

## **Institutional Framework for Promoting Small and Medium Scale Enterprises in Ghana: Perspective of Entrepreneurs**

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### **ABSTRACT**

*This study examined the institutional framework for promoting small and medium-scale enterprises in Ghana from the perspectives of SMEs. A cross-sectional survey of 157 SMEs was sampled. Findings confirmed the existence of formal institutions that support SMEs in Ghana. However, there is lack of national strategy which has resulted in poor coordination of government incentive support programmes and that has resulted in these institutions failing to perform to expectations.*

**Keywords:** *Small and Medium Scale Enterprise Development, Entrepreneurship, Institutional Support*

### **INTRODUCTION**

#### **Background to the Study**

There appears to be direct evidence that small enterprises are better able than larger enterprises to adapt to changes in the post trade liberalisation period (Cook, 2000). Despite the success stories however, a significant number of studies indicate that the majority of small scale enterprises lack the capacity to meet standards required within these niche markets (Dawson, 1994). Experts are of the view that the desired economic development has not been attained with the implementation of these incentive programmes (Kuada, 1994). Hence, the need to create appropriate institutional framework to support the sector. Both theoretical (North, 1990; North, 2005) and empirical (Buame, 1996; Manev et al., 2005) studies suggested that establishment of promotional institutions though useful, is not sufficient condition to promote SMEs' development. Studying the impact of institutional structures on entrepreneurship development in China, Manev et al. (2005) observed that, sweeping institutional reforms made entrepreneurial endeavours possible, after decades of suppression of private initiative under the communist rule. On the other hand, the very same reforms, especially at the onset of the region's economic transition, created an institutional hiatus, which has severely constrained the entry and growth of new firms (Meyer & Peng, 2005; Peng, 2001, 2003).

From institutional theory perspective, North (1990) said that, institutional framework of a society comprises the fundamental political, social, and legal ground rules that establish the basis for production and distribution, and organizations must conform to it if they are to receive support and legitimacy. He further noted that, the viability, profitability and indeed survival of SMES typically depend on the existing institutional matrix. Following North's definition of institutions and the empirical findings about the impact of institutions on development of SME sector as discussed above, two major observations can be made. Firstly, the concept of promoting SMES development goes beyond the establishment of formal incentive support institutions and provision of incentive packages for small-scale entrepreneurs. Secondly, the nature of institutions can help or harm SMEs development in a given society. As noted by Roxas, et al. (2006), these environmental factors comprise the diverse forms or manifestations of institutions, such that they serve as constraints and/or provide incentives for SMEs to flourish, shrink or die. Similarly, North (1990) rightly noted that, the quality of these institutions can reduce transaction costs, making economic activities more predictable.

Perception has been found to influence performance. From institutional theory perspective, it has been noted that, individual perceptions about the fairness and justice of the *rules of the game* obviously affect performance (North, 1997). Empirically, Davidson (1991), in a research conducted in Sweden, has indicated that subjective opinions or 'reality as-perceived' by the business owner has an influence on both growth motivation and direct

behaviour. These observations attracted the researchers' interest to investigate the nature of institutional framework for promoting SMEs in Ghana from the perspective of small business owners with the aim of finding practical solutions to any existing problems.

### **Statement of the Problem**

The contribution of SMEs to economic development is widely recognised in the literature (Advani, 1997; Kayanula & Quartey, 2000). However, SMEs are vulnerable and very few are managing to survive for more than five years (Baldwin, et al., 2000). In Ghana, business activities are dominated by small-scale businesses mostly at the informal level (Buame, 2009). It is therefore important to identify the specific nature of constraints and opportunities inhibiting or enhancing their growth in order to provide effective assistance to support them. In the light of this, several institutions have been established to enhance the growth of the small business sector in Ghana. However, it appears that government institutions mandated to create an enabling business climate in Ghana have not succeeded in providing the requisite opportunities to enhance small enterprise growth. This, in the view of the researchers, might partly account for the small number of large-scale businesses owned by indigenous Ghanaians. For example, Villars (2002) noted that, less than 5 percent of large businesses in Ghana are Ghanaian owned. This study therefore seeks to ascertain the nature of institutional opportunities and constraints influencing small enterprise growth in Ghana with the view to making recommendations for improvement.

### **Objectives of the Study**

Generally, this research seeks to investigate and explore practical ways of making institutional framework for creating an enabling business environment more responsive to the needs of SMEs in Ghana. To achieve this general objective, the study seeks to achieve the following specific objectives:

- Investigate the key forms of support services provided to SMEs in Ghana by government institutions.
- Identify key perceived institutional opportunities influencing the development of small-scale enterprises in Ghana.
- Identify key institutional constraints perceived by small-scale business owners as inhibiting the development of their enterprises in Ghana.
- Identify and suggest to policy makers practical ways of supporting growth of SMEs in Ghana.

## **LITERATURE REVIEW**

### **Concept of Institutional Framework**

Though several definitions have been provided for the concept of institution, it is important to note that there is no common definition that is accepted either within or across various social sciences (Vatn, 2005). The Organization for Economic Cooperation and Development (OECD) (2003), defined institutional framework as the set of governmental and other institutions responsible for the design and implementation of SME policies. Institution can be viewed as a pattern of thoughts or actions of some prevalence and permanence, which is embedded in the habits of a group or the customs of a people (Argy, 2002; Hodgson 1998). For Scott (2001) and Carlson (2002), institution refers to social structures while Coriat and Dosi (1998), described institutions as formal organizations, patterns of behaviour, and negative norms and constraints. Parto (2005) saw institutions as a form of collective action and rules while Hodgson (2006) tagged institutions as organisations.

However, North (1990) gave an elaborate description and effect of institution. According to him, institutions are the "rules of the game" in a society, or formally, are the human interaction. In view of this, they structure the incentives in human exchange, whether in political, social, or economic (North, 1990; North, 1992; North, 2005). Scott (2001) observed that, whilst many institutions may be intangible in nature, institutions evolve and are transported by carriers such as culture and its artefacts, structures, and technologies. He contended that these institutional conduits could be manifestations of the enforcement mechanisms referred to by North. In his institutional theory, North (1990) highlighted the impact of uncertainty in economic activities. His theory implies that to reduce uncertainty experienced by SMEs, an environment that increases information flow amongst the actors is imperative. This environment, according to him, is a construct of rules, norms, conventions, and ways of doing things that define the framework of human interaction. Institutions could take the form of formal rules as well as informal norms and their enforcement characteristics (North, 1990). He further pointed out that, the quality of these institutions can reduce transaction costs, making economic activities more predictable. The viability, profitability and the survival of MSMEs, therefore mainly depend on the existing institutional matrix (ibid).

### **Types of Institutions**

North (2005) classified institutions into formal and informal. For formal institutions, he defined as having written policies, laws and regulations, including political rules, economic rules and contracts. While North

(2005) argued that, these formal institutions exhibit a hierarchy: from constitutions, to statute and common laws, to specific bylaws, and finally to individual contracts, Boland (1992) and Hodgson (1993) on the other hand, called these “concrete or hard institutions”. For informal institutions, North (2005) defined them as codes of conduct, norm of behaviour, and conventions- all these emanating generally from a society’s culture. These are mechanisms, which run in tandem with formal institutions serving as tools for solving coordination problems. These informal institutions (sometimes referred to as “consensus institutions”) have arisen to coordinate “repeated human interaction” and more specifically consisting of: extensions, elaborations, and modifications of formal rules, socially sanctioned norms of behaviour, and internally enforced standards of conduct (Boland, 1992; Fiori, 2002; Hodgson, 1993). Studying the impact of socio-cultural factors on entrepreneurship development in Ghana, Buame (1996) noted that, well intentioned programmes and inducement schemes may not be responded to by the general population due to the negative effects of certain socio-cultural values and institutions. Drawing lessons from the above discussions, it is evident that, the concept of institution goes beyond physical establishments but also includes the socio-cultural practices of a given society.

### **Institutional Constraints Inhibiting SME Development in Ghana**

Notwithstanding the opportunities presented by formal institutions, certain constraints to enterprise growth are equally related to the operations of these institutions. For example, regulatory policies such as business registration requirements have been found to pose financial cost and non-financial cost (World Bank Doing Business, 2013). Poor administration of laws relating to the issuance of licenses and permits, unequal access to public services and resources, delays in the delivery of public services, poor auditing and tax administration, all impede efforts at achieving good corporate governance (Adda & Hinson, 2006). In Ghana, it requires seven (7) procedures, takes twelve (12) days, and costs 20.28% Gross National Income (GNI) per capita to start a business (World Bank Doing Business, 2013). Lall and Pietrobello (2002) noted that, potential investors still spend significant time fulfilling bureaucratic requirements in Ghana. However, Aryeetey et al. (1994) found that, this accounted for less than 1% of their sample.

The situation is not different in comparable Sub-Saharan African countries. For example in Nigeria, it requires eight (8) procedures, takes thirty-four days and costs 70.6% Gross National Income per capita to start a business (World Bank Doing Business, 2013). Similarly, government economic policies and its implementation usually results in resource constraints to SME. It may be noted that, trade liberalization policies of the 1980s and even later exposed many SMEs to greater external competition than they were used to or could cope with (Aryeetey & Ahene, 2005). Investigating the impact of Ghana’s Financial Sector Liberalization Policy on SMEs access to credit, Tagoe et al. (2005) found that the main financial challenge facing SMEs in Ghana was the access to affordable credit. In a survey of 100 enterprises in the formal commercial agricultural and manufacturing sectors in Ghana, Wolf (2004) observed that, interest rates (62%), access to credit (52%), depreciation (46%) and inflation (43%) were the four most important business obstacles in Ghana. While bankers attribute high financial rejection rates among SMEs to the absence of viable or bankable projects, business owners suggest it was because they were not seen to have good collateral (Aryeetey, et al., 1994). Elsewhere in Sub-Saharan Africa, financial constraints equally pose a major obstacle to SME growth. For example, in 2001, a study identified poor access to finance as the most critical constraint on small and medium scale enterprises in Nigeria. In fact, 50 percent of the surveyed enterprises received external finance while 79 percent indicated lack of financial resources as a major constraint (Okpara & Koumbiachs, 2009). The foregoing study confirms the risk-averse behaviour of banks in funding SMEs in Nigeria. Again, the trade liberalization policy adopted by Nigerian government under the Structural Adjustment Programme (SAP) equally had an adverse effect on SME sector. The Nigerian government, since 1986 implemented various programmes such as exchange rate deregulation, removal of import and export licences and Small Scale Industrial Credit Scheme (SSICs), aimed at assisting the development of SMEs as part of trade liberalisation policy (Dawson, 1994). Part of the trade liberalisation policy was envisaged would pave the way for a competitive business environment for SMEs and Multinational Corporations (MNCs) in Nigeria. The liberalisation policy was aimed at making locally manufactured product more competitive both in the domestic and international market. While the removal of restrictions on imports was to allow free flow of goods and investments in order to make raw materials cheap and available to manufacturing SMEs (Vachani, 1994). The policy was also to encourage SMEs explore export opportunities that would help reduce government dependence on petroleum as the major source of foreign exchange. Despite these programmes, it has been observed that their impact on the performance of SMEs have been less than satisfactory (Manbula, 2002). This is attributable to some factors that governments and policy makers in Nigeria have failed to take into consideration in the design and implementation of SME development programmes. Most SMEs in Nigeria either remain small, moribund or shut down within few years of operation. In particular, this phenomenon has become more prevalent under the liberalised trade arrangements occasioned by Structural Adjustment Programme (SAP) (Ekpenyong, 2002; Rodriguez & Berry, 2002).

Structural inefficiencies result in barriers such as poor road network, poor quality of electricity supply, water supply, and high utility charges have also been identified as major obstacles to enterprise growth in Ghana (ISSER, 2010; Robson & Obeng, 2008). Similarly, poor infrastructural facilities have been identified as a major constraint to SME development in Nigeria (Olutunla & Obamuyi, 2008). To improve on the business environment, it is essential to identify key institutional constraints perceived by small business owners. These would serve as an input in designing policies to mitigate any negative impact on enterprise development. It must however be noted that, studies indicate that certain firm-level characteristics and personal features of the entrepreneur predispose them to specific constraints more than others (Robson & Obeng, 2008). The focus of this study however, was to identify key institutional constraints posed by the formal institutions.

### **Empirical Studies on Institutional Framework in Ghana**

In Ghana, substantial scholarly works exist on the institutional support to small-scale industries. For example, in exploring the legal framework for business and ethical practices in Ghana, Adda and Hinson (2006), identified weaknesses of the registration processes, which continues to keep a lot of informal businesses out of formal registration and the failure of the legal and regulatory regime to catch up with international best practices as some key institutional constraints facing the SME sector in Ghana. However, their investigations were limited to the legal and regulatory framework. This study sought to build upon this by extending the investigations into a broader range of institutions such as the incentive support institutions, structural support institutions, and social support institutions whose operations equally have an impact on small businesses in Ghana.

Similarly, Tetteh (1995) examined institutional support for Non-Traditional Exports (NTEs) sector in Ghana. Using a sample of 20 existing exporters drawn from a population of all Ghanaian companies involved in or has the potential for non-traditional exports, he found that majority of the support institutions and schemes have a general focus. Again, it came to light during the survey that, there was a considerable lack of knowledge among the exporters about some of the support institutions, as well as finance being a fundamental problem for non-traditional exporters, irrespective of size. Though his study provides an insight into the nature of obstacles facing Ghana's institutional support programmes and the NTEs sector, an examination of the methodology used reveals that the scope was limited to institutions specifically designed to support the non-traditional exports sector. This makes it imperative to investigate other institutions supporting SMEs operating within the domestic market to find out whether or not findings would be consistent with this previous study. The current study sought to build upon this previous work by investigating the issues from a wider range of institutions providing various support services to SMEs in general.

Studying the role of development institutions, culture and politics in the promotion of small-scale industries in Ghana, Arthur (2001) observed that, institutions such as the NBSSI and Gratis Foundation have the potential to realise their mandate of promoting SMEs. However, their activities have been hindered by institutional, financial, logistic and political factors. His study was however, focused on incentive support institutions, hence, the need to investigate the forms of services provided by other support institutions such as social support institutions, structural support institutions, and regulatory institutions. Similarly, Buatsi (2000) investigated the effectiveness of Ghana Investment Promotion Council (GIPC) in attracting investment into Ghana. He equally observed that even though some gains have been made in promoting private investments in Ghana, weak institutional capacity and negative attitude of government towards private businesses have adversely affected the attractiveness of Ghana's business climate. Again, Essilfie (2003) studied the extent to which NBSSI has been supporting graduates of Technical and Vocational Training Institutions to establish their own small businesses after their training programme. She found out that inadequate financial allocation to NBSSI has severely rendered them incapable of providing the expected support to their clients. Using a case study approach, Tagoe et al., (2005) reviewed documents and interviewed three people from three SMEs, a bank, a Non-Bank Financial Institution (NBFI), and the National Board for Small Scale Industries (NBSSI) to investigate the impact of Financial Sector Liberalization (FSL) policies on the financial management of small and medium-sized enterprises (SMEs) in Ghana. They observed that the main financial challenge facing SMEs is access to affordable credit over a reasonable period. They further found out that SME financing needs reflect their operational requirements, while the action of investors depends on their risk perception and the attractiveness of alternative investment (which affects their willingness to invest). Consequently, government borrowing, the general economic climate, availability of collateral, quality of SME record keeping, and SME investor relations skills affect the way in which this challenge is managed.

Similarly, Hinson (2010), using a comparative case study of private and governmental/public sectors of Ghana's Non-Traditional Export sector, developed an understanding of the possibilities and challenges facing the application of e-business in the Ghanaian exporting sector. He observed that across the various value chain activities, the private sector firm showed deeper e-business use concentration than the government export organization. It also came to light across the two cases involved in the study that, the value chain activities of

export organizations in developing economies that could be most strategically leveraged using e-business are customer service, sales and marketing, operations, logistics and procurements, in that order. Even though this study provides useful insight into the use of information and communication technologies (ICTS) to enhance business operations in Ghana, issues raised were limited to firm level factors. Since business activities are embedded in a wider socio-economic environment, it becomes imperative to investigate how the external business environment complements the internal capabilities of firms in gaining competitive advantage in this globalised market. Hence, the need to investigate the institutional framework and its impact on Ghana's business climate.

Investigating sources of competitive advantage, Masud (2010), in a case study of Star Assurance, a Ghanaian owned insurance company, observed that entrepreneurial orientation, resource based view and dynamic capabilities have a strong relationship with organizational performance. In his study, he acknowledges the significance of external environment on a firm's performance, hence the need for firms to be responsive to changes in the external environment. However, the efforts government is making to create an enabling environment for small-scale businesses were not assessed. It therefore becomes necessary to highlight how institutional framework in Ghana creates a conducive environment to enhance the competitiveness of SMEs hence, the need for this study. In view of these findings, this study seeks to contribute to existing knowledge by updating information on the nature of impact government service support institutions have on small enterprise development in Ghana.

### **Operational Definition of the Concept of SME Adopted by this Study**

Following the inconsistencies in the definition of what a small business is (Bolton Committee, 1971; Michaelas et al., 1999; Osei et al., 1993) and the lack of National Act that provides a framework for defining the concept of a small business in Ghana (Abor & Quartey, 2010), it becomes imperative for a working definition to be adopted. As suggested by Storey (1994), researchers would have to use definitions for small firms which are more appropriate to their particular 'target' group (an operational definition). Consequently, a combination of number of employees and value of annual turnover is used to define SMEs in this study. Employment generation is a key objective of government policy of providing support to the SME sector. It therefore makes it appropriate to use this criterion so as to identify the key challenges facing SMEs in their attempt to develop and attain these objectives. The choice of turnover over fixed assets (a commonly used criterion) is justified based on the difficulty in the process valuing fixed assets in Ghana (Kayanula & Quartey, 2000). Again, sales data are usually readily available and business owners themselves attach high importance to sales as an indicator of business performance (Barringer et al., 2005). In addition, sales growth is easier to measure compared with some other indices and is much more likely to be recorded (ibid). The researchers are however mindful of poor accounting practices and record keeping among SMEs in Ghana (Cook & Nixon, 2000) that might affect their ability to correctly determine their annual turnover. However, with respect to SMEs in the formal sector, the researchers strongly believe this problem may be minimal.

Therefore, in this study, small and medium enterprises are defined using the following criteria:

- The firm must be registered with the Registrar General's Department. This is to eliminate those in the informal sector who may not have officially identified location and may not pay taxes.
- Small Businesses: Firms with a number of employees from 5 to 29 with an annual turnover of up to US\$ 100,000.
- Medium Enterprises: Firms with a number of employees from 30 to 99 with an annual turnover of up to US\$1million.

The expression of the turnover value in United States dollars is to allow for international comparability of firms with similar features.

## **RESEARCH METHODOLOGY**

### **Research Design**

This study employed the survey approach conducted through the use of a single cross-sectional data. The suitability of survey strategy in this study is to help the researchers identify and explain statistically, the key institutional opportunities and constraints perceived by small business owners in Ghana. Quantitative and qualitative are two general research approaches used to collect primary data (Engstrom & Saheli-Sangari, 2007). This study employed quantitative approach. This is because quantitative research has been used to measure how people feel, think or act in a particular way and it is a research technique that seeks to quantify data and apply some statistical analysis (Tull & Hawkings, 1990).

### **Sample and Sampling Technique**

The sampling frame consisted of 5,776 SMEs within Greater Accra Region and was identified based on the Ghana Statistical Service's 2003 industrial census report from which the sample size of 200 SMEs was drawn. The use of Ghana Statistical Service data on SME is justified because the agency is the officially recognized institution that has the legal backing (PNDC Law 135, Ghana Statistical Service Law, 1985) to conduct statistical surveys, including any census in Ghana, and calls for the provision of entry on premises of businesses to ask questions (Ghana Statistical Service, 2003). A total number of 200 registered SMEs were sampled from the sampling frame to constitute the sample. The appropriateness of the sample size of 200 is confirmed by Tabacknick and Fidell (1996) who suggested that, for a regression analysis, the minimum sample size (N) should be  $N > 50 + 8M$ , where M is the number of predictors (independent variables). In this study, there are two main predictors (i.e. formal institutions and institutional opportunities), thus the sample size based on their recommendation should be greater than 66. Convenience sampling technique, which attempts to obtain a sample of convenient elements (Malhotra, 2007) was used to select the final sample of 200. This was found appropriate due to the unwillingness of some business owners to participate in the study for reasons known to them. Thus the need to select respondents who were willing to share their experiences on the performance of the institutional framework in Ghana. Respondents had to meet three conditions to be selected for the study. First, that each firm must be either a small enterprise (those employing between 5-29 workers with annual sales of up to \$100,000) or medium enterprise (those employing between 30-99 workers with annual sales of up to \$1 million). Secondly, those firms are registered with the Registrar General's Department. Finally, that it was located within the cities of either Accra or Tema. There was no requirement as to the firm's line of business. These conditions were to enable the researchers obtain information from informed respondents and also meet the definition criteria of the concept of SME adopted for this study.

### Method of Data Collection

The researchers designed one set of questionnaire for staff in key management position (Owner-Manager or Non-owner Manager) of the sampled SMEs in the Accra Metropolitan and Tema Municipal areas. In view of the fact that the study adopted quantitative approach in a survey strategy, a structured questionnaire was developed to collect data from the field. The questionnaire consisted of close-ended questions. The questionnaire was divided into two main sections: Section A and B. Section A sought to obtain information about the personal characteristics and firm level factors of the SMEs sampled for the study. Section B contained questions that sought to identify and assess the key forms of assistance provided by government institutions. This section contained four main questions. The first question sought to find out from respondents, whether or not, the key institutions and their respective services as contained in the study's framework actually exist in Ghana. Hence, respondents were required to indicate "Yes" or "No", with yes being a confirmation of the existence of the service indicated and no being a disconfirmation.

The second and third questions under section B sought to investigate the key opportunities and constraints that are related to these formal institutions. For the perceived opportunities, the questions were in four-point ordinal interval scale, with options: 1= Strongly Disagree, 2= Disagree, 3= Agree and 4= Strongly Agree where respondents were required to indicate their level of agreement with some positive statements. Similarly, the institutional constraints questions were in four-point ordinal interval scale, with options: 1=Crucial Limitation, 2= Important Limitation, 3= Moderately Important Limitation and 4= Not Important Limitation, where respondents were required to indicate, which constraints they perceived as having a negative impact on their enterprise development. The choice of "Not Important Limitation" and "Moderately Important Limitation" is an indication that the constraint in question has minimal impact on firm development, while "Important Limitation" and "Crucial Limitation" denotes constraints that have the highest negative impact on enterprise development.

This approach was adopted by Robson and Obeng (2008) to identify key barriers to growth in Ghana. To measure enterprise development, two main firm performance indicators were used: number of employees and sales volume. However, the measurement of these growth indicators were based on expected future growth. Questions under this section were on five-point likert scale, where 1= Strongly Disagree to 5=Strongly Agree, where respondents were to indicate their level of growth expectations based on some positive statements designed along these firm growth indicators. The use of perceived growth expectations is in line with suggestion that, the use of past employment and accounting data may lead to respondent selection bias since new start-up firms without these historical data would not be selected (Aidis & Mickiewicz, 2004). Again, the use of perceived future growth was a strategy of avoiding errors usually associated with the collection of past data (ibid).

Based on the perceived institutional opportunities and constraints, the relationship between enterprise growth and institutional support were identified. The assessment of enterprise growth based on the perceptual measurement of these perceived institutional constraints and opportunities was consistent with the concept of

“perceived and enacted environment” which suggests that it is the firm owners’/managers’ perception of the environmental elements that matter in organizational strategic processes (Bourgeois, 1980; Oswald, et al., 1997).

### Pilot Study

To ascertain the suitability and applicability of the scales in this study, an initial pilot test was conducted before the main data collection. Pilot study helps to establish the procedures and parameters, clarify instructions, determine the appropriate levels of the independent variable, and also determine the reliability and validity of the variables (Teijlingen van et al., 2001). In pre-testing these scales, small business owners with homogeneous characteristics as those involved in the study’s population were conveniently sampled and used. In all, 20 participants were used for the pilot study. Generally, participants did not express difficulty in responding to the items on all the scales.

According to Selltiz and Cook (1976), Cronbach’s alpha consists of estimates of how much variation in scores of different variables is attributable to chance or random errors. Cronbach alphas allow researchers to measure the reliability of different variables. Consequently, the overall Cronbach alpha obtained from the pilot study was (0.763). As a general rule, a coefficient greater than or equal to (0.7) is considered acceptable and good indication of construct reliability (Nunnally, 1978). Hence, it can be concluded that the measurement instrument was reliable.

### Data Analysis Techniques

The researchers were able to obtain a valid returned sample size of 157 out of 200 sampled business Owner-Managers/Managers representing a 78.5% (percent) response rate. A significant number of the studies on institutional framework for promoting SMEs have made use of case studies. Thus, these research studies have employed purely qualitative research techniques in their data analysis (Arthur, 2001; Buame, 1996; Tagoe et al, 2005; Tetteh, 1995). Since the objective of this study was to describe Ghana’s business environment per the study’s framework, the quantitative research techniques was found appropriate. This quantitative approach which employs a structured research format is more convenient when dealing with survey research design. The analytical instrument for this study was the Statistical Package for Social Science (SPSS) version 16.0. Both descriptive and inferential statistics were used to identify the key institutional opportunities and threats on one hand, and analysis of relationship between institutional support and enterprise development on the other respectively.

## DATA ANALYSIS

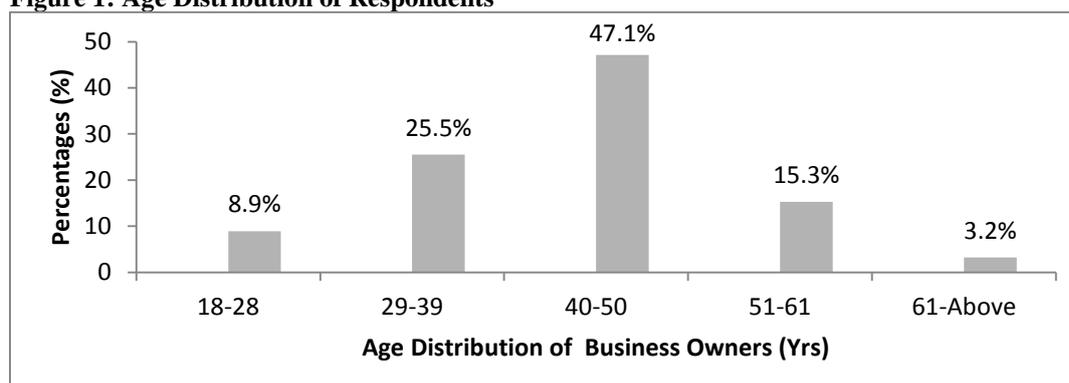
### Demographic Information

This is divided into business owners’ personal characteristics and firm-level factors respectively. It is useful to understand how these characteristics uniquely predispose entrepreneurs to certain specific constraints.

#### Business owners’ personal characteristics

Majority of respondents (76%) were males while the rest (24%) were females. Ninety-seven percent (97%) of the respondents surveyed were owner-managers while non-owner managers accounted for a paltry three percent (3.0%). The age distribution of respondents is presented graphically in figure 1 below. The ages of respondents range from 18 years and above. However, majority of respondents were within the ages of 40-50 years representing 47.1% of the entire sample. This was followed by those within the age range of 29-39 years, who accounted for 25.5%. Respondents within the age ranges of 51-61 and 18-28 years constituted 15.3% and 8.9% of the entire sample respectively while those who were above 61 years recorded 3.2% of the respondents.

**Figure 1: Age Distribution of Respondents**



The respondents had varying educational backgrounds. However, respondents with General Certificate of Education, Ordinary Level (GCE “O” Level) and Senior Secondary School Certificates (SSSCE) together accounted for 36.9% of the total number of respondents. This was followed by respondents with General Certificate of Education, Advanced Level (GCE “A” Level) with 23.6%, while Vocational/Technical certificate holders accounted for 17.2%. Respondents with Diploma and Degree educational backgrounds recorded 13.4% and 7.6% respectively while those with primary school educational background were found to be the minority, accounting for 1.3%.

#### **Firm-level characteristics Form of Business**

The key firm-level characteristics of businesses involved in the study are presented in table 1 below:

**Table 1: Firm-level characteristics**

<b>Variables</b>	<b>Frequency</b>	<b>Percent</b>
<b>Form of business</b>		
Sole proprietorship	142	90.45
Partnership	3	1.91
Limited liability	12	7.64
<b>Total</b>	<b>157</b>	<b>100.0</b>
<b>Sectors</b>		
Services	75	47.8
Manufacturing and construction	66	42.0
Agriculture	16	10.2
<b>Total</b>	<b>157</b>	<b>100.0</b>
<b>Formality</b>		
Yes	157	100
No	0	0.00
<b>Total</b>	<b>157</b>	<b>100.0</b>
<b>Period of firm existence</b>		
Less than 5 years	63	40.1
6-10 years	66	42.0
11-15 years	17	10.8
16-20 years	8	5.1
Above 20 years	3	1.9
<b>Total</b>	<b>157</b>	<b>100.0</b>
<b>Number of employees</b>		
5-29	143	91.1
30-99	14	8.9
<b>Total</b>	<b>157</b>	<b>100.0</b>
<b>Annual turnover</b>		
Less than \$100,000	138	87.9
\$100,000-\$1,000,000	19	12.1
<b>Total</b>	<b>157</b>	<b>100.0</b>
<b>Exporting</b>		
Yes	44	28.0
No	113	72.0
<b>Total</b>	<b>157</b>	<b>100.0</b>

From table 1 above, it can be observed that sole proprietorship, partnership and limited liability were the forms of business units operated by respondents. However, majority of the businesses, representing 90.45% of the sample were sole proprietorship form of business. This was followed by limited liability form of business (7.64%) while 1.91% of respondents were into partnership. Services sector firms accounted for 47.8% while 42% and 10.2% were found to be into manufacturing and construction and agricultural sectors respectively. All the respondents' businesses were registered, which resulted in 100% response rate. Majority of firms have been in existence for between 6-10 years (42%), followed by 40.1% which had been operational for less than 5 years. Firms employing between 5-29 workers accounted for 91.1% while the rest (8.9%) had 30-99 workers.

Most of the firms (87.9%) reported an annual turnover of less than \$100,000. The rest of the businesses (12.1%) reported an annual turnover of between \$100,000 -\$1million. The number of firms that engages in export business accounted for 28% while 72% were in domestic business.

### **Analysis of support services to private investors in Ghana**

This section sought to investigate the existence of key institutional support services available to private investors in Ghana, using the study's framework as a reference point. It further examines respondents' perception of opportunities that have been created by these institutions and its impact on future enterprise development.

#### *Incentive support institutions*

Generally, respondents confirmed the existence of government assistance programmes in the form of financial incentives, technical support and business management training programmes. However, most of the respondents (92.8%) appeared to be aware of management training programmes more than technical support (72.5%) and financial support programmes (87.3%).

#### *Structural support institutions*

Respondents were unanimous (100%) about the existence of institutions that are supposed to provide support service such as transportation, electricity, water and information and telecommunication services. However, the effectiveness of these structural support institutions is determined where the analyses of perceived institutional opportunities and constraints have been done in section 5.3.

#### *Social support services*

Respondents confirmed the existence of freedom of ownership of property right (92.1%), while a significant number (79.6%) indicated awareness of legal framework to protect investors in Ghana. However, respondents were generally unaware of any service with respect of providing technology through coordination of research findings of institutions including universities with industry practice, with (98%) reporting lack of awareness of such service. However, a paltry (1.9%) of respondents indicated having consulted the Centre for Scientific and Industrial Research (CSIR) for assistance.

#### *Government policies (political/legal, economic)*

Even though respondents were found to be generally aware (93.1%) of government efforts at maintaining a stable macro-economic environment, they were neither aware of the existence of a National Strategy (100%) nor an apex agency (100%) that coordinates all government SME support programmes in Ghana.

#### *Regulatory institutions*

Respondents were unanimous (100%) about the existence of requirements of registration/licensing, standards and tax administration services regulated by various government institutions in Ghana.

### **Analysis of Perceived Institutional Opportunities**

Respondents were asked to rank the opportunities they perceived to have been created through the activities of service support institutions in Ghana. Table 2 below contains respondents' responses:

**Table 2: Perceived Institutional Opportunities** (% reporting strongly agree or agree)

<b>Factors (<math>\alpha=0.818</math>)</b>	<b>Percent</b>	<b>Rank</b>
<b>Incentive support services</b>		
You receive adequate financial support from government institutions such as NBSSI	28.7	9
You receive adequate business management related training from NBSSI	81.4	4
You receive useful technical support from GRATIS Foundation	30.0	8
You receive adequate capital for start-up or expansion support from VCTF	24.5	10
<b>Structural Support Services</b>		
Transportation systems is efficient in Ghana	60.5	5

There is provision of regular water supply	40.5	6
There is provision of reliable electricity supply in Ghana	20.2	13
There is provision of efficient information and telecommunication service in Ghana	95.4	1
<b>Social Support</b>		
The legal system guarantees right to property ownership	93.7	2
People comply with court rulings	91.6	3
There is efficient linkage between research institutions and industry in Ghana	12.3	15
<b>Government Policies (Political, legal and economic)</b>		
There is clear and consistent trade policy on small business in Ghana	14.7	14
There is an established institution to coordinate government support services to SME in Ghana	9.2	17
There is stable macro-economic environment in Ghana	40.5	6
There is low tax burden on businesses in Ghana	11.2	16
<b>Regulatory Institutions</b>		
There are no delays in the registration/licensing processes	23.6	11
There is simple business registration processes in Ghana	30.5	7
There is low cost of registering a business in Ghana	20.9	12

Provision of improved information and telecommunication services was ranked the most significant opportunity (95.4%) that enhances enterprise development in Ghana, followed by guarantee of right to property ownership (93%) and willingness of people to comply with court rulings (91%). Detailed rankings of other services are contained in table 3 above.

### Impact of Institutional Opportunities on Enterprise Development

This section sought to investigate growth expectations of respondents based on their assessment of opportunities they perceive. Respondents were asked to indicate their growth expectations for the next three years. Table 3 below presents the responses:

**Table 3: Enterprise Development**

Factors ( $\alpha=0.723$ )	Mean	SD
Employment levels to double in next three years	3.35	0.74
Sales volume to double in next three years	3.71	0.66

From table 3 above, respondents were hopeful of recording a double in sales volume in the next three years (mean=3.71). They were however, not sure as to whether or not their employment levels will double in three years (mean=3.35). The institutional opportunities perceived to have an influence on the attainment of these growth expectations are analysed below:

### Analysis of Relationship between Institutional Opportunities and Enterprise Development

From table 4 below, it can be observed that there is a significant relationship between institutional support available to SMEs and enterprise development ( $F=35.31$ ,  $p<0.01$ ). This means incentive support institutions, structural support institutions, social support institutions, government policies (political/legal and economic) and regulatory institutions jointly determine enterprise development. An adjusted R-Square of 0.625 shows that incentive support institutions, government policies (political/legal, economic) social support institutions, structural support institutions, and regulatory institutions jointly determine 62.5% of the variance in enterprise development.

Comparatively, the biggest determinant of enterprise development is social support institutions ( $\beta=0.49$ ). This is followed by regulatory institutions ( $\beta=0.37$ ), structural support institutions ( $\beta=0.26$ ), government policies (political/legal, economic) ( $\beta= -0.15$ ) and incentive support institutions ( $\beta=0.10$ ) in that order. Among the five determinants, only social support institutions ( $P<0.01$ ), regulatory institutions ( $p<0.01$ ) and, structural support institutions ( $p<0.05$ ) have significant effects on enterprise development. The findings of the study suggest that incentive support institutions and government policies have not performed effectively and efficiently which might have accounted for their perceived insignificance with respect to promoting enterprise development in Ghana. Details of these analyses are contained in table 4 below:

**Table 4: Regression results on relationship between institutional opportunities and enterprise development.**

Variable	B	$\beta$	SE	T	Prob.
Constant	-0.19		0.32	-0.58	0.56
Incentive support institutions	0.12	0.10	0.10	1.18	0.24
Government policies	-0.16	-0.15	0.11	-1.41	0.09
Social support institution	0.52	0.49	0.09	5.63	0.00**
Structural support institutions	0.32	0.26	0.13	2.43	0.02*
Regulatory institutions	0.43	0.37	0.08	5.33	0.00**
SE of estimate	0.481				
R-Square	0.643		F-statistic	35.31	
Adj. R-square	0.625			Prob.(F-stats.)	0.00**

Note: \*\*significant at  $p<0.01$ ; \*significant at  $p<0.05$

#### Analysis of Perceived Institutional Constraints

Following the identification of key opportunities and its impact on enterprise development, the researchers found it instructive to identify major institutional constraints inhibiting the development of small-scale enterprises in Ghana. Consequently, respondents were asked to rank a set of constraints commonly attributed to the operations of formal institutions which respondents perceive to negatively impact on enterprise development in Ghana. Table 5 below presents the findings.

**Table 5: Institutional constraints perceived by small business owners (% reporting important limitations or crucial limitations).**

Factors ( $\alpha=0.750$ )	Percent	Rank
<b>Incentive Support Institutions</b>		
Inadequate financial allocation to incentive support institutions	63.7	11
Political interference in loan disbursement	53.3	14
Inadequate skilled personnel to provide expert advice	39.5	15
<b>Structural support institutions</b>		
High cost of utility charges	88.5	3
Low quality of water supply	57.9	13
Low quality of electricity supply	77.9	4
poor telecommunication networks	8.9	19
Lack of industrial site	17.9	17
poor quality of road network	20.4	10
<b>Social support institutions</b>		
High crime rate	14.6	18
Difficult Access to new technology	69.7	8
Inadequate technical skills	65.1	10

**Government Policies (political, legal, economic)**

High interest rate	96.2	1
High rate of inflation	70.3	7
High depreciation of the cedi	77.7	5
High tax and import duties	88.9	2

**Regulatory Institutions**

High cost of registration/licensing	75.9	6
Delays in registration/licensing processes	58.2	12
Too many procedures in registration/licensing processes	69.4	9

Findings from the study as illustrated in table 5 above suggest that, high interest rate (96.2%), high tax and import duties (88.9%), and high utility charges (88.5%) were the top three institutional constraints inhibiting enterprise development in Ghana, (figures in parenthesis indicate percentage of respondents who reported that these factors were important limitation or crucial limitation on enterprise development).

**DISCUSSION OF FINDINGS****Discussion of Institutional Support Services Provided to SMEs in Ghana**

The five key formal institutions recommended by Roxas et al. (2006) as useful in creating an enabling environment for small-scale enterprises were found to exist in Ghana. However, with respect to specific national strategy on SME, respondents appear to be neither aware of existence of specific government policy that has formulated such a strategy for promoting the SME sector in Ghana nor an apex agency to coordinate all government support programmes. The researchers are of the view that, the apparent lack of awareness of government policy among prospective beneficiaries may be as a result of multiplicity of institutions purported to be promoting SME sector in Ghana. This view is confirmed by an observation that, the landscape for the regulation of SMEs in Ghana is quite confusing (Aryeetey & Ahene, 2005). Similar findings by Tetteh (1995) showed that, there is considerable lack of knowledge among exporters about some support institutions.

**Discussion of Perceived Institutional Opportunities and Enterprise Development**

Improved telecommunication services (95.4%), guarantee of right to property ownership (93%) and peoples' compliance with court ruling (91%), that have been identified as the top three institutional opportunities in Ghana may be attributed to Ghana's decision to privatize the telecommunication industry in 1994 and the democratic system of government which guarantees individual freedom and rights, including property ownership rights.

The researcher is however, of the view that, the choice of improved telecommunication service as the top opportunity might be a result of previous experience in the period of late 1970s and early 1980 where Ghanaians have to wait in a queue for two weeks just to make international call. Now, with mobile telecommunication services, it is relatively easier to communicate with business partners anywhere compared to those periods. The benefits of improved ICTS have been found to positively impact on business operations. For example, Hinson (2010) found in a comparative study of private and governmental/public sectors of Ghana that, the value chain activities of export organizations in developing economies that could be most strategically leveraged using e-business are customer service, sales and marketing, operations, logistics and procurements in that order of importance. These observations throw more light on the benefits associated with improved ICT service as the study's findings suggest.

Similarly, the selection of guarantee of property ownership right as the second most important opportunity might be attributed to the harassment of private investors by government even after the Colonial Administration. For example, under the Armed Forces Revolution Council (AFRC) regime, genuine private investors were brutally assaulted and their property confiscated in the name of cleansing Ghana of corruption. In the view of the researcher, even though some improvements have been made as suggested by the study's findings, government needs to take a critical look at the land tenure system which results in multiple sales of lands by numerous land owners in Ghana. This situation ultimately poses a threat to the right of property ownership that has been enshrined in the 1992 Constitution of Ghana.

Meanwhile, these findings throw more light on an assertion by Roxas et al. (2006) that, the formal institutional environment may be the direct source of resources (e.g. government assistance) or may open up avenues (e.g.

through clear cut policies) through which firms can engage in market exchanges and entrepreneurial undertakings knowing that rights and privileges are well-protected and strictly-enforced (e.g. protection of property rights and rule of law).

The perceived opportunity relating to people's willingness to comply with court ruling is in line with an observation which indicates that, through adherence to rule of law, parties to a transaction have confidence that they are protected from opportunistic behaviour such as cheating and illegal deviations from agreed terms as they enter into economic exchanges (Roxas et al., 2006). Fogel et al.(2006) asserted that, increased transaction trust, which is based on willingness of people to accept court rulings or be guided by generally agreed principles, allows SMEs to be more aggressive in seeking for opportunities, building alliances, bearing risks, raising capital and entering markets. Consequently, it becomes imperative to uphold the integrity of the Judicial Service so as to maintain or improve on the peace and stability being enjoyed as a result of people's willingness to comply with court rulings.

On the other hand, the insignificant impact of government policies (political/legal and economic) [ $\beta = -0.15$ ] and incentive support institutions [ $\beta = 0.10$ ] on enterprise development confirm previous findings by Tetey (1995), which indicated that, there was a considerable lack of knowledge among the exporters about some of the support institutions. Similarly, Aryeetey and Ahene (2005) observed that, the landscape for the regulation of SMEs is quite confusing. The researcher is of the view that this might be as a result of numerous institutions that have been established to provide similar incentive support services to SMEs in Ghana. This is in contrast with a suggestion that the establishment of an apex agency to coordinate government incentive support programmes is an essential feature of institutional framework for promoting SMEs (Leano, 2006).

### **Discussion of Relationship between Institutional Opportunities and Enterprise Development**

Generally, respondents were found to be positive about the future growth expectation of their firms. Respondents were hopeful that in the next three years, their sales(mean=3.71)would record a double over the present figure. They were however not hopeful whether these growth expectations would translate into higher levels of employment (mean=3.35). The measurement of enterprise development through perception of growth expectations of respondents was informed by an observation that, perception of performance may be more insightful indicators than objective measures because perception draws on insider knowledge of firm's goals, strategy, structures and processes (Watson et al., 2003).

Consequently, based on the perception of institutional opportunities and growth expectations of respondents, a regression analysis was made to determine the relationship between institutional support and enterprise development. Findings of the study suggest that, social support institutions have the most significant relationship with enterprise development [ $\beta=0.49$ ,  $p<0.01$ ], this is followed by regulatory institutions [ $\beta=0.37$ ,  $p<0.01$ ], structural support institutions [ $\beta=0.26$ ,  $p<0.05$ ]. However, government policies and incentive support institutions were not statistically significant in terms of their impact on enterprise development.

These findings confirm North's (1990) description of institutions as "rules of the game" in a society, which SMEs need to comply with in order to gain legitimacy in society. The identification of social support institutions as a factor which has the major impact on enterprise development is consistent with the notion that, firms are unlikely to be highly motivated to take the risks of investing in innovative undertakings if their rights, private property and fruits of their innovative labour are not adequately protected by law (Norton, 1998). This implies that, for government to promote small enterprise development there is the need to create an environment that promotes security and safety of lives and property.

The significant relationship between regulatory institutions and enterprise development as identified by this study throws more light on previous findings by Adda and Hinson (2006) that, poor administration of laws relating to the issuance of licenses and permits, unequal access to public services and resources, delays in the delivery of public services, poor auditing and tax administration, impede efforts at achieving good corporate governance. It is in the light of this that Smallbone and Welter (2001) cautioned that, legislations which demand the preparation and delivery of documents where expert assistance will be needed, creates compliance costs which will probably pose a greater burden for SMEs, since they do not usually have such resources on their payroll. These findings call for the need for government to simplify regulatory processes to make it convenient for SMEs to comply with the rules governing business operations in Ghana.

The need for an improvement in structural support institutions such as agencies responsible for water, transportation and electricity supplies has been made more profound, based on the findings of this study. As noted by Immergluck (1993), this structural support system aids the firm as it has the capacity to increase the

supply of other inputs, including information, resulting in lower costs of production and facilitating activities of other firms that are essential in the industry or value chain.

### **Discussion of Perceived Institutional Constraints**

From the study, the three most significant institutional constraints were identified as high interest rate (96%) followed by high tax and import duties (88.9%) while (88.5%) of respondents ranked high utility charges as the third most important constraint to enterprise development in Ghana. These findings however, slightly differ from previous studies by Robson and Obeng (2008) that identified high rate of inflation, high interest rate and high depreciation of the cedi as the top three barriers to enterprise growth in Ghana. The difference in findings might be as a result of a decline in inflation rate in Ghana from 18.10% as at December, 2008 (ISSER, 2010) to 9.02% as at April, 2011 Ghana Statistical Service (GSS, 2011).

The researcher shares the view that, the high rate of interest continues to be a constraint to enterprise growth, following the failure of financial institutions to positively respond to improvement in macroeconomic indicators such as reduction in Bank of Ghana (BoG) prime rate and in inflation rates. "We know that banks' lending rates go up to 30 percent, while deposit rates could be less than 10 percent. To place these rates in context, we note that the Central Bank's benchmarks Policy Rate (PR) has fallen to 13.5 percent and inflation to below 9 percent. Obviously, there is a disconnect between bank's lending rates and the PR, which impedes the transmission and effectiveness of monetary policy Business and Financial Times (B & FT, May, 2011)". This requires that the Bank of Ghana, an institution responsible for regulating the financial sector to strengthen its regulatory machinery to ensure that financial institutions respond to the positive macroeconomic indicators in Ghana.

On the constraint of high tax rate, analysis of literature showed that a medium-sized company in Ghana is liable to pay Corporate Income Tax at the rate of 25.0% on taxable profit, VAT 15%, Social Security Contributions (monthly) 12.5% on gross salaries of all employees, Capital Gains Tax 5.0% as well as Municipal Tax (varies according the local government area where firm is located) (World Bank Doing Business, 2011). Though taxes are essential to provide public amenities, infrastructure and services which are crucial for a properly functioning economy, it has been shown that economies where it is more difficult and costly to pay taxes have larger shares of informal sector activity (World Bank Doing Business, 2011). The report further cited examples of tax reforms in Mauritius where a reduction in corporate income tax rate from 25% to 15% and removal of exemptions and industry-specific allowances in 2006 saw their corporate income tax revenue grow by 27% in the following year, and in 2008/09 it increased by 65% (ibid). This calls for a critical assessment of Ghana's tax system to identify areas where it would be feasible to reduce the tax rates so as to create a win-win situation for both investors and the State.

The high cost of credit, high utility charges, and high tax rate, undoubtedly increase cost of production, making private investment unattractive. As argued by Baumol (1990), all societies have a sufficient supply of entrepreneurial talent to ensure that economic growth can be achieved given an appropriate set of economic incentives. This involves the state in ensuring that the returns to investment can be captured by the entrepreneur and not appropriated by others, including the state itself, through too great a tax burden, or by mafias and gangsters through protection rackets. This suggests that, any attempt to promote small enterprise development in Ghana would be fruitless if appropriate measures are not put in place to reduce cost associated with borrowing, utility and taxes. Baumol (2002) further suggests that, this directs policy attention towards the provision of law enforcement by the state and the need for the Ministry of Finance to reduce business taxes to ensure that they are not so high as to discourage investment.

The above findings suggest that, for government to promote SME development in Ghana, the key institutional opportunities must be enhanced while minimizing the constraints identified above.

### **CONCLUSION**

This study examined the institutional framework for promoting small and medium-scale enterprises in Ghana from the perspectives of SMEs. It can be concluded that, incentive support institutions, structural support institutions, social support institutions, government policies (political/legal, economic), and regulatory institutions do exist to provide the requisite support services to SME sector in Ghana. However, there appears to be lack of national strategy on the SME sector, and poor coordination of government incentive support institutions as a result of lack of a central agency to coordinate all government incentive support institutions in Ghana. This might explain why respondents did not recognize government policies and incentive support institutions as significant in enterprise development in Ghana. Though some opportunities have been created, it can be concluded that, high interest rate, high tax and import duties and high utility charges are the key constraints related to the operations of government institutions, a situation that leads to high cost of doing

business in Ghana. The findings further suggest that, for the desired enterprise growth to be attained these institutional constraints must be minimized while maximizing the impact of the institutional opportunities. Therefore, the desired small enterprise development may not be attained if these constraints are not addressed, notwithstanding the existence of the institutional opportunities in Ghana.

### **Policy Implications and Recommendations**

Taking into consideration the various government slogans such as “The Private Sector is the Engine of Growth” and “Golden Age of Business”, which indicate the key position that Ghana government assigns to SMEs in promoting economic development and new job creation, the government appears to have implemented several programmes to improve on small business development in Ghana.

The efforts of Ghana government to improve, sophisticate and modernize institutional framework for SME development often remain declarative in nature. Thus, not only that government need to work further on developing institutional framework but also need to engage in ensuring the genuine practise of it so that contributions of SME sector to the economic development stated in theory are confirmed by the economic reality.

Development of the institutional framework for the governance and support of SME sector development is a prerequisite for the development of small enterprises in Ghana. The government represents a key figure in promoting and supporting the creation of SMEs, their further growth and development as well as facilitating institutional environment that have long term impact on entrepreneurial activities and business climate in Ghana. In view of this, it is recommended that, the focus of government should be on improving already existing institutional framework that directly or indirectly impacts the SMEs whether they are start-ups or already exist and operate. The following areas are therefore recommended for further advancement:

- Development of National Strategy on SMEs and empowering the NBSSI to play to central role of coordinating all government support services to the SMEs in Ghana;
- Development of the enabling political, social and economic environment that should promote peace, stability, and macroeconomic performance of Ghana and thus contribute to the creation and operation of SMEs;
- Review the cost of legislative compliance which imposes more burden on SMEs;
- Strengthen the regulatory functions of the Bank of Ghana to ensure that financial institutions charge realistic interest rate that reflect the true cost of credit;
- Improve the monitoring and supervisory role of Ghana Highways Authority, Public Utility and Regulatory Commission to enhance the construction of quality road network as well as efficient supply of water and electricity in Ghana;
- Alter tax policies so that the tax regulations are bearable and encouraging in order to decrease tax evasions which entrepreneurs often use in order to preserve the capital base for their enterprises.

In order to make SMEs true engines of growth in Ghana, the commitment of government to address policy issues related to the SME sector is of crucial importance. Even though personal traits such as risk propensity, independence, and hard work are some features usually attributed to successful entrepreneurs, without effective institutional framework, the SME would remain the story of expectations unmet.

### **Suggestions for Future Studies**

This study contributes to existing literature on SMEs in Ghana following the adoption of the conceptual framework based on institutional theories to discuss the role of institutional framework for promoting the small business sector. However, the focus of the study was on impact of formal institutions on enterprise development. Meanwhile, informal institutions such as social network, family support and social acceptance have equally been identified as crucial in impacting on small enterprise development (Roxas et al., 2008). Again, the extent to which institutional constraints moderate the relationship between the existence of opportunities and enterprise development has been proven to depend on several factors such as the gender, age, educational level, previous experience, the sector of the economy the firm is operating and other firm-level factors (Robson & Obeng, 2008). However, analysis into these areas was beyond the scope of this study. Future studies that examine the impact of informal institutions on small enterprise development equally promise to be a useful study. A study that examines the extent to which these institutional constraints influences enterprise development also provides a useful avenue for improving on existing literature on SMEs in Ghana. Finally, future studies need to consider triangulation research method. This approach would facilitate a combination of quantitative (survey with owner-managers, policy makers and consumers) and qualitative (face-to-face interviews with owner-managers and policy makers) methodologies to help identify congruence in the operationalisation of Roxas et al.'s (2006) framework with the view of providing pertinent results for the Ghanaian context.

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