Adoption of competitive strategies for development – A study of agricultural SMEs in Ghana

1.0 Background
Over the past two decades, there has been a long and rather complex debate on the development and contributions of small and medium enterprises (SMEs) to economic development. The debate has centered on the contribution of the SME to employment generation, growth and poverty reduction as well as the influence the influence of SMEs on income distribution growth and poverty reduction (Berrell and Wrathall, 2007). This debate has been catalyzed by different strands of thinking and by various disciplines, from Economics theory to, Sociology and Business Management. The question of what key contributions SMEs provide towards economic development may appear outdated or redundant as this has been posed and answered countless number of times (see Mensah, 2004; Keskin, 2006; Prajogo, 2007; Fening et al, 2008) However, given some recent attempts to challenge the contribution of SMEs to the National Development Agenda, it is worth revisiting this question and to provide some concrete benefits associated with the activities of SMEs towards national development.

In the newly developing or newly industrialized countries (NICs), SMEs generally employ the largest percentage of the workforce and are responsible for income generation opportunities (Prajogo, 2007; Fening et al, 2008). These enterprises can also be described as one of the main drivers for poverty alleviation (Singh et al, 2010). For most poor economies too, the bulk of employment and livelihoods are provided by a vast majority of small enterprises (Jutla et al., 2002)). In most cases these enterprises gain support through access to financial and business development services championed by government, donor agencies or private interventions such as banks. Furthermore, according to Luetkenhorst (2004), at an enterprise level, SMEs are found to employ more labour-intensive technologies than larger enterprises. They generate the lion’s share of productive employment (around 50-70% in developing countries; 72% in Japan; 66% in most EU countries). With respect to productivity, SMEs also perform very well in terms of total factor productivity which tends to be highest especially in the medium-sized segment with 50-100 workers (Snodgrass and Biggs, 1996). Also with regards to innovation, research by UNIDO (2008) indicates that SMEs (especially medium-sized companies) have a strong record. In developed and more advanced developing countries, they were found to contribute most innovation in immature, relatively unconcentrated industries (e.g. ICT). This would appear to imply that they play an important role in applying new technologies to meet customer needs and in introducing new products. There is also evidence that small firms produce innovations with significantly higher productivity, than large firms (Acs and Audretsch 1990). Data collected by Ayyagari et al. (2007) for 76 developed and developing countries indicate that, on average, SMEs account for close to 60% of manufacturing employment.

1.2 Problem statement
The Ghanaian economy operates a mixed system directed by both the public and private players with the main economic sectors being Agriculture, Services and Industry respectively (Fening et al, 2008). Since the introduction of the Economic Recovery Program (ERP) in the 1980s, Ghana has achieved some
successes in the development of its economy. However, there is a lot to be done if the private sector is to play a leading role in accelerated economic development of the country. Under the previous government’s declared era of “the Golden Age of Business”, the need for a vibrant private sector to act as the engine of growth has even gained more recognition. SMEs play a unique role in countries industrial development through employment creation, income generation and ensuring equitable distribution of limited resources. Unfortunately, in Ghana, the SME sector’s contribution has fallen short of its potential due largely to not only access to capital but also lack of effective and quality management and coordinated effort to support SME operations.

Furthermore, the introduction and advancement of technological applications in businesses behooves on SMEs to tap into the numerous advantages that comes with the digital phenomenon. As a result, most enterprises are concerned with being left behind due to technological and infrastructural weaknesses, as well as insufficient knowledge of implications for developing nations. Some emerging economies have managed collaboration between the government and businesses to turn these developments into bigger advantages for firms (Enz (2008; Abor and Quartey, 2010). Fening et al, (2008) hinted that most Ghanaian SMEs struggle to operate, manage and improve their businesses efficiently in order to consistently deliver quality products and services on time. They added that among the numerous challenges to increase performance and growth of most of these companies includes quality management practices. Some researchers, business executives and managers of SMEs have also attributed the failure of SMEs in Ghana and Africa to owner/managers inability to access credit (Adegbite, 1997; Tagoe et al., 2005).

However, it appears the application of competitive strategies has been overlooked by governments and other business people over the years. The lack of owner/managers ability to practice quality management has long been identified by some pre-millennium scholars (Jennings and Beaver, 1997) and post-millennium scholars (Beaver, 2002; Fening et al, 2008) alike as one of the major causes of SME failure. Earlier, El-Namacki (1990) concluded that the practice of strategy planning by small firm owner/managers was “scanty and perfunctory”. Beaver (2002), emphasized that an “overall lack of strategic management skills and abilities have been the underlying problem”. As Ghanaian small businesses battle for their goods to be accepted on the international markets, development and implementation of competitive strategies is crucial in reducing the direct cost associated with poor quality and eventually result in success of the various enterprises.

The problem to be investigated therefore is that how do SMEs develop competitive strategies and will the adoption of competitive strategies by SMEs in Ghana improve the performance of their businesses and enhance economic growth? If so which types/kinds of strategies are required by SMEs in Ghana for higher performance and business growth? According to (Hodgetts et al, 1999), firms that implement competitive practices are better performers; but do Ghanaian SMEs know about and understand these practices? Moreover, to reiterate Fening et al (2008), there is the perception that SMEs that are owned and managed by foreign nationals do better than indigenous ones but how true or valid is this notion.
1.3 Objectives of the study
In an attempt to finding answers to these issues, the current study seeks to:

1. Explore the nature of competitive strategies used by agricultural SMEs in Ghana
2. Identify various possible competitive strategies which could be adopted by agricultural SMEs in Ghana for business growth
3. Explore the relationship between competitive strategies and performance of SMEs in the Agricultural sector

1.4 Theoretical approach
Several theories abound in business literature for carrying out management studies including but not limited to Dynamic Capabilities, Flow theory, Contingency Theory, Competitive theory, Agency theory and Resource-based view of the firm. However Porter’s models of Competitive strategies will serve as the theoretical underpinnings of this study. Fundamentally, the Generic strategy model which espouses cost leadership, product differentiation and focus will form the bedrock of the study. Furthermore, the 5 forces model framework which uses concepts developed in micro-economics to derive certain forces that determine the attractiveness of a market will also be considered. This will help understand key issues within the industry in which target samples fall. They consist of those forces close to a company that affect its ability to serve its customers and make a profit. A change in any of the forces requires a company to re-assess its marketplace. Nevertheless, the research will also delve deeper into related theories such as dynamic capabilities theory and RBV of the firm since they offer various dimensions that contributes to competitive strategies adoption by organizations. Additionally, Institutional theory will help the researcher understand the various regulatory systems and activities that relates to SME operations in Ghana.

Competitive strategies
Olsen et al. (2008) define competitive strategy as a process whereby a firm’s portfolio of products and services is designed to bring together its unique resources and capabilities to gain advantage in the marketplace. According to Porter (2000), the myriad activities that go into creating, producing, selling, and delivering a product or service are the basic units of competitive advantage. In order to achieve sustainable competitive advantage(s), firms need to adopt a strategic positioning through the creation of a unique and valuable position, involving a different set of activities. Several scholars have proposed various competitive strategies for businesses. These usually span quality (Morgan and Piercy, 1996; Prajogo, 2007), cost leadership (Prajogo, 2007; Allen et al, 2008), product differentiation (Liker and Yu, 2000; Hwang and Lockwood, 2006), focus (Liker and Yu, 2000; Lee, 2009), and corporate social responsibility (Lee and Ball, 2003; Hart, 2005; Porter and Kramer, 2007), ICT adoption (Ongori and Migiro, 2010), E-accounting practices (Amidu et al, 2011), E-business adoption (Levy and Powell, 2003; Hinson, 2010), market orientation (Mahmoud, 2011) among others.
Prior research has shown that competitive strategy formulation and implementation are key factors in achieving superior performance (Chathoth and Olsen, 2007). Many firms develop competitive strategies that aim to secure a strong market position and achieve profitability outcomes. In line with Barney’s (1991) study, such competitive strategies are commonly formulated by assessing the internal resources of the firm. Enz (2008) argued that a single resource cannot create competitive advantage. Rather, it is the combination of competitive resources – such as brands, human resources (HR), information technology (IT) innovations, computer reservation systems, niche marketing and advertising, and pricing tactics – that can increase a firm’s capabilities and improve performance (Olsen et al., 2008). Hence, strategic business implementation choices are selected on the basis of each organization’s competitive resources. Different resources influence firm performance in different ways, even when these firms are in similar locations, operate in the same industry or subject to similar environmental changes (Dev et al., 2002).

**Small and Medium-Scale Enterprises (SMEs)**

A number of scholars have come up with various definitions on the concept (Kayanula and Quartey, 2000; Mensah, 2004; Polatoglu, 2007; Abor and Quartey, 2010). The differences in the various definitions usually center on the notion that firms differ in many ways in terms of capital structure, sales activities and number of employees within several country contexts. For instance in a study by Beck et al, (2011) on bank financing for SMEs across 45 countries, the banks were asked to provide their own definition of small and medium-sized firms. In particular, banks were asked to provide a range in terms of sales, assets, or employees. Most banks (85%) define SMEs in terms of annual sales between 200,000 and 4 million U.S. dollars and medium-sized firms as those with sales between 2 and 16 million dollars. Thus the average midpoint of the range for small firms is 2 million dollars and for medium-sized firms is 9 million dollars (Beck et al, 2011). However, drawing on the Venture Capital Trust Fund Act, 2004 of Ghana, Abor and Biekpe (2009) define the term as firms which employ not more than 100 persons and whose total asset base, excluding land and building does not exceed the cedi equivalent of $1 million in value.

Earlier, Kayanula and Quartey (2000) had observed that, there have been various definitions given for small-scale enterprises in Ghana but the most commonly used criterion is the number of employees. In using this definition, confusion arises regarding the arbitrariness and cut off points adopted by the various official sources. Studying issues in SME development in Ghana and South Africa, Abor and Quartey (2010) disclosed that, Ghana lacks a National Act that provides a framework for defining SMES, unlike South Africa where the National Act 102 of 1996 provides a framework that ensures a consistent definition by various official sources. Consequently, the Ghana Statistical Service (GSS) considers firms with fewer than ten (10) employees as small-scale enterprises and their counterparts with more than ten (10) employees as medium and large-sized enterprises.

These operational definition components seem to be different from what is the case in other economic settings. Hence, definitions that employ measures of size like number of employees and turnover can provide inconsistent results across industries and countries (Puplampu, 2005). However this study in
particular employs the definition given within the Ghanaian context so as to make a justifiable premise in the selection of targeted participants for the study.

**Contribution of SMEs in Ghana**

Ghana, one of the promising economies in Africa, provides an interesting setting for the study on adoption of competitive strategies. Although in recent times, the services sector and manufacturing sector seem to be increasing in terms of their impact on economic activities (Ghana economic Profile, 2012), agriculture continues to make significant strides to GDP. The bulk of these agricultural contributions seem to come from the SMEs operating within the sector. SMEs are vital in most developed and developing economies including Ghana in that they contribute a lot in terms of GDP and employment (Abor and Beikpe, 2005 and Keskin, 2006). For the past two decades SMEs have been identified as important contributors to the growth of Ghana’s economy through the generation of employment, productivity and innovation (Aryeetey et al., 1994; Kayanula and Quartey, 2000; Abor and Quartey, 2010; Mahmoud, 2011). Also, SMEs have been identified as the catalyst for the economic growth of the country as they make major contributions to employment generation and poverty reduction (Mensah, 2004; Abor and Beikpe, 2005). Thus, the SME sector is regarded in certain situations as a valve for absorbing the teeming unemployed youth in the Ghanaian economy (Mensah, 2004).

**SMEs and Competitive strategies**

Global competition confronts the majority of purely domestic SMEs, whose products and sales are extremely localized and/or segmented. Trade liberalization increases the capacity of well-established foreign manufacturers and retailers to penetrate both remote and underdeveloped markets (Berrell and Wrathall, 2007). Against this development, local SMEs find it increasingly difficult to survive or even maintain their current business position in their respective markets. In such a demanding environment, the capacity of an SME to maintain reliable and continually improving business and manufacturing processes is critical to ensure long-term sustainability, according to Denis and Bourgault (2003). In a similar vein, Vos (2005) observed the management skills of SME managers and suggested that these managers were weak in their ability to reflect strategically on their current business position especially in the area of developing competitive strategies (Singh et al, 2006). Moreover, SMEs are frequently oriented towards serving local niches or developing relatively narrow specializations. These enterprises often operate under the constraints of scarce resources, a flat organizational structure, a lack of technical expertise, a paucity of innovation, reduced intellectual capital and the likes (Xiong et al., 2006; Singh, 2010).

Owing to the globalization of markets, technological advances and the changing needs and demands of consumers forced the nature of competitive paradigms to change continuously (Singh et al, 2010). These changes drive firms to compete along different dimensions such as designing and developing new products, adopting smart approaches to manufacturing, implementing quick-to-market distribution, purchasing cutting-edge communication and developing appropriate marketing strategies (Vargas and Rangel, 2007). Because of such measures, SMEs are now exposed to the pressures from the competitive international business environment. Lee (2008) notes that while larger firms, often multinational
enterprises, have been developing the capabilities needed to achieve the triple bottom line over the last
decades, small and medium-sized enterprises (SMEs) often lack the knowledge, expertise, skills, finance
and human resources to make the desired changes within organizations. Additionally, some scholars have
observed that the approaches are narrowly focused to specific features of the production process or the
product when the SMEs attempted to change. Thus, SMEs often have a limited view on the direction of
future organizational stance and tend to tackle competitive strategy issues in an ad hoc manner (Lee,
2008; Nawrocka, 2008). In line with Enz (2008), SMEs with strong resources can distinguish themselves
from their competitors and survive in a competitive environment. SMEs can outperform rivals only if
they can establish a difference that can be preserved. This will ensure the delivery of greater value to
customers or creation of comparable value at a lower cost or both (Porter and Kramer, 2007).

1.5 Methodology

Previous studies on the subject of SME development have applied both quantitative (Li and Qian, 2007;
Prajogo, 2007; Abor and Biekpe, 2009; Singh et al, 2010) and qualitative (Williamson, 2005; Polatoglu,
2007; Lee, 2009; Campaniaris et al, 2011) measures in collecting data. The current study seeks to
approach the concept from a similar direction by applying qualitative method of data collection in the
form of a multiple case study approach (Eisenhardt, 1989; Yin, 2003). This is premised on the fact that by
applying such an approach, it will bridge scholarly gaps by obtaining rich data (Davis, 1999; Emerson,
2001) where the researcher undertakes participant observation as part of the field research. The current
study will involve between 10 – 15 agricultural SMEs drawn from the Association of Ghanaian
Industries’ database of firms and that of the National Board for Small Scale Industries. The selection of
sample will be based on criteria set by Regional Project on Enterprise Development (RPED) for SMEs in
Ghana. By implication, only agricultural-based firms with employee size of less than 100 will be included
in the study sample. Top management personnel of the sample SME organizations such as CEOs and
proprietors shall be interviewed. Data obtained will be transcribed and analyzed using qualitative analysis
techniques as proposed by Miles and Huberman (1994).

1.6 Relevance for the call,
The significance of the study is not only relevant but also timely given the fact that Agricultural SMEs
face peculiar problems including deficiencies arising from their limited resources and range of
 technological competencies; influence of their owners/managers on the decision-making; dependence on
small numbers of customers and suppliers; lack of sustained supply base (Badger et al., 2001). The
survival of SMEs has been the focus of a number of recent reports in Ghana, which call for new strategic
directions if SMEs were to sustain their competitiveness and financial success in the future (Ohene-
Konadu, 2008). This study is thus significant in attempting to provide some dimensions of competitive
strategies which could be adopted by agricultural SMEs in Ghana. Again, Ghanaian studies on SMEs
have mainly focused on constraints faced by SMEs especially in the area of financing (see Quartey and
Kayanula, 2000; Mensah, 2004; Abor and Biekpe, 2009; Abor and Quartey, 2010). The current study in
its uniqueness will also contribute to existing literature on SME development by providing evidence from
a developing country in sub-Saharan Africa context.
1.7 Work plan
In view of the methodological approach, the following proposed timetable will serve as a work plan to guide the study.

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