

Exploring Factors That Enhance the Growth of Small and Medium Enterprises in Ghana

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DOI: <https://doi.org/10.51584/IJRIAS.2025.10040029>

Received: 14 March 2025; Accepted: 24 March 2025; Published: 01 May 2025

ABSTRACT

This study examines the factors affecting the growth and survival of small and medium enterprises (SMEs) in Ghana, focusing on the Bosomtwe District in the Ashanti Region. It investigates key growth variables, available funding sources, and challenges faced by SMEs. Using a quantitative and descriptive approach, data were collected from 540 SME operators and managers through primary and secondary sources, with sampling methods including quota, stratified, and convenience techniques. The findings highlight significant hindrances to SME growth, including supply delays, market scarcity, legal challenges, and difficulty in accessing customers and finance. Key growth drivers include strong customer relationships, product quality, availability, and fair competition. Debt financing, especially long-term loans from rural banks, was the main funding source. Additionally, technology, legal frameworks, economic factors, and government policies were identified as critical influencers. The study emphasizes the need for improved financing, infrastructure, and policies to support sustainable SME growth in Ghana.

Keywords: Debt financing, Enterprises, Funding, Long-term, Ghana

BACKGROUND OF THE STUDY

Small and Medium Enterprises (SMEs) are critical to economic development in Ghana, playing a central role in job creation, economic diversification, and poverty alleviation. Globally, SMEs are recognized as significant contributors to GDP and employment, even in industrialized economies, where they account for a majority of jobs (OECD, 2022). In Ghana, according to the statistical service (GSS, 2021), SMEs form the backbone of the economy, representing approximately 92% of all businesses, contributing around 70% to the Gross Domestic Product (GDP), and providing 85% of manufacturing employment.

Governments at all levels have implemented initiatives to support SMEs, recognizing their potential to drive sustainable development (World Bank, 2022). Ghana's government has introduced policies to enhance SME access to finance, strengthen market linkages, and improve business environments. However, barriers such as limited access to affordable financing, inadequate infrastructure, and regulatory challenges remain prevalent, hampering growth and competitiveness (African Development Bank, 2021).

Moreover, SMEs have significant potential to promote regional decentralization, fostering inter- and intra-regional economic development, which is crucial for addressing economic disparities across Ghana (UNDP, 2022). Globally, their development is associated with achieving broader socioeconomic objectives, including poverty reduction and inclusive growth (Cook & Nixon, 2021).

Despite their strengths, the evolving challenges of globalization, digitalization, and climate change require targeted interventions to ensure the sustainability of SMEs in Ghana. Programs such as the Ghana Enterprises Agency's initiatives and partnerships with international organizations have made strides in supporting SME resilience and competitiveness (Ghana Enterprises Agency, 2023). By addressing these constraints, Ghana can maximize the sector's potential to drive economic transformation, employment, and poverty reduction.

Problem Statement

Small and Medium Enterprises (SMEs) are vital to Ghana's economy, contributing 70% to GDP and providing 85% of manufacturing employment (Ghana Statistical Service, 2021). Despite their significance, many SMEs, particularly in the Ashanti Region's Kumasi area, fail to sustain operations beyond five years. Research by Aryeetey and Ahene (2020) notes that over 50% of Ghanaian SMEs collapse within their first five years due to limited growth strategies and inadequate survival mechanisms. Similarly, the International Trade Centre (2020) highlights that Ghanaian SMEs face significant challenges in accessing finance, a critical factor in their high failure rate.

Entrepreneurs often struggle to secure start-up capital, with debates persisting over the suitability of debt financing versus equity investment (African Development Bank, 2021). These challenges are compounded by limited financial literacy and high interest rates, as reported by the World Bank (2022), leaving SMEs vulnerable to operational inefficiencies and early closures.

The failure of SMEs in Kumasi has broader implications, including lost employment opportunities, stagnated poverty alleviation efforts, and slowed regional economic growth. This research seeks to investigate the key factors contributing to SME failures in Kumasi and propose practical solutions to enhance growth and financial sustainability. Addressing these challenges will provide actionable insights for entrepreneurs, policymakers, and financial institutions to strengthen the SME sector in Ghana.

Research Objectives

In order to achieve the overall aim of this research, the study will pursue the following objectives:

1. To analyze the factors influencing the growth and survival of small businesses in Kumasi, Ashanti Region.
2. To identify and evaluate formal and informal sources of financing available to SMEs in Ghana.

Research Questions

To achieve the overall aim of the study, the research seeks to address the following questions:

1. What are the key factors influencing the growth and survival of small businesses in Kumasi, Ashanti Region?
2. What formal and informal financing sources are available to SMEs in Ghana ?

LITERATURE REVIEW

Definition and Importance of SMEs

SMEs are globally recognized as drivers of economic growth, contributing significantly to GDP, employment, and innovation (OECD, 2022). In Ghana, SMEs account for 85% of manufacturing employment and contribute 70% to GDP (Ghana Statistical Service, 2021). Despite their importance, there is no universally accepted definition of SMEs. In Ghana, the National Board for Small Scale Industry (NBSSI) defines SMEs based on employee numbers and capital assets, with small-scale enterprises employing fewer than nine workers and capital assets below GHS 10,000 (NBSSI, 2022).

Importance of SMEs

Small and Medium Enterprises (SMEs) are widely recognized as the backbone of economies worldwide. In Ghana, SMEs account for approximately 70% of GDP and 85% of manufacturing employment, reflecting their importance in job creation, economic diversification, and poverty alleviation (Ghana Statistical Service, 2021; International Trade Centre, 2020). Globally, SMEs are valued for their flexibility, capacity to innovate, and

ability to drive local development (OECD, 2022). In Ghana, SMEs dominate the private sector, representing 92% of businesses and providing livelihoods for a significant portion of the population (NBSSI, 2022).

Despite their contributions, SMEs face challenges that hinder their growth and survival. These challenges are particularly pronounced in the Ashanti Region, where many SMEs struggle to sustain operations due to barriers such as limited funding and market access (World Bank, 2022). This research seeks to explore the factors influencing SME growth in Kumasi to support their sustainability.

Growth Variables for SMEs

SME growth depends on a combination of internal and external factors. Internal factors include managerial skills, financial planning, and product quality, while external factors encompass market opportunities, technological innovation, and customer loyalty (IFC, 2021). For instance, strong customer relationships and competitive pricing have been shown to enhance SME profitability and expansion (World Bank, 2022).

In Ghana, access to reliable infrastructure, including roads and energy, is a key determinant of SME success. Studies show that SMEs operating in regions with better infrastructure are more likely to survive and grow (African Development Bank, 2021). Additionally, technological adoption plays a critical role in improving efficiency and market reach, especially in an increasingly digitalized economy (OECD, 2022). However, research specific to Kumasi is limited, necessitating this study to identify the unique factors affecting SMEs in the region.

Sources of SME Funding

Access to finance remains one of the most significant challenges for SMEs in Ghana. SMEs often rely on a mix of formal and informal financing options. Formal sources include commercial banks, microfinance institutions, and government-backed programs like the Ghana Enterprises Agency (GEA) funding initiatives, while informal sources include family contributions and personal savings (GEA, 2023).

However, collateral requirements and high interest rates limit SME access to formal loans. Rural banks, though more accessible, are often constrained by capital shortages, reducing their effectiveness (International Trade Centre, 2020). Donor programs, such as the African Development Bank's SME initiatives, have sought to bridge this gap, but their reach remains limited. This study will examine the accessibility and effectiveness of these funding sources in supporting SMEs in Kumasi.

Barriers to SME Growth

SMEs in Ghana face critical challenges that limit their growth and sustainability. Access to finance remains the most significant barrier, with entrepreneurs struggling to secure loans due to high collateral requirements and interest rates (International Finance Corporation, 2020). A lack of financial literacy further exacerbates this issue, hindering SMEs' ability to navigate funding options effectively (World Bank, 2022). The financial constraints facing SMEs have far-reaching effects. Inadequate funding reduces SMEs' capacity to invest in necessary infrastructure and technology, leading to slowed growth and lower productivity (African Development Bank, 2021). This, in turn, impacts job creation and exacerbates poverty, particularly in rural areas where SMEs are often the primary employers (Kurokawa et al., 2018). Evidence shows that SMEs contribute to 60% of Ghana's labor force, yet limited access to funding perpetuates unemployment and poverty cycles in vulnerable communities (Ghana Statistical Service, 2021).

Regulatory hurdles, such as delays in licensing and taxation complexities, also impede SME growth (Kurokawa et al., 2018). Infrastructure deficits, including unreliable electricity and poor road networks, disproportionately affect SMEs in regions like Kumasi, where resources are less concentrated (UNDP, 2022). These barriers not only limit business growth but also contribute to high failure rates, with over 50% of SMEs collapsing within five years of operation (Aryeetey & Ahene, 2020).

While existing research highlights the importance of SMEs in Ghana's economy, there is limited focus on region-specific challenges and opportunities, particularly in Kumasi. Studies often generalize SME barriers without

considering the unique socio-economic context of different regions (GEA, 2023). Additionally, while the role of funding is well-documented, there is insufficient analysis of how entrepreneurs navigate between formal and informal financing options.

This study addresses these gaps by investigating the specific variables influencing SME growth, examining funding mechanisms in Kumasi, and identifying actionable strategies to enhance SME sustainability. By focusing on the Ashanti Region, this research provides insights to guide regional policy interventions and support SME development.

METHODOLOGY

This study employed a quantitative research design with a descriptive approach to investigate factors influencing the growth and sustainability of SMEs in the Ashanti Region, focusing on the Bosomtwe District. The target population included 1,080 SME owners and managers, with a final sample size of 172 determined using Slovin's formula at a 7% margin of error. Stratified sampling was applied to categorize respondents into small and medium enterprises, followed by convenient sampling to select accessible participants. Primary data were collected through structured questionnaires addressing growth variables, funding sources, and barriers to sustainability, while secondary data were sourced from credible publications and government records. The study area was chosen for its diverse SME activities and its significant contribution to employment and youth training. Ethical considerations were observed by obtaining participants' informed consent, ensuring confidentiality, and limiting data usage to research purposes. Data analysis was aimed at providing actionable insights into SME challenges and opportunities.

FINDINGS AND DISCOVERIES

Factors Influencing the Growth and Survival of Small Businesses in Kumasi, Ashanti Region

The study confirms that the growth and survival of SMEs in Kumasi are influenced by both internal and external factors, consistent with existing literature. Key challenges identified include supply chain delays, with 48% of respondents indicating that delays in goods and material supply disrupt operations. This finding aligns with studies highlighting logistical inefficiencies as a major hindrance to SME sustainability (African Development Bank, 2021). Market scarcity was also a critical issue, with most respondents reporting that partial or full unavailability of goods negatively affects business performance.

Customer-related factors were pivotal for SME survival, mirroring findings in prior studies. Good customer care (35%) and strong customer relationships (65%) were deemed essential for growth, reinforcing the literature's emphasis on customer loyalty and retention as key growth drivers (International Trade Centre, 2020). Similarly, customer purchasing power, cited as favorable by 67% of respondents, supports findings that access to consumer markets is critical for SME success (World Bank, 2022).

External enablers of growth included government policies (75%) and infrastructure improvements (38%), which respondents believed create a supportive environment for SMEs. This corroborates earlier literature that highlights the role of effective government policies and infrastructure in facilitating SME growth (OECD, 2022). Product quality was unanimously emphasized, with 98% of respondents agreeing that high-quality products enhance customer retention and competitiveness, aligning with evidence that quality significantly influences SME survival (IFC, 2021).

However, legal challenges and regulatory barriers continue to hinder SME operations, as 59% of respondents reported difficulties related to compliance and contract disputes. Additionally, finding customers (47%) and limited access to finance (33%) emerged as the most pressing issues, reflecting prior findings that customer acquisition and financial constraints are persistent obstacles for SMEs in Ghana (Kurokawa et al., 2018).

Financing Sources Available to SMEs in Ghana

The findings corroborate prior studies by identifying debt financing as the dominant funding source for SMEs, utilized by 85% of respondents, while 15% relied on equity financing. Among loan types, long-term loans were

preferred by 81%, as they provide stability for operations and expansion. These preferences align with research highlighting SMEs' reliance on debt over equity due to limited investor interest in small businesses (African Development Bank, 2021).

Rural banks were the most utilized financial institutions (56%), followed by commercial banks (24%) and microfinance institutions (20%). This finding supports literature indicating that rural and microfinance banks often bridge the funding gap for SMEs in underserved regions (International Trade Centre, 2020). However, access to financing remains challenging due to high collateral requirements and interest rates, consistent with the World Bank's (2022) observation that financial constraints are a critical barrier for SME growth in developing economies.

While funding opportunities are available, the study emphasizes that improving financial literacy and reducing borrowing costs are essential to making these resources more accessible and effective, echoing recommendations from the Ghana Enterprises Agency (2023).

RECOMMENDATIONS

To address the factors impeding the growth and survival of small and medium enterprises (SMEs) in Ghana, several recommendations are proposed. First, entrepreneurs should focus on ensuring timely delivery of materials and supplies to customers to minimize operational delays that can hinder business performance. Additionally, it is recommended that entrepreneurs leverage personal savings as start-up capital and, where possible, utilize debt financing from banks to expand their operations and create employment opportunities.

Furthermore, the government should play an active role in providing an enabling environment for SMEs by developing supportive policies, improving infrastructure, and offering incentives to enhance their competitiveness. Lastly, entrepreneurs must prioritize the legal aspects of their businesses by securing the necessary documentation and ensuring compliance with regulations to avoid legal disputes that may disrupt operations.

Further Study and Research

The researcher recommends further studies on the promotion and development of SMEs in Ghana, emphasizing the role of government and individual stakeholders in enhancing the sector. While this study analyzed factors hindering SME growth and survival with a focus on 110 SMEs, there remains significant room to explore other variables within the SME ecosystem.

Future research could focus on quantitative analyses of specific PESTEL factors: political, economic, sociological, technological, environmental, and legal to understand their individual and combined impacts on SMEs in Ghana. For instance, studies could investigate how political stability, technological adoption, or environmental regulations influence SME performance. Expanding the scope of research to include a broader sample size and more diverse sectors would provide a deeper understanding of regional and industry-specific challenges. Such studies would contribute to more targeted and effective strategies for promoting SME sustainability and growth.

CONCLUSION

In conclusion, this study has demonstrated that the PESTEL framework is highly relevant in analyzing the challenges faced by SMEs in Ghana. The findings revealed that SMEs encounter significant obstacles, such as difficulties in accessing loans, lack of technological expertise, and supply chain inefficiencies, which hinder their growth and survival. Moreover, the study highlighted that many entrepreneurs lack sufficient knowledge of legal and regulatory compliance, further exacerbating their challenges.

Despite these issues, the study successfully identified key areas for intervention, including improving access to finance, adopting technology, and enhancing customer satisfaction. Although the research faced some limitations, such as participant reluctance to share detailed information and logistical challenges, it provides

valuable insights for addressing the pressing needs of SMEs in Ghana. These findings lay a foundation for further research and practical interventions to support the growth and sustainability of SMEs in the country.

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