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## Small and Medium Scale Enterprises and Job Creation

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### **Abstract:**

*Through the years, the role of Small and Medium-scale Enterprises (SMEs) towards economic development have been documented by researchers across the world. Job creation entails an increment in the number of jobs in any given economy. In Ghana, SMEs account for about 92% of businesses, 80% of jobs and 70% of GDP. This study makes it evident that of three selected sub-sectors within the SME sector, services sector created the greatest number of jobs (91.07%), followed by the industrial sector (8.42%) with the agriculture sector creating the least number of jobs (0.51%). The major challenges SMEs face in Ghana include raising capital, location, calibre of employees, differentiation and performance measurement. This study further makes recommendations for governments and policy makers based on the findings.*

**Keywords:** job creation, SMEs, economic, development

### **1. Introduction**

Job creation is the ability to create new jobs without replacing any already existing jobs in the economy, this is termed as the "net new job" (GSS, 2015). Policy-makers are challenged with growth stimulation and creating jobs. Any economy that wants to shift towards industrialization needs a strong SME sector to play a role. However, distribution of income, revenue from tax, job creation, usage of resources efficiently and family income stability are all affected by SMEs. According to the United Nations Industrial Development Organization (UNIDO), developing countries can evolve into a global economy by way of economic liberalization as a channel to curb poverty and inequality. There should be an animated/buoyant private sector where SMEs can play a central role to aid in the economic development process (Bies, 2002; Fida, 2008). SMEs have aided in providing opportunities for agriculture sector to process goods and services into finished products, thereby creating a shift from agriculture to industrialization. This shift assists in generating more revenue for the Ghanaian economy thereby improving the development of the economy and the nation as a whole. SMEs support the augmentation of generalized capacity for productivity. They assist to engross all forms of economic productive resources and increase the emergence of adaptable economic systems where there is a linkage between small, medium and large firms. This inter-connectivity between firms, regardless of size is a catalyst in captivating foreign investments into the country. Multinational corporations looking to invest seek out for domestic suppliers who are sound to aid in their supply chain (Fida, 2008). The economy of China is a fast growing one with SMEs contributing to about 40% of the National Gross Development Product and employment creation. In the same vein, the contribution of SMEs towards employment creation, poverty minimization and improvement of general societal welfare in countries like Korea, Japan, and other industrialized economies cannot be ignored (Pang, 2008). Economists and experts in the field are of the same opinion about the role and contribution of SMEs to the economic development of Pakistan. The Small and Medium Enterprises Development Authority (SMEDA) of Pakistan, propounds that SMEs constitute almost 90% of total businesses in Pakistan; employ 80% of the non-agricultural labor force; and an approximate 40% of the annual GDP (Harvie and Lee, 2003).

Policy makers, scholars and economists postulate that, to promote economic development, a good strategic approach is through supporting entrepreneurship and promoting SMEs. About 50% of new jobs created in an economy are SMEs and the assumption are that these jobs are good. (Edmiston, 2007). The Informal sector of an economy is mainly characterized by its production adaptability (Sanchez, 2006). SMEs are generally wired to adapt to changes in market conditions. It is therefore expedient to provide a conducive atmosphere for SMEs to perform, restructure and provide employment as a strategic measure towards progressive economic development (Edmiston, 2007). All efforts to enhance the economic circumstances of developing countries must involve an intensive backbone on macroeconomic fortification including the advancement of the SME sector, the enforcement of major trade and investment liberalization programmes are imperative to inspire foreign direct investment (DTI, 2004). For the realization of this objective, a country should reduce impediments and limitations on current and capital transfers, grant tax relief to investors and also fortify accessibility to foreign exchange at affordable rates, so as to provide a conducive atmosphere for promotion of SMEs (DTI, 2002).

### 1.1. Statement of the Problem

Any economy that wants to grow and thrive needs a healthy and bursting sector for SMEs. Developing SMEs drives the attainment of economic and socio-economic objectives, for example, poverty reduction to a larger extent (Cook and Nixon, 2000). The contribution of SMEs to economic growth spans from job creation to enhancing innovation and creativity. There is a greater percentage of citizens who depend on SMEs in either a direct or indirect manner (Fida, 2008). SMEs assist economic growth in the long-term by making effective use of limited resources as well as enhance domestic market efficiency (Kayanula and Quartey, 2000). For a country to fully develop, its economy must be given needed attention. The development process aims at improving the standards of living of the citizens of that nation. The privilege for all to access the basic necessities of life at affordable prices. The inability of some people to afford the basic needs will make life unbearable for these people which in turn also stifles development. When the greater portion of people do not benefit from economic development but rather a select few who enjoy such privileges, then the development is needless (Todaro and Smith, 2003).

SMEs have the prospects of establishing jobs and facilitate economic growth yet they are unable to expand due to challenges they face (Fida, 2008). In spite of the role SMEs play in a nation's economy, the sector does not receive the needed attention from government, policy makers, financial institutions and agencies to make the sector very competitive and an attractive one. SMEs are commonly faced with challenges in the form of managerial skills, access to credit and markets, technology, production capacity and recognition by big companies (WTO, 1998; Ntsika, 1999; DTI, 2002; Gaomab, 2004; ABSA, 2005).

The social and economic situation of people all over the world have been heavily influenced by the negative outcomes of economic decline in recent times. (Barakat, 2001) suggests entrepreneurs of all calibre to enhance their creativity in terms of job creation. SMEs can equally support the economic development process if it is well established, just like larger business do (Abraham, 2003). Lack of employment and consequently, a downturn in standard of living are the prevalent problems many people encounter in developing countries. The constant closure of jobs and laying off of employees is becoming a characteristic of the economy (Abraham, 2003; DTI, 2004). The consequence of this is a greater chunk of people especially the fresh-out-of school graduates who increase the unemployment rate in a country. The role of SMEs towards economic growth cannot be ignored and as such, the needed policies as well as strategies to intensify the development of this sector will serve as a vehicle to establish healthy standards of living for all citizens in a country.

### 1.2. Research Focus

This paper takes an exploratory stance on job creation vs SMEs in Ghana. The focal point is on SMEs' role and enhancement to create more jobs while reducing unemployment rate in the process and consequently, alleviating poverty in Ghana. The objective of this study is to re-evaluate the contribution of SMEs to economic development through job creation. The following research questions are asked based on the stated objective of this paper:

- What is the essence of SMEs in the development of the economy?
- What is the role of SMEs towards job creation?
- What are the trends in job creation across the country?
- What are some challenges SMEs face?
- What should be the government and policy makers' role in remedying the economy?

The underlying assumption of this study is that, SMEs drive economic development through job creation for the bulk of the unemployed people in Ghana. The answers to these research questions will help address the importance of SMEs in developing the economy of Ghana as well as challenges faced.

## 2. Theoretical Literature

This section reviews appropriate literature on the subject of this study.

### 2.1. Definition of SMEs

Defining small businesses in Ghana has not been a straight-forward one but the common recurring theme is the employee number of the business (Kayanula and Quartey, 2000). The number of employees and the total fixed asset yardstick is adopted by the National Board for Small Scale Industries (NBSSI) in Ghana. It defines a business with less than 10 employees and plant and machinery (minus buildings, vehicles and land) worth 10,000,000 Ghana Cedis as a small-scale business. The Ghana Enterprise Development Commission (GEDC), uses an upper limit of 10,000,000 Ghana Cedis to define plant and machinery however the incessant appreciation of the foreign currency against the local currency makes such definitions outmoded (Kayanula and Quartey, 2000). Osei *et al* (1993), categorized small-scale enterprises into three classes. These are: businesses employing a maximum of 5 workers, those employing between 6 to 9 workers and those employing 10 to 29 workers known as micro, very small and small enterprises respectively. The survey paper of the Regional Project on Enterprise Development Ghana manufacturing categorized firms into: those with less than 5 workers- micro enterprise; those with 5 to 29 workers- small enterprise; those with 30-99 workers- medium enterprise; those with 100 or more workers- large enterprise (Teal, 2002). The Ghana Statistical Service (GSS) in its 2015 Job Creation report categorized businesses into Large, Medium, Small and Micro enterprises: Large enterprise, having 100 workers or more; Medium, having 31-100 workers; Small, having 6-30 workers; Micro, having 1-5 workers. The GSS definition of Micro, Small and Medium enterprises (MSMs) is adopted for the purpose of this study. For the purpose of this study, MSMs and SMEs will be used interchangeably.

## 2.2 Contribution of SMEs to the Economy

A notable contribution of small businesses to the United States (US) economy is well documented. The US economy is mainly driven by SMEs through their job creation. Small firms with less than 500 employees provide jobs for every 50% of the workforce in the nation. In the year 2001 - 2002, a total of 853,074 jobs were created by small businesses having fewer than 20 employees. About 99.7% of firms are small businesses. In 2004, an estimate of 23,974,000 businesses in the US was made, with 5,683,700 being small businesses employing about 5,666,600 people (Longley, 2006).

SMEs supply a wide range of benefits from a socio-economic standpoint (Advani, 1997). SMEs enjoy certain perks than large businesses in terms of flexibility, resilience and adjustability to changing market conditions. They are more time consuming in terms of labour with lower costs of capital incurred in job creation than large businesses. SMEs are key participants in safeguarding income reliability, employment and economic advancement (Liedholm and Mead, 1987; Schmitz, 1995). Governments need to recognize the contribution of SMEs to their economy and creation of wealth and recognize it as an integral part of the process of economic development (Kongolo, 2010). SMEs Businesses with fewer than 500 employees represent the definition of SMEs and are a fundamental base of any national economy (Edmiston, 2007).

SMEs employ over 50% of the private-sector workforce, create about 75% of net new jobs annually and contribute to greater than 50% of the private sector production output (Kongolo, 2010). According to the Small Business Administration (SBA), there is an approximate 19 million businesses in the US with 15 million of these businesses being sole proprietorships and 3.3 million being partnerships and corporations. About 99.8% employ less than 500 workers and are grouped as small businesses. Between 1980 and 1986, a percentage of 63.5 jobs were created by small businesses out of a total of 10.5 million jobs created in the private sector (Khan and Rizvi, 2000). A greater portion of businesses in South Africa are SMEs making up 91% of formal business enterprises, providing about 60% of employment and 57% of GDP (Ntsika, 1999; Berry et al, 2002).

In Ghana, SMEs account for about 92% of businesses, 80% of jobs and 70% of GDP. (Abor and Quartey, 2010)

## 2.3. Trade Liberalization

In 1987, Ghana embraced the trade liberalization policy as part of improving structures solely to remove ineffectiveness in domestic industries to better economic growth. It also focused on bridging the interval between the parallel and official exchange rate to provide foreign exchange to relieve choked import so as to maximize output, especially in the field of export (Aryeetey et al, 2000). Trade liberalization aids economic growth by creating the right atmosphere for competing, expansions and technological transfer from one country to another. In a study by Asiedu (2013), the results suggest that real GDP growth in Ghana is maximized by trade liberalization in the long term. There should be campaigns for privatization of public institutions when designing Liberalization programmes. The objective is to appeal to foreign investors to channel some investment funds into these private institutions and as such increase revenue generation in the country (WTO, 1998). This investment by foreign entities will not only result in expansions in our trade and industry sector but also will lead to an influx of foreign currencies which will help assist the development of the economy. There will also be job creation in addition to revenue generation which will improve the quality of life of the citizens both socially and economically. For trade liberalization and foreign direct investment to work and yield greater economic benefits, efforts should be concentrated on developing the SME sector which will in turn contribute to the economy through job creation, entrepreneurship and revenue generation (WTO, 1998).

## 2.4. Supports for SMEs

According to (York, 2009), a business can be likened to war in the sense that, corporate buyouts and fistful patents represent guns and warships. The developed countries, for example USA, Ireland and Japan have been able to provide viable SMEs with undying assistance which is more than can be said for developing countries, for example Ghana, Sudan and Liberia (Kongolo, 2010). SMEs are known world over, as employment givers, suppliers of various goods and services and source of entrepreneurship in the economy (Barakat, 2001). In South Africa, initiatives and policies to support SME development are all part of the government's approach to enrich the quality of life of all citizens (Kongolo, 2010).

Job creation and availability is a great concern to successive Ghanaian governments and various programmes have been carved out to furnish the youth with jobs. Such programmes include National Youth Employment (NYEP), Local Enterprises and Skill Development Programme (LESDEP), Ghana Youth Employment and Entrepreneurial Development Authority (GYEEDA), and Youth Employment Authority. While countries regardless of their development status, agree that SMEs and Entrepreneurships are an antidote to a stifling economic development, the role of SMEs in economic prosperity is not always visible (Kongolo, 2010). Small businesses eventually evolve into medium and large corporations and even transnational companies (Dana, 1988).

## 3. Methodology

The study was exploratory in nature and information was obtained from both primary and secondary sources. Primary source of data arises from the researcher's personal experience and observation while secondary sources of data arise from other people's experience and encounter (Bailey, 1994). The aim of this study is to examine the contribution of SMEs to national economic development and this is achieved by reviewing primary data and secondary data. The triangulation method was adopted because of the use of various sources to give a holistic view on SMEs job creation role. Semi-structured interviews were randomly conducted for 150 SME owners in Kumasi and Tamale. These

responses formed our primary data source thereby giving as quantitative data. Secondary data was from the Ghana Statistical Service 2015 report on job creation in Ghana.

#### 4. Results

This section presents the results and discussion of the findings.

##### 4.1. SMEs and job creation

The total number of new jobs created either through start-ups or expansions minus total number of jobs lost through closures and contractions can be termed as net jobs (Edmiston, 2004). Data produced by GSS show that the majority of net new jobs were created by enterprises with less than six employees. The total number of jobs created by micro, small and medium enterprises for the industrial, service and agriculture sectors in the year 2014 are presented in Table 1 below.

	Industry	Service	Agriculture	Total
Medium (31-100)	1,052	11,118	203	12373
Small (6-30)	1,383	30,843	355	32581
Micro (1-5)	11,715	111,144	312	123171
N	14150	153105	870	168125

Table 1: Total jobs created by MSMS in Ghana  
Source: Ghana Statistical Service (2015)

An inter-sectorial comparison of total jobs created in Table 1 shows that the services sector recorded the most number of jobs, a total of 153,105 representing (91.07%) against agriculture with the least number of 870 jobs representing (0.51%). An inter-sector comparison of size, shows that all the three sizes of the services sector (medium, small and micro) accounted for 111,144 jobs with agriculture sector recording the least for all its three sizes. An intra-sectorial comparison reveals that, with the exception of the agriculture sector, both industry and services sectors created more jobs at the micro level than at any level. It can also be seen that the least number of jobs created were medium-sized in nature. This could be as a result of the resources needed to operate a medium-sized business than both micro and small businesses. In this period, all micro businesses employed about 73.26% of all workers, small businesses employed 19.38% of workers, while medium businesses employed 7.36%. Businesses can evolve from one size class to another. Many of these micro businesses will eventually evolve into small and medium businesses because the main aim of business is growth in various dimensions such as profit, size, number of employees, number of branches and total assets.

##### 4.2. Trends in SMEs job creation

Region	Before 1975	1975-1984	1985-1994	1995-2004	2005-2014	*Year Not stated
Greater Accra	496	238	742	1838	48457	1721
Ashanti	359	248	76	669	29430	-81
Western	125	398	286	1098	16231	48
Central	241	254	34	512	13715	23
Eastern	352	77	171	63	12606	18
Brong Ahafo	253	107	251	349	11630	584
Volta	257	98	382	417	8880	51
Northern	44	72	195	407	7907	2
Upper East	412	-669	423	127	4599	-3
Upper West	73	-29	35	-298	1596	82
N	2612	794	2595	5182	155051	1891

Table 2: Regional Distribution of Number of Jobs Created by Age of msms  
\*Exact Year of Commencement of Business Not Stated  
Source: Ghana Statistical Service (2015)

The relationship between the ability to create jobs and the period in which the jobs commenced is a negative one. In the Upper West Region, about 29 and 298 jobs were lost respectively in the periods 1975-1984 and 1995-2004. However, 1596 new jobs were created in 2005-2014. A percentage of 4.6 jobs established in Brong-Ahafo Region did not specify the year in which they commenced. It is usually the norm that younger firms will grow faster than matured firms, according to the organizational life cycle theory. Younger firms are also more likely to fold earlier than matured firms (Haltiwanger et al., 2013) The tendency for young firms to exist faster like they grow is a testament to how unstable they

are. The table shows how jobs created by establishments in all ten regions have increased over the last ten years (2005-2014) for the period under evaluation and this is followed by the previous ten years (1995-2004) prior to that. This increment shows the role SMEs play in job creation and income generation. The support of government and other agencies towards the SME sector could partly account for this increment in job creation across regions. Researchers and economists worldwide have extensively debated on the importance of small business in an economy. The establishment of jobs among SMEs in the Ashanti and Greater Accra Regions of Ghana is a paramount/principal/dominant/essential and fascinating/gripping/engrossing evidence of SMEs role in economic development. According to the GSS Regional Analytical Report in 2013, by September, 2010, the Ashanti region has a population (19.40 %) of Ghana's entire population. Nearly (61.00%) of this Ashanti population are in urbanised areas making it the second highest in urbanisation with the Greater Accra region being first. Table 2 suggests that only SMEs in the Brong Ahafo and Northern regions enjoyed steady increase in number of jobs created throughout the period of assessment. With the exception of the western, central and northern regions, the remaining regions all experienced a decline in the number of jobs created from the period before 1975 to the period 1975-1984. The Ashanti, Upper West and Upper East regions experienced job losses at some point during the period of assessment. It is imperative that an enabling atmosphere is created to aid new small businesses in addition to resources that may be deployed to assist both matured and new small businesses.

#### 4.3. Challenges Facing SMEs in Ghana

Table 3 shows that raising capital, location, calibre of employees, branding and performance measurement have been the most critical challenges facing the SMEs in Kumasi and Tamale. Liberalization of the financial sector can foster financial development and consequently, growth across all areas of economic development (Shaw, 1973). A notable percentage (39%) and (36%) in Kumasi and Tamale respectively, reported that the major challenge was raising capital for the business. The lack of needed collateral, poor business plan, and unattractive nature of the business serve as impediments towards attaining capital for the SMEs. The next challenge is location. Location can either make or break a business. Business owners find the issue of location a very huge problem because they tend to lose customers due to their businesses not being situated in certain parts of the country. Another challenge was finding the right workforce to grow the business with. They find it hard to entrust their businesses completely to employees and this makes it difficult for them to even travel and make certain sales because they cannot leave their business for a long time. Some have had workers who pilfer from them and also treat customers poorly. Another challenge was differentiation. Most of the business owners do not know how to make their business stand out amidst many competitors offering the same product or service. There have been cases where owners have been able to differentiate themselves either through their products, customer services, prices and packaging, it is only a while before their competitors also start imitating them. Some SMEs find it hard to measure their performance because they do not know what metrics to apply. The general yardstick is sales and profit and it is usually on the short term.

Challenge	Kumasi (%)	Tamale (%)
Raising capital	49	46
Location	24	33
Right workforce	14	11
Differentiation	8	5
Performance Measurement	5	5
N	100	100

Table 3: Challenges Facing SMEs in Ghana  
Source: Author (2019)

## 5. Conclusion

It is unarguable that a well-developed SME sector is the focal point of a progressive economy. In Ghana, SMEs account for 70% of GDP while providing 85% of manufacturing employment and 92% of businesses (Abor and Quartey, 2010). The findings from this study reveal the immense contribution of SMEs towards job creation across all regions in the country. It is recommended that a conducive atmosphere for SMEs to survive and thrive be created and the solution is outlined in the recommendations below.

In light of the SMEs laudable contribution towards the country's economic development, they are confronted with many challenges: raising capital, location, calibre of employees, differentiation and performance measurement. These are indications of the need to create an atmosphere that can harness the growth and survival of the SME sector. Strategies and policies must be well developed and executed to achieve this objective.

### 5.1. Recommendations for Policy Makers

Government depends on SMEs to generate businesses and employment because contribution by SMEs towards employment and GDP is in higher numbers. The SME sector should therefore be at the heartbeat of government. A fast-growing economy will provide favourable avenues while establishing resources through an amalgamation of job creation, higher income generation and quality services to improve upon the standard of living of all citizens. Government and policy makers should be genuinely interested in the development and promotion of the SME sector and have a common understanding of how it works. Government should encourage the involvement of the SME sector when formulating strategies and policies that affect their sector. Encourage partnerships between private sectors and with the

public sector institutions to become a stronger force to be reckoned with. This partnership will not only result in expansion of the business in terms of size, but also productivity, economies of scales and scopes.

Government through initiatives like Microfinance and Small Loans Centre (MASLOC) provides both new and existing SMEs with micro and small loans for their growth and expansion. There is still need for extra financial assistance from governments and quasi-agencies to develop the growth of the SME sector so that more jobs can be created thereby reducing unemployment rate which can have negative influence of the youth in a country.

Government should develop infrastructure and other amenities across all regions in the country so that regardless where an SME may be situated, favourable infrastructure and other resources can promote the success and survival of such SMEs. Consequently, SMEs will not feel the need to be relocated in order to become very successful and well recognized in the economy.

Government through the NBSSI uses the Youth Entrepreneurship Programme to provide the youth with free entrepreneurship and financial literacy training. Policies on training SMEs on issues like performance measurement and drawing up a detailed business plan should be encouraged. There should be development across regions to promote SME growth so that the share of jobs created across regions is evenly distributed. However, there is a need for further research into the advantages and disadvantages of creating jobs in different regions of the country.

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