Barriers to Growth in SMEs- The Case for Mauritius

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Abstract

SMEs evidently have an important role in the development of the Mauritian economy. It creates employment and reduces poverty. However, there are several difficult challenges that SMEs are actually facing in Mauritius. These challenges hinder SMEs from achieving their potential levels. Thus, this paper analyses the constraints of SMEs in Mauritius and provides some suggestions to address these constraints. A sample of 400 SMEs in Mauritius around the island was interviewed. Cross tabulations and the multiple responses analysis is used. The results show that both male and female entrepreneurs face more or less the same problems in Mauritius. SMEs mostly faced internal problems namely difficulty in accessing labor, finding in customers, investing in raw materials and financial management. Thus, this study suggests the adoption of pro- SME policies which will expand efficiently and leads to sound development of SMEs in Mauritius.

Keywords: Small and Medium Enterprises, Multiple Response Analysis, Mauritius

1. Introduction

In both developed and developing countries, Small and Medium Enterprises (SMEs) have a significant role in the world’s economy. Since the late 1960s, a tremendous increase in the number of small firms operating in most of the advanced countries was observed (Burns, 2001). They contribute a significant percentage of national income and employ a significant number of people in many countries around the world. SMEs are vital for economic growth and development as they encourage entrepreneurship and generate employment, thus reducing poverty.

Over the past decades, Mauritius has witnessed surprising advancement and evolution in its SME sector. In Mauritius, the concept of SMEs began in the 1960s with the start of a timid industrialisation process and an import-substitution strategy to supply the local market aiming to give certain autonomy to the island. The SME sector was further developed with the Small and Medium Industries Development Organisation (SMIDO) Act in 1993.

However, over the past years, the number of registered SMEs in Mauritius has considerably increased. The Government has worked towards the promotion of SMEs through the provision of several incentives, especially to women entrepreneurs. A number of institutions, namely Small and Medium Enterprises Development Authority (SMEDA), the National Women Entrepreneur Council (NWEC) and the Development Bank of Mauritius (DBM), are at the disposition of SME owners. A number of services are being offered in terms of information, counselling, marketing support, training, and exhibition in a view to promote an entrepreneurial culture in Mauritius, but, during the last few years, SMEs have been facing diverse problems related to labour, technical facilities, raw materials, marketing, and finance. In addition, there is no in-depth study conducted on the challenges faced by SMEs in Mauritius.

Thus, the general objective is to identify the constraints of SMEs in Mauritius. The purpose of this study is to find out the constraints of entrepreneurs in Mauritius and find means in order to address them to ease the growth in the SME sector. A sample of 400 questionnaires among registered SMEs across the country was surveyed. The multiple response analysis is used to identify the problems of SMEs.
The paper is structured as follows: Section 2 overviews the literature on SMEs. Section 3 enlightens on the SMEs’ evolution in Mauritius. Section 4 consists of the data collection instrument, sampling strategy and sampling techniques, and data analysis. Finally, section 5 concludes the paper.

2. Literature review
There is no unique definition of SMEs; each and every country has its own definition, which also varies over time. This often makes comparison difficult across countries, since it affects the reliability of data. Generally, the SME sector is classified into three categories: micro, small and medium enterprises or businesses. This is detailed in table 1.

Table 1: Details about the categories of the SME sector

<table>
<thead>
<tr>
<th>Micro SMEs</th>
<th>The smallest among the three categories which employ fewer than 9 employees</th>
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<tr>
<td>Small Enterprise</td>
<td>Small businesses are usually bigger compared to the micro-businesses. They differ in terms of number of employees, size, capital investment, structure, and economic contributions. Moreover, Alarape (2008) characterises SMEs as an enterprise comprising 11-100 employees or a total cost more than N50 million, including working capital but exclusive of cost of land. While Arowomole (2000) defines an SME as an independently owned and operated business which it is not leading in its field and meets the criteria of the SME business administration.</td>
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<tr>
<td>Medium Enterprise</td>
<td>Medium businesses are the biggest businesses compared to both micro and small businesses. These businesses differ in terms of number of employees, size, operations, structure, and capital investment. According to Darren et al. (2009), medium business is one which employ up to 249 employees in UK, up to 250 employees in European Union, up to 200 employees in Australia, while up to 500 employees in U.S.A.</td>
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Source: Adapted by Lucky and Olusegun, 2012

The definition of SMEs varies particularly from the number of employee, size, industry and country. According to Baumback (1983) SMEs are defined in terms of asset value, employment and dollar sales, but Jasra et al. (2011) put forward that SMEs are a business but not a public limited company, having more than 250 workers in manufacturing and service industries including trading businesses.

On the one hand, the Organization for Economic Cooperation and Development (OECD) categorised SMEs according to their country’s economic, social and cultural patterns. The definitions and criteria of SMEs differs among countries, some use invested capital, others depend on the number of employees, and a few use a combination of the invested capital, number of employees, industry type and sales. On the other hand, the United Nations Industrial Development Organization (UNIDO) defines SMEs as a momentous issue for policy expansion, as it primarily depends on the purpose of classification. Usually, the UNIDO advises countries to consider both quantitative and qualitative indicators for defining SMEs.

The contribution of SMEs to economic development, growth, employment and trade has been significant, but some of the previous studies find that SMEs normally face many challenges (Beck et al., 2004; Batra and Tan, 2003; Batra and Mahmoud, 2001 and Brunetti et al., 1998). Moreover, the common challenges for SMEs in most developing and transition economies are financing, accessing network support, institutional, legal and administrative barriers. According to Jenkins (2004), SMEs have relatively less resources as compared to larger enterprises. Thus, this gives rise to various constraints namely internal, regulatory, market and financial which hinder the growth and success of small businesses.

Internal constraints are mainly concerned with unavailability of skilled labour and raw materials, scarcity of technical skill, small domestic market, and competition with large industries. Ligthelm and
Cant (2002) argued that, in SMEs, there is a lack of trained and skilled labour. Owners are unable to keep and encourage their staff and they often lose potential employees, which results in low productivity. Moreover, Hew and Loi (2004) found that it is difficult for SMEs to find well-educated and experienced labour, consequently leading to the problem of mismatch on the labour market. Thus, recruitment of potential workers is the major problem of SMEs (Pansiri and Temtine, 2008).

SMEs also lack in terms of managerial skills and experience. The lack of planning and reluctance in setting goals and taking advices may have a negative effect on the progress of small businesses. Due to poor time management and insularity, they bypass training and development opportunities (Westhead and Storey, 1997). Poor labour management may also hinder SMEs development, according to Ligthelm and Cant (2002). SMEs were found to be more concerned with their survival on the market rather than focusing on development, innovative methods of production, technology adoption, and marketing skills to enhance the growth of their businesses [OECD (2010), Curran (1999), Gray (1998)].

Levy (1993) reported that financial constraints are the biggest problem faced by SMEs when competing with larger competitors. Singh and Belwal (2007) found that it is difficult for SMEs to secure finance for the establishment and running of the business. The unavailability of financing, lengthy procedure, collateral requirement, and the high cost of raw materials and equipment are the major disadvantage of SMEs, and thus, they are as such reluctant to invest in R&D, innovation, and technology (Hossain, 1998). Moreover, it is also found that female entrepreneurs have more difficulty to get access to finance (Carter and Rosa, 1998). Furthermore, Roper and Scott (2009) described women as “discouraged borrowers”. Besides, OECD (2010) found out that less than 3% of SMEs keep accounting records. According to Marlow (1998), poor finance results in managerial shortcomings.

As per Hew and Loi (2004), SMEs were found not to trade in international markets as they lack information, finance, marketing, and sales techniques. Many buyers usually turn to foreign markets, as SMEs often provide low, standardised, and poor quality products. Furthermore, Ligthelm and Cant (2002) found that poor location, lack of market research, lack of quality products and service, and lack of updates on trends and needs of consumers are among the challenges of SMEs and these may cause SMEs to close down. Moreover, Siringoringo et al. (2009) stated that SMEs face internal export barriers and lack in resources for export marketing. SMEs lack information to identify potential foreign markets and opportunities. Further, fierce competition from large firms might prevent smaller businesses from finding a position on the market. In addition, SMEs faces regulatory constraints. Owners tend to be more focused on the day-to-day running of their business. SME owners are often reluctant to seek advice, according to Jarvis and Rigby (2011). Due to bureaucratic set-up procedures, utility connection, income tax structure, lack of protective measurement, and labor regulation, SMEs face difficulties in finding proper market networks, preventing them from prospering (Hossain, 1998).

Bari, et al. (2005) explore the key constraints on SMEs in Pakistan by using a survey of 54 firms. With the help of microeconomic and macroeconomic factors, they develop the concept of a “binding constraint” as a technique to targeting the problems affecting firm growth and investment. Their study shows that SMEs in Pakistan have generally faced greater challenges compared to larger counterparts. They also point out that SMEs have generally faced an excessive government regulation, an exploitative tax administration system, a lack of access to credit and business support services, and a weak technological base.

Moktan (2007) studies the constraints faced by the SME sector in Bhutan. Based on a survey of 168 micro and small firms, he indicates that the major constraints relate to restrictive finance, business regulations, and infrastructure. He also finds that there is lack of government support to the SMEs and, with regards to size, sector and ownership, a significant difference was observed between urban and rural districts.
Quader and Abdullah (2009) examine the constraints faced by SMEs in Bangladesh. 60 small enterprises were interviewed. The data collection process is divided into 2 phases; namely the exploratory phase, which consists of interviewing businessman, bankers, and government officials with an open-ended questionnaire about the main constraints faced by SMEs, and the main phase, consisting of interviewing the SMEs by using a questionnaire with five-point Likert scale questions. The result reveals that SMEs tend to be vulnerable. Due to their size, lack of labour force, and economic resources, they are unable to face challenges and the business environment as compared to larger businesses. High lending rates are a major constraint in Bangladesh. Regulatory constraints come next. Other obstacles are collateral need, lack of trained labour, lack of raw materials, poor financing and costly equipments, lack of protection towards SMEs, uncertainty, and poor government support to encourage SMEs.

Chilipunde and Shakantu (2010) look at the constraints and challenges that Small, Medium and Micro Enterprises (SMME) face in Malawi. A field survey is done with 52 questionnaires among 52 SMMEs. A Likert-style five point scale is used and the mean and median are calculated. The most current problems are the lack of trained workers and financial constraint. They also find that lack of managerial skills, poor IT skills, and poor internal management are among the constraints. The management have inadequate training and business skills and have a high prevalence for unethical conduct.

3. **Evolution of SMEs in Mauritius**  
The SMIDO Act in 1993, which was itself part of the Industrial Expansion Act of the same year, was the key pointer in the promotion of SMEs. The SMIDO, being a parastatal body, aimed at expanding, enhancing the competitiveness, and developing further the modern SME sector in Mauritius. It helped in job and wealth creation, innovation, economic growth, poverty alleviation, and social achievement. However, in December 2003, the Government created a new Ministry to cater for the promotion of the SME sector, and, in 2005, the SMIDO merged with the National Handicraft Promotion Agency (NHPA) to become the Small Enterprises & Handicraft Development Authority (SEHDA), which aimed at rationalising and optimising the use of resources dedicated to the small businesses in Mauritius. Moreover, in 2010, the SEHDA Act was replaced by the SMEDA Act, which caters for medium enterprises and the latest development with regards to SME policy framework in Mauritius.

In Mauritius, SMEs were firstly defined by the SMIDO Act 1993, which stated that ‘SMEs are enterprises engaging in manufacturing and using production equipment (directly related to production) in their manufacturing process, including transformation/conversion of raw materials, packing, repair, and assembly of semi-finished parts into finished goods whose value of production does not exceed Rs 5 million’. But, as per the SMEDA Act, the SME definition includes enterprises in all economic sectors. A small enterprise is usually characterised by its ‘developmental’ level of operations and annual turnover of less than Rs10 million, while a medium enterprise is generally more sophisticated by nature and level of technology and has an annual turnover not exceeding Rs 50 million. However, the SMIDO definition has an important shortcoming, as not all SMEs in Mauritius are engaged in the manufacturing sector. Thus, this definition has evolved. As a result, for the purpose of this study, we will consider all firms registered at the SMEDA. Surprisingly, the number of registered enterprises has doubled from 2004 to 2012. A total of 7,068 enterprises were registered at the SMEDA in 2012. New sectors of activities have emerged from trade and commerce, professional vocation, handicraft, and business support services.

4. **Data, Sampling Strategy and Data Analysis**  
A questionnaire was designed to collect data among SMEs in Mauritius. The questionnaire was divided into three sections. The first section focuses on the general profile of the respondent including his/her sex, age group, region where he/she lives, education level, and income group. In the second section, respondents were asked about their business profile. The third section relates more to the
constraints faced by their business. This survey uses the random sampling technique. A sample of 400, out of approximately 7,068 targeted SMEs, was randomly chosen to fill the questionnaires.

From our survey, the lion’s share of respondents is made up of women, representing 58% of the sample size. The economic empowerment of women in Mauritius has known significant progress over the decades, as the Government, with the help of NWEC and the SMEDA, provides a range of services to women entrepreneurs to start, build, and grow a business. Thus, woman emancipation is a drive for them to be independent, participate in the expense of the household, and improve the livelihood of their family. 28% of the female entrepreneurs are in the age group of 26-35 years while the majority of male entrepreneurs (20%) are in the age bracket of 46-55 years. Further, the results reveal that the majority of entrepreneurs tend to be married, having two children, and a family size of 4 members. Looking at their educational background, all entrepreneurs are educated, but, the level of educational attainment for female entrepreneurs is higher than that of male entrepreneurs, as shown in figure 1.

![Education by Gender Chart]

**Figure 1: Education* Gender**

**Source: Survey Data, 2013**

Based on the survey data, respondents having attained higher education are likely to have fewer children. 29% of entrepreneurs operate in the trade and commerce sector, 22% in the handicraft sector and 20% in the garment sector. Women operate mostly in trade and commerce while men operate mostly in handicraft. The sectors where entrepreneurs operate the least are business support services, chemical, rubber and plastic, jewellery & related items, and paper products & printing. Looking at the ownership structure, 90% of the businesses have sole proprietors, among which 39% were male and 51% were female.

While analysing the average monthly income of respondents, it was noted that 43% of the respondents earned less than Rs. 5,500, out of which 26% were the only bread earner in their household (9% were male and 17% were female). Thus, these entrepreneurs rely heavily on their businesses to earn a living but, unfortunately, their business does not bring enough returns to allow them to have a decent living standard in Mauritius, as, in 2012, the poverty line for 1 adult was Rs 5,660 in absolute term. Only 3% of female and 2% of male earn above Rs. 14,500. A more profound analysis was carried out to find out which sector generates more income among the respondents. We observe that higher income is generated under the ‘trade & commerce’ sector among both female and male entrepreneurs. Moreover, figure 2 shows the average monthly income of head of households among the respondents.
Figure 2: Average Monthly Income*Head of Households  
Source: Survey Data, 2013

Figure 2 concludes that 16% of the female-headed households earn less than Rs. 5,500 where most of them are either divorced or separated while 20% of the male earn within the income bracket Rs. 5,500-Rs. 14,500. In addition, female entrepreneurs are more likely to live in a small family and have at the most two children while male entrepreneurs have at least two children. This may be explained by the fact that women are more career-oriented and did not want to shoulder children-responsibilities as compared to male entrepreneur.

Figure 3, below, depicts firm age by gender. It can be observed that 22% of the respondents’ firm’s age is less than 5 years, which means that their firm is still in its infancy and represents only a survival mode for those entrepreneurs. 12% of the male have recently opened their business while 14% of the female entrepreneur opened their business since 1999.

Figure 3: Age of Firm* Gender  
Source: Survey Data, 2013

In addition, respondents were asked whether and where they were working prior to setting up their own business. Around 34% of female and 24% of male were previously employed as field labourers, factory workers, garment workers, account clerks, salespersons, teachers, office supervisors, bank tellers and secretaries, but left their previous job. Thus, it can be concluded that experience coupled with education can be an advantage for SMEs. The main reasons for respondents leaving their previous
job are “reduction in workforce”, followed by “job was frustrating”, and “temporary job”. The findings further reveal that the reasons for leaving previous job differ among gender, as illustrated in figure 4.

Figure 4: Reasons for leaving previous job
Source: Survey Data, 2013

From figure 4, the main reasons for females leaving their jobs were: 16% find their job was frustrating, 15% faced reduction of workforce and 10% had health problems, while 12% of males were working on contract/ temporary job and 12% faced reduction of workforce.

In additional, the entrepreneurs were asked to give their main motive for starting a business. Merely 87% of the respondents toiled hard to open their own businesses while 13% undertook their family businesses. The reasons for male entrepreneurs to start a business were: 22% to have job security, 11% wanted more flexibility and freedom in their work, 5% to support their families, 5% wanted to be their own boss, while, for female entrepreneurs: 24% wanted to get their families out of financial distress, 19% started a business because they lost their paid jobs, 10% wanted to keep themselves busy, and 4% wanted to be own boss.

With the help of institutions like the SMEDA and National Woman Entrepreneur Council, female entrepreneurs having benefitted from entrepreneurship courses, business counseling and facilitation, skill development programmes, business forums, workshops and seminars amount to 25% whilst 16% are male entrepreneurs. These beneficiaries showed great concern about expanding their business, and, for the sake of their survival, some have already started to diversify their businesses. 59% of respondents have never benefitted from any entrepreneurship course and they were asked if they are willing to follow these courses. We observe that 20% of female and 15% of male entrepreneurs are keen to benefit from these courses with the view to improve their existing businesses.

Our survey reveals that approximately 34% of the respondents reported that their business was doing worst due to facing marketing and managerial problems, which leads to big losses. Female entrepreneurs mostly worry about tough competition pertaining in the market. 40% of respondents describe their business as ‘same’ and 27% said their business was doing well in December 2013.

The survey has also captured the main problems faced by entrepreneurs during the last 36 months. In 2013, 34% of female and 22% of male entrepreneurs faced much difficulty in their business. Using the multiple response analysis, it can be noted that three common problems that entrepreneurs faced during the last 36 months are shortage of skilled staff (14%), finding customers (14%) and high costs of production or labour (13%). A gender-wise analysis was carried out on difficulties among the entrepreneurs. The results are depicted in figure 5.
From figure 5, both male and female entrepreneurs face more or less the same problems, but, the greatest difference in the difficulties faced by male and female entrepreneurs is insufficient access to legal services, which amounts to 15%. Mostly, the divorced or single female entrepreneurs were unaware of laws and customary practices with regards to women’s rights to ownership of property, control over their assets, and inheritance. It was also noted that there is lack of awareness regarding collateral among women-owned SMEs in Mauritius. Though the Mauritian Government has undertaken a number of significant legal reforms to remove all instances of discrimination against women in Mauritian law, female entrepreneurs still face major problems in benefitting from legal services.

5. Conclusion

It is clear from the evidence presented and discussed that there is a great need to support SMEs in Mauritius. The research findings show that the major constraints perceived by entrepreneurs in Mauritius relate to shortage of skilled staff, finding customers and high costs of production or labour. In addition, in Mauritius, lack of access to legal services surfaced as a constraint in the growth of SMEs among women. Thus, the activity of their business only helps them to survive and remains small. Therefore, recognition of such problems of SMEs calls for adoption of pro-SME policies. Basically, the pro-SME policies are based on direct support of SME from the government side with the aim of exploiting social benefits from greater competition and entrepreneurship. They mostly include financial support and institutional improvements which can absorb labor as SMEs are more labor-intensive and have the ability to increase employment faster than larger firms.

Besides, it is essential for entrepreneurs to make their products different from those of others. Special product design grants or skills-upgrading programmes can be put into place. New designs, personal touch and upgrading of skills in technical and managerial fields will be beneficial to SME owners. The use of advanced manufacturing technologies can be encouraged, helping in costs-lowering, improved quality and fast delivery of customized goods and services.
Also, a convenient place or market reserved for SMEs can as such be built to help them. More frequent SME fairs with low renting costs will be of great help to them. Necessary information about the market, suppliers, and needs and wants of customers should remain a priority to SMEs. Moreover, special support services should be designed to meet the needs of women’s businesses. Furthermore, women’s incentives and ability to grow their businesses should be strengthened so they can function effectively. From this perspective, subsidising SMEs will alleviate poverty and ensure the sustainability of the economic and social development of Mauritius.

6. References


SMEDA Website: http://www.smeda.mu/English/Pages/default.aspx (Accessed 20 April 2014)
