

# The Impediments to Small and Medium Sized Enterprises' Development in Mauritius

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## Abstract

*This paper investigates the different factors, through a conceptual framework, that impact on the growth of the Mauritian Small and Medium-Sized Enterprises (SMEs) using a descriptive survey-based approach. The parametric as well as the non-parametric techniques have been employed to examine the main variables. Interestingly, the research findings showed that entrepreneurial skills, access to finance and effective marketing do impact on the growth of the Mauritian SMEs. It also revealed that there is a positive relationship between the Governmental Schemes and the growth of the Mauritian SMEs while globalization adversely affects their performance. These findings will be useful to the Owner-Managers in identifying the areas of improvement towards the success of their firm while at the same time direct policy makers in shaping their strategic approaches for the betterment of these categories of firms and help them to maintain a rather higher sustainable life-span.*

**Keywords:** Mauritian SMEs, Entrepreneurial Skills, Access to Finance, Effective Marketing, Governmental Schemes, Globalization, Growth.

## Introduction

The SMEs are considered as the engines for the economic development of a country where they contribute in reducing unemployment and increasing the country's Gross Domestic Product (GDP) (Bholah, 2018). For the past decades, the Mauritian Government has brought a number of measures to boost up this sector. However, statistics have revealed that despite so much efforts being done, SMEs have a rather short life span as compared to the SMEs in developed economies. Past studies revealed the following factors that impede on the growth of the SMEs; inaccessibility to finance (Beck *et al.*, 2004), lack of managerial skills (Anderson, 1993), ineffective marketing strategies (Padachi, 2012), adverse effects of globalization (Griffin & Moorhead, 2010) and inappropriate Governmental schemes (Tambunam, 2008).

Therefore, this research will determine the various factors, through a conceptual framework, that affect the growth of the Mauritian SMEs. The findings and the set of recommendations

formulated is expected to help the government to formulate new policies in view of enhancing the performance of these firms, put the owner-managers in a better position to operate their businesses effectively and efficiently while at the same time add to the existing literature on SME's performance.

## **Literature Review**

Previous studies have investigated into the different aspects of SMEs namely Bari *et al.* (2005) using a sample of 54 firms, identified the lack of financing and poor business support as the biggest challenges that SMEs face in Pakistan. Moktan (2007), through his study on 168 small firms in Bhutan, revealed that access to finance, suitable business regulations and proper infrastructure are the main determinants towards SMEs' success. The study further confirmed that size of firm, lack of labour force and economic resources, high lending rates and regulatory constraints impact heavily in the Bangladeshi market. Chilipunde (2010) revealed that the most current problems of SMEs in Malawi relate to lack of trained workforce, financial disability, poor managerial and IT skills. The owner-managers were found to have inadequate trainings, poor entrepreneurial skills and project unethical conduct. On a comparative note, almost all the previous studies reflect similarities in terms financing, entrepreneurial skills, marketing skills, globalization concepts and lack of governmental support as being the common challenges faced by the SMEs around the globe. However, the same set of studies do differ in terms of legal factor (e.g. embargo, tariffs and taxes). This study therefore, concentrates on these five major impediments to SMEs growth.

### **Entrepreneurial Skills**

Poor management is often linked to lack of business knowledge where many entrepreneurs do not know how to profitably maintain production, how to manage costs, inventory and financial systems (Leopairote, 1997). The ability to close sales (Newlands, 2014) and the art of adopting employee motivation techniques reflect an effective and efficient managerial skill (Gunpath *et al.*, 2017).

### **Access to Finance**

Padachi *et al.* (2012) purport that the main challenge of SMEs is to obtain suitable financing. They identify the use of own savings/ funds, lending money from relatives or friends and credit facilities offered by financial institutions as traditional sources of financing. Governmental

support (Moktan, 2007) and proceeds from the sales of personal assets (Hamm *et al.*, 2014) are can also be referred to as forms of financing.

### **Effective Marketing**

According to Beynon *et al.* (2018), operating a separate marketing unit renders the SMEs to remain focus on their marketing activities while at the same time identify new opportunities quickly. Digital trade (Lepage, 2018), responding to customer's feedback (Linton, 2018) and adopting suitable pricing strategies is a sign of effective marketing.

### **Governmental Schemes**

Jones (2018) argues that to start a new business or to grow an existing one is very challenging. This explains the reason why entrepreneurs tap into all help they find along their way. However, businesses seeking help are most of the time confused by the various governmental schemes that are available on the market and tend to give up looking for them.

### **Globalization**

Griffin and Moorhead (2010) considered globalization as a source of change that impact on many firms. The main reason for this is that firms want to control expenditures by reducing labour costs. Substitutes of local products from foreign competitors (Glenn, 2008), difficulty in attracting skilled foreign labour (Carnegie, 2018) and free trade agreement between countries (Siringorino *et al.*, 2009) render local SMEs more vulnerable.

### **Research Methodology**

Based on the objectives of the study a descriptive survey approach using the mixed research paradigm was adopted to collect primary data. The targeted population constituted the full list of SMEs extracted from the SMEDA directory. The participants to the survey were identified on grounds of both convenience and purpose. Likewise, a paper based survey questionnaire was designed to measure the constructs. 100 usable questionnaires were obtained out of 120 distributed, thus giving a response rate of 83.33% which satisfies the sampling criteria. SPSS version 22.0 was used as the data analysis tool. Cronbach Alpha and Kaiser-Meyer-Olkin Measure of Sample Adequacy (KMO) tests were employed to assess the reliability and validity of responses obtained. The factor analysis was used as a data reduction technique to group the different item statements for Entrepreneurial skills. The Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) and Barlett's Test of Sphericity were used to examine the appropriateness of the factor analysis. To identify whether mediating variables follow a pecking order, it was appropriate to rank them by their respective mean score.

## **Results and Discussions**

### **Entrepreneurial Skills**

Results showed clearly that the owner-managers generally possess the ability to close sales, with a lowest mean score of 1.85. This might be due to their business instinct where sustainable profitability of the business need to be ensured to maintain their survival. This finding collaborates with the study of Newlands (2014) who stipulates that the owner-manager should have the ability to close sales to ensure profitability. The respondents, however, demonstrate an aversion in mastering the human resource skills, with a mean score of 3.41. The possible reason for this predicament might be the owner-managers school of thought which focus only in bringing working capital and profitability. This evidence is congruent with Temtime and Pansiri (2006) who state that owner-managers tend to poorly manage their human capital which adversely affect the performance of the firm.

Entrepreneurial skills are viewed as components of both organizational and personal factors. Using a Factor Analysis model through the 6 self-rated statements, the independent variables have been reduced dimensionally into these two groups. From table 1, the Varimax rotated factor demonstrates that the variables cluster as to what has been predicted. The organizational factors account for 55.48% of the cumulative variance. The variables that load heavily onto this specific component include strategic planning skill, performance management and human resources skill. The personal factors, however, reflects a variance of 17.921 where the items which account for this dimension are business know-how, accounting and sales skills.

Table 1: Rotated Component Matrix of Respondent's Entrepreneurial Skills

Entrepreneurial Skills	Components	
	Organisational Factors	Personal Factors
Strategic planning skills	0.873	
Human resources Skills	0.834	
Personal development skills		0.912
Business know-how skills		0.676
Accounting skills		0.701
Sales skills		0.884
Eigenvalue	3.327	1.075
% of Variance Explained	55.457	17.921
Cronbach's Alpha	0.889	0.611
Extraction Method: Principal Component Analysis (PCA) Rotation Method: Varimax with Kaiser normalization Percentage of variance explained: 73.378 Barlett's Test of Sphericity: 273.25 (0.000) Kaiser-Meyer-Olkin Measure of Sampling Adequacy: 0.770		

### Access to Finance

Setting up a business with a credit facility (12%) while others (88%) obtained their initial capital through personal means may be justified by the lack of supply of finance for startup firms where financial institutions are reluctant to support them. The findings harmonize with the research work of Angori *et al.* (2017). The authors revealed that financial institutions prefer to channel their cash reserves towards larger corporations who have strong positions on the market. Therefore, these small businesses find themselves in such a situation that they can no more rely on these financial institutions to access finance. Those who succeeded in obtaining financing might be due to third party guarantees. However, none of the surveyed firms have benefitted financial aid from the Governmental. This might be because the fund under the governmental financial aid scheme has been exhausted by the long-established SMEs.

Furthermore, despite the SMEs have started to operate, they are still facing difficulties to obtain working capital (64%), which might be due to their smaller size. Aidis (2005) revealed that the most important barrier which makes financial institutions reluctant in financing SMEs is their small size which generally make them being perceived as high-risk borrowers. Results also revealed that giving collaterals (N = 36) are mandatory to obtain credit facilities. Furthermore, 67% of these borrowers pay interest rates above 7% per annum which rendered the transaction costs for having a credit facility relatively high. Aidis (2005) reported that the need to give

suitable collaterals to obtain financing associated with the high administrative and transaction costs of lending options destabilize the financial position of the SMEs.

### **Effective Marketing**

Results revealed that despite the majority of SMEs do not have a separate marketing unit (71%), they do operate through a marketing plan (63%) and are up to date with digital advertisements (82%). Approximately 50% of them do treat clients' feedbacks effectively in view of increasing their market share. However, only 26% adopt formal pricing strategies such as price penetration and price skimming. In general terms, it can be deduced that Mauritian SMEs do have a notion of marketing strategies. Involvement in major marketing activities require injection of additional resource. This is in line with Padachi (2012) who revealed that advertising and sales promotion appear to be on the head list of the owner-managers when it concerns marketing activities, however, business owners must invest adequate resources and in many situations, marketing remains the area where not enough considerations are being given to.

### **Governmental Schemes**

The results regarding the appreciation of the overall governmental schemes revealed a satisfaction level of 54.4%. These might be those entrepreneurs who are enjoying the benefits of tax holiday and duty exemption which are impacting on their financial stability. 3.3% were neutral while 42.3% expressed their dissatisfaction. The probable reasons for this may be the lack of financial support from the government and the fact that these firms are struggling to maintain the existence of their enterprises.

The findings revealed that the owner-managers are most satisfied with the tax incentive scheme having a lowest mean score of 2.18. This might be because they do not have to pay tax for 8 years which may allow them to invest this money back in their businesses. As regards to the National Resilience Fund scheme (highest mean score: 3.75) the scheme appear to be unpopular for the probable reason that it might not be accessible whenever required. This goes in line with the new 10 years masterplan of the new Government where obsolete schemes shall be replaced by new and interesting ones for the betterment of the SME sector in Mauritius (Bholah, 2018).

### **Globalization**

Findings revealed that, in general, there is a high impact of globalization on the Mauritian SMEs (54.4%). These might be those firms which trade with common products, thus having

competitors around the world. 10.8% of the respondents face an average impact of globalization which might be due to the fact that they trade in less common products while 34.8% of respondents face low impact of globalization. These enterprises may be those who have freshly entered the market by trading in new products. Britt (2007) argues that companies compete on products and services where much emphasis is being put on commoditization which means that having the best quality product at the lowest cost value is only valuable if it reaches the intended customer before the competitors.

International competition has the highest impact on the Mauritian SMEs with a lowest mean score of 2.50. This may be due to the adoption of the Free Trade Policy that the Mauritian Government has signed with the member countries which has led to easy entry of foreign firms on the Mauritian market, thus making competition fiercer. This is in line with the argument of Pettinger (2016) who said that due to freedom of entry in a market, competition tends to be high especially when many firms offer a homogeneous product. Skilled labour is viewed to have the least impact on the SMEs with the highest mean score of 3.04. This may be due to the reason that SMEs do not employ high profile employees in general as they face the problem of resource-poverty. The owner-manager himself tend to be multi-functional in order to cut down cost of labour. Mazar (2017) raised this issue where SMEs tends to restrict their recruitment due to lack of resources while at the same time focus on doing multi-tasks to overcome this gap in human resources.

### **Implications of the Study**

It is acknowledged that the growth of the SMEs is increasingly dependent on the 5 factors identified, namely; entrepreneur skills, access to finance, effective marketing, governmental schemes and globalization. Therefore, based on the findings and conclusion drawn from the current research, the following recommendations are formulated for the SME sector at large to contribute towards growth:

#### **Entrepreneurial Skills**

The focus should be in achieving strategic objectives rather than deploying all efforts in meeting short term goals. Online learning, attending trainings and conferences delivered by the SME Mauritius Ltd or even engaging in tertiary education can improve the personal

development skill of the owner-managers. A robust performance management system to motivate employees towards meeting the organizational objectives should be implemented.

### **Access to finance**

Entrepreneurs should be encouraged to be financially literate by following extracurricular courses. Likewise, they will be able to determine suitable formulas to improve their credit scorings in obtaining credit facilities. Third party guarantees or turning towards the two SME Banks namely; The Development Bank of Mauritius Ltd and the Mau Bank Ltd can also be relevant options in overcoming the issue of collateral and at the same time enjoy concessionary terms and conditions to reduce transaction costs.

### **Effective Marketing**

Operating a small marketing unit so as to not lose focus on marketing activities should be an option. Key concepts such “price-penetration” and “price-skimming” should be adopted to capture more markets. Management of customer’s feedback should be improved and acted upon.

### **Governmental Schemes**

The National Resilience Scheme should be replaced. Rather, new schemes should be designed to facilitate SMEs’ development. For example a loan package with a specific moratorium period will help the SMEs to strengthen their foundations by avoiding transaction costs at the entry stage on the market. Continuous support in terms of counselling will be essential to lead them towards success.

### **Globalization**

Barriers of entry such as large investment required in terms of capital equipment, robust licensing requirements, high tariffs and taxes may protect SMEs from global adversities. To be cost-effective, SMEs may turn themselves towards economies of scale. They can import raw materials from low-cost-producing countries rather than self-producing same.



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