand equipments. The level of technology employed in the informal sector is also low and in poor condition (Aboagye and Yankson, 1992). These equipments are either second-hand or self-crafted bought locally with subsequent improvements made by the entrepreneurs.

v. *Production and marketing*- Goods and services produced at the informal are simple with little value addition. Economic units in the sector are less productive and lack economies of scale (OECD, 2002). Products from the informal sector are craft based, unbranded and are labour intensive (ILO, 2003). As regards marketing, efforts of entities in the informal sector are geared towards selling to the immediate environment. According to Aboagye Yankson (1992) majority of the informal sector products serve the poorer end of the market or the economy.

2.4 Importance of SMEs to Development

Literature agrees that SMEs contribute positively to a country's development. Biggs (2002) summed it up 'SMEs contribute to socio-economic development through different channels". In the view of Saee, (2004), SMEs provide opportunities for new ideas and skills to be tested whilst Fujita, (1999), identified job creation; innovation and exporting as three significant roles SMEs play in an economy. The OECD (2004) adds competition, equitable distribution of income and poverty reduction to the above contributions of SMEs. This coincides with an assertion by Kayanula and Quartey (2001) that SMEs play overarching role in developing countries. They described SMEs as the "engine through which growth objectives can be achieved".

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2.4.1 SMEs Contribution to Employment

Employment is one of the visible contributions of SMEs to any nation's development. SMEs are seen as the main creators of new employment in both developing and developed nations (Fujita, 1999: OECD, 2005). OECD (2005) concluded that SMEs account for 50-60 percent of total employment in most developing and developed countries. In Ghana the sector employs an average of 15.5 percent of labour force in the formal sector (Kayanula and Quartey, 2001).

Ayyagari et al (2007) contended that there is a strong positive correlation between SMEs employment and increase in Gross Domestic Product (GDP) per capita. OECD (2005) also achieved similar result but both results could not establish a causal relationship probably because there are numerous determinants to economic growth. The implication is that countries with vibrant SMEs sector experienced continuous prosperity and displayed remarkable growth in employment and per capita GDP.

Biggs and Shah (1998) criticised SMEs as disproportionate destroyers of jobs and instead considered net job creation power of SMEs as a better view, literature concludes that SMEs have powerful employment creating capability in vibrant economies. Inference can be made that SMEs are capable of creating new employments when there is economic boom or expansion than large firms and the public sector, but in periods of recession SMEs would destroy more jobs due to the sector's vulnerabilities.

2.4.2 Source of Entrepreneurial Growth and Innovation

OECD (2005) claimed that SMEs are the main source of economic growth, entrepreneurial development and innovation. According to Ayyagari, Beck and Asli, (2007), SMEs provide "seedbed" or 'incubator' function which is vital to the long-run health of an economy. Saee (2004) contended that the rationale behind this claim is that SMEs allow new ideas and concept to be translated into products or services within a manageable risk levels. The implication is that SMEs provide grounds for small indigenous entrepreneurial firms to develop which is a basic requirement for successful industrialisation. SMEs also offer opportunity to commercialise concepts, ideas and curiosity within acceptable risk levels.

The view point on SMEs being innovative is inconclusive. Acs and Audretsch (1987) found in the United State of America that the SMEs are more innovative than larger firms due to the flexibility of SMEs to apply new methods and practices derived from research findings whilst Pagano and Schivardi (2001), also established in Europe that larger firms are associated with higher innovation rate. With respect to developing countries, Rosenberg (1976), and Baumol (1994), argued that SMEs in developing countries rely on technology transfers and imitations to drive productivity improvements instead of innovation. To reconcile viewpoints above, firms' investments in Research and Development (R&D) activities would be a major determinant of innovations, other things being equal, hence firms' ability to invest in R&D and apply its findings is cardinal to innovations. In this regard, SMEs investment in R&D may be small, hence little technical and managerial innovations.

In terms of market innovation, it is often argued that small firms are innovative when they follow "niche strategies," using high product quality, flexibility, and responsiveness to customer needs as means to compete with large-scale producers (Biggs, 2002).

2.4.3 SMEs and Competition

Pro-SME proponents hold the view that SMEs intensify competition and exert external effects on national production. According to OECD (2004), the intensity of SMEs competition in an economy-wide is limited but dynamic between SMEs. Little et al (1987) also argued that SMEs and large firms serve different segments of the market even though they may be offering ostensibly the same products. This implies that SMEs are not in direct competition with large firms because they serve different segment of the market or population hence competition in the SMEs sector is competition between small firms.

2.4.4 SMEs and Exports

According to Badrinath (1997), SMEs have the potential to become significant exporters. An OECD (2004) study on exports by business segment in developing and developed nations revealed that SMEs are important source of export in advanced and some emerging economies. Ayyagari, Beck and Asli (2007) contended that

SMEs share of manufactured exports in selected East Asia, African and OECD countries demonstrates that SMEs contribute between 20 and 51 percent of export of manufactured goods.

However, Bigsten et al. (1999), and Biggs (2002), posit that SMEs engage in indirect exports instead of direct. They argued that SMEs are indirect exporters who export through agents, by supplying intermediate inputs or acting as subcontractors to larger export firms. Nooteboom (1993) gave factors such as higher transaction costs involved in dealing on the international market while Hill (2000), argued that size, limited external contacts and networks hinder SMEs ability to export directly. The implication is that not all SMEs are involved in export or export oriented. Probably growth oriented SMEs favoured by size, connections with large firms, and to some extent the economy in which they operate enable them to export.

2.5 Emerging Trends of SMEs

SMEs are characterized by small size and demand and supply side constraints (Dawson, 1993) which mostly resulted in higher mortality rate (Samuelson, 1987). In order to overcome these inherent limitations, SMEs must adopt value creating methods and practices that suite resources circumstances and help them overcome their inherent limitations.

Dini and Ceglie (2003) identified clustering and networking of small firms as two of many new patterns of organizing and managing SMEs. Other trends emerging are changes in production and inventory management philosophies (Lucy, 1997), marketing by network and customer orientation practised by SMEs (Gilmore, Carson and Grant, 2001) bridging SME- financing gaps for credit and equity capital, strategic planning are restructuring SMEs operations and transforming the sector into a vibrant one.

Over the years production philosophy had changed from mass production to job production whilst in-house complex production structures are being replaced with linear production with emphasis on cost minimization, innovation and value addition as the cardinal objectives (Hill, 2000). These changes present varying opportunities and challenges to SMEs. According to Mendoza (1993 cited from Gunasekaren et al, 1996) SMEs benefit from various types of emerging patterns namely; better access to

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markets, lower production costs, easier access to funds and technology and better access to raw materials. This section of the chapter looks at the emerging trends influencing SMEs operations.

2.5.1 Clustering of SMEs at a Geographic Area

Clustering of SMEs in a particular geographic has received renewed interests among economists and institutions interested in SMEs after the Italian success and this phenomenon is reshaping production on the SMEs landscape (Nadvi, 1995). SME clustering is often associated with regional development.

UNIDO (2000) referred to clustering of SMEs as sectoral and geographical concentrations of enterprises that produce and sell a range of related or complementary products and who face common challenges and opportunities. According to Humphrey and Schmitz (1995), these concentrations create external economies such as the emergence of specialized suppliers of raw materials and components or growth of a pool of sector-specific skills and resources that can foster development of specialized services in technical, managerial and financial matters.

Porter (1990) argued that clusters are formed by firms and industries linked through vertical and or horizontal relationships to benefit from specialization and inter-firm dependence to cut costs, improve competitive advantage and productivity. He considered clusters that cooperate with suppliers and clients as vertically linked whilst clusters that cooperate with colleagues firms or multi-nationals, institutions and providers of business services as horizontal linked clusters.

Humphrey and Schmitz (1995) revealed that concentration of small firms is one of the effective ways of overcoming the size limitation of SMEs and as an important instrument for improving their productivity, innovations and overall competitiveness. According to them competitive advantage may result from two sources. The first from external economies which is static and unintended, and second derived from dynamic inter-firm or joint action cooperation to achieve synergies.

2.5.1.1 Theoretical Basis for SMEs Clustering and Economic Growth Models

Rullani (2002) presented two dimensions to the analysis of clusters. These were "Fordist" and the "Propagative" models of clustering. He explains that, a "Fordist"

economic model represents large firms characterized by "accumulative" capital, whilst a "propagative" model is characterized by the presence of small business and clusters. While the 'Fordist' model required huge capital which acted as barriers to entry and favour the development of oligopolies in several sectors, the "propagative" model seems to create clusters with firms that need small amounts of capital with lesser entrance barriers, hence greater competition. In order to generate economic activity based on the accumulative development, countries needed to fund the growth of big "national champions" or to attract huge multinational investments whilst the propagative model does not depend on excessive government funding, but ensures high competition and low entry barriers (cited from Ricardo, 2003).

2.5.1.2 Sources and Classification of Clusters

In terms of source of cluster development McCormick (1999) identified groundwork enterprise clusters, industrializing enterprise clusters and complex industrial clusters as the three levels of cluster development. He defined groundwork clusters as those at the incipient stages whose basic role is to improve producers' access to markets and joint actions. Industrializing enterprise clusters refers to clusters depicting 'much clearer signs of emerging collective efficiency' whilst complex industrial clusters are diversified in size, structure and inter-firm linkages. They exhibit strong external economies, have reached national and global markets and depict features of sub-contracting and collaborative arrangements. However, he contended that the level of linkages or interactions, competitiveness and co-operation varies and deepens along the three levels. According to Oyeyinka (2001), majority of small enterprise clusters fall into the groundwork and industrializing clusters that operate with low skilled labour, exhibit weak inter-firm interaction and lack of institutionalized system of support or real services.

Amin and Thomas (1996) identified three generic clusters which he classified as craft based clusters, traditional industrial clusters and high–tech clusters. Pedersen 1997 (cited in UNIDO, 2000) classified two categories of cluster namely, diversified industrial cluster characterized by vertical specialization of enterprises and vertical diversity of the cluster as a whole and sub- contractor cluster characterized by narrow vertical and horizontal specialization by both enterprises and the cluster. Mytelka and

Farinelli (2000) gave functional categorization of clusters as public induced or constructed clusters and spontaneous or informal clusters. Public induced clusters are well planned clusters with modern or adequate infrastructures and real services whilst spontaneous clusters develop by chance or accidentally without adequate public and real services. In terms of inter-firms interaction in clusters, spontaneous or informal clusters have lower level of linkages than constructed clusters (Humphrey and Schmitz, 1995; Oyeyinka, 2001). In Ghana the Suame Magazine in Kumasi is the most sited industrial cluster for light engineering. Others are the Anloga Wood Village in Kumasi and the Free Zones Area throughout designated regions.

2.5.1.3 Prerequisite for Clustering

According to Nadvi (2005), it is difficult to determine exact prerequisites for cluster development. However, Gallo and Moehring (2002) gave geographical proximity of markets and suppliers, existence of a pool of specialized labour, presence of input equipment, availability of specific natural resources and infrastructure, low-transaction costs due to geographic proximity among actors and access to information as some of the basic requirements for cluster creation. Humphrey and Schmitz (1995) also added public and institutional support from national and regional government either at the inception or growing stages of the cluster. Pyke (1992) argued geographic proximity, sectoral specialization, predominance of small and medium sized firms close inter-firm collaboration, inter-firm competition based on innovation, a socio-cultural identity, active self-help organizations, and supportive regional government are viewpoints that have emerged from international debates as requirements for dynamic cluster development.

2.5.1.4 Advantages and Disadvantages of Clustering

Weberian cost analysis theory recognized that firms and industries tend to locate in certain geographical area when the benefits of locating at that area are greater than the associated costs (Wolter, 2003). Porter (1998) asserted that geographical proximity enhances cooperation and creates linkages between members, external economies and improves competitive advantages between SMEs that cooperate and compete, since benefits from linkages among cluster members create synergies.

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Pouder and St. John (1996) also established that competitors within the cluster benefit from agglomeration effects in a way that they will gain cost advantages and have access to resources that are not available to competitors located outside the cluster while Belleflamme et al (2000) asserted that geographic concentration of clusters contributes to developing additional financial benefits and technological externalities. Financial benefits result because transaction costs per firm reduces for the group members. Humphrey and Schmitz (1995) argued that geographical proximity decreases the risks, transportation and insurance cost for all stakeholders in a cluster, hence cost savings. Nadvi (1995) also indicated that clustering of SMEs makes it easier to attract public support services.

On the other hand, clusters have their own disadvantages. Wolter (2003) stated that the concentration of more firms in an area create congestion and unequal distribution of development. This occurs because infrastructure and other local factors do not grow proportionately. This may increase operation costs and may defeat the cost saving purpose of locating in a clustering.

2.5.2 Networking among SMEs and Other Firms

Another important trend that has emerged over the years among SMEs which is closely related to clustering but a different concept altogether is networking among SMEs and other firms. Ceglie and Dini (2003) referred to networking as the process where group of firms cooperate on joint projects complementing each other and specializing in order to overcome common problems, achieve collective efficiency and penetrate market beyond their individual reach. Unlike clustering, networking is not tied to being in specific locality (Humphrey and Schmitz, 1995) whilst, Ceglie and Dini (2003) and Oyeyinka (2001) contended that networks can develop within or out of clusters.

SMEs' networks are built around their owners' normal interactions and activities such as personal contact networks, social networks, business networks, industry and marketing networks (Gilmore et al 2001). According to Perry (1999) SMEs networks are built on four types of relationships namely, buyer- supplier relations, geographic proximity, ownership of investment, and family or ethnic cohesion whilst Schmitz

(1998) asserted that a network structure may be created through trading ties, personal connections, and links with collective institutions or combination of all stated above.

2.5.2.1 Types and Benefits of SMEs Networking

Gunasekaren (1996) identified vertical, horizontal and international networks as the three types of collaboration between firms. Networks are termed horizontal when formed by SMEs only and vertical when large scale firms are involved. International-networks come about through co-operation with foreign based organizations for information, technology exchange, and access to internationally based resources and markets. These types of networks may be sales or production oriented.

According to UNIDO (2004) the objective of SMEs networking is to overcome the size problem just like clustering. This viewpoint coincides with that of Humphrey and Schmitz (1995) and Oyeyinka (2001). Literature on small firms has persistently indicated that individual SMEs are unable to capture market opportunities which require large production quantities, homogenous standards, and regular supply. In the same vain they experience difficulties in achieving economies of scale in the purchase of inputs, such as equipment, raw materials, finance, consulting services. Through networking, individual SMEs can address the problems related to their size and improve their competitive position (UNIDO, 1999).

Pyke (1992) asserted that small enterprises are in the best position to help each other through horizontal cooperation with other SMEs occupying the same position in the value chain by collectively achieving scale economies beyond the reach of individual achievement through bulk-purchase of inputs, optimal scale in the use of machinery and pooling together their production capacities to satisfy large-scale orders.

Berry (1997) also argued that benefits derived by SMEs from networking depend on network partners. He argued that SMEs collaboration with large firms afford SMEs access to technology, guidance on quality control, access to finance, assistance in purchase of materials or equipment and market stability whilst collaboration with fellow SMEs yield external economies which result in 'collective efficiency' derived from joint action.

UNIDO (2004) also revealed that through vertical cooperation enterprises can specialize in their core business and give way to an external division of labour.

According to Oyeyinka, (2001) SMEs act as sub-contractors in a network or producers of components (Hill, 2000). Biggs (2002) contended that SMEs in a network basically provide inputs or raw materials to other firms especially when larger firms are involved in the network. Hill (2000) and UNCTAD (2002) realised that SMEs participating as sub-contracting firms for large enterprises or multinational corporations enjoy the benefit of indirect export.

Schmitz and Humphrey (1995) observed spontaneous emergence of networking in developing countries whilst Hill (2000) viewed sub-contracting between SMEs and large firms or multinational corporations as a way of ensuring higher local contents in production and public contracts in developing countries.

2.5.2.2 Barriers to SMEs Networking

Ceglie and Dini (2003) outlined high transaction costs involved in identifying suitable network partner to forge relationship, imperfect functioning of the market which is crucial for networking development and the high risk of "free riding" as three major factors that hinder successful networking among SMEs. However, Humphrey and Schmitz (1995) and Ceglie and Dini (2003) proposed the intervention by external agents or network brokers to act as a catalyst to facilitate networks and as a solution to ameliorate the risks factors outlined above.

It can be inferred from the third limitation that appropriate legal frameworks and policies by governments on SMEs development can encourage and act as the catalyst for networking as well as reduce the 'risks of free riding' associated with inter-firm collaborations. Humphrey and Schmitz (1995) stressed the need for network agents or brokers and provided a useful example of carefully designed set of public incentives that stimulated SMEs collaboration with all types of firms in Chile. This experience consists of a carefully designed set of public incentives that stimulated the establishment of approximately four hundred and fifty (450) SME networks which results in significant increase in SME profitability and sales.

2.5.3 SMEs and Strategic Planning

O'Regan and Ghobadian (2004) defined strategic planning as the process of setting long- term goals, the development and implementation of plans to achieve these goals and the allocation of resources necessary for realizing these goals. McDonald (1996) provides additional perspective that strategic planning process must match business activities to its operational environment in order to minimize threats and maximize opportunities while Ohmae (1983) emphasizes that strategic planning gives sustainable competitive edge over other firms.

Managers and owners of SMEs have been criticized of not having long- term plan for their entities and when they do plan such plans are short term oriented (Wang et al, 2006) and being 'strategically myopic' lacking long –term vision (Mazzarol, 2004). This might have been derived from Mintzberg (1993) assertion that formal strategic planning is not a feature of SMEs. He intimated that actions and decisions in SMEs revolve around the owners- managers' such that the owners- managers' goal, become the firms' goal and the firms' strategies are based on owners vision. This is at odd to strategic literature which dictates that firms must actively plan for the future to compete effectively and survive in ever changing business environment.

2.5.3.1 Effect of lack of Strategic Planning in SMEs

According to Berry (1998), the neglect of strategic planning by SMEs hinders growth potential, limits full performance and could threaten firms' survival. This led Jocumsen (2004) to contend that SMEs are plagued by high failure rates and poor performance level because they neglect strategic planning while Wang et al (2006) recognized that SMEs planning tend to be short-term and operational oriented which is reactive rather than long-term strategic issues and decision-making that are proactive. Kelmar and Noy (1990) also argued that SMEs that claimed to plan operate with ad-hoc and intuitive plans rather than formally written plan, hence these plans provide little basis for performance measurement. Jocumsen (2004) contends that ineffective deployment of strategic planning results in failure to achieve expected or projected performance.

On the contrary, empirical literature suggests that strategic planning is common in better performing SMEs especially subsidiaries of large companies whilst O'Regan

and Ghobadian (2002) concluded that SMEs that deploy strategic planning are less susceptible to failure and are likely to achieve higher sales growth, higher return on assets and higher employment growth. Again SMEs that deploy strategic planning are likely to be innovative, employ new process and management, technologies and achieve international growth O'Regan and Ghobadian (2002) because planning drives success and there is greater advantage to planning than not planning (Wang et al, 2006).

2.5.3.2 Hindrance to Strategic Planning in SMEs

As regards the question of what hinders SMEs from strategic planning, literature focuses on internal and external barriers to strategic planning as well as Owners-Managers' motivation (Wang et al, 2006). O'Regan and Ghobadian (2002) identified factors such as lack of expertise, inadequate knowledge of the planning process, reluctance to share strategic plans with employees and external consultants, lack of time, and environmental uncertainty as factors that discourage strategic planning among SMEs while Berry (1998) proposed business size, type of industry and business stage or lifecycle as some inherent limitations of SMEs that limit the adoption and application of strategic planning.

With regard to owners-managers' Motivation Model to strategic planning, Wang et al (2006) provided a framework that postulates that profit maximization objective which is consistent to rational economic choice by owners- managers makes it imperative for SMEs to deploy strategic planning about which Vicere (1995) shared the same viewpoint and concluded that owner- manager pursuing a profit growth agenda will be inclined to engage in strategic planning. On the other hand, the pursuit of non-economic motives lead to satisfaction of personal fulfillments, which often replace profit maximization, hence no strategic planning.

Over the years, researches have established strong positive relationship between strategic planning and performance of SMEs (Peel and Bridge, 1998). According to Stonehouse and Pemberton (2002), the adoption and practice of strategic planning is becoming a feature of SMEs nowadays. In their study of 159 small businesses in England, they reported that 92 percent of the firms engaged in strategic planning, 70

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percent engage in short to medium term planning horizon and at least 20 percent of the respondents were engaged in year-to-year operational planning.

From the above it can be inferred that SMEs neglect strategic planning at their own peril even though numerous internal and external factors limit SMEs desire and ability to deploy strategic planning to guide their operations. One can also notice from the stages of enterprise development theory, that SMEs at their infant stage are likely to ignore strategic planning and be operational oriented but as the enterprise grows and adopts formal management structure, SMEs will be inclined towards medium to long- term or strategic planning where economic realities and profit maximization objective dictate how firms or SMEs should be managed.

2.5.4 SMEs Marketing Practices

Research is inconclusive on marketing practices of SMEs. Currently two schools of thought emerge on SMEs marketing. The first school calls for SMEs to apply principles of conventional marketing because marketing principles are universal and applicable to all firms (Siu and Kilby, 1996; Kotler, 2001) whiles the second school recognizes unique characteristics of SMEs such as small size and lack of resources to apply classical marketing principles and advocates differential approach that suites SMEs (Gilmore, Carson and Grant, 2001). Carson (1990) justified the second school of thought by identifying stage of enterprise development, inherent characteristics of SMEs and behaviours of entrepreneurs and managers as three major factors that limit small firms to adopt conventional marketing.

Scase and Goffee (1980) also gave resources dimensions such as lack of finance and marketing knowledge, lack of expertise as owners and managers, and the haphazard reaction to opportunities and circumstances as the three inherent limitations that make SMEs unique to adopt different marketing approach. According to (Gilmore, Carson and Grant, 2001), these factors make SMEs marketing informal, loose, unstructured, spontaneous, and reactive. Gilmore, Carson and Grant (2001) and OECD (2005) identified marketing by networking and niche marketing as current marketing practices on that SMEs are pursuing to achieve sales.

2.5.4.1 SMEs and Marketing by Networking

Gilmore, Carson and Grant (2001) contended that marketing by networking in small firms rely on personal contact or networks and often driven by the way owner-manager does business. In their view, SME owners- managers do marketing through all their normal interactions and participation in social, business and trade activities. Marketing by networking is based on or built around people-orientated activities, it is informal, often discreet, interactive, interchangeable, integrated, habitual, and can either be passive or proactive.

According to Schmitz and Humphrey (1995) networking with customers usually involved building a relationship with key individuals in the networked organizations but the disadvantage is the relationship dissolves when those key individuals leave the organization. Gilmore, Carson and Grant (2001) stressed that SMEs owner-managers recognized such relationships as vital to a company's success and invested considerable time and effort in maintaining good relations with regular clients.

In the view of Humphrey and Schmitz (1995) and Gilmore, Carson and Grant (2001) SME owners- managers favour network marketing because the costs of building network relationships are lower and implicitly hidden relative to conventional marketing. The inference one can make is that marketing by network is less expensive and because of its interactive nature, it affords owners- managers the opportunity to learn from mistakes and correct them in order to avoid future ones.

2.5.4.2 SMEs and Niche Marketing

Schwart, McCorkle and Anderson (2006) referred to niche marketing as the marketing process of targeting a product or service to a small portion of a market that is not being readily served by the mainstream product or large scale firms). They perceived niche marketing to be narrowly oriented focusing on a subset of a market.

According to Wikipedia (2007) niche market usually evolves when a potential demand for a product or service is not met by mainstream supply, or where new demand arises due to changes in society, technology, or the general environment. Market niches can be geographic areas, a specialty industry, ethnic or age groups, or any other particular group of people. According to the OECD (2005), SMEs serve market niches profitably and competitively than large firms because niches may be

perceived unprofitable to large firms due to lesser return on investment and lack of scale economies.

Literature gives three reasons why SMEs might serve niches profitably. Wikipedia (2007) asserts that small businesses serve niche markets profitably due to specialization whilst OECD (2005) argued that small businesses often rely on loyalty business model to maintain a profitable volume of sales. Whilst Schwart, McCorkle and Anderson (2006) proposed SMES niche marketing activities should target accessible customers; fast growing market base not owned or dominated any established entity. OECD (2005) contended that SMEs fill specific niches often in clusters and or as sub- contractors for large enterprises.

2.5.5 SMEs Financing

Financing constraint has mostly been cited as the major hindrance to SMEs growth (Aryeetey et al, 1994 and Biggs 2002). According to them equity financing through personal saving, informal borrowing, trade credit and bank credit form the main source of financing SMEs in developing countries. However, SMEs financing needs vary greatly depending upon the type and nature of business they are involved in. Financing needs of resource intensive SMEs focus on short- term or working capital whilst capital intensive small firms with long production cycles focus their financing needs on long- term capital (Ayers, 2006).

Quartey (2000) stated that small and medium size enterprises in developing countries find it difficult to raise funds whilst UNCTAD (2001) identified higher risks associated with lending to SMEs, high transaction costs, no collateral for security and the reluctance of insurance companies to insure against risks associated with SMEs credit defaults as major reasons why the financial system, especially banks shun small firms.

Over the years studies on SMEs financing focused on how SMEs can have access to medium to long- term finance from financial institutions for investments (IFC, 2006) because bank credits remain the main source of investment finance for SMEs in the developing world (Thitapha, 2003; UNCTAD, 2001) while other sources such as equity and venture capital had their limitations.

2.5.5.1 Financial Gap and Emerging SME Financing

The International Finance Corporation (IFC, 2006) identified financing gap as a phenomenon and major constraint to SMEs access to funds but not scarcity of funds in the financial system. Ayers (2006) described financial gap as the shortage in the supply of capital to meet demand of certain category of entities, operators or sectors of the economy even though liquidity abound. The extent and nature of financing gap may relate to both suppliers and demanders of funds. Supply side constraints relates to the behaviour of providers of funds to neglect SMEs sector for certain reasons whiles demand side constraint refers to SMEs decisions to reject certain financing options (Ayers, 2006). Classical example of financing gap is entrepreneurs' unwillingness to relinquish part of their control over the company to outsiders such as partners, venture capital providers and angel investors for a consideration of equity capital investments.

Ayers (2006) contended that, a comprehensive and alternative approach to the SME financing has emerged which emphasises less on conventional bank credit for medium to long-term capital requirements. In Ghana, Mensah (2004) identified equity financing whilst the World Bank (2006) viewed lease and hire purchase transactions as new ways or non-traditional mode of financing medium to long-term capital expansion. The IFC (2006) also proposed joint ventures and partnerships as alternative mechanism to raise adequate funds to expand SMEs operations. According to the World Bank (2006) SMEs in capital intensive sectors are gradually clinching on transaction-related financing instruments such as hire purchase transaction and leasing as alternative to traditional bank lending.

UNTACD (2001) also contended that the banking sector is transforming vigorously to advance more credit to SMEs as a business segment. In Ghana most banks and financial institutions have designed different types of products for the SMEs (Mensah, 2004). UNCTAD (2001) indicated that reduction in perceived SMEs lending risks through special programmes for start-ups and credit scoring, reducing transaction costs by applying the latest information technology, and specialized SMEs portfolios as some innovative approaches banks have adopted to offer financing to their SME clients. Other non-bank financial institutions and

microfinance companies have also developed products targeted at SMEs to ease financial constraints. All these initiatives and innovations are designed to bridge the SME financing gaps.

2.5.6 SMEs and Export Orientation

Traditionally, large firms have been known as the driving force behind export, international trade and globalisation in general because of their size advantage, broader range of products or services they offer, substantial financial resources at their disposal as well as competitiveness in the dynamic global system (Hill, 2000) whilst SMEs are hindered from exports and international trade due to limitations in similar factors. However, current events on the global scene do not preserve international trade opportunities to large firms alone (Saee, 2004). Schmitz and Humphrey (1995) argued that cluster based SMEs can compete directly in export markets of traditional products by creating competitive niches in world market. According to them, clustering of small firms proved vital in establishing strong position in the global markets for traditional products such as tiles, textiles, shoes, furniture among others.

Saee (2004) argued that factors such as limited domestic market opportunity, personal contacts, and alliances with other firms, and overseas-customers are the three main factors that compel SMEs to go international. Saee (2004) identified six strategies which SMEs could use to internationalise their operations. These include: going alone; appoint agents; use existing distribution network; networking; strategic alliance and through establishing operations overseas.

2.5.7 SMEs and the Information Age

Microeconomic theory suggests that consumers would behave rationally and would react to knowledge and information available to them in order to maximise their utility for any expenditure they make (Mansfield, 1996). The world economy today is driven by information and knowledge and therefore the importance of consumer knowledge and information cannot be ignored by firms (Hill, 2000). Again all functions of firm like production, marketing, finance, human resource and others are driven by market knowledge and information available to firms. From the above it

implies that SMEs operations and performance depend on how its managers mobilise information and knowledge from individuals and teams in its value chain and turn such resources into activities that lead to effective and efficient value creation in current competitive information economy.

According to Hill (2000) knowledge based- economy requires SMEs to utilise information obtained from the economy to drive their activities and value creation. Stewart, (1997 cited in Saee, 2004) also revealed that information systems of firms should connect people to people to enable them to share expertise and knowledge they have at the moment, given that knowledge is always changing. The importance of knowledge based management is to connect questions to people who can help you find answer.

Finally information and communication technologies (ICTs) have converged the universe into a global village. ICT has reduced geographic distance between producers and consumers as well as markets (Hill, 2000) and offers incentives as well as challenges to SMEs. In terms of opportunities, ICT exposes SMEs beyond its market (UNIDO, 2004). On other hand ICT offers fierce competition which affects market position of local SMEs when they compete with other SMEs from advanced or larger economies. In some occasions ICT enables multi-national corporations to encroach on local SMEs limited markets (UNCTAD, 2006).

2.5.8 Just- In- Time Purchasing (JIT)

According to Lucey (1999) inventory management philosophies have changed from stock-piling to just- in time buying to minimize investment and risks associated with inventory. Just-In-Time Purchasing is a component or element of Just-In-Time production philosophy which has emerged from large Japanese firms since 1960s. Theoretically, it encourages firms to keep zero stocks or inventories. However, in practice the concept advocates for minimum investment in inventories to meet lead-time (Lucey, 1999).

Under conventional production and inventory management, SMEs are persuaded to keep large stock of raw material and goods to meet production or sale demand. This phenomenon leads to diseconomies in purchasing; high investment in inventory

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management, and lock- up of working capital which have opportunity cost (Lucey, 1999).

Lucey (1999) intimated that carrying larger than required inventory at any point in time adds avoidable cost such as insurance, administrative costs on stock, and interest on capital borrowed for purchase of such stocks. The implication is that SMEs not that are favoured by size, standardized products, large sales and economies of purchase can adopt Just-In-Time purchase to avoid huge investments in inventory. According to Inman, and Mehra (1990), SMEs have clinched to Just-In-Time purchase or sales due to lack of bargaining power with their suppliers and buyers.

Manoochehri (1988) suggested that small firms are striving for Just-In-Time as the possible solution to the diseconomies in purchasing and inventory holding costs. To him SMEs or companies can implement Just-In-Time purchasing for parts or components with high turnover, and use order point methods for the rest.

2.6 Approaches to SMEs Development

Stanley and Morse (1965) identified three types of approaches towards SMEs development namely, developmental, protective and passive approaches.

The 'developmental approach' to SME promotion has as its objective the creation of 'economically viable enterprises which can stand on their own feet without perpetual subsidy and can make a positive contribution to the growth of real income and therefore to better living levels' (Appiah-Okoh and Song, 2000). Cook and Nixson, (2001) made a submission that this approach emphasizes efficiency in new SMEs, adoption of new methods to improve innovation and quality, introduce market driven products and encourage small firms to become medium or large scale producers in the long-run as they grow and wean off from subsidies .

Appiah-Okoh and Song (2000) submitted that the arguments in favour of the developmental approach can be made on both theoretical and empirical grounds. The theoretical argument is that, even if the markets are efficient in its allocation functions it may fail, particularly in developing countries at early stages of their development. The protection of infant industry argument in economics and import substitution theory also support this approach (Todaro and Smith, 2006). Empirically, it has been established that countries with deliberate state support for

SMEs development have experienced remarkable growth in both economy and enterprise (OECD, 2005 and UNCTAD, 1997).

A protective SME policy is designed to defend existing SMEs from unfair and excessive competition from large and foreign multi-national enterprises. This approach has been justified based on import substitutions and infant industry argument (Biggs, 2002) and the need to obtain favourable balance of trade (UNCTAD, 2000). However, the protective approach has been criticised as being inefficient in resource allocation, less competitive and against free trade regime. These criticisms have persuaded governments of many developing countries to liberalize their economies and expose SMEs to foreign competition.

Under the passive approach, SMEs are neglected and left to their fate without any subsidy and public support. OECD (2005) described such SMEs as "left to the vagrancies of economic forces prevailing at any point in time". Theoretically, this approach seems to follow Little et al (1987), postulation that SMEs decline as economic prosperity is achieved, and hence SMEs receive little attention and policy initiatives as most policies are geared towards prosperity. Empirically, Helmsing, (1993, cited in UNCTAD, 2000) indicated that SMEs in developing countries suffered from policy bias under import substitution regimes, where policy makers considered small producers as non-progressive whilst most developmental institutions and infrastructural support mechanisms were geared mainly to large-scale production.

2.6.1 Ghana's Approach to SMEs Development

Ghana does not have explicit policy on SMEs development, but her strategy leans towards the developmental approach (Appiah-Okh and Song, 2000). This can be inferred from various national plans and initiatives to reduce demand and supply sides constraints that had hindered private sector development since 1983. The Vision 2020 Medium Term Plan, Ghana Poverty Reduction Strategy and Growth and Poverty Reduction Strategy (GPRS I&II) placed greater emphasis on private sector development as the engine of growth. In implementing these national plans special programmes and projects targeted SMEs sector to pursue SMEs development (GoG, 2003; 2006).

Again the National Private Sector Medium Term Development Strategy (2003) recognizes the importance of the SMEs sector and implemented programmes such as SMEs access to viable credit and dynamic market within and outside the country. These programmes are suppose to make the sector vibrant and competitive (GoG, 2003). In terms of providing equity finance to SMEs, the State and its development partners have established venture capital funds to provide equity capital necessary for medium to long- term growth to be sourced by eligible SMEs (GoG, 2007).

At the institutional level, Ghana established the National Board for Small Scale Industries (NBSSI) in 1981, under Act 434, to act as the apex co-ordinating agency advising the Minister of Trade, Industry and Private Sector Development on policy initiation, formulation and implementation of national programme to accelerate the growth of small scale industries in the country (Aryeetey, 2001). In the 1990s, Ghana embarked on the Free Zones concept as way of developing firms including SMEs.

2.7 Basic Conditions Necessary for SMEs Development

Private sector development which advocates strong and vibrant SMEs participation requires certain basic conditions which are inter-linked must exist before especially SMEs can operate successfully (World Bank, 2005). Pro- private sector advocators stress that it is obligatory for governments that pursue private sector development policy to establish the right macroeconomic environment, as well as a transparent, stable and predictable legal, regulatory and tax framework, and thus create favourable conditions for entrepreneurial and enterprise development (World Bank, 2005). According to UNCTAD, (1997) governments should act as a catalyst or intermediating agent through appropriate policies and supportive business infrastructures, to stimulate, facilitate or support the development of enterprises, particularly SMEs. The World Bank (2005) suggested entrepreneurial environment, congenial investment climate, vibrant financial system and peace and stability as basic pre-requisite for SMEs development.

2.7.1 Entrepreneurial environment as a precondition for SME development

Development literature specifies entrepreneurship as one of the basic resources needed for development. Entrepreneurs have been described as risk bearers, suppliers

of capital, innovators, managers, gap fillers, or a combination of these and related functions (Hill, 2000) and therefore the growth of enterprises and the economy depend on the adequate supply of entrepreneurs.

According to the World Bank (2005) an environment that encourages economic agents to sense, seek out and exploit business opportunities (World Bank, 2005), secure ownership of properties, reward initiatives and risk taking (Hill, 2000) and modernisation of institutions (OECD, 2005) enhances the supply of entrepreneurship. Entrepreneurship has a lot to do with responding to profitable opportunities by bearing uninsurable risk and uncertainty.

2.7.2 Congenial Investment Climate

The World Development Report (World Bank, 2005) defines investment climate as the set of location-specific factors shaping the opportunities and incentives for firms to invest productively, create jobs, and expand. In the literature for example Aryeetey et al (2001; OECD, 2005) identified stable macroeconomic conditions such as lower real interest and lower inflation rates, vibrant financial system, manageable level of risks, and fair and expedient legal system to handle commercial disputes as some of the preconditions for congenial investment climate.

World Bank (2005) asserted that government policies and behaviours exert strong influence on the investment climate through their impact on costs, risks, and competition which may improve or worsen economic climate. It can be inferred that SMEs decision to invest is motivated by entrepreneurs' quest for profits whilst profitability is a function or influenced by the costs, risks, and competition associated with the opportunity. According to the World Bank (2005) and OECD (2004) a good investment climate goes beyond firms generating profits to include improving outcomes for society as a whole. This ensures that firms incur appropriate costs and risks as well as reducing barriers to competition, expands opportunities, spurs innovation, and ensures that the benefits of productivity improvements are shared by all stakeholders in the value chain.

2.7.3 Vibrant Financial System

Financial constraint is widely known to be a major limiting factor to SMEs growth particularly in the developing countries (Biggs, 2002). For a country to develop her SMEs sector, the financial system must resolve the problems of mobilizing start-up capital, and access to working capital and long-term finance for their development (UNTCAD, 2002). Again the financial system should be able to resolve problems associated with financing gaps (IFC, 2006) and should be able to allocate financial resources efficiently.

The financial system should be innovative and design products and services to meet the needs of SMEs (UNCTAD, 1997). The World Bank (2006) advocated for highly integrated financial system that goes beyond traditional bank finance to include active participation of transaction related financing such as leasing, hire purchase and factoring which are less popular to SMEs. Vibrant financial system also requires the services of insurance companies to develop insurance policies to protect investors, entrepreneurs and business ventures against uncertainties and risks of losses associated with doing business in the economy.

2.7.4 Peace, Stability and Security

Peace and tranquillity is also a basic requirement for investment and private sector development. The World Development Report (2005) states that violence, conflict and war situation deter both local investment and foreign capital inflow and encourage entrepreneurs to hold on investible cash in securities instead of investing in production activities.

Closely related to peace and tranquillity is the reduction in crime. World Development Report (2005) indicates that crime imposes large costs on societies and as high around a quarter of GDP in some countries in Latin America. A survey by OECD (2004) showed that crime is also a serious constraint for many firms in all regions. Therefore any pro-private sector and SMEs development strategy should ensure safety and internal security of the country through efficient police force and legal system that will prevent and deter crime.

2.7 Conclusion

This chapter discussed emerging trends of SMEs and Ghana's approach to develop her SME sector. Clustering and networking of SMEs, strategic planning, niche and network marketing, bridging SME- financing gap and export orientation of SMEs were trends that are emerging among SMEs around the developing world. The postulations from theoretical discussion in this chapter informed the design of questionnaires and data collection for analysis and discussion in chapter four.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes detailed procedures the researcher followed in conducting the study. It constitutes research design, research approach, sample size determination, data collection and methods of data processing and analysis adopted.

3.2 Research Design

Research design describes the logical processes of carrying out the research from problem definition and objectives formulation stages to data collection, analysis and interpretation of observed phenomena stage. The purpose is to enable other researchers to replicate the process to confirm results or otherwise. As regards this research, the conceptual design is that research problem and research questions inform the formulation of research objectives which guided literature review. Trends identified from literature review inform research methodology and field data collection methods which identifies units of analysis. Data collected from units of analysis were analysed and inferences drawn.

3.3 Research Approach

The research employed case study and exploratory approaches to study phenomena under consideration. First, the case study approach was employed for in-depth enquiry into the characteristics, value creation activities, inter-firm linkages and types of products produced by SME's at Anloga Wood Cluster as a unit. Secondly, the exploratory approach was applied to extract facts and information to explain certain practices and contemporary issues. Exploratory research designs are suitable when the researcher is examining a new area of interest or when the subject of study is relatively new. Exploratory research approach is appropriate for studying new methods and practices among SMEs to gain insight as to how such practices and methods suit SMEs and help them manage numerous constraints that confront them.

3.4 Sampling Design

SMEs at Anloga Wood Cluster, National Board for Small Scale Industries (NBSSI), Kumasi Metropolitan Assembly (KMA) and Asante Akim Rural Bank were selected as units of enquiry for the study. The research employed both probability and non probability sampling methods to collect primary data.

The probability method, which ensures that each member of the population has equal chance of being selected for the study, was applied to sample SMEs in the cluster. However, the cluster contains three major participants in manufacturing, namely mini-sawmills, machinery level SMEs and carpentry and Joinery SMEs.

In order to ensure fair representation of the three categories of SMEs in the cluster, proportional stratified sampling technique was applied to ensure that each stratum of the population was fairly represented in the survey. After the proportions were assigned to the three strata, simple random sampling technique was employed to select SMEs for data collection from each category. That is SMEs on the register of each category were assigned numbers on pieces of papers which were mixed in a box and picked at random. After each pick the papers are not added to those the box again.

The research also employed purposive sampling procedure in selecting the sampling area, which is Anloga Wood Cluster. NBSSI, KMA, Pro-credit and Asante Akim Rural Bank were also selected purposively because they were deemed to be stakeholders in the development of SMEs at the study area, hence their selection for the research.

3.5 Sampling Frame and Sample Size Determination

The sampling frame for SMEs at the cluster was derived from register of mini-sawmills, machinery level SMEs and carpentry and Joinery firms located at the Anloga Wood Cluster as at the year end of 2007. The cluster houses an estimated population of two hundred and forty (240) manufacturing SMEs comprising estimated number of 60 and 30 percent carpentry and machinery level SMEs respectively while mini-sawmills forms 10 percent. Out of the population, a sample of one hundred and fifty (150) was drawn for the study based on the formula:

$n= N/1+N (\alpha)^2$ where n= sample size, N= total population of the study area, and α is the confidence level at 95 percent.

Table 3.1 Sampled Firms by SMEs Category

SME Category	Estimated Number of Firms	Sample Size
Mini-sawmills	24	15
Machinery Level SMEs	72	45
Carpentry SMEs	114	90
Totals	240	150

Source: Field Survey, (2008)

3.6 Unit of Enquiry

Empirical units of enquiry refer to objects, occurrences which can be observed and measured in order to study a particular phenomenon. With regard to this research SMEs, NBSSI, Pro-credit Loans and Savings and Ashanti Akim Rural Bank Limited were the units of enquiry.

3.7 Data Collection Instrument

Semi structured questionnaires and personal interview procedures were employed to collect primary data from units of analysis, thus SMEs, public and financial institutions. Appropriate secondary data were also utilised when necessary.

3.8 Data Processing, Editing and Analysis

Data obtained from survey were edited, coded and tabulated. Editing was done with the aim of detecting and eliminating error to ensure clean and reliable data. Coding was done by classifying questions into meaningful categories in order to bring out essential patterns to inform the research questions posed. Data were then presented in the form of tables and diagrams to facilitate the analysis. In terms of data analysis, both the quantitative and qualitative techniques were employed to describe and identify trends that are emerging to enable inferences to be made. Quantitative measures such as numbers, percentages and ratios were used to describe patterns

whereas qualitative inferences were drawn based on respondents' response within the framework of Strength, Weakness, Opportunity and Threats (SWOT) analysis.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter gives brief description of the study area and analyzes and discusses data gathered from field survey to answer research questions and satisfy objectives of the study.

4.2.1 Profile of Study Area

The research was conducted at Kumasi, the second largest city in Ghana. According to Ghana Statistical Service (2004), Ashanti Region hosts 6440 industrial establishments out of which 99 percent fall into SMEs category. It was also estimated that 3830 SMEs representing 60 percent of all SMEs in the Region are located at Kumasi. Majority of manufacturing activities in Kumasi are done on small scale and revolve around metal fabrication, wood processing and furniture making, agro- processing and brewing. The city houses two famous clusters of small manufacturing enterprises, namely the Suame Light Engineering and the Anloga Wood Clusters.

The primary subjects of this research are manufacturing SMEs located at Anloga Wood Cluster, in Kumasi. Anloga is a suburb of Kumasi with a population of about 20,000 people living on 90 hectares of land and located 3.6 km south west of Kumasi and 2 km north -west of the Kwame Nkrumah University of Science and Technology on the Kumasi – Accra trunk road and between rivers Aboabo and Sisa.

The predominant economic activities and occupations are; carpentry and joinery, charcoal making, 'gari' processing, and automotive repair. The cluster has the largest retail timber market and carpentry centre in Kumasi. The cluster is the second largest cluster of manufacturing SMEs in Kumasi. It hosts an estimated number of two hundred and forty (240) wood manufacturing SMEs and over five hundred service providers selling wood and other inputs as well as providing transportation, canteen, machinery repairs services and charcoal producers.

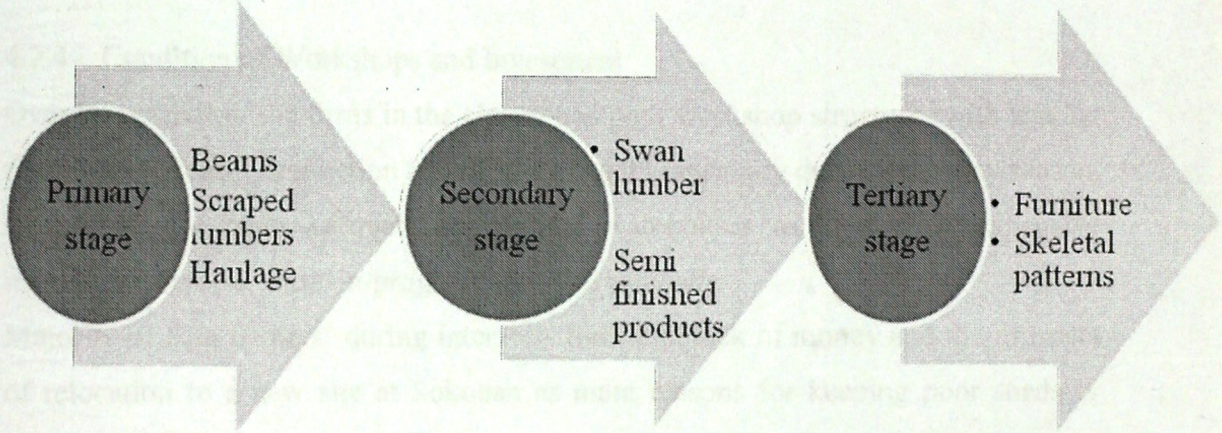
The cluster houses three major participants in manufacturing namely, mini-sawmills, machinery level SMEs that produce skeletal patterns or intermediate products and wood related services to carpenters and carpentry SMEs who produce furniture and constructional wood products.

4.2.2 Wood Processing and Utilisation Cycle at Anloga Wood Cluster

Figure 4.1 describes wood manufacturing or value creating activities by core participants in the wood industry before final consumption. The first phase of wood conversion is logging, log haulage and converting logs into beams and rough lumbers. This phase of wood production is mainly done outside the Anloga cluster.

The secondary phase continues with outputs from the primary processing stage and it converts lumbers into finished or semi-finished lumbers of various dimensions. The major actors of the secondary phase are mini- sawmills and machinery level SMEs that produce skeletal patterns and other wood related services. Tertiary processing actors are furniture manufacturers who process further lumbers from the secondary processing stage into finished products. SMEs at Anloga Wood Cluster participate or engage in the secondary and tertiary stages of value creation in the wood industry.

Figure 4.1 General wood conversion cycle.



(Source the Author's observation, 2008)

4.2.3 Major Products of the Cluster

The study identified four major product groups in the Cluster. The first product group refers to milled lumbers, ceiling battens, and veneers which are final product from the mini-sawmills. The second product group is the household furniture category for domestic consumption from carpentry SMEs. The third type of product is skeletal parts or semi finished products produced by machinery level SMEs for sale to cluster colleagues, firms outside the cluster and export to neighbouring countries. The last category refers to wood products designed specifically for building and road constructional works, thus construction related wood works.

Table 4.1 Constituents of Product Groupings in the Cluster.

Product group	Major products
Milled lumbers	Plywood, ceiling battens, beams and wood of all sizes and dimensions
Household furniture	Living room set, Sofa, beds, writing desks and chairs, school furniture, church pews, kitchen tables, boxes among others
Skeletal patterns	For household furniture of all sizes, dimensions and specifications.
Constructional wood works	Frames, doors, round and rectangular boards for moulding pillars and concrete stands

Source (Authors survey, 2008)

4.2.4 Condition of Workshops and Investment

Over 80 percent of the firms in the cluster had poor workshop structures with leaking roofs which delays production and meeting orders especially during the rainy season. Others do not have adequate spaces and warehouses to keep their expensive inventory of wood, work-in-progress and final products.

Majority of firm owners' during interview indicated lack of money and the prospect of relocation to a new site at Sokoban as main reasons for keeping poor sheds or workshops. Others also stated that they have no properties to protect, hence no need to construct expensive workshops.

In terms of capital investment, mini- sawmills and machinery level SMEs have invested relatively high money into purchase of machinery which serves carpentry SMEs in the cluster. Carpenters investments go into basic tools and workbenches and subcontract cutting, designing, moulding, spraying and other works to other specialist machine operators at a cost.

Figure 4.2 Conditions of Workshops at Anloga Wood Cluster



Source: Ward and Gilbert, (2001)

Figure 4.3 Conditions of Workshops at Anloga Wood Cluster



Source: Ward and Gilbert, (2001)

4.2.5 The Small Scale Carpenters Association (SSCA)

The carpenters who are the majority of manufacturing SMEs in the cluster have formed Small Scale Carpenters Association (SSCA) to protect the interest of its members. The association has over a thousand (1000) members and at least each member comes from one of the over 240 sheds or workshops in the clusters. The association has nine man executives that run administration. It is financed from commissions earned from income and property taxes collected on behalf of the Internal Revenue Service and the Kumasi Metropolitan Assembly (KMA).

4.3 Discussion of Empirical Results

In order to identify whether any of the new methods and practices of organising SMEs are emerging in Ghana and Anloga Wood Cluster in particular, empirical data were collected from research units and analysed. Any trend emerging were later analysed within SWOT framework.

4.3.1 Clustering of SMEs

International recognition of clustering as a strategy of developing small firms was fuelled by the positive experience of the 'Third Italy' in the 1970's where small firms concentrated at specific region to enable them cooperate, integrate their activities and compete effectively. This phenomenon provides economies of scale and scope that helps SMEs to overcome their limited size constraints and enjoy the effect of external economies.

Table 4.2 Opinions on locating in a Cluster.

Description of Location	Frequency	Percentage
Appropriate	141	94
Inappropriate	9	6
Total	150	100

Source: Field survey, (2008)

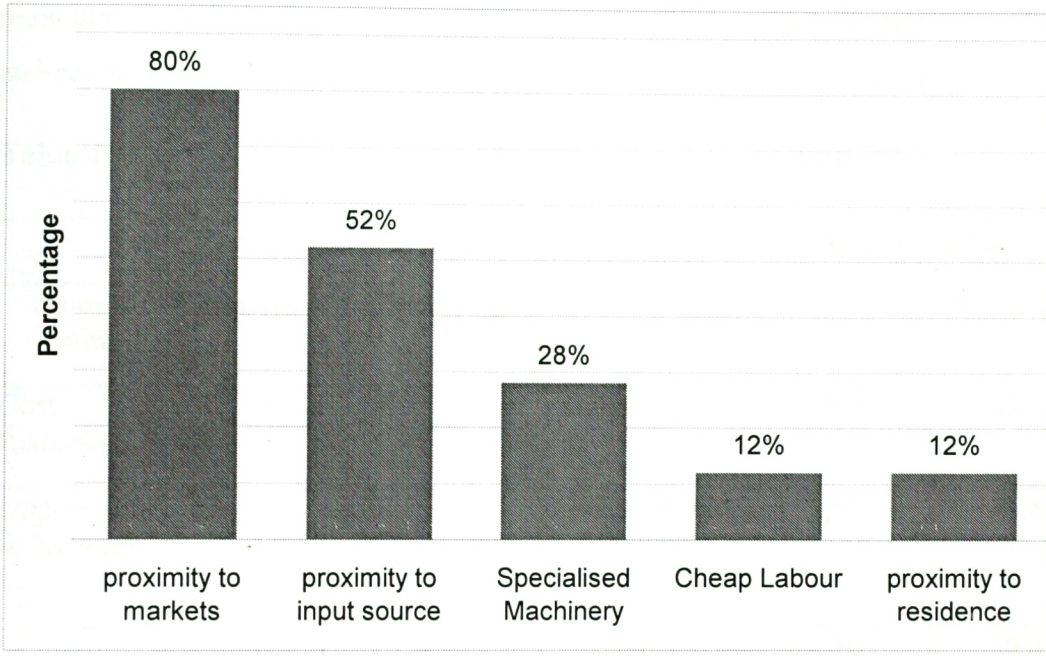
From Table 4.2, majority (94 percent) of SMEs owners and managers prefer to locate their entities in the cluster and described it as appropriate because it creates external

economies in a form of ready market, inter-firm cooperation and cheaper source of inputs due to excessive competition among suppliers of inputs at the cluster. On the order hand, 6 percent of SME operators and managers perceived concentration of similar producers as inappropriate due to under pricing of products among producers.

4.3.1.1 Factors that Motivate SMEs Clustering

Nadvi (1995) submitted that throughout the developed and the developing world, clustering of small firms proved vital in establishing strong position in the global markets for traditional products such as tiles, textiles, shoes, furniture among others. However, the formation and existence of clusters are spurred by number factors.

Figure 4.4 Factors that Encourage SMEs Clustering



Source: Field Survey, (2008)

Figure 4.4 indicates that five factors, that are independent of each other, pull and motivate wood manufacturing SMEs to concentrate at Anloga Wood Cluster. According to 80 percent of SMEs, the cluster provides ready market to sell their products quickly as the area is known to be the hub of wood products in the region and secondly, the area (Anloga) is centrally located and accessible by road to customers from northern and southern Ghana as well as customers from neighbouring Burkina- Faso, Mali and Niger. Significant number of SMEs (52

percent) indicated proximity to relatively cheaper input source (wood vendors and mini-sawmills) who supply bulk of production inputs whilst 28 percent suggested the existence and sharing of specialised equipment services as the pull factors. Cheap labour and proximity to residence seemed to be less influential factors since both factors scored 12 percent respectively. The total response is more than 100 percent because some SMEs indicated that more than one factor pulled them to the cluster.

4.3.1.2 Benefits of SME Clustering

SMEs in the cluster experience two types of gains which are independent of each other, thus a firm can experience more than one gain and the occurrence of one gain does not preclude the other from occurring. These gains are cost reduction and opportunity to network due to concentration of interrelated firms in the cluster. Cost reductions were mainly derived from external economies which are static, accidental and accrue to all members in the cluster and as Nadvi (1995) put it 'for growth'.

Table 4.3 Types and Sources of External Benefits of Clustering

Gains From Clustering			Sources of External Gains		
Types of Gains	Frequency	Percentage	Sources of Gains	Frequency	Percentage
Cost Reduction	111	74	Transportation Cost	73	65.77
Opportunity to Network	51	34	Specialised Machinery Services	62	55.86
			Cheaper Input Costs	56	50.45

Source: Field Survey, (2008)

Table 4.3 indicates that majority of SMEs (74 percent) experience cost reduction or savings whilst 34 percent have opportunity to network with agents and firms within and outside the cluster. The total exceeds 100 percent because some firms experienced both benefits which are not mutually exclusive as explained above.

Table 4.3 further indicates that SMEs at Anloga Wood Cluster derive cost savings from three major sources and some SMEs derive cost savings from more than one source because these sources of cost savings are not mutually exclusive. Out of the

SMEs that benefit from cost savings, some 65.77 percent, mainly from mini-sawmills and carpentry category attributed their savings from transportation costs. This involves costs of conveying wood to various workshops or premises; the reason being that wood vendors, carpenters and mini-sawmills are closely located. Some 55.86 percent of SMEs derive gains from cheaper inputs (wood) due to intense price competition among wood vendors and mini- sawmills in the cluster whilst 50.45 percent, mainly carpenters, saved costs through utilisation of modern machinery services. These responses confirm or allude to claims by Humphrey and Schmitz (1995) that close proximity of raw materials suppliers, equipment suppliers, facilities sharing and final goods producers together with a combination of intense rivalry and cooperation between firms drive SMEs and the whole cluster forward.

The results above indicate that SMEs recognise the emergence and importance of clustering as a better alternative to organise diverse but interrelated small firms to gain from external economies which give them competitive advantage relative to those located outside the cluster or in isolation. These competitive advantages arise mainly in the form of ready market and savings in operational costs. From the responses above, one can deduce that concentration of SMEs provide collective market, cheaper source of inputs, efficient utilisation of modern equipments to reduce drudgery and improve productivity, and other cost savings advantages compared to firms outside the cluster. These external economies effect emanating from clustering of SMEs were seen as strength and a potential within the SWOT framework. As a potential, clustering has cost savings effects that can improve profitability, hence increase retained earnings and reduce demand for working capital that is scare to SMEs in the cluster as Table 4.18 of page 62 depicts.

4.3.1.3 Difficulties or Limitations at the Cluster

A number of difficulties confront SMEs in the cluster due to the rudimentary or informal nature of the cluster development. However, the intensity of the difficulty varies according to the SME category or groupings. Table 4.4 indicates that firms in the cluster are confronted with more than one of the major problems which are not mutually exclusive from each other. This accounts for the overlaps in the data which makes it more than 100 percent.

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Table 4.4 Difficulties Confronting SMEs in the Anloga Wood Cluster.

Constraints	Category of SMEs				
	Mini Sawmills	Machinery SMEs	Carpentry SMEs	Total Frequency	Percentage
Absence of Real or Support Services	0	18	74	92	61.33
Physical Conditions	7	22	62	91	60.67
Interrupted Electricity Supply	15	45	36	96	64.00
Insufficient Input Supply	12	33	67	112	74.67
Waste Disposal	2	16	20	38	25.33
Scarcity of Finance	3	18	83	104	69.33

Source: Field Survey, (2008)

Table 4.4 indicates that some 61.33 percent of firms at Anloga Wood Cluster suffer from the absence of real or support services but the problem is acute among carpentry SMEs that need such vital services to inform production, marketing and management of their entities. Frequent interruptions of electricity supply adversely affect mini- sawmills and machinery level SMEs in the cluster because production ceases when ever electricity supply is interrupted. Detail investigation revealed that none of the SMEs have alternative power source to rely on during electricity interruption.

The cluster also experiences insufficient and irregular supply of wood from sawmills and chain-saw operators during raining season. The ban on chainsaw lumbers and limited supply of wood from sawmills at Kumasi account for this shortage. The shortage of wood adversely affect all firms in the cluster since wood is the basic input for production. Another pertinent problem was the physical conditions of workshops and flooding of part of the area during heavy rains. This problem is severe among carpentry and some machinery level SMEs that have poor workshops

located closer to river Aboabo. Scarcity of finance continues to be very severe among carpentry SMEs who are the majority in the cluster.

One can imply that absence of real or support services, scarcity of funds, insufficient supply of inputs and physical conditions of workshops at the cluster severely constraints SMEs productivity and growth which can be viewed as weaknesses within the SWOT framework and can limit potential benefits of external economies and competitive advantage that SMEs derive from clustering.

4.3.2 SMEs Networking

Networking of SMEs with various institutions occurs within and outside a cluster. It fosters cooperation between firms and has a basic objective of joint action to achieve synergies beyond the reach of individual entities engaged in such collaborations.

Table 4.5 Networking among SMEs

Response	Frequency	Percentage
Firms engaged in networking	51	34
Firm not engaged in networking	99	66
Total	150	100

Source: Field Survey, (2008)

Table 4.6 Networking of SMEs According to Firm Category

Category	Frequency	Percentage
Mini- sawmills	11	21.57
Machinery level SMEs	27	52.94
Carpentry SMEs	13	25.49
Totals	51	100

Source: Field Survey, (2008)

Table 4.5 indicates that about three out of every ten (34 percent) of SMEs at Anloga Wood Cluster were involved in collaborations, however, that phenomenon is

emerging among mini- sawmills and machinery level SMEs which have higher proportion of 0.733:1 and 0.6:1 respectively of such SMEs category engaged in a collaborative networks. These proportions were calculated based on the number of networked SMEs in each firm category to the sample drawn from each stratum. The higher representation of these two participants emanate partly from carpentry SMEs dependence on wood and trade credit from input (wood) and service suppliers, hence forging horizontal networks within the cluster.

4.3.2.1 Types of Networking

Two functional networks were identified in the cluster namely permanent and temporary networks (time based) of which they were either sales or production oriented. Temporary collaborations among SMEs in the cluster are short- term, usually less than a year, with non- formal arrangement between network partners to cooperate and execute specific project of which cooperation ceases immediately the project is completed.

Permanent collaborations in the Anloga SMEs context are long- term in nature and span over a year and have written agreements to perform certain functions.

Table 4.7 Types of Networks

Type of Networks	Frequency	Percentage
Temporary Networks	32	62.75
Permanent Networks	19	37.25
Totals	51	100

Source: Field Survey, (2008)

Table 4.7 depicts that out of the networked SMEs some 62.75 percent of them were temporary networks. According to respondents, temporary networks are normally production oriented and are usually offered by road and building contractors as well as foreign buyers of skeletal patterns from the sub-region.

Respondents indicated that hitherto they cooperated with public institutions like the District, Municipal and Metropolitan Assemblies and Ghana Education Service in the

Ashanti Region to produce all kind of furniture for public schools. However, with the introduction of the Procurement Law (Act 663) such direct relationships severed because SMEs at Anloga do not meet the tendering requirements under the Procurement Law. However, they maintain permanent relationships with individual contractors or middlemen who sub- contract such orders to them. Some 37.25 percent of networked SMEs engaged in permanent sales collaborations with local merchants mainly from Accra, Tamale, Bolgatanga and foreign buyer from Burkina-Faso, Niger, and Mali. However, the predominance of temporary network and curtailing of direct transaction between SMEs and public institutions indicate a threat because they have the effect of low or irregular sales and cashflows to SMEs as most of these networks are sales oriented.

4.3.2.2 Areas of Collaborations in Production Networks

Table 4.8 Production and Sales Networks

Type of Network	Frequency	percentage
Production Network	35	68.63
Sales Network	51	100

Source: Field Survey, (2008)

The study also established that permanent or temporary collaboration may be either production or sales oriented. Questionnaires revealed that all networked firms were in sales networks while 68.63 percent were in production networks. These collaborations are independent of each other and therefore firms can forge such networks simultaneously. This accounts for the overlaps in data which is more than 100 percent.

At the production level, SMEs collaborate with cluster colleagues to achieve lower production costs, meet delivery deadlines and improve competitiveness.

Table 4.9 Areas of Collaboration in Production Networks

Area of Collaboration	Frequency According to SME Category			Total Frequency	Percentage
	Mini-Sawmills	Machinery Level SMEs	Carpentry SMEs		
Buy in Bulk	3	7	8	18	51.43
Improve Quality	0	0	2	2	5.71
Bid for Contract	0	4	2	6	17.14
Hasten Production	0	2	7	9	25.72
Total	3	13	19	35	100

Source: Field Survey, (2008)

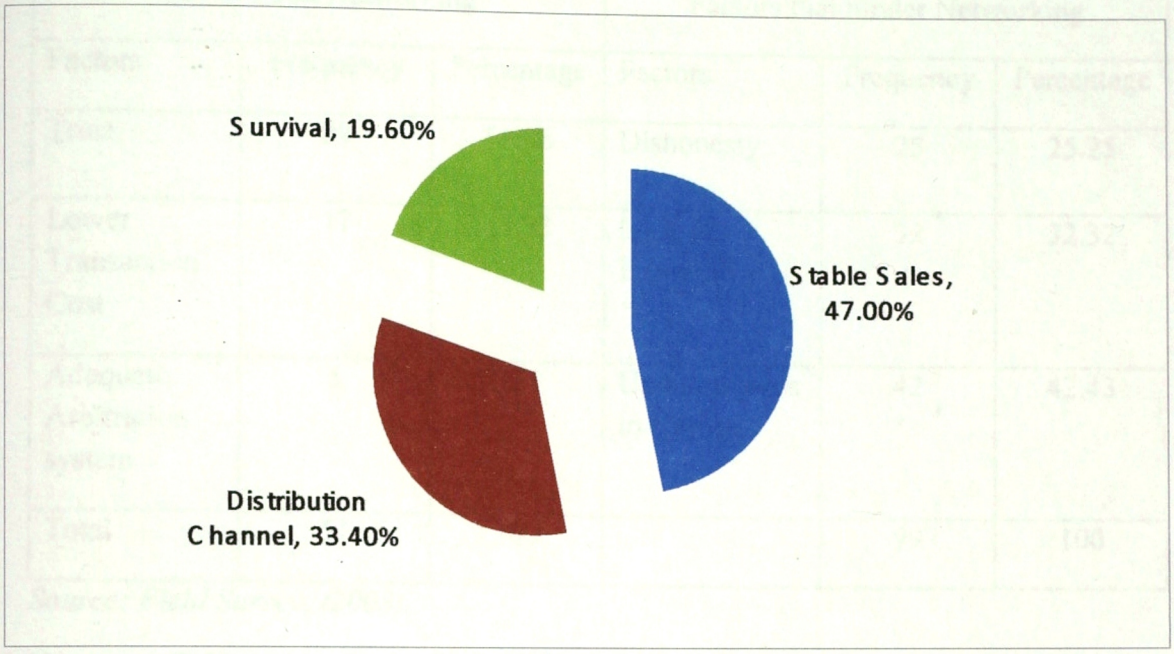
From Table 4.9 some thirty- five SMEs (35) accounting for 68.63 percent of networked SMEs collaborate at production level. Their collaboration revolved around four major areas. Some 51.43 percent of production networked firms who are mainly in the carpentry and machinery level SMEs collaborate to purchase wood in bulk, especially, at rainy season to achieve price discounts and build strong supplier relationships to ensure regular supply of inputs. Over a quarter (25.72 percent) of such networked SMEs in carpentry and machinery level SMEs cooperate to hasten production and meet contract deadlines whilst, 17.14 percent collaborate to bid for public contracts. Since quality control is not a strict requirement at this sector only 5.71 percent cooperate to improve product quality.

SMEs collaborations to purchase inputs in bulk as well as to hasten production are strength and potential respectively to SMEs in the cluster. Networks like these build long-term buyer-supplier relation, achieve quantity and price discounts beyond the reach of single SMEs as well as joint production to meet contract volumes and deadlines.

4.3.2.3 Sales Network and its Objectives

Sales network at Anloga Wood Cluster involves collaboration with distributors, contractors, agents and public institutions to sell outputs (sales networks).

Figure 4.5 Objectives of Sales Network



Source: Field Survey, (2008)

All the networked SMEs at Anloga were in a sort of sales network with agents and organisations to market their product. Sales networks seek to achieve three objectives. Figure 4.5 indicate that 47 percent of networked SMEs collaborate with agents and organisations to ensure stable sales and consistent cashflows, 33.40 percent collaborate to obtain and maintain channels of distribution outside Kumasi, meaning there is the need to expand sales beyond firm's locality, whilst 19.60 percent, collaborate to spread risks and uncertainties associated with demand of wood products to ensure survival in business. The implication is that SMEs at the Anloga Wood Cluster are sales oriented and collaborate with institutions mainly to sell their product to improve cash flow positions, secure sales outlets and survive in business.

4.3.2.4 Factors Promoting and Limiting Networking

SMEs, individuals and institutions collaborate to achieve varied objectives. Two major objectives stand out; to overcome size constraints in production network and achieve stable sales and consistent cashflows to improve working capital in the case of sales networks.

Table 4.10 Factors that Promote and Inhibit Networking

Factors that Networking			Factors that hinder Networking		
Factors	Frequency	Percentage	Factors	Frequency	Percentage
Trust	29	56.86	Dishonesty	25	25.25
Lower Transaction Cost	17	33.33	Lack of Information	32	32.32
Adequate Arbitration system	5	9.81	Unwillingness to Network	42	42.43
Total	51	100		99	100

Source: Field Survey, (2008)

However, Table 4.10 shows three qualitative factors that promote collaborations among networked firms at Anloga Wood Cluster. Some 56.86 percent and 33.33 percent of networked SMEs indicated trust and lower transaction cost of securing and maintaining networked partners respectively as major promoters of collaboration whiles 9.81 percent of SMEs that engaged in permanent collaboration viewed existence of adequate arbitration system to enforce commercial obligations between networked partners as factors that encourage network formation.

However, the proportion of 66:100 or 0.66:1 SMEs that are not engaged in any network is a weakness. Three major factors were identified as inhibitors to networking among such SMEs. Some 42.43 percent were unwilling to engage in networking activities due to the heterogeneous nature of wood work and seasonal variations in demand for products. Other SMEs 32.32 percent find it difficult and time consuming to identify network partners whilst 25.25 percent also indicated dishonesty as hindrance to collaborations of all kinds. These inhibitors are perceived as weaknesses within the SWOT framework because they prevent majority of SMEs to reap the benefits of synergies in production, stables sales and cashflows as Nadvi (1995) put it "networking or joint action drives major changes in product or factor market that make SMEs dynamic in ever-changing business environment'.

The absence of network brokers and agents can be blamed for some of these limitations. In the nutshell, networking is a positive trend that has the potential to reduce SMEs production costs, improve turnover and cashflows as well as growth orientation. On the social front, it could improve livelihoods of households that are dependent on proceeds from SMEs operations. However, as it exists now at Anloga Wood Cluster, the practice is rudimentary and majority of benefits derived from SMEs networking are accidental instead of consciously pursued joint action to achieve dynamic efficiency.

4.3.3 Inter- Firm Linkages

The activities of the three major participants in the cluster were inter-linked and depicted symbiotic relationships. Production activities of mini-sawmills are linked at the inputs level in the cluster where the sawmills convert rough and scraped wood into lumbers of various dimensions required as inputs by machinery level SMEs and carpenters whilst the mini-sawmills depended on input users for their sales and cashflows. The mini-sawmills also provides service to wood vendors by milling rough wood and beams into sizeable dimensions as specified by the wood vendor for a fee.

Some 30 percent of the SMEs are linked at machinery level where they depended on mini-sawmills and wood vendors for inputs. Value creation at machinery level occur under two circumstances. First firms at machinery level SMEs provide services such as cutting, drying, designing, and moulding among others to carpentry and joinery SMEs for a fee. The use of this service hastens carpenters' productivity and reduces drudgery and waste of wood. This implies that carpenters in the cluster who cannot acquire those specialised machinery due to lack of capital share the use of those machinery. Second, firms at the machinery level produce intermediate or skeletal patterns of wood products that are sold to cluster members and foreign buyers from neighbouring countries in the sub- region.

Whilst at the final product level, Carpentry and Joinery SMEs, who depend on inputs and services from mini-sawmills and machinery level SMEs, convert wood and intermediate products into furniture for domestic and constructional use.

Mini- sawmills and machinery levels SMEs generate significant sales and cash flows from intense commercial transactions within the cluster due to these symbiotic

linkages in the production chain. Mini-sawmills and machinery level SMEs estimated that over 50 percent of their sales and cashflow (financial transactions) are generated from dealings with firms in the cluster. Carpentry and machinery SMEs activities are linked through sub-contracting and marketing. The inference one can make is that strong inter-firm linkages promote sub-contracting, higher volumes of inter-firm transactions, create specialisation among SMEs in the cluster and therefore deepening such linkages has the potential of enhancing specialisation in specific product area in the value creation chain among cluster participants as well as generate significant sales and cashflows.

4.3.4 Business Ownership and Management

Ownership of firms is vested in providers of equity finance whiles management refers to an appointed body or single individual, in case of most SMEs, to administer the affairs of the firm on behalf of owners or for themselves. The study identified Sole-proprietorships, Partnerships and Limited Liability Companies as the three forms of entities in the Anloga Wood Cluster.

Table 4.11 Forms of Ownership

	SME Category				
Types of Firm	Mini-Sawmills	Machinery level SMEs	Carpentry and Joinery	Total Frequency	Percentage
Sole proprietorship	1	5	72	78	52
Partnership	3	33	15	51	34
Limited Liability Company	11	7	3	21	14
Total	15	45	90	150	100

Source: Field Survey, (2008)

From Table 4.11, Sole-proprietorships and partnerships which in legal form are considered not separate entities from liabilities of their owners constituted majority (86 percent) of SMEs at Anloga Wood Cluster. These ownership types are dominant in carpentry and joinery and machinery level SMEs.

Table 4.11 again shows that Partnerships are emerging at machinery level and in the case of Anloga Wood Cluster; Partnerships are formed by two or more passed out apprentices who jointly invest their savings in relatively modern workshops that employ sophisticated electric-powered machinery for production.

Private limited liability companies represents 14 percent of SMEs in the cluster and are owned by individuals and parent companies of medium scale sawmills outside the cluster. Mini-sawmills dominates private limited companies'. The high concentration of unlimited liability SMEs is a threat to SMEs survival since firms can be liquidated due to owners' indebtedness or death.

4.3.4.1 Management of SMEs at Anloga Wood Cluster

Table 4.12 indicates that most SMEs in the cluster, (86 percent) were owner-managed type of firms which do not have separate legal identities from their owners except limited liability companies. Only 12 percent of SMEs in the mini-sawmills category hired managers to administer firms' activities. This high concentration of owner-managed firms in the SMEs sector implies unwillingness of owners to divorce ownership from management even though owners may not have the requisite knowledge and management skills required to administer such entities as Table 4.17 of page 61 shows that only 58.67 percent or 0.5867:1 of SMEs managers have secondary or technical education.

Three main reasons account for continued dominance of owner-managed types of SMEs at Anloga Wood Cluster. First sole proprietorships and partnerships are by law not separate legal entities from their owners', hence owners perceive entities as extension of their natural bodies. Secondly, 40 percent of the SMEs in the cluster were inherited and family–owned and as such that kind of ownership structure has to be passed on to any generation. Thirdly, the nature of wood work requires experience, craftiness and active participation of 'masters' personality in receiving job orders. This makes it difficult to disengage 'masters', who are owners and do not have alternative employment, from management. Therefore, owner- managed firms provide employment for owners as well as cost savings on wages or salaries that would have been paid to hired managers. However, this huge concentration of sole proprietorships and partnerships at Anloga Wood Cluster is a weakness that needs to be rectified.

Table 4.12 Types of SMEs and Management Structure

	Management Type			
Type of Firm/ Ownership	Owner-Managed	Hired Manager	Total Frequency	Percentage
Sole proprietorship	78	0	78	52
Partnership	51	0	51	34
Limited Liability Companies	3	18	21	14
Total	132	18	150	100

Source: Field Survey, (2008)

4.3.5 Business and Strategic Planning

Literature suggests that other things being equal a key determinant of business success or failure lies in the absence or presence of planning, especially strategic planning. Strategic planning concerns setting long-term organisational goals, the development and implementation of plans to achieve long-term goals and the allocation of resources necessary for realising these goals (Stonehouse and Pemberton, 2002).

Table 4.13 Business Planning in SMEs

Response	Frequency	Percentage
SMEs that Operate with Plan	46	30.67
SMEs that Operate without Plan	104	69.33
Totals	150	100

Source: Field Survey, (2008)

Table 4.13 reveals that some 30.67 percent of SMEs at Anloga Wood Cluster operate with plan whiles 69.33 percent operate without plan. This result indicates general lack of business planning among SMEs; the phenomenon which is blamed for high failure rate and poor performance among SMEs.

On the other hand, three out of ten SMEs operating with business plan at Anloga Wood Cluster is substantial rate indicating gradual emergence of business planning

among SMEs which is a critical success factor and should be encouraged. The reason or logic behind this preposition is that on the balance, greater advantages accrue to SMEs that operate with plan than without plan.

4.3.5.1 Planning Horizon among SMEs

Table 4.14 SMEs Planning Horizons

Planning Horizon	Frequency	Percentage
Short-term	9	19.57
Medium- term	25	54.35
Long-term	12	26.08
Totals	46	100

Source: Field Survey, (2008)

Further investigations revealed from Table 4.14 that 19.57 percent of SMEs that operate with plan are short- term oriented with one to two years planning horizon. From questionnaire and observations, relatively large carpentry SMEs that are in sales network with agents and distributors at Accra and Northern Ghana fall into this category. Some 54.35 percent of SMEs that that operate with business plan engaged in medium term, between three to five-year, planning horizons. The questionnaire revealed that some SMEs at machinery level and mini- sawmills fall into this category. SMEs in this category indicated regular sales and cash flows as motivational factors that encouraged them to plan their activities. Lastly 26.08 percent of SMEs that plan, mostly within the mini-sawmill and relatively large machinery level SMEs, do strategic planning with a planning horizon of six years and beyond. These firms indicated regular demand for their products and services as well as shift in demand by agents from neighbouring West African countries who prefer skeletal patterns or semi- processed wood to finished furniture provide them enough motivation to plan in order to meet demand.

Two inferences can be drawn from Table 4.14. First, 74 percent or about two- thirds of SMEs that operate with business plan engage in short- to medium term planning with planning horizons not exceeding five years. This result confirms Wang et al, (2006) findings that most SMEs that plan prefer short to medium term planning

relative to strategic planning. The second implication is that size, demand for product and services, shifts in demand, volume of sales and predictability of cash flow patterns motivate medium to long- term planning.

4.3.5.2 Basis of Plan Formulation

Literature expresses two major views that form the basis of planning among SMEs. The first viewpoint sees SMEs as 'extension' of owners and hinges on Mitzberg (1994) view that actions and decisions of SMEs revolve around owner-manager such that the firm's goals are the owner- manager's goal, it strategy the owner- manager's vision. Therefore questions concerning the strategic vision of business need to be investigated in relation to private motivations and ambitions of individual owner-manager. The second viewpoint shared by Wang et al (2006), posits that the pursuit of profit maximisation encourages rational economic behaviour hence owner-managers would engage in strategic planning.

Table 4.15 Basis for Plan Formulation

Basis for Plan Formulation	Frequency	Percentage
Profit Maximization	25	54.35
Personal Ambition/ Fulfilments	21	45.65
Totals	46	100

Source: Field Survey, (2008)

Table 4.15 shows 54.35 percent of SMEs owners or managers that operate with business plan were guided by profit maximisation and growth objective as basis for plan formulation and implementations whilst 46.65 percent were motivated to plan based on personal ambitions and fulfilment.

Two inferences can be drawn from the above results. First SMEs owners and managers that operate with plan are gradually acting rationally which is consistent with rational choice and economic behaviour that sees profit maximisation and growth as the basis for strategic planning.

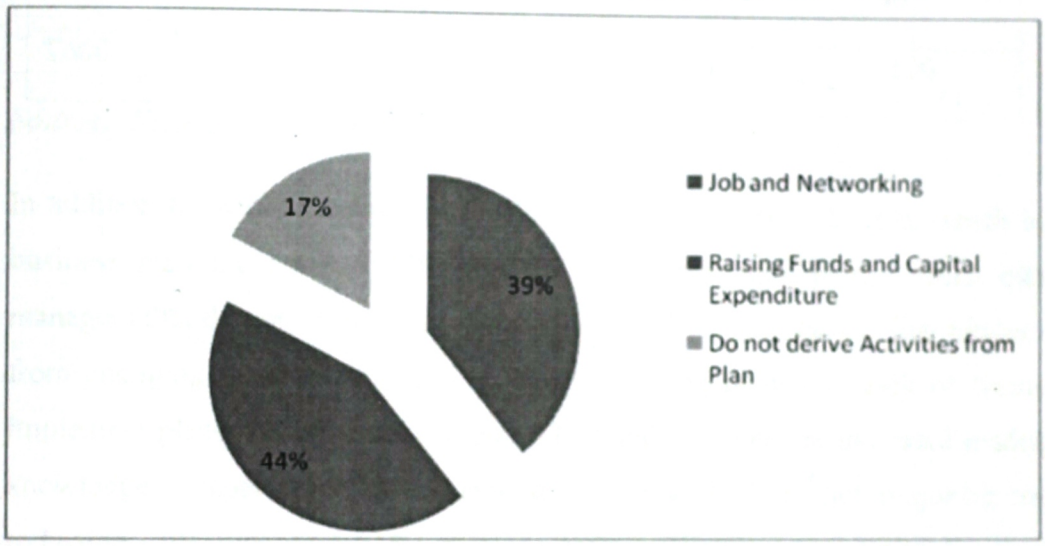
The second implication is that substantial numbers of SMEs owners are 'economically irrational' and fail to separate business identity, goals and objectives

from personal ones something that limits strategic planning and business expansion. This threatens viability and survival of such firms in ever competitive business environment.

4.3.5.3 Implementing Business Plan

Business plan indicating the visions, goals, objectives and activities of firms need to be implemented in order to achieve intended outputs and outcomes. For firms to achieve what their plans spell out, they need to be guided and derive their operating activities from plans.

Figure 4.6 Linking Operating Activities to Plan Implementation



Source: Field Survey, (2008)

From Figure 4.6 about 83 percent of SMEs that operate with plan linked plan implementation through job orders and networking and raising funds for capital expenditure. Some 17 percent of SMEs that plan do not derive their activities from plan due to the seasonal nature of wood work, uncertainty of the economic environment, irregular wood supply, and lack of funds to implement the plan. The inference one can make here is that majority of SMEs that plan are able to derive their cardinal operating activities from plan to guide implementation, something which is a strength and should be encouraged. As regards plan review to reflect current economic and operational trends, some 83 percent of SMEs that plan review plans annually whilst 17 percent of SMEs do not review their plans. The inference here is that SMEs through performance assessments coupled with plan reviews can

update their plans to reflect current dynamic economic environment and prevent plans from becoming stale.

Table 4.16 Hindrance to SME Strategic Planning

Response	Frequency	Percentage
Lack of time	10	9.76
Lack of capacity to plan	35	33.67
Unwillingness to share plan	17	16.1
Lack of funds	42	40.47
Total	104	100

Source: Field Survey, (2008)

In addition to owner-manager's behaviour, Table 4.16 depict factors, which hinder business planning among SMEs that do not operate with plan. SMEs owners-managers that do not operate with plan suggested four main factors that hinder them from engaging in strategic planning. Notable among them was lack of finance to implement plans (40.47 percent). Some 33.67 and 9.76 percent indicated inadequate knowledge or capacity to plan and lack of time respectively as their major hindrances to business planning whilst 16.1 percent were unwillingness to share trade secrete or information with external consultants who might guide them to draw strategic plan.

4.17 Educational Background of SME Operators

Levels of Education	Frequency	Percentage
No Education	24	16
Basic Education	38	25.33
Secondary/ Technical Education	88	58.67
Total	150	100

Source: Field Survey, (2008)

Using educational background of SMEs operators as in Table 4.17 and ownership-management structure in Table 4.12 of page 57 as variables to determine the degree of strategic planning among SMEs, it was clear that only 0.587:1 SMEs operators

have secondary or technical education which is fall short of the educational acumen required to understand the intricacies of strategic planning and managing successful business in ever changing economy.

Type of firms and management structure also affect adoption and implementation of strategic planning as a discipline within SMEs. Table 4.11 of page 55 shows a proportion of 086:1 of firms that are considered by law as 'personal extensions' of owners. The inference that can be made is that most sole-proprietorships and partnerships may be guided by individual goals, visions and ambitions of owners which most of the time are 'economically irrational' hence the high rate of lack of strategic planning among SMEs at the cluster. Low educational background and factors that limit strategic planning are threats and weaknesses that should be corrected overtime.

4.3.6 Financing SMEs

Most researches and efforts to improve SMEs financing have focused on SMEs access to traditional bank credit instead of comprehensive mix of finance available in the economy in relation to operating cycles of various SMEs.

Majority of SMEs at Anloga Wood Cluster are resource intensive with shorter production cycle. Therefore their financing needs mainly revolve around short- to – medium term capital requirements for the purchase of inputs, operating expenditure and minor capital equipments. The questionnaire identified six major sources of funds that SMEs in the Cluster utilise to finance their operations.

Table 4.18 Sources of Finance

Source of Finance	Frequency	Percentage
Owners Equity and Retained Earnings	150	100
Non Bank Debt Capital	21	14
Bank/ Financial Institution Credit	18	12
Trade Credit	36	24
Pre- financing	86	57.33
Hire Purchase Transaction	18	12

Source: Field Survey, (2008)

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Table 4.18 shows that all SMEs in the cluster like their counterparts around the developing world start operations with owners' savings and gradually expand through retained profits before they could attract other source of finance outside the owners. Some 14 percent started- up and continue to borrow from wealthy relatives to finance operations when they receive huge orders, 24 percent rely on short-term trade credit from input and service suppliers that they have networked with whilst 57. 33 percent rely on pre-financing, which is percentage of total order cost. Pre-financing is a norm among wood workers and it acts as a commitment fee for both formal and informal contracts. Hire purchase transactions (12 percent) are also emerging among machinery level and mini-sawmills who are relatively capital intensive compared to carpentry and joinery SMEs. Credit from banking and non banking financial institutions are scarce to SMEs in the cluster. This is contrary to claims from Belleflamme et al (2000) that small firms in clusters easily attract finance and other financial services at a cheaper cost.

The SMEs adopt different financing mix, which are independent of each other, to fund their operations. This means that firms raise funds from more than one source which are not mutually exclusive and these accounts for more than 100 percent of the response category.

All the financial institutions surveyed gave three main reasons for scarcity of credit to SMEs in the cluster. First, most owners of SMEs do not maintain separate and permanent bank accounts for the firms, secondly they are considered high risk borrowers because of irregular pattern of their cash flows and third, the financial institutions prefer the SSCA's guarantee for loans repayment which the SSCA executives were unwilling to do. Therefore the culmination of these factors has limited financial institutions credit to SMEs in the cluster. The reluctance of SSCA to guarantee for members credit is a major weakness of the association as it contradicts its objective of promoting members interest, especially if members are credit-worthy.

Table 4.19 SMEs Financing from Financial Institutions

Response	Frequency	Percentage
SMEs that have subscribed to SME financing from financial Institutions	18	12
SMEs that have not subscribed to SME financing from financial Institutions	132	88
Totals	150	100

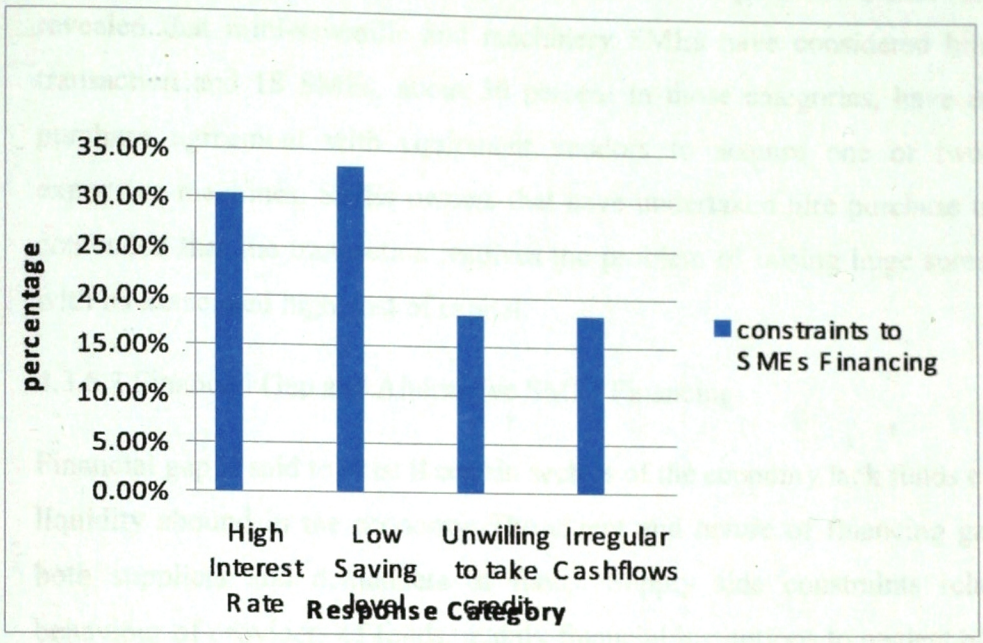
Source: Field Survey, (2008)

Table 4.19 shows that only 12 percent of SMEs at Anloga Wood Cluster have subscribed to SMEs financing. The questionnaires reveal that machinery level and mini-sawmills SMEs who have regular cash flows are those who were granted SMEs credit. These credits were medium term oriented and are supposed to be amortized within two years. Therefore from the result one can infer that SMEs credit or financing is yet to be popular among SMEs owners and managers. However, results from Figure 4.7 confirmed financial institutions' stress on regular cashflows and lower risk profile as one of the major pre-requisites to SME financing.

4.3.6.1 Constraints to SME Financing

Figure 4.7 gives four major factors that prevented some 88 percent or 0.88:1 SMEs to subscribe to SME financing from financial institutions. Some 30.40 percent blamed high interest on borrowing as the major deterrent to subscribe to SME financing. Other 33.33 percent indicated low savings level whilst 18.18 percent blamed irregular cashflows as common factors that restricted their ability to secure SMEs credit. Lastly, 18.18 percent of SMEs owners and managers were unwilling to source for 'costly SMEs credit' because they are able to finance their operations through trade credit and pre- financing from clients that come at no cost. Constraints to SME-financing from financial institutions are a weakness that should be resolved whilst pre- financing is an opportunity that SMEs should exploit.

Figure 4.7 Constraints to SMEs Financing

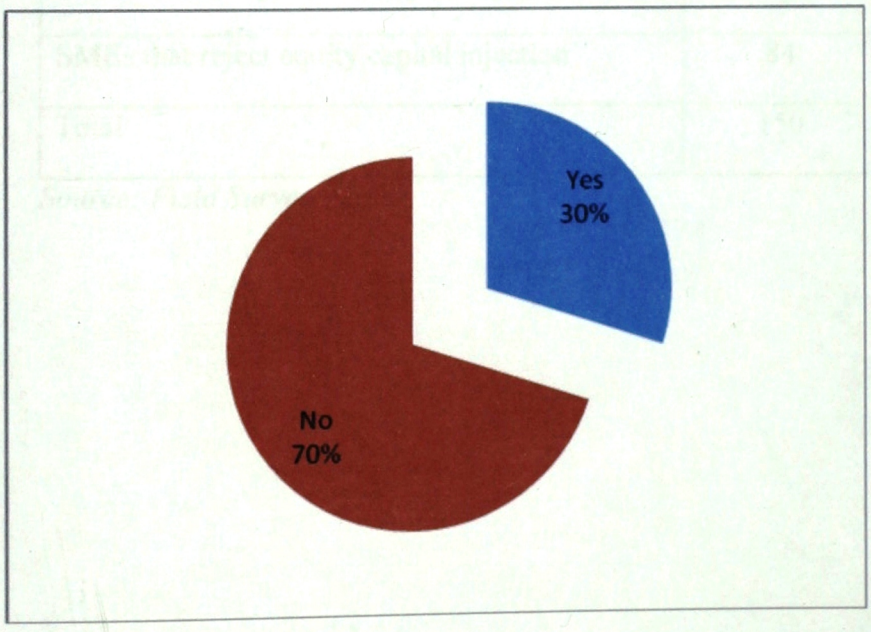


Source: Field Survey, (2008)

4.3.6.2 Alternative Financing

Apart from equity and debt capital from owners and financial institutions, hire purchase and lease transactions provide alternative form of financing medium to long term assets or capital expansion.

Figure 4.8 Consideration of Alternative Financing Options



Source: Field Survey, (2008)

Figure 4.8 show that 30 percent of SMEs have considered hire purchase as alternative way of acquiring capital assets for expansion. Detail investigation revealed that mini-sawmills and machinery SMEs have considered hire purchase transaction and 18 SMEs, about 30 percent in those categories, have entered hire purchase agreement with equipment vendors to acquire one or two relatively expensive machines. SMEs owners that have undertaken hire purchase transactions contended that the transaction resolves the problem of raising huge sums of money with its associated high cost of capital.

4.3.6.3 Financial Gap and Alternative SMEs Financing

Financial gap is said to exist if certain sectors of the economy lack funds even though liquidity abound in the economy. The extent and nature of financing gap relate to both suppliers and demanders of funds. Supply side constraints relates to the behaviour of providers of funds, mainly financial institutions to neglect SMEs sector for certain reasons whiles demand side constraint refers to SMEs decisions to reject certain financing options (Ayers, 2006). In other to access the extent of demand side financial gap, a scenario was created where SMEs owners were asked to express their opinions on equity capital injection by private or institutional investors for a part or stake in their firms.

Table 4.20 Scenario of Equity Injection into SMEs.

Response	Frequency	Percentage
SMEs that accept equity capital injection	66	44
SMEs that reject equity capital injection	84	56
Total	150	100

Source: Field Survey, (2008)

4.21 Reasons for Accepting or Rejecting Equity Injection

Accepting Equity Capital Injection			Rejecting Equity Capital Injection		
Reason	Frequency	Percentage	Reason	Frequency	Percentage
Increase capital base	51	77.27	Unwilling to dilute ownership	69	82.14
Enrich management	15	22.73	Maintain family ownership	15	17.86
Total	66	100		84	100

Source: Field Survey, (2008)

Table 4.20 shows some 56 percent of SMEs owners were unwilling to accept partners or equity investors for two major reasons. First, 82.14 percent of SMEs owners that rejected equity investor scenario based their rejection on unwillingness to dilute ownership and management and relinquish part power whiles 17.86 percent feared complete takeover and therefore they have to maintain family ownerships.

The inference one can be made from this equity injection scenario is that demand side financial gap exist among SMEs at Anloga Wood Cluster due to unwillingness of owners to accept equity investments and that the owners prefer the SMEs to maintain small family ownership, poorly managed, and less productive even though opportunities to resuscitate firms through equity capital abound. This is a weakness and threat that deprive SMEs from financial resources they need for long-term investment and expansion.

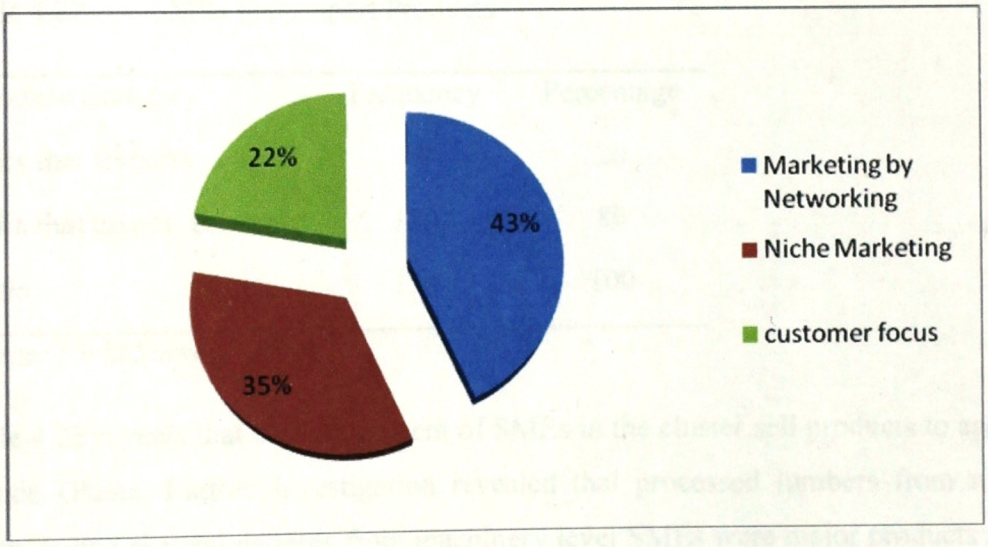
On the other hand, 44 percent of SMEs were willing to accept and deal with credible investors. Three main reasons were given for accepting equity investors. First, 77.27 percent of such SMEs owners indicated equity injection would offer the advantage to increase capital base and reduce over dependence on trade credits, expensive informal borrowing and inadequate pre-financing. Finally some 22.73 stated that accepting equity investors would complement and enrich management capacities of SMEs owners, something they lack.

4.3.7 SMEs Marketing

Marketing activities of SMEs at the Anloga Wood Cluster are geared towards sales. Most sales are on cash basis with little credit to agents that have established long-term commercial relationships, thus those in sales network. All SMEs in the cluster perceive selling of final or intermediate output very important because sales bring the cashflows and profits they all want to maximize. Therefore in order to maximize cashflows and profits, SMEs managers and owners have adopted multiple marketing approaches to drive sales.

Over two thirds (70 percent) of SMEs in the cluster segmented product offerings according to customers' needs, orders and quality whilst a third (30 percent) offer products without taking orders or special needs of the consumer into consideration. Further investigations revealed that mini-sawmills sell high quality wood to overland exporters and carpentry and joinery SMEs that sell high quality furniture to showrooms at Kumasi, Accra, Temale among others whilst low quality wood target cluster colleagues that produce and sell cheaper products to the less affluent at Anloga.

Figure 4.9 Marketing Practices by SMEs



Source: Field Survey, (2008)

SMEs that segment customers demand employ various strategies to achieve the quantum of sales they desire. Figure 5.6 indicates some 43 percent of such SMEs employ sales or marketing by networks with agents, key personalities in

organizations located at Kumasi, Accra, Temale, Tema, and other areas through out Ghana as well as overland exports to sell their products. Marketing by networking in the cluster is spurred by business, family, religious denominations and tribal relations. This personal form of marketing maintains loyal customers, provides valuable information for product improvement and is relatively less expensive.

Some 35 percent of SMEs in the cluster specializes and focus product offering to the under- served, less popular and profitable customers. Questionnaire revealed that mostly small scale carpenters serve their niches with products like school table and chair for pupils, tomatoes and fruits crates for market women, 'chop-boxes' for students, bee hives for bee-keepers, feeding troughs and others for livestock keepers. Some 22 percent of SMEs also provide customer focused products and provide exactly what their core customers and market dictates or demands. Machinery level SMEs and relatively large carpentry and joinery SMEs that produce high quality products, constructional related wood products offer customer oriented products.

4.3.8 Export Orientation

Most SMEs at the cluster were not export oriented and do not sell products directly outside Ghana, but relied on foreign agents and relations at Togo, Burkina-Faso and Mali to export to those countries.

Table 4.22 SMEs that Export Products

Response Category	Frequency	Percentage
SMEs that Exports	30	20
SMEs that do not Exports	120	80
Totals	150	100

Source: Field Survey, (2008)

Table 4.22 reveals that only 20 percent of SMEs in the cluster sell products to agents outside Ghana. Further investigation revealed that processed lumbers from mini-sawmills and skeletal patterns from machinery level SMEs were major products sold to dealers or agents outside Ghana. Carpentry SMEs also sell fruit creates and construction related wood products to agents from Togo, Burkina-Faso and Mali as

export products. The inference is that only little value added products get exported because most of the exported wood products are low quality with little sophistication.

The desire to increase sales and profits and explore new markets motivated these SMEs to search for markets outside Ghana. Table 4.22 indicates that four out of every five SMEs do not export. However, Table 4.23 shows factors that prevent SMEs in the cluster from exporting. Significant among them were higher transaction costs (17.5 percent), non- availability of agents and distribution channels (47.5), and high risk of defaults by foreign agents (35 percent). These constitute weaknesses on the part of SMEs that needed to be resolved to enhance selling and export avenues.

4.23 Factors that Limit Exportation

Response	Frequency	Percentage
Higher transaction cost	21	17.5
Non availability of agents or distribution channel	57	47.5
High risk of default	42	35
Total	120	100

Source: Field Survey, (2008)

4.3.9 Responses Public Institutions

The National Board for Small Scale Industries which is a national body responsible for SMEs development and the Kumasi Metropolitan Assembly, a body responsible for local economic development, gave insight into effort of public institutions to develop the SMEs sector in Ghana. Both institutions acknowledged that Ghana do not have explicit SME development policy compared to the Asian countries. However, Ghana had made pragmatic efforts to grow SMEs through the provision of technical, managerial, financial and other relevant support services to SMEs through public institutions and NGOs.

Both institutions have recognized informal clustering and sales networking of SMEs particularly, among producers of traditional products such as kente, shoes, furniture and automobile engineering as a phenomenon that has emerged in the Metropolis.

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The NBSSI stressed that its outfit is collaborating with KMA to relocate the Anloga Wood Cluster to a congenial site at Sokoban.

The NBSSI again recognized the need to build capacity and competencies in SME operators. Therefore it has introduced demand driven management development programmes to meet such need. The Board also identified informational gaps as one of the constraints to SMEs operations; hence it has embarked on a public programme to disseminate valuable information on private and public sectors assistance as well as current best practices in administering SMEs to managers or owners of small firms.

The NBSSI indicated lack of business planning, non-separation of commercial dealings and transactions from personal ones as well as week records and accounts keeping as weaknesses within SMEs that constraint their ability to raise funds and attract credible business partners. As regards resolving these constraints, the NBSSI proposed continuous education to build capacities and competencies in SMEs operators as one of the effective ways to tackle the problems.

4.4 SWOT Analysis

SWOT analysis is an analytical framework for profiling an establishment and generating strengths and weakness from internal analysis and opportunities and threats from external or environmental analysis. The framework concentrates on issues that potentially have significant impact on an establishment and those issues are used to generate strategy to improve the competitiveness of such establishment.

With regard to analyzing the results and findings of the study within the SWOT framework, Table 4.24 summarizes cardinal issues in the cluster that are worth noting to improve the competitiveness of SMEs in the cluster.

Table 4.24 Summarized SWOT Matrix for the Cluster

Strengths	weakness
1. Concentration of similar and interrelated firms 2. Production networking and sub-contracting to reduce costs 3. Sales networks to expand sales and revenue 4. Strong inter-firm linkages 5. Availability of pre-financing 6. Sharing of modern machinery by SMEs	1. Low level of business or strategic planning 2. Sole proprietorship and partnership dominating the ownership structure 3. Rejection of equity capital injection 4. Non availability of real service 5. High level of non-collaborations
Opportunities	**Threats**
1. Cost savings derived from external economies 2. Ready markets to sell products 3. Opportunity to network 4. Cheaper input prices 5. Adoption of hire purchase transaction to finance capital expansion	1. Sub-contractors extract part of SMEs profit margin 2. Insufficient supply of wood during rainy season. 3. Neglect of the SMEs by financial institutions 4. Non availability of SME policy 5. Low educational background of SME operators 6. cessation of direct commercial relationships between SMEs and public institutions 7. Lack of Network brokers or agencies

4.4 Conclusion

The study analysed and discussed primary data collected from units of analysis and revealed various findings which have adverse and positive implications on SMEs development. Recommendations to entrench and resolve positive and adverse issues pertinent to SMEs development are presented in chapter five.

CHAPTER FIVE

FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 INTRODUCTION

This chapter brings out key findings obtained from the analysis of data in the light of the research questions and objectives of the study and makes policy recommendations to address findings and draws conclusion.

5.2 Summary of Findings on Emerging Trends in SMEs Operations.

This section summarises findings and implications of findings on SMEs Clustering, networking, strategic planning, SME-financing, and marketing and export orientation as well as ownership-management structure.

5.2.1 Clustering of SMEs

It was discovered that clustering provides external economies in the form of ready market, sharing or common usage of specialised machinery and proximity to input source which have cost savings effect that can help SMEs at the cluster to manage small size constraints. Secondly, it was also discovered that the SMEs in the cluster lack real or support services that are vital in the provision of market and other business intelligence services needed to guide production and marketing activities to achieve better performance. Inadequate supply of wood during raining season affects SMEs production.

Two implications can be drawn from these findings. First, benefits from external economies such as ready market speed-up sales, hence cash inflows whilst cost savings reduces cash outflows. Other things being equal, resource intensive and short production cycle SMEs can make and retain enough money to finance working capital instead of relying on external working capital which is scarce and expensive. Second implication is that the absence of real or support services such as market intelligence, changes in consumer demand, and lack of business development services hinder the competitiveness of SMEs located in the cluster because firms need to create value based on knowledge and information which is expensive for individual firms to afford. The absence of such services will lead SMEs to create value based on inefficient utilisation of scarce resources.

5.2.2 Networking among SMEs

Sales and production networking are emerging in the cluster as three out of every ten SMEs collaborate either on temporary or permanent basis. All networked SMEs forged sales network to sell their products to ensure stable sales and consistent cashflows, where as SMEs in production network forged joint purchase of inputs in bulk to achieve economies in purchasing and synergies in production. It was also discovered that dishonesty and lack of information about prospective network partners inhibit the full emergence of networking. Finally, the stringent requirements of the Procurement Law, Act 663, had ceased previously profitable direct commercial transactions between SMEs in the cluster and public institutions. This has introduced middlemen who extract part of SMEs profit margin.

The implication that can be drawn is that networking can improve cash inflows and profitability of SMEs through selling to bigger market whilst reducing production costs through production networks. This will help ease working capital constraints among firms in the cluster. The cessation of direct commercial dealings with public institutions has the effect of reducing profitability of SMEs due to financial gains that middlemen want to make; other things being equal it can worsen SMEs cashflows positions.

5.2.3 Business and Strategic Planning

Business planning is gradually emerging among SMEs at the Anloga Wood Cluster as over a quarter operates with business plan. However, majority (73.02 percent) do short-to-medium term planning only with little emphasis on strategic planning. This can be explained by low educational background of SMEs operators coupled with very high concentration of owner-managed SMEs. Therefore strategic planning is not emerging among SMEs in the Anloga Wood Cluster. It was also discovered that 'economic rationality' is also emerging among SMEs that operate with business plan.

The implication of low level of strategic planning among SMEs makes majority of them short-term oriented and freewheeled opportunists who react to threats and opportunities in an inconsistent manner.

5.2.4 Financing SMEs

Majority of SMEs, 56 percent, rejected the scenario of equity capital injections by equity investors in exchange of part ownership. Also SME-financing designed by financial institutions to bridge supply side financial gap is yet to emerge as majority of SMEs (82 percent) have not subscribed to such facilities due to high interest rates, higher refusal rate of credit applications and stringent credit requirement. Third, over half of carpentry and joinery SMEs rely on pre-financing to finance their working capital requirement whilst hire purchase transactions are emerging as alternative form of financing long- term capital expansion among mini-sawmills and relatively capital intensive machinery SMEs.

Two implications can be drawn here. First, the availability of pre-financing to SMEs at Anloga limits their demand for SME credit from financial institutions. This dependence on pre-financing is advantageous as it bears no cost of capital. Secondly, the unfortunate scenario of continuous existence of financial gap would stifle long-term capital SMEs require to expand operations and employ competent managers. This financial gap is closely linked to the rudimentary ownership and management structure that exists in the cluster.

5.2.5 SME Marketing and Export Orientation

SMEs marketing activities focus mainly on selling. Networking and niche marketing practices and strategies were deployed to drive sales and cashflows to meet firms' resource requirements and serve their intended customers profitably. Only a fifth of SMEs are export oriented with SMEs in mini-sawmills and machinery levels as major exporters of processed lumbers of various dimensions and intermediate products or skeletal parts respectively.

5.3 Findings on Inter-firms Linkages

There is a strong symbiotic relationship between SMEs in the cluster. Mini-sawmills depends on carpentry and machinery SMEs for substantial sales whilst carpentry and machinery level SMEs depend on mini-sawmills for their basic inputs. In some situations, carpentry SMEs depend on machinery level SMEs for intermediate inputs and productive service. This ensures vigorous interactions and enhances value

creation. Such inter-firms linkages encourage specialisation and division of labour. Major areas of inter-firm linkages are intensive financial transaction, sub-contracting and marketing.

5.4 Findings on Ghana's Approach to Develop the SME Sector

It was discovered that Ghana as a country does not have explicit policy to grow its SME sector. However, the country's SMEs promotion strategies incline towards developmental approach. This was inferred from the establishment of public institutions like NBSSI, Ghana Regional Appropriate Technology Industrial Service (GRATIS Foundation) and the venture capital fund to provide managerial, technical and financial services and other solutions to grow the sector. The NBSSI is collaborating with the local government authorities throughout the country to relocate unplanned clusters. With regard to Anloga Wood Clusters, the NBSSI is collaborating with KMA to relocate all firms at Anloga to a proposed site at Sokoban.

5.5 Policy Recommendations

In order to resolve the issues that were raised in the findings and its implication on SMEs development, the under listed policy recommendations were proposed.

- The absence of real or support services in the cluster limits benefits that firms derive from external economies to accidental or static gains and in the case of groundwork cluster like Anloga Wood Cluster, production may not be based on information and knowledge which could lead to inefficient use of resources. To overcome this limitation, the NBSSI and the KMA should design and implement as part of the regional industrialisation strategy the provision of real or support services that would provide market intelligence and knowledge to guide firms in the cluster in value creation activities so as to ensure efficient utilisation of available resources in the current information age. Future relocation of the cluster should be properly planned to offer cost savings and revenue maximisation advantages associated with planned clusters.

- The introduction of the Public Procurement Law, Act 663, in 2004, has led to cessation of certain direct commercial dealings between SMEs and public institutions due to stringent requirements of Act 663, to the extent that most

SMEs cannot meet the required thresholds and this has introduced middlemen who extract part of SMEs profit margin. Secondly, lack of information about prospective network partners inhibits SMEs collaborations on all fields. To overcome these two limitations, stakeholders such as KMA, NBSSI, SSCA and private management firms should cooperate to establish network agencies or brokers, either private or public funded or both to organise SMEs into consortiums to bid for local contracts as well as harmonise their various areas of production to achieve synergies. Secondly, future amendments of the Public Procurement Law should lower the requirement thresholds for SMEs to enable them bid for local authorities and public contracts in their localities within the context of Local Economic Development (LED).

- Low level of business and strategic planning, high concentration of ownership-management and continuous existence of financing gap can partly be explained by lower educational background of SMEs owners and managers. Therefore in order to resolve such limitations, there is the need for continuous education and capacity building to improve SMEs operators to be realistic, flexible and adopt new methods and practices to manage their entities efficiently. Therefore periodic education for entrepreneurs at Anloga Wood Cluster can improve management and production practices of SMEs.

- There should be a national policy on SMEs development that offers wide range of incentives that can attract indigenous wealthy entrepreneurs and financial institutions to invest in the SME sector to reduce most of the supply side constraints associated with the sector. The following proposals should be included in the SME policy.

    i. Set-up small businesses development fund (either publicly or public-private fund) that would advance credit to SMEs at competitive rate, but lower than commercial banks rate to help resolve the problems associated with financing small firms in Ghana. The fund should focus lending to growth oriented SMEs.

    ii. The policy should establish an agency or provide incentives (financial or taxes) to private firms to establish agencies with

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the core business of networking SMEs in order to collaborate their activities to achieve synergies and provide growth oriented business development services to SMEs to help them overcome their managerial and size problems.

iii. The policy should also include provisions that provide certain tax incentives to large firms to source at least 25 percent of inputs and services from the SME sector in order to increase the volume of transactions between SMEs and large firms to enhance economic growth.

iv. The policy should also make it mandatory, in the award of any public contract, to include at least 15 percent of local content or resources if available in the locality. The reason being that most of such resources are produced by SMEs.

5.6 Conclusion

The creation of strong and vibrant SME sector does not occur in vacuum. It requires careful planning and execution of policies and programmes that follows appropriate trajectories as well as high level cooperation between entrepreneurs and stakeholders in the SME sector. Therefore the absence of explicit SMEs policy in Ghana makes the sector less attractive to current and prospective entrepreneurs as well as stakeholders that provide varied services to the SMEs sector. The apparent lack of explicit SME policy fails to identify the optimum SMEs development path that the country intends pursuing to grow the SMEs sector.

Traditionally, SMEs have been characterised by lack of economies of scale due to small size, limited access to and scarcity of financial and managerial resources which exposes them to vulnerabilities of both local and global competitions. In order to overcome these inherent limitations and become productive, SMEs are encouraged to form clusters of firms, network their activities to achieve synergies, encourage specialisation and strong inter-firm linkages, adopt strategic planning approach to long-term decision making and adopt financial mix that resolves the problems of financing gaps. All these innovative value creating practices and methods would help

improve organisational capacities of SMEs within their resource constraints and current economic dictates.

The study identified and establishes cost savings, avenue for ready market and opportunity to network as some of gains and strengths that concentration of diverse but interrelated SMEs offer to firms that locate there. These gains are recognised by cluster participants who utilise them to achieve competitive cost advantages over non- cluster competitors. Networking is also rife in the Clusters even though the practice transcends the cluster. SMEs engage in production and sales networks to minimise production costs and maximise sales, profits and cashflows to augment scarce external working capital financing available to them. Again within a cluster, there are various participants that maintain symbiotic relationships which deepen inter-firms linkages and at times generate quantum of transactions that provide enough revenue and cashflows to survive in business during difficult times. Therefore clustering networking and vigorous inter-firm linkages are new methods and practices of organising SMEs that have emerged in Ghana even though it is at its rudimentary stage.

SMEs owners and managers have adopted and utilised their extensive social and personal contacts as well as niche strategies to sell their products.

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Appendix 1

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College of Architecture and Planning
Faculty of Planning and Land Economy
Department of Planning

Research Questionnaire:

This questionnaire is designed to collect data for academic research being conducted into the Emerging Trends of Small and Medium Enterprises in Ghana as part of the requirement in the award of Msc. in Development Policy and Planning. I therefore appeal to you to answer the following questions frankly as possible.

The researcher assures confidentiality of any data and information provided by respondents.

GUIDE TO ANSWERING QUESTIONS:

Where possible answers have been provided, please tick [ ] the correct answer(s)
Where possible answers have not been provided, kindly supply the necessary information

Questionnaire for Small and Medium Enterprises

Firm details:

Name of the firm.....
Address.....
Telephone and Fax Numbers.....
Date of Incorporation.....
Type of ownership.....
Number of employees.....
Type of business activity.....
Number of products offered for sale.....

Section B: Clustering and Networking:

1. How do you consider the location of your business?
   Appropriate [ ] Inappropriate [ ]
2. What attracted the firm to locate at its present location? Please tick those appropriate.
   Existence of other firms that provides inputs [ ]
   Specialised labour [ ]
   Proximity to market [ ]
   Sharing of specialised equipment [ ]
   Specify any others.....

3. Indicate the types of services that firms at your location receive that are not available to similar firms outside the cluster?
   Cheaper credit and financial services [ ]
   Cheaper consultancy and advisory services [ ]
   Government projects [ ]
   Others specify.....

4. Indicate the kind of benefits your firm derive from its current place of business
   Cost reduction [ ] Opportunity to network [ ]
   Others specify.....
5. Indicate areas or avenues that help the firm to reduce its cost
   Cheaper inputs source [ ]
   Savings in transportation cost [ ]
   Sharing or hiring of specialised machinery [ ]
   Access to developed infrastructure [ ]
   Others specify.....
6. What are the disadvantages or difficulties of locating at the present location?
   Congestion [ ]
   Interrupted utility supply [ ]
   Lack of Real Services [ ]
   Others.....
7. Which part of the firm's production activities are linked to other firms here?
   Input or raw materials supplies level [ ]
   Machinery or equipment level [ ]
   Final output [ ]
8. What types of business collaboration(s) or arrangement(s) do the firm have other businesses?
   Permanent [ ] Temporary [ ]
   No collaboration [ ]
10 Indicate whether the collaborations are for Sales network [ ]
   Or production Network [ ] All [ ]
9. What are the objectives of forming sales network or collaboration?
   To ensure stable sales [ ]
   Sharing of best practices [ ]
   Obtain distribution channel [ ]
   Ensure survival [ ]
   Others specify.....
10. Indicate the role the firm plays in the collaborative arrangement.
   Supplier of inputs or raw materials [ ]
   A sub- contractor of parts or services [ ]
   Specify any other role.....

11. If your firm sub- contracts what are the reasons for sub-contracting?
    Irregular or low demand [ ]
    Saving on inventory [ ]
    Greater efficiency [ ]
    Lower costs of sub- contracting [ ]
    Others specify.....
12. Please indicate the area(s) that the firm cooperate with other firms:
    Purchase of inputs [ ]
    Sharing of knowledge and information [ ]
    Use of machinery and technology [ ]
    Raising of funds [ ]
    Avenue for marketing and export [ ]
    Others specify.....
13. Which of the following are the reasons for entering into such collaborative arrangement?
    Overcome size limitation [ ]
    Ensure stability of business operations [ ]
    Promote mutual interest [ ]
    Others specify.....
14. Indicate area(s) of operations that the firm collaborate with others to overcome size constraints.
    Buying in bulk to achieve lower purchase cost [ ]
    Collaborate to bid for a project or contract [ ]
    Collaborate to meet higher volume orders [ ]
    Improve product quality [ ]
    Benefit from financial package [ ]
    Specify any other reasons.....
15. What factors encourage collaboration or networking arrangement with other firms?
    Lower transaction cost [ ]
    Adequate legal framework [ ]
    Government policy [ ]
    Others specify.....
16. What factors limit or prevent networking arrangement with other firms?
    Lack of information on partners interested in networking [ ]
    Unwillingness of other firms to engage in business collaboration [ ]
    Dishonesty [ ]
    Specify others.....

Ownership and Management:

17. What is the motivation of the owner(s) or management the firm for being in business?
    Growth or profit maximisation [ ]
    Be independent and own boss [ ]
    Personal satisfaction and fulfilment [ ]
    Contribution to society [ ]
    Others specify.....
18. Who manages the firm?
    Owners [ ] Hired manager(s) [ ]
19. What is the educational background of manager(s) of the firm?
    No educational background [ ] Middle school level [ ]
    Secondary/Technical level [ ] Tertiary Education [ ]
20. How would you describe the firm sales and profit?
    Growing [ ] Declining [ ]
    Stagnant [ ] Just started [ ]

Section C: Strategic Planning

21. How does the firm run its current and future activities?
    With plan [ ] without plan [ ]
22. Indicate the life span or horizon of the plan.
    1-2 years [ ] 3- 5 years [ ]
    6- 10 years [ ] 10 years and beyond [ ]
23. At what stage of the firm do management prepare and implement business plan?
    At the initial or inception stage of the venture [ ]
    After one to three years of establishing the venture [ ]
    Others specify.....
24. Rank the factors below in order of importance as conditions that compelled or influenced the formulation of the firm's plan.
    Personal vision of owner(s)/ Managers [ ]
    Economic and market conditions [ ]
    Competition and customer satisfaction [ ]
    Specify others.....
25. Indicate which of the following is or are the focus and motivation that drive the firm to plan.
    Profit maximisation [ ]
    Personal ambition and conveniences [ ]
    Others specify.....
26. How does the firm daily activities relate to its plan?
    Through budgeting process [ ]
    Through raising finance for expansion [ ]
    Does not derive its activities from plan [ ]
    Others specify.....

27. What restrict the firm from deriving its activities from the plan?
    Environmental uncertainties [ ]
    Shortfall in implementation capability of staff [ ]
    Stage or lifecycle of the business [ ]
    Motivation of Owners or Managers [ ]
28. What hinder(s) or limit(s) the firm from having a plan?
    Lack of time [ ]
    Inadequate knowledge of planning process [ ]
    Reluctant to share strategic plan with external consultants [ ]
    Motivation of Owners or Managers [ ]
29. How often do the firm review its plan?
    Frequently [ ] Not frequently [ ]
    Does not review the plan at all [ ]
30. What necessitate such review?
    Economic conditions [ ] Emerging opportunities [ ]
    Government policies [ ]
    Others specify.....

Section D: Financing the Firm.

31. What are the firm's sources of funds for financing its operation?
    Owners equity and retained earning [ ]
    Debt or credit finance form financial institutions [ ]
    Trade credit [ ]
    Hire purchase and lease [ ]
    Others specify.....
32. Have your firm subscribed to SMEs financing? Yes [ ] No [ ]
33. From which financial institution did the firm deals sourced the SMEs financing? Commercial banks [ ]
    Rural banks [ ] Non banking financial institutions [ ]
34. What types of credits does the financial institution grant to the firm easily?
    Short term finance [ ] Medium term finance [ ]
    Long term finance [ ]
35. How are SME credit facilities different from traditional credit facilities?
    Lesser emphasis on collateral [ ]
    Greater emphasis on cashflows [ ]
    Flexible terms of payment [ ]
    Others.....
36. State constrains the firm faces in raising adequate SME bank credit.
    Lower credit line [ ]
    Higher interest rate [ ]
    Others specify.....

37. What alternative financing arrangements have the firm transacted outside financial institutions?
    Hire purchase [ ]
    Lease [ ]
    Others.....
38. Have the firm considered such transactions as an alternative form of financing its operation? Yes [ ] No [ ]
39. What limit(s) the firm from engaging in hire purchase and lease transaction?
    Unavailability of desired products on the hire purchase market [ ]
    Lack of information about such products [ ]
    Unfavourable terms of contract [ ]
40. What advantages would such facilities yield to the firm if they are available and accessible?
    Reduced financial burden on the firm [ ]
    Relatively easier source of long-term finance [ ]
    Easier for firms to expand asset base [ ]
    Others specify.....
41. Indicate the type of investors' that owners are willing to sell part of their holdings to?
    Individual investors [ ] Institutional investors [ ]
42. Would your firm accept any investor or venture funds proposal to buy into the firm? Yes [ ] No [ ]
43. What reasons account or would account for the acceptance?
    Increase capital base of the firm [ ] Expand capacity of the firm [ ]
    Enrich management of the firm [ ]
44. What reasons account or would account for refusing offer to buy part of the firm?
    Unwilling to dilute ownership of the firm [ ]
    Unwilling to engage others in management [ ]
    Others.....
45. How does the firm link its financial arrangements to its growth?
    Through its capital budget [ ]
    Through the firm's annual budgets [ ]
    Through the firm's strategic plan [ ]

Section C: Marketing of Products:

46. Indicate the kind of products the firm offer for sale
    Homogenous and standardised [ ]
    Heterogeneous and based on customer specification [ ]
    Both kinds of products [ ]

47. Which group does the firm sells most of its products to?
    Networked associates [ ]
    Cluster colleagues [ ]
    General public [ ]
    Others specify.....
48. If the firm sells most of its product to network and cluster colleagues what factors encourage such relationship?
    Business or trade association [ ]
    Special proximity [ ]
    Family and social ties [ ]
    Others specify.....
49. Does the firm offer its product to specific segment of the population?
    Yes [ ] No [ ]
50. Describe the quantum of sales generated from the core consumer group.
    Significant sales level [ ]
    Normal sales level [ ]
    Minimal sales level [ ]
51. Does the firm sells directly outside Ghana? Yes [ ] No [ ]
    i. If yes, what factors motivated the firm to sell outside the country?
    Lack of domestic market [ ]
    Expand and explore new markets [ ]
    Increase sales and profit [ ]
    Others specify.....
    ii. If no, what limits the firm's ability to export?
    Higher transaction cost [ ]
    Non availability of agents and distribution channel [ ]
    Risk of default by foreign agents [ ]
    Others.....

Appendix 2

Kwame Nkrumah University of Science and Technology, Kumasi
College of Architecture and Planning
Faculty of Planning and Land Economy
Department of Planning

Research Questionnaire:

This questionnaire is designed to collect data for academic research being conducted into the Emerging Trends of Small and Medium Enterprises in Ghana as part of the requirement in the fulfilment of Postgraduate Degree in Development Policy and Planning. I therefore appeal to you to answer the following questions frankly as possible.

The researcher assures confidentiality of any data and information provided by respondents.

Guide to answering the questionnaire:

Please tick or respond to the questions appropriately. I count on your cooperation.

Questionnaire for Financial Institutions

Firm details:

Name of the Financial Institution.....
Position of the respondent.....
Form or type of Financial Institution.....
Location.....

1. Does your firm offer financial products or services to SMEs?
   Yes [ ] No [ ]
2. Indicate the type(s) of SMEs financing needs that such products or packages meet?
   Working capital needs [ ]
   Long term capital investment needs [ ]
   Medium term investment [ ]
   Others.....
3. State the type of products or services your institution offers to SMEs and their expected repayment period.
   Type average repayment period
   i.----------
   ii. ----------
   iii. ----------
   iv. ----------
   ----
   v. ----------

4. What informed the design of separate products or financial packages for SMEs?
   Reducing in risk exposure of SMEs [ ]
   Reducing cost of lending to SMEs [ ]
   Segmentation of customers [ ]
   Others.....
5. Rank the following financial products in terms of their popularity to your SMEs clients?
   Working capital support or credit [ ]
   Long term capital investment needs [ ]
   Medium term investment [ ]
   Lease financing [ ]
6. Have the institution designed unique financial packages for SMEs operating at unique locations, sectors or as associations? Yes [ ] No [ ]
7. Which of the following groups would your institution favour for developing products or services for?
   SMEs concentrated in a specific location or a cluster [ ]
   SMEs that organised as Cooperative Association [ ]
   SMEs scattered around irrespective of the above [ ]
   Specify any others.....
8. What encouraged the offering of such products to the group?
   Viability of the group or sector [ ]
   Reduction in transaction costs [ ]
   Availability of insurance cover [ ]
   Guarantee of repayment of principal and interest [ ]
   Others specify.....
9. How are the SMEs responding to such financial products or services?
   Excellent [ ]
   Very good [ ]
   Satisfactory [ ]
10. How different are SMEs credits from traditional credits to firms?
    Have insurance higher cover [ ]
    Government or NGO's guarantee [ ]
11. Which types of SMEs are eligible to assess such products?
    All SMEs [ ] Viable SMEs [ ]
    Others .....
12. What have been the limitations or hindrances to SMEs access to such services or facilities?
    Poor cashflows structure [ ]
    Low collateral security [ ]
    No or poor project plan [ ]
    Others specify.....

Appendix 3

Kwame Nkrumah University of Science and Technology, Kumasi
College of Architecture and Planning
Faculty of Planning and Land Economy
Department of Planning

Research Questionnaire:

This questionnaire is designed to collect data for academic research being conducted into the Emerging Trends of Small and Medium Enterprises in Ghana as part of the requirement in the fulfilment of Postgraduate Degree in Development Policy and Planning. I therefore appeal to you to answer the following questions frankly as possible.

The researcher assures confidentiality of any data and information provided by respondents.

Guide to answering the questionnaire:

Please tick or respond to the questions appropriately. I count on your cooperation.

Questionnaire for Public Institutions responsible for SMEs Development

Firm details:

Name of the Institution.....

Position of the respondent.....

1. Are SMEs in Ghana depicting certain or new trends in their nature and operations?
   Yes [ ] No [ ]
2. Indicate the emerging trends of SMEs operations in Ghana?
   Clustering among SMEs [ ]
   Networking with other firms [ ]
   Strategic planning for the firm [ ]
   Separation of ownership and management [ ]
   New form of SMEs financing [ ]
   Specify
   others.....
3. How do or would such trends improve SMEs and their operations in Ghana?
   Overcome size limitations [ ]
   Improve the competitiveness of SMEs [ ]
   Enable SMEs to raise adequate funds for operations [ ]
   Enable SMEs to be managed efficiently [ ]
4. Which area(s) of SMEs operations or functions are such trends more evident?
   Production [ ] Planning and management [ ]
   Marketing [ ] Finance [ ]
   Others.....

5. Which factors limit the SMEs to take advantage of such new phenomena to grow?

   Lack of information about the new phenomenon to SMEs operators [ ]
   Improper management of firms [ ]
   Unwillingness to respond to changes and opportunities [ ]
   Others specify.....

6. What are the current national policies to grow SMEs in Ghana?

   Facilitate private sector access to capital [ ]
   Facilitate innovation and entrepreneurship [ ]
   Removal of institutional and legal bottlenecks [ ]
   Strengthens firms competence and capacity and productivity [ ]
   Others specify.....

7. What are the rationales for such policies?

   Improve productivity of SMEs in Ghana [ ]
   Strengthens the viability of SMEs in Ghana [ ]
   Reduce the risk and improve returns to entrepreneurs [ ]
   Others specify.....

8. How do such policies enhance or encourage the new trends identified above to develop?

   Improve access to debt financing [ ]
   Improved access to equity capital [ ]
   Formation of industrial clusters [ ]
   Encourage formation of business networks [ ]
   Others specify.....

9. How do such policies reflect international trends in SMEs development on the global scale?

   Through establishing of industrial districts for SMEs [ ]
   Make special provisions to involve SMEs in public procurements [ ]
   Design special support programmes for growth oriented SMEs [ ]
   Others specify.....
   .....

10. In your view which areas of SMEs operations are weak and need special attention?

    Planning and management practices [ ]
    Record keeping and preparation of accounts [ ]
    Raising and utilisation of finance [ ]
    Others specify.....

11. What measures have put in place by your organisation to address such situation?

    Built capacity in SMEs operators [ ]
    Provide consultancy services to SMEs [ ]
    Others specify.....