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Government Policies, Internationalization and ICT Usage towards SME's Growth: An Empirical Review of Ghana

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Authors' contributions

This study was carried out in collaboration between both authors. Authors BA and SKM designed the study. Author SKM wrote the first draft of the manuscript including the literature searches. Authors BA and SKM managed the input of the data for the analysis. Author BA wrote the analysis and interpretation of the data including discussions and recommendations. Both authors read and approved the final manuscript.

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ABSTRACT

Small and Medium-size Enterprises (SMEs) are the powerhouses of the economic development of many countries. This paper probes the dynamics on how Government Policies, Internationalization and Information and Communication Technologies (ICTs) usage of SMEs stimulate the growth and development of the Ghanaian economy. SMEs have been branded as the pillar of industrial development hence playing a vital role in the Ghanaian economy. However, few studies have investigated the growth and challenges SMEs encounter. This paper reviews existing literature as well as the empirical studies in order to identify the major determinants that stimulates SMEs growth as well as the challenges most SME owners face. SMEs face many challenges in achieving economies of scale along with global competition. The challenges acknowledged in this research is a positive first step towards formulating a workable framework for SMEs to overcome. This

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research was primarily carried out in the Kumasi Metropolitan Assembly. Respondents for this research were small and medium businesses in operation from 2005 to 2015. The research was conducted using questionnaires. A total of 144 questionnaires were submitted to respondents in the Kumasi Metropolitan Assembly. Data was analyzed using SPSS version 21. Multiple regression analysis was employed in this study and the findings of this research indicated that policy adoption and the utilization of ICT has a significant impact on SME's growth. However, most SME owners perceive internationalization as a significant but not a necessity towards their growth. The paper concludes by proposing some policy recommendations in assisting SMEs to attain the much needed stimulated growth and development.

Keywords: Policies; internationalization; ICT; SMEs.

1. INTRODUCTION

SME is acknowledged as the spine to the economic growth of many countries [1]. The usage of ICT, internationalization and policy adoption by SMEs can be the driving force behind socioeconomic dynamics. In both the developed and the developing countries, the adoption of ICT by SMEs may be regarded as the catalyst for economic growth. The effective and efficient development of strategies aiding SMEs growth enhance their competitiveness. SMEs growth will not only boost the economic growth of the country but can also surge their ability to compete globally. The imperative role SMEs plays in economic growth has gained worldwide recognition. SMEs are branded to hold the key to economic growth based on their contributions to employment [2]. SMEs account for more than 95% of enterprises in the Organization for Economic Co-operation and Development (OECD) hence contributing to over 60% of employment in the private sector [3]. SMEs create employment opportunities as well as boosting the Gross Domestic Product (GDP) of most countries [4]. SMEs dominate the world of business. Up-to-date, it is difficult to obtain a precise data on SMEs but estimates propose that more than 95% of enterprises across the globe are SMEs, accounting for roughly 60% of private sector employment [5]. With reference to the above percentages, although SMEs are trademarked as important to the development of countries, other studies prove that despite their wide recognition to economic development, they are underperforming due to certain constraints they face [6].

The contribution of SMEs in Ghana still hasn't lived up to the hype attributed to them in playing a vivacious role to the country's economy. Several policies have been adopted by the Government of Ghana to provide assistance to SMEs but these policies proved futile in assisting

SMEs to stimulate their growth. It is recognized that the engine for growth of the Ghanaian economy solely depends on the private sector [3]. Approximately 70% of SMEs comprise industry establishments. Also, SMEs contribute to over 80% of employment in Ghana. With reference to these statistics, SMEs are regarded as an important sector to the Ghanaian economy. Previous studies [7,8,9] have recognized several constraints hampering the growth and development of small scale businesses but have failed to unearth the main determinants that kindles the growth of SMEs. Such constraints include: inadequate training, low standards of products produced, poor institutional support framework, limited access to finance etc. [3]. The Kumasi Metropolitan Assembly known as the Capital City of Ghana has attracted many small and medium scale businesses. Citizens all over Ghana travel several miles to trade in this city (Kumasi). Most traders in Ghana conduct their businesses in Kumasi because goods and services provided for sale in this Assembly seems to be cheaper than other regions and cities. This has attracted many SME owners to ply their trade in this assembly. However, the growth of small and medium scale businesses in this assembly appears to be stagnant. It is of this view that rekindled the authors to investigate the determinants stimulating the growth of SMEs in the Kumasi Metropolitan Assembly.

1.1 Research Objectives

The broad objective of this research is to analyze the factors that affect SMEs growth in Ghana. The study seeks to satisfy the following objectives:

1. To analyse whether or not policies have a positive impact on SMEs growth.
2. To determine whether or not ICT usage affects SMEs growth.

3. To determine the impact between Internationalization and SME_s growth in Ghana.

1.2 Hypothesis

1. H₁: There is a positive impact of policies on SME_s Growth
2. H₂: There is significant effect between ICT usage and SME_s growth.
3. H₃: There is significant impact between internationalization and SME_s.

2. REVIEW OF LTERATURE

2.1 Worldwide Definition of SME

Currently, there is no widely accepted definition for SME_s because different countries set their own rules defining SMEs [10]. Alternatively, the definition of SMEs is solely dependent on where it is being defined and the individual defining it [11]. The European Union definition also states that the category of micro, small and medium-sized enterprises is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and /or an annual balance sheet total not exceeding 43 million euro [12]. Hence, SMEs are defined as firms with 10 to 250 employees, and more than 10-million-euro turnover or annual balance sheet total [13]. Private limited firms with less than 200 employees are considered as SMEs [14]. Statistically, the variation in the definition of SMEs is based on the number of employees and the evaluation of sales and assets [15].

2.2 The Ghanaian Definitions

The most used benchmark in defining SMEs is the number of employees making up an enterprise. There is no standard definition for SMEs in Ghana despite numerous researches done by researchers [16]. The Ghana Statistical Service (GSS) defines SMEs as firms having up to 9 workforces [3]. Moreover, classifications were also made in the definition of SMEs into three sections [3]. Namely: (1) Micro- with less than 6 employees; (2) very small – employing 6-9 workers; (3) small – employing between 10 and 29 workers. Furthermore, the Regional Project on Enterprise Development Ghana (RPEDG) made classifications in their attempt to define SMEs as: (i) micro enterprise, consisting of less than 5 employees; (ii) small enterprise, consisting of 5-29 employees; (iii) medium enterprise, with 30-39 employees; (iv) large

enterprise, with 100 and more workers [17]. Alternatively, in Ghana, the National Board for Small Scale Industries (NBSSI) employed the 'fixed assets and the number of employees' standards to define SMEs. From the NBSSI perspective, SMEs are firms with not more than 9 workers, acquiring plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Ghanaian Cedis [3].

2.3 Characteristics and SMEs in Ghana

SMEs are considered catalyst to the economic growth in Ghana. Data from the Registrar General, indicates 90% of registered firms are micro, small and medium enterprises [18]. SMEs in Ghana are categorized into urban and rural enterprises. The former is further divided into 'organized' and 'unorganized' enterprises which is somehow based on payment of their employees. Enterprises with paid and registered employees are referred to as organized while artisans who work at different places with or without salaried workers are classified as unorganized. Mobilization of funds have been crucial to SMEs in Ghana. The labor intensive nature of SMEs makes them employ more workers than the large enterprises because of their indigenous entrepreneurship nature. However, low level of education and training is attributed to this sector [3]. They are normally family owned and the financial management of this sector is at times a challenge because the enterprise bank account matches the owners bank account [3]. Aside this, the adoption of technology is being embraced warmly as cyber cafés and other ICT businesses are springing up. Apart from being acknowledged as the spine of the economy, they help in the development of local markets as well as the dissemination of income than larger firms [19].

2.4 Constraints Faced by SMEs

Despite the accolades received by SMEs for their contribution to the economic growth, SMEs still wallow with challenges. Recently, researchers have expressed viable interest in the impact of financing on SMEs development yet SMEs are recognized to be facing financial constraints [20]. The required capital needed by SMEs in most developing countries have been difficult to ascertain. Banks lessens their lending to SMEs as an initiative for risk reduction. The perception of SME owners is that the quota for compliance to taxes can serve as an additional resource in expanding their businesses [21]. Many studies

have tried to understand the failure on the part of SMEs in obliging to tax compliance however social norms are viewed as an important factor [22]. Improvements in taxpayers' attitude is seen as a major step to tax compliance [23]. Lack of financing, lack of managerial capabilities, low productivity, access to management and technology, hefty regulatory burdens etc. affect SMEs in unleashing their full capabilities [3]. The ability to compete effectively helps in the sustainability of SMEs [24].

In the Ghanaian context, access to bank credits restricts the industrial growth of SMEs. Inability to negotiate collaterals are purported as an explanation to this hurdle. Collateral is seen as the incentive to squaring and offsetting losses in case of defaulting [25,26]. In view of this, property is the object required by the banks as collateral. This has undermined the development of many SMEs as they are unable to assess loans [27]. Furthermore, lack of finance, high utility tariffs, competition, infrastructure and taxes were ranked as the major constraints faced by SMEs in Ghana [28]. Internationalization, policy and ICT adoption are acknowledged to play an important role in the growth and sustainability of SMEs both in the developing and the developed world [29].

2.5 ICT Usage of SMEs

The ability to comprehend the complex business environment requires innovation in deploying important strategies in order to attain stimulated growth. ICT usage has become a powerful tool in achieving successes in business. Employment of ICT in both the developed and the developing economies is seen as a catalyst for development [30,31] hence, economic development in most countries is attributed to ICT [32]. ICT contributes to advancements in technology as well as helping enterprises gain competitive advantage [33]. Furthermore, ICT has thrown more light into information dissemination, storing, processing and retrieving. Many SMEs and large firms are on a mission of fortifying their competitiveness [34]. Also, the integration between supply chain partners and inter-organizational functions can be enhanced through ICT [35]. Despite the enormous benefits ICT plays in economic development, many factors hinder it from providing its full potential. Poor management practices, limited access to technology and its resources, coupled with illiteracy are some of the factors instigating the dawdling pace of SME on the adoption of ICT [36]. Moreover, poor physical

infrastructure is among the key factors hindering the diffusion and utilization of ICT implementation. Regulatory issues, lack of Research and Development (R&D) and the over reliance on foreign technology has contributed to the setback of ICT utilization [37]. Governments have embarked on an effort for SMEs to adopt ICT because of the significant tool ICT plays in the economic growth of a nation. However, there have been a sluggish adoption of ICT by SMEs [38,39,40,41].

2.6 Internationalization of SMEs

The internationalization phenomenon affects both large firms and SMEs. ICT also plays a focal role for globalization of SMEs and in the internationalization process. Internationalization may take different forms like import, export, foreign direct investment (FDI) etc. Internationalization and ICT paves way for SMEs to compete globally where quality services and transactions are facilitated. Internationalization and ICT is the main focus of many intensive R&D industries in the world. R&D and innovation activities including production and marketing are currently some of the activities that leads to internationalization [42]. Proportion of employees with broadband internet, use of online transactions etc. may aid in the internationalization of firms. Size, labor productivity, innovation activities, skills, new investments and foreign ownership are acknowledged as the determinants for internationalization of SMEs. The integration of internet technology into marketing activities has contributed to online sales. Such integration has led to the cross-border e-commerce of various enterprises [43]. The internet has improved customer services and facilitated the gathering and the dissemination of information [44,45]. Moreover, data-mining techniques have simplified the worth of customer-related information [46]. Internationalization of SMEs through the introduction of online markets may also help in adjusting marketing mix [47]. Internationalization may provide improved performance and competitiveness to help in the growth of SMEs. Alternatively, many Ghanaian SMEs have not been active in the international market despite the promising benefits of internationalization. Internationalization seems to be associated with challenges which need to be addressed. Trade liberalization may help SMEs to engage in international business activities. However, trade liberalization exposes local SMEs to the threats of international competition.

This has increased the foreign competition facing the Ghanaian domestic industry thereby forcing many SMEs to stay put while few SMEs go international.

2.7 Policy Adoption for SMEs

SMEs have been trademarked by many countries as the prop to sustaining economic growth [48]. However, many constraints restrict SMEs from realizing their full potential. Among which are outdated technologies, poor infrastructure, lack of economies of scale, paucities in corporate governance, limited to financial supports and limited access to information and technological expertise [48,49]. Hence, there is the need for improved policy frameworks for SMEs development. On the brighter side, transparent licensing and permit dealings, financial supplies, information sharing and competent customs procedures can serve as the remedy for SMEs developments [48]. Many policies have been enacted to ensure the growth of SMEs [50]. Among such policies are: 1. Reducing entry barriers; 2. Provision of financial supports; 3. Training and education; 3. Developing and encouraging SME cluster; 4. Involving SMEs in policymaking and the implementation process etc. Improvement of SMEs growth comprises numerous facets. For efficient utilization of business opportunities, there is the need for a comprehensive policy framework that will project SMEs to become more productive and competitive. Policies by the Tanzanian Government has created a harmonious path for the sustainability of SMEs growth. Such major initiatives include (a) the establishment Tanzanian Communication

Regulatory Authority (TCRA) which regulates ICT, (b) the establishment of National ICT policy, (c) establishment of SMEs National policy [51]. The Government of Ghana has put measures and policies in place to realize the development of SMEs because of their useful contributions to the economy. As part of the measures to ensure the development of SMEs, the National Board for Small Scale Industries (NBSSI) which is Government-sponsored together with the Ghana Regional Appropriate Technology and Industrial Service (GRATIS) were carved to provide education, training and tools for SMEs as well as enacting policies to ensure their survival and growth [52]. Moreover, the NBSSI, GRATIS, Economic Recovery Program (ERP), Intermediate Technology Transfer Units (ITTUs), and the Ministry for Private Sector Development sat with the Government of Ghana to ensure the growth, development and the sustainability of its SMEs. Difficulty and complex nature with regards to access to credits by SMEs from the formal sectors hinder the growth of SMEs. In view of this, the establishment of government and donor agencies initiated some schemes to alleviate this tough hurdles facing SMEs. Such schemes include The Ghana Investment Fund, Ghana Private Sector Investment Fund, Business Assistance Fund, Revolving Loan Fund, Private Enterprises and Export Development Fund, Promotion of Small and Micro Enterprise Fund, Africa Project Development Facility etc. Unfortunately, with all these schemes and measures, the SME sector still wallow in their pool of constraints. This paper probes why the existence of such policies seem not to have any impact on SMEs.

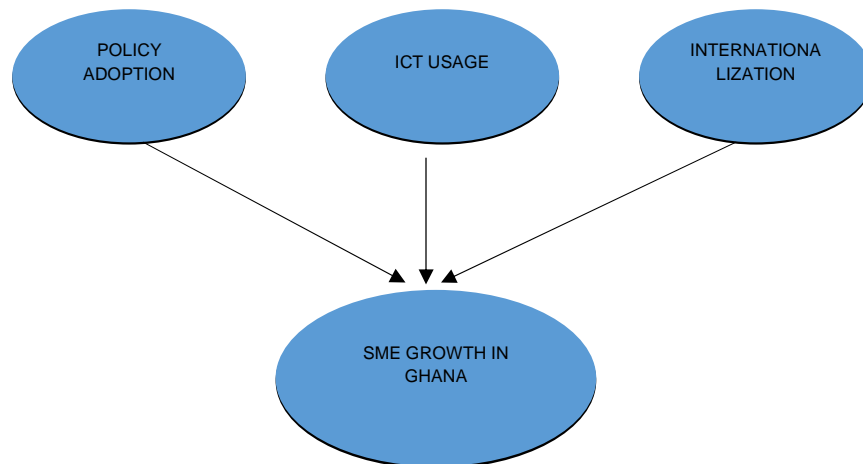


Fig. 1. Conceptual framework
 Source: Authors' construct

3. CONCEPTUAL FRAMEWORK

The conceptual framework of this study is illustrated in Fig. 1. According to the conceptual framework, we seek to analyze the effect policy adoption, internationalization of SME_s businesses and ICT usage by SME_s on SME growth.

4. RESEARCH METHODOLOGY

4.1 Research Design

This research employs both qualitative and quantitative methods in data collection to ensure the accurate interpretation of the output by using SPSS version 21.

4.2 Research Population

The population comprises of SMEs owners from Kumasi Metropolitan Assembly. Evidence of taxpayers' receipt were asked from SME owners in order to ensure whether or not they are contributing their quota to the development of the country. SME owners who submitted their tax receipts were considered respondents in this research. Purposive sampling method was used to identify respondents to aid in our research.

4.3 Sample Size

A sample of 144 respondents was selected from the Kumasi Metropolitan Assembly. This sample size for the aforementioned district is deemed enough to generate and generalize the findings of a bigger population. This research required taxpayers with vital information in order to attain accurate results for this research. Purposive and judgemental sampling techniques were employed in this research.

4.4 Data Source

The collection of data was done through primary sources. Primary data was obtained from SME

owners by the administering of questionnaire and interview guide.

4.5 Data Collection Instruments and Procedures for Data Analysis

Interview guide lasting for 15 minutes was used for the collection of qualitative data for SME owners with little or no educational background whereas questionnaire was used to collect quantitative data from respondents with an educational background. A 5 point Likert-scale was employed in the administration of questionnaire with scales ranging from "Strongly Disagree" denoted by 1 to "Strongly Agree" represented by 5 with neutral scores amid the two extremes. Regression analysis was used for the analysis of the data obtained from the survey.

5. STATISTICAL FINDINGS

Table 3 shows R-square value of 0.809 shows that policy adoption, ICT Usage and internationalization depicts 80.9% of variability on SME_s growth. The R value of 0.899 predicts a strong positive correlation between the predictor variables. This implies that the predictors prove to have a strong relationship on SME_s growth.

Table 1. Model summary

Model	R	R square	Adjusted R square	Std. error of the estimate
1	0.880 ^a	.774	.769	.52840

a. Predictors: Policy adoption, ICT usage, internationalization

Table 2 shows an ANOVA Table of regression model. At $\alpha = .05$, $P < .000$ indicate statistically significant predictors for the dependent variable. Additionally, $P = .05$ suggests a good fit data for the regression model. As a result, there is enough evidence against the null hypothesis.

Table 2. ANOVA^a

Model		Sum of squares	Df	Mean square	F	Sig
1	Regression	155.221	3	51.740	197.287	.000 ^b
	Residual	36.716	140	0.267		
	Total	191.937	144			

a. Dependent variable: SME_s growth

b. Predictors: (Policy adoption, ICT usage, internationalization)

Table 3. Coefficients^a

Model	Unstandardized coefficients		Standardized coefficients beta	t	Sig.
	B	Std. error			
(Constant)	-.01	1.08		-.013	.990
Adoption	.0490	.093	.473	5.269	.000
ICT usage	.445	.093	.417	4.806	.000
Internationalization	.051	.049	.049	1.041	.299

a. Dependent variable: SME_s growth
Significant at 0.05 level

5.1 Determining the Regression Equation

With reference to Table 3, it is obvious that Policy Adoption and ICT usage is significant at $\alpha = .05$. However, the only predictor that has P value above $\alpha = .05$ is internationalization hence proving this predictor to be insignificant. Internationalization has a P value of .299 which is greater than $\alpha = .05$ depicting the irrelevance of this predictor variable. Although the coefficient table has beta coefficients for all the predictor variables, it is important to disregard the beta coefficient for internationalization. The coefficients table has the first column containing the beta coefficients $\beta_0 = -.01$, $\beta_1 = .473$ and $\beta_2 = .417$. The regression model shows a simple linear equation of:

$$Y = -.011 + 0.473X_1 + 0.417X_2.$$

This regression model derived proves that a unit change in SMEs growth corresponds to an improvement in Policy adoption by 0.473 holding all other variables constant. Additionally, a change in SME_s growth also depicts an increase in ICT Usage by 0.417. From the regression model, it can be established that there exists a positive correlation between SME_s Growth, Policy Adoption and ICT Usage.

6. DISCUSSION

In Ghana, the growth of SMEs is seen as an important factor to economic growth. The existence of SMEs has gained wider market share than companies in operation. However, in spite of the large market share attained by SME_s, their contribution to economic growth is not recognized as such. Investigating the factors leading to SME_s growth would be beneficial to policy makers in understanding the perception of most SME owners with regards to their growth.

Most SME_s in Ghana have limited financial resources. During our study, SME owners stated

that the challenge in obtaining funds needed for internationalization hinges on their inability to globally market or internationalized their goods and services. SMEs with limited financial resources focus on small geographical base and view internationalization as a significant step but not for growth. Most SMEs lack the required resources needed in embarking on overseas activities. Responses gathered from respondents were in alliance with depicting factors affecting internationalization as: Possible lack of alignment with foreign sales agent; Tariff and non-tariff trade barriers; Cost of transportation; Identifying the right joint venture partners is critical; Structuring effective partnership can also be tricky [53]. Survey conducted in 2003 by the European Network for SME Research (ENSR) identified the main barrier affecting SME_s as the cost involved in the internationalization processes [54]. This cost comprises paying for legal documents; translation of documents; adaptation of products to foreign market etc. SMEs are also puzzled about laying out larger percentage of their capital. The argument made by our respondents was that: Why don't we use the little amount of capital acquired to expand our operations locally? To some extent, we realize that SME owners consider the risk involved in globalization. However, they see no reason to globalize their products rather, they view their local grounds as a means for growth.

Adoption of Policies is widely recognized by SME owners as the main determinant to their growth. Conclusions drawn from our analyses instigated that policies regarding taxes have an adverse impact on their growth. Most SME owners wish for new policies regarding tax rates as well as policies regarding their operational system to be adopted. They always wish to retain more capital at the end of an accounting year in order to expand their businesses locally and provide employment opportunities to the citizens of the country.

ICT Usage is also seen by SME owners as a determinant to the growth of their businesses. They are mostly worried about the complexity in handling documentations manually. They are of the view that enlightenment on the usage of ICT will be beneficial to them in order to keep salient documents safe. They are worried because tax receipt obtained from the Ghana Revenue Authority (GRA) sometimes gets missing. SME owners realize that ICT Usage is an important step to the growth of their businesses. Additionally, the Usage of ICT in reference to their operations also came to our notice. We realized that their day-to-day operations are done manually. It is difficult to track their operational activities because they spend much time on documentation. Therefore, salient information regarding their operational systems are missed out.

7. CONCLUSION AND RECOMMENDATION

Many SME owners in Ghana acknowledge the importance of contributing to the economic growth of the country. However, the stagnant growth of businesses has no correlation on the economic growth of the country. The study was conducted to show whether or not policy adoption, ICT Usage and Internationalization impact SME_s Growth. Two out of the objectives proved significant. From the hypotheses, two predictor variables satisfy the regression model: $Y = -.011 + 0.473X_1 + 0.417X_2$. The main contributors to SME_s Growth are policy adoption and ICT Usage. Enough evidence is found against H₃. However, we fail to reject H₁ and H₂.

The study revealed policy adoption and ICT Usage as the determinants of SME Growth in Ghana. It is important for policy makers and stakeholders of SMEs in Ghana and across the world to come out with realistic measures needed for the growth of SME_s in order to improve the standard of living of citizens. Therefore, the following recommendations are made to aid the growth of SMEs:

Flexible rules regarding tax payment should be adopted for SME owners in Ghana especially the Kumasi Metropolitan Assembly. Tax rates can therefore be structured to suit small and medium businesses operating in the country. Tax rates for large companies and corporation shouldn't be the same for SMEs because SME_s operational systems and assets is

incomparable to many corporations in Ghana. Policy makers should adopt policies to favor all businesses operating in the country.

Mass education for SMEs on the usage of ICT should also be introduced through the media in Ghana. SME owners can learn basic tips on the usage of ICT through the adoption of this strategy. Also, SME owners should take it upon themselves to demonstrate the required zeal to participate in this strategy. Ghanaian SME owners can also sign up for courses introduced in ICT in order to gain much knowledge on how to apply ICT in the day-to-day operation of their businesses.

Finally, the Government of Ghana can introduce a flat reduction rate for SME owners towards the internationalization of their businesses. For example, appropriate discount can be placed on the cost of documentation required for internationalization as well as transportation cost incurred in order to build strategic alliance with overseas companies. Moreover, transportation cost incurred on the export and import of goods and services by SME_s should be subsidized by the government. Such discount can motivate SME owners to regard internationalization as a determinant in stimulating their growth.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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