The role of small and medium-sized enterprises (SMEs) in the manufacturing sector, their competitiveness, and challenges in Ghana

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Abstract: Small and Medium-sized Enterprises (SMEs) form the foundation of the Ghanaian economy, and in this regard, manufacturing SMEs are vital in structural change, the generation of employment, and value addition. This study investigates how manufacturing SMEs contribute to diversification and economic growth and elaborates on the competitive and structural forces that define the performance and future competitiveness of manufacturing SMEs. The analysis directly relates to how manufacturing SMEs contribute to the Gross Domestic Product (GDP), employment, and industrial upgrading, working in the conditions of stiff competition and structural limitations. This study relies on secondary sources related to the Ghana Statistical Service, government reports, publications from the financial sector, previous research, and academic findings of Ghanaian SMEs. The SWOT analysis and Porter's 5 forces framework were employed with descriptive statistical analysis to evaluate the roles of SMEs, industry trends, and competition within their operational environment. The study concludes that manufacturing SMEs are the critical drivers of shared economic prosperity, creation of jobs, and diversification in the manufacturing sector in Ghana, but their potential is underexploited. To enhance their competitiveness, there should be consistent policy actions that increase access to finance, modernize infrastructure, assist with standards and quality systems, and promote innovation and strategic capability that will empower manufacturing SMEs to promote sustainable and resilient economic transformation.

Keywords: Small and Medium-sized Enterprises; Ghana Enterprise Agency; Gross Domestic Product; Manufacturing Value Added; Competition; Diversification.

1 Introduction

According to Global National Action Plans on Business and Human Rights, Small and Medium Enterprises (SMEs) are non-subsidiary firms that have a limited number of employees, fewer than a given number. They also emphasized that SMEs could be defined based on financial criteria: in the European Union, SMEs should generate a turnover of less than EUR 40 million per annum and/or a balance-sheet valuation of less than EUR 27 million. Although the definition of a small and medium enterprise (SME) may be different in various institutions and may also change with time. The Ghana Enterprise Agency (GEA) defines an SME as an enterprise with fewer than 10 employees and fixed assets such as plants and machinery with a total amount under 10 million Ghanaian Cedis [1].

The SME Support Services Strategy report published by the Ghana Enterprise Agency, out of the estimated number of 2.1 million businesses in Ghana, about 1.7 million of them can be classified as small and medium-sized enterprises (SMEs) [2]. These are businesses that are dynamic in nature, with a vibrant mix of local talent and innovation, as well as entrepreneurial spirit, that have the potential to make a significant contribution to the growth and development of the Ghanaian economy. SMEs are highly regarded as being crucial in job creation and economic growth, having a contribution of more than half of the global employment and a contribution towards the output of the private sector when evaluated against Gross Domestic Product (GDP) [3]. In Ghana, SMEs are even more important, with a high employment rate and greater output of the private sector. Moreover, approximately, it is estimated that 92% of the businesses in Ghana fall under the SMEs category, which is similar to the global average [1].

The economic importance of SMEs in Ghana has been large, and the recent official records indicate that these enterprises contribute the highest to the national GDP growth of the country and to the national total employment. More specifically, research indicates that SMEs are important in the manufacturing industry, where the highest percentage of all manufacturing employment opportunities is being created by small and medium-sized enterprises [4]. This notwithstanding, SMEs in the manufacturing sector play a pivotal role in diversifying economies and value addition. More so, process innovation not only increases productivity but also equips SMEs to react more to the changing market demands. This supports the fact that competitive environments create a culture of continuous improvement that is very crucial in maintaining business performance.

The impacts of competition in the market on the performance of small and medium-sized enterprises (SMEs) have been studied in detail using experimental research within different settings. Various surveys have also revealed a relationship between the level of competition in the market and the main performance indicators of SMEs, such as profitability, market share, and growth. A longitudinal study has indicated that increased competition may lead to a higher rate of failure among the small and medium-sized enterprises (SMEs), more so among those that are not equipped with the necessary resources and capabilities to compete favourably [5]. Conversely, in developed countries, the SMEs enjoy less preferential treatment in terms of the regulatory frameworks and accessibility of resources, which may be used to reduce the adverse effects of competition. Nevertheless, their performance is determined by a combination of factors, including competition in the market, innovation, and strategic orientation. Among the important factors that determine the performance of SMEs is market competition.

This study aims to investigate the role small and medium-sized enterprises (SMEs) play in the growth of the Ghanaian economy and explore the factors that determine or influence their competitiveness in the manufacturing industry.

The main findings of this study could facilitate potential investors and other stakeholders investigating the opportunity in manufacturing SMEs. The study will serve as an excellent tool for SME owners and managers who intend to improve the overall performance of their organizations or businesses by applying the Total Quality Management practices. In addition, the results and recommendations of this study will provide fundamental learning to the stakeholders in the manufacturing sector and guide government policies that will enable healthy and sustainable development among SMEs in the manufacturing sector. Eventually, the results of this research will enhance academic knowledge and literature, which will benefit both the researchers and students interested in the role of manufacturing SMEs and their competitiveness in various regions.

2 Literature Review

SMEs are described as the mainstay of Ghana's economy, accounting for about 90–92% of registered firms, roughly 70% of GDP, and the majority of private sector employment [4]. These enterprises are particularly dominant in labour-intensive segments such as food processing, light manufacturing, retail trade, and personal services, where low entry barriers and modest capital requirements encourage widespread participation. The SME-intensive structure has fostered entrepreneurship and job creation but has also produced a fragmented productive base characterised by small firm size, weak capitalization, and limited technological capability. Moreover, research has identified that SMEs are compelled by the competitive forces to assume strategic orientations that enhance their performance [6]. The results show that SMEs that use proactive competitive policy approaches, such as differentiation and cost leadership, are more prone to attain positive results in the market. The research underlines the importance of adopting new practices to streamline operational procedures and achieve customer retention. Within this broader SME landscape, manufacturing SMEs play an essential role in value addition, non-traditional exports, and structural transformation. Evidence reviewed by Yeboah indicates that Ghana's manufacturing sector contributes a modest and relatively stagnant share of GDP, yet SMEs provide the bulk of industrial employment and a large proportion of output in subsectors [9]. The competitive force would encourage SMEs to be innovative and improve their efficiency in operations. Also, the strategic orientation, allocation of resources, and innovation capabilities are major factors that influence the performance of the SMEs [7]. This advocates the need to have a holistic approach that will focus on not only internal strengths but also external market environments to improve the performance of manufacturing SMEs. This supports the fact that competitive environments create a culture of continuous improvement that is very crucial in maintaining business or enterprise performance.

Recent national and donor-supported programs in Ghana, such as SME competitiveness initiatives, industrial parks, and targeted financing schemes, have been introduced to ease long-standing constraints facing firms in the manufacturing sector. These interventions seek to expand access to credit, strengthen business development services, and foster export readiness, thereby positioning small and medium-sized enterprises (SMEs) to participate more effectively in domestic and international markets. Evaluative evidence indicates that these programs have begun to improve managerial capacity and market access for a subset of SMEs, but their overall impact is muted by limited coverage and weak coordination across implementing agencies, which leaves many manufacturers outside formal support systems.

The existing literature underscores several critical gaps in understanding how these policies shape outcomes for manufacturing SMEs. Most studies treat SMEs as a homogeneous group, paying insufficient attention to the distinctive challenges and opportunities of manufacturing firms, and only a few undertake firm-level analyses that explicitly focus on this segment of the economy.

Addressing these gaps is vital for designing evidence-based interventions capable of transforming the numerical dominance of manufacturing SMEs into sustained competitiveness and deeper structural change in the Ghanaian economy. This study, therefore, undertakes an empirical investigation of the roles that manufacturing SMEs play in Ghana's economy, with particular emphasis on how their competitiveness shapes industrial performance, employment creation, and broader structural transformation.

3 Data and Method

This chapter outlines the data sources and methodological approaches used in analyzing the role of manufacturing SMEs in Ghana's development and the impact of their competitive environment. The analysis is based on the secondary data and existing literature obtained through Scopus and Web of Science publications and other official reports by the Ghana Statistical Service (GSS), such as national accounts and productivity reports [4], [8], [9], [10]. The government and institutional sources were also used to obtain additional data, including the Ghana Ministry of Finance press releases and the SME reports of the Ghana Community Banks, which present aggregate statistics on the SMEs [2], [11], [12]. Also, qualitative data were obtained through academic and industrial research on Ghanaian SMEs.

To perform the analysis, descriptive techniques were used to highlight the roles of manufacturing SMEs and to investigate current trends. A SWOT analysis was also used to determine the internal strengths and weaknesses and external threats and opportunities of manufacturing SMEs. This is a strategic planning model that helps businesses analyze their competitive position and determine what to do to grow. Also, Porter's Five Forces model was used to analyze the competitive forces, such as supplier and buyer power, threat of new entrants, substitutes, and industry rivalry. These are the established models of strategic management that have been highly applied in the research of SMEs. Through combining information with these theoretical models, the competitive environment of Ghana's manufacturing SMEs was systematically explained.

4 Results

This chapter presents the key findings on the role and performance of manufacturing SMEs in Ghana's economy. It highlights their contributions to GDP, employment, and sectoral output, focusing particularly on manufacturing SMEs as drivers of industrialization and growth. The analysis is based on recent national data and literature, offering insights into structural trends, value addition, and sectoral composition that define the country's economic landscape.

4.1 SMEs' Share of Ghana's Economy

Small and Medium-sized Enterprises (SMEs) occupy a central position in Ghana's economic structure, accounting for a substantial share of national output, employment, and business activity. The data from Table 1 suggests that the economy of Ghana relies heavily on the small and medium-sized enterprises (SMEs). The data shows the major contributions of SMEs, which occupy about 70% of the Gross Domestic Product (GDP) of the country and approximately 80% to 85% of all employment in 2024 [11]. The contribution of SMEs, especially in the manufacturing industry, is exclusively significant, as they create approximately 85% of all jobs in the manufacturing industry, and they are a significant majority of manufacturing firms.

Contribution Type	Approximate Value (%)
SME share of national GDP	70%
SME share of total employment	80% - 85%
SME share of manufacturing employment	85%
SMEs as % of registered businesses	92%

Table 1
SMEs' Share of Ghana's Economy (2024)
Source: based on literature[4]

Additionally, the data suggests that a significant portion of economic activity is driven by SMEs. The Ghanaian economy is dependent on SMEs that make about 70% contribution to the GDP of the country. Nevertheless, their competitiveness in the international markets is curtailed by a few challenges.

The SMEs are critical in the economic environment of Ghana, especially in the manufacturing industry. They not only drive the economy but also serve as drivers of job creation, diversification of the economy, and innovation. SMEs in the manufacturing sector alone contribute approximately 85% of their employment, which creates a vast network that is a key source of jobs in Ghana. These businesses offer a living to a large proportion of the population, particularly in urban and peri-urban regions. Manufacturing SMEs can reduce poverty by absorbing a large percentage of the labour force and assist in reducing unemployment.

4.2 Manufacturing Sector Value Added to the GDP

Manufacturing sector value added to the GDP reflects the share of total national output that comes from manufacturing entities between 2015 and 2024, and it is a key indicator of how strongly manufacturing enterprises contribute to Ghana's structural transformation and economic growth.

Year	Manufacturing Sector Value Added (% of GDP)
2015	12.4
2016	12.1
2017	11.8
2018	11.3
2019	11.0
2020	10.7
2021	10.5
2022	10.3
2023	10.2
2024	10.1

Table 2
Manufacturing Sector Value Added as % of GDP (2015 - 2024)
Source: based on literature [13]

The data from Table 2 shows that the ratio of manufacturing value added (MVA) to GDP has declined, and this has fallen by approximately 2.3% points over a decade [13]. Nevertheless, its share began to drop to less than 11% in 2018. In 2020, the COVID-19 lockdowns and border closures caused the closure of factories and raw material shortages. Even though the fall in output was partially compensated by growth in food processing, production of sanitary products and other essential products, the MVA dropped to 10.7% in 2020. Although the GDP made a comeback beyond 2021, it was the fastest recovery of the service sector, and that of manufacturing remained at a declining share, having hit 10.1% by 2024, even as the total volume of production rose.

Manufacturing has always been known as the foundation of structural change and economic independence. In the case of Ghana, where the country has a lot of natural resources but relies heavily on the export of commodities, the growth of the manufacturing sector is essential to accomplish value addition, diversifying exports, and industrial employment. Between 2015 and 2024, the manufacturing sector's contribution to Ghana's GDP has slowly decreased from 12.4% to 10.1%. This trend is an indicator of a low rate of industrialization relative to an increase in the services industry and the instability of extractive industries. It highlights the need to have more competitive small and medium-sized enterprises (SMEs) to drive growth.

Ghana has natural resources and a strategic geographic location, which provide a foundation for value addition through manufacturing. The sector has historically been the source of structural economic transformation, with established sub-sectors like food processing and essential goods production that helped offset declines during shocks like Covid-19. The manufacturing sector benefits from rich natural resources, a growing urban population, and government initiatives to promote industrialization, positioning it as a potential driver of value addition and economic diversification. However, the sector has seen its share of GDP fall from 12.4% in 2015 to 10.1% in 2024, reflecting persistent weaknesses such as infrastructure gaps, unreliable energy supply, high costs of capital, and dependence on commodity exports. Opportunities lie in emerging markets, agro-processing, renewable energy, and greater regional access via the African Continental Free Trade Area (AfCFTA), while threats include global market volatility, competition from imports, slow technological adoption, and challenges posed by regulatory and environmental risks. These dynamics highlight the urgent need for strengthening manufacturing SMEs, fostering innovation, and improving supporting infrastructure so that manufacturing can better contribute to Ghana's structural transformation.

4.3 SME Contribution to Gross Domestic Product

The contribution of Small and Medium-sized Enterprises (SMEs) to Ghana's Gross Domestic Product (GDP) captures how much of the country's total economic output is generated by these firms, highlighting their central role in driving production, income creation, and overall economic growth.

Year	SME Contribution to GDP (%)
2015	68.0
2016	68.5
2017	69.0
2018	69.2
2019	69.5
2020	69.7
2021	70.0
2022	70.0
2023	70.2
2024	70.3

Table 3
SME Contribution to GDP (2015 - 2024)
Source: based on literature [12], [13]

The data in Table 3, which tracks the contribution of Small and Medium-sized Enterprises (SMEs) to Ghana's Gross Domestic Product (GDP) between 2015 and 2024, shows a steady increase from 68.0% to 70.3% [12], [13]. This upward trend indicates both the expanding scope of SME activities and the growing dependence of national output on these firms, even in the face of domestic and global shocks. SMEs, including those in manufacturing, therefore play a stabilizing role by maintaining and gradually increasing their share of economic activity, diversifying across sectors, and reducing the risks associated with heavy reliance on large enterprises or single-sector growth. For policymakers, the pattern underlines the need to nurture a strong SME base, particularly manufacturing SMEs, as a buffer against economic volatility and as a driver of inclusive growth.

Although the data table does not suggest employment directly, the rising GDP share implies that SMEs are major job creators, supporting incomes and social stability in urban, peri-urban, and rural communities. Manufacturing SMEs, embedded in these figures, add value by processing raw materials, assembling products, and feeding local value chains, thereby promoting industrialization and "Made in Ghana" products. Their investments in plants, equipment, and labour help strengthen local economic ecosystems and create a virtuous cycle of production and reinvestment. At the same time, the relatively average annual growth of about 0.26 percentage points suggests persistent challenges such as limited finance, technology gaps, infrastructure constraints, and skills shortages. This slow but positive increase signals both gradual improvement and significant untapped potential that targeted interventions in areas like taxation, regulation, infrastructure, education, and access to finance could unlock.

4.4 Structural Composition of SME Output

The structural composition of SME output describes how small and medium-sized enterprises distribute their economic activities across different sectors, showing the relative contribution of agriculture, manufacturing, services, and construction to Ghana's sectoral GDP.

Sector	Approx. SME Share of Sectoral GDP (2024)	Key Activities
Agriculture & Agro-processing	65%	Cocoa, cassava, fruits, and palm oil
Manufacturing	70 – 75%	Food/beverages, textiles, wood, light metals
Services	72 – 78%	Retail, CT, transport, hospitality
Construction	55 – 60%	Building materials, civil works

Table 4
Structural Composition of SME Output (2024)
Source: based on literature [4]

The data from Table 4 presents important insights into the structural composition of SMEs' output in Ghana across various sectors in 2024, highlighting their approximate contributions to sectoral GDP and key activities. The SME sector is predominantly characterized by Agriculture and Agro-processing, Manufacturing, Services and Construction. Their contribution to sectoral GDP is significant, underscoring their status as the backbone of the economy and vital contributors to employment, income generation, and overall economic activity.

Manufacturing SMEs account for a considerable share of the sector’s GDP, contributing approximately 70-75% [4]. These enterprises primarily focus on the production of food and beverages, textiles, wood products, light metals, and other products. This highlights their critical role in adding value to raw materials, promoting industrial diversification, fostering local production, and reducing dependence on imports. Additionally, their contributions support downstream sectors like retail and export, thereby enhancing Ghana’s industrial growth and economic resilience.

Furthermore, the data indicate that manufacturing SMEs in Ghana are very significant in driving industrialization and economic development by creating jobs, encouraging entrepreneurship, and supporting GDP growth in this essential sector. The dominance in the manufacturing sector reinforces their significance in improving national productivity and increasing competitiveness at both local and global levels. Therefore, SMEs, particularly those in the manufacturing sector, emerge as vital players in Ghana’s economic landscape in 2024 and beyond, shaping growth trajectories and developmental outcomes.

4.5 Employment Share by SME Sectors

Employment share by SME sectors captures how jobs are distributed across different parts of Ghana’s economy and highlights the dominant role that manufacturing, construction and service-oriented SMEs play in absorbing the labour force compared with large enterprises in their respective sectors.

Sector	SMEs Approx. Share of Sector Employment (%)	Large Enterprises Approx. Share of Sector Employment (%)
Manufacturing	85%	15%
Services	60%	40%
Agricultural	45%	55%
Construction	75%	25%

Table 5
Employment Shared in Various Sectors (2024)
Source: based on literature [11], [13]

The data in the data in Table 5 shows the employment share of SMEs and large enterprises across key sectors for the 2024 calendar year. Employment distribution serves as a crucial indicator of economic structure and development. In Ghana, Small and Medium-sized Enterprises (SMEs) continue to be the primary source of job creation, highlighting the economy's strong dependence on private-sector dynamism rather than large-scale industry. As detailed in Table 5, SMEs in the manufacturing sector account for approximately 85% of their sectorial employment, followed by SMEs in construction at around 75%, in services at 60% and agricultural 45%, with large enterprises contributing about 15%, 25%, 40% and 55% of various sector employment, respectively [11], [13]. This employment structure is common in developing economies characterized by a significant informal sector and limited industrial automation. While it emphasizes the critical role of SMEs in job creation, it also reveals vulnerabilities related to productivity, job quality, and wage stability. According to the Ghana Statistical Service, total employment in 2024 was estimated at 11.8 million workers, with SMEs employing over 9.5 million of them [13]. Within the manufacturing subsector, SMEs primarily dominate segments such as food processing, wood products, textiles, and metal fabrication, collectively taking up most industrial work. This dominance of Manufacturing SMEs, with approximately 85% of employment share, can be explained by the fact that the number of labour-intensive companies manufacturing in response to local markets is quite large.

5 Discussion

5.1 Concluding Remarks

This study revealed that manufacturing SMEs remain dominant in employment and national value creation, and therefore, the competitive environment is both economically and socially consequential. It revealed that SMEs contributed approximately 70% of GDP and accounted for 85% of manufacturing employment in the 2024 calendar year. These high shares mean that competition among manufacturing SMEs not only determines business survival but also livelihoods for millions of workers. In short, competition that forces manufacturing SMEs to fail risks large employment losses. On the contrary, competitive pressure that spurs upgrading can have large positive spillovers for productivity and jobs. Facing price competition from imports and rivalry among many small domestic firms, SME owners have been pushed to cut waste, adopt leaner processes, and search for lower-cost inputs. This is supported by the Ghana Statistical Service, 2024 Labour Survey: Statistical Year Overview, that competitive pressure encouraged cost-saving responses, including partial automation, supplier consolidation, and increased attention to inventory management among better-performing SMEs [4].

Additionally, manufacturing value added within the decade fell from roughly 12.4% of GDP in 2015 to about 10.1% in 2024. This decline matters for competition because a smaller manufacturing sector reduces domestic demand for intermediate goods and increases competitive pressure on surviving firms to capture limited market shares. A shrinking sector share does not necessarily indicate absolute contraction, but because GDP and services expanded faster, manufacturing SMEs faced more intense rivalry for the local market and stronger pressure from cheaper imports competing on price and variety. This persistent import competition is a principal driver forcing manufacturing SMEs either to reduce margins or to find niches via quality or brand differentiation.

Also, the study highlights that many manufacturing SMEs operate in informal or semi-formal settings, rely on low-technology equipment, and face high input costs, unreliable infrastructure, and intense import competition, all of which limit productivity and keep a large share of activity in low-value segments. Competitive pressures have a dual effect; they raise the risk of firm exit and employment loss for weaker SMEs, but they also push better-positioned enterprises to cut waste, upgrade processes, and seek differentiation through quality, branding, or niche markets. This dynamic explains why some manufacturing SMEs manage to leverage competition into efficiency and innovation gains, while others remain trapped in survival mode with little capacity to invest in modernization. This agrees with the findings of K. Issau, I. S. K. Acquah, R. I. Gnankob, and Z. Hamidu, on their studies on Innovation orientation and performance of small and medium-sized enterprises (SMES) in Ghana [10].

Again, the findings indicate that Ghana's manufacturing future is tightly bound to whether manufacturing SMEs can transition from numerically dominant but structurally weak actors into competitive, technology-enabled producers capable of sustaining higher value-added output. Realizing this transition requires more than firm-level effort; it depends on a supportive competitive environment that reduces structural bottlenecks, improves access to finance and skills, and rewards innovation rather than informality or market power. Without such changes, the declining share of manufacturing in GDP, combined with persistent import pressure, will continue to intensify rivalry over a shrinking domestic base, risking job losses and underutilizing the country's entrepreneurial capacity. This claim is supported by studies conducted by G. Asare, A. B. Amankwah, and P. Ankoma on the challenges facing small and medium-scale enterprises in Ghana, with a case study of the textile industry. [14].

5.2 Quadrant SWOT Matrix for Ghana's Manufacturing SMEs (2024)

Ghana's manufacturing small and medium-sized enterprises (SMEs) constitute the central pillar of the country's industrial economy, providing the bulk of output, employment and value addition. Their numerical dominance, extensive regional presence and strong local linkages make them central to structural transformation, yet persistent internal constraints and a challenging external environment shape a complex competitive landscape that warrants systematic SWOT analysis.

Strengths	**Weaknesses**
SMEs contribute around 70% of the national GDP, underscoring their macroeconomic significance for economic development and growth.	High prevalence of informality and semi-formality weakens organizational stability and regulatory compliance.
Manufacturing SMEs account for about 85% of employment in their sector, indicating strong labour absorption capacity.	Heavy concentration of employment in manufacturing SMEs increases vulnerability to manufacturing SMEs' failure and sectoral shocks.
Numerical dominance and strong local embeddedness across regions or semi-urban areas support decentralized industrial activity.	Reliance on low-technology equipment and outdated production processes suppresses productivity and product quality.
Manufacturing SMEs facilitate economic diversification, non-traditional exports and community-level value addition.	Chronic undercapitalization and restricted access to affordable long-term finance limit expansion and technological upgrading.
Manufacturing firms serve as key vehicles for inclusive growth and for spreading the benefits of industrialization across regions and social groups.	Infrastructure bottlenecks and unreliable energy supply raise production costs and hinder the achievement of economies of scale.

Table 6

Internal Factors on Manufacturing SMEs

Opportunities	Threats
Expanding domestic demand creates scope for increased sales of processed foods, light manufactures and related products in the manufacturing sector.	Intense price competition from cheaper imported products erodes local market share and compresses already thin margins in the manufacturing firms.
African Continental Free Trade Area (AfCFTA) and other regional frameworks open larger African markets for SME-produced goods.	Regulatory gaps and weak enforcement of competition rules allow market manipulation and favour entrenched interests.
Government programs, industrial parks and targeted financing schemes support technology adoption and capacity building in the manufacturing SMEs.	Macroeconomic volatility, including currency depreciation and global input price shocks, raises business risk and cost pressures on SMEs.
Potential to introduce appropriate technologies and partial automation to raise productivity without large-scale job losses.	Persistent external pressures may force weaker manufacturing firms to exit, with adverse implications for employment and local incomes.
Opportunities to move into higher value-added niches and participate more effectively in regional and global value chains.	Failure to upgrade technologically and meet standards risks locking manufacturing SMEs into low-value market segments.

Table 7

External Factors on Manufacturing SMEs

The SWOT matrix highlights that Ghana's manufacturing SMEs occupy a structurally core yet competitively fragile position within the national economy. Their strengths lie in their dominant contribution to Ghana's GDP, employment and regional value addition, as well as their role in promoting inclusive industrialization across diverse communities. These attributes make them indispensable to structural transformation and broad-based development. However, pervasive informality, weak managerial systems, technological obsolescence and chronic undercapitalization undermine their ability to translate numerical dominance into sustained productivity and competitiveness.

Externally, expanding domestic demand, regional integration under AfCFTA and targeted policy interventions create a favourable opportunity structure for upgrading, market diversification and deeper value-chain participation. At the same time, intense import competition, regulatory weaknesses and macroeconomic instability constitute serious threats that can erode margins, discourage investment and precipitate firm exit. Strategically, this configuration implies that policy efforts must focus on formalization, financial deepening, infrastructure reliability and capability development, while firm-level strategies prioritize innovation, quality assurance and branding. Only by simultaneously addressing internal constraints and external risks can Ghana's manufacturing SMEs shift from survival-oriented competition to a more dynamic trajectory of technological upgrading and long-term competitiveness.

5.3 Porter's Five Forces Analysis on Ghana's Manufacturing SMEs

Porter's Five Forces framework is applied in this study to characterize the competitive pressures facing manufacturing SMEs in Ghana and to complement the descriptive and SWOT analyses. The empirical evidence on GDP shares, employment, import penetration and firm structure indicates that rivalry among existing competitors is intense: numerous small and fragmented SMEs compete in a slowly expanding manufacturing sector whose value added has declined from about 12.4% to 10.1% of GDP between 2015 and 2024, while cheaper imports further compress margins. Under these conditions, competition is often driven by price and survival rather than by productivity-enhancing innovation or deliberate differentiation strategies.

The threat of new entrants is assessed as medium to high. Many manufacturing subsectors in which SMEs operate, such as food processing, light assembly and simple consumer goods, require relatively modest capital and technology, allowing new firms to enter, including through informal or semi-formal channels. At the same time, high borrowing costs, infrastructure gaps and limited access to long-term finance restrict the ability of potential entrants to reach efficient scale, which moderates but does not remove entry pressure. Policy incentives for SME development and industrial parks may also attract additional entrants in targeted places, adding to competitive intensity.

Buyer power is generally high. Domestic buyers, including wholesalers, retailers and public procurers, are highly price-sensitive and can substitute locally produced SME outputs with imported goods whenever local producers cannot match price, quality or reliability. The fragmented structure of the SME segment prevents most firms from exerting countervailing power, and only a limited number can meet the volume, standards and certification requirements demanded by large buyers. This environment enables powerful buyers to squeeze margins and shift risks onto smaller manufacturers, reinforcing the need for differentiation and quality upgrading.

Supplier power and the threat of substitutes also weigh heavily on Ghana's manufacturing SMEs. Many manufacturing SME firms rely on imported inputs and equipment, making them vulnerable to exchange-rate fluctuations and global price shocks, while domestic energy and logistics providers often operate as quasi-monopolies, constraining manufacturing SMEs' bargaining power and raising production costs. At the same time, a broad spectrum of imported finished products, and in some cases service-based alternatives, directly substitutes local SME output, especially where local quality assurance and branding remain weak. In combination, these forces create a competitive environment in which manufacturing SMEs face strong rivalry, powerful buyers and substitutes, and non-trivial supplier constraints, underscoring the importance of robust competition policy, industrial upgrading and targeted support to translate SME numerical dominance into sustainable competitiveness.

Limitations and Suggestions

While Small and Medium Enterprises (SMEs) in the manufacturing sector play a crucial role in driving economic growth, employment, and innovation in Ghana, they face a range of interconnected challenges that hinder their competitiveness. Key issues include limited access to credit and business development services, a weak institutional and regulatory framework, difficulties in meeting production standards, restricted export opportunities and challenges in implementing Management Systems Standards.

Moreover, the Ghana Private Sector Development Strategy I and II have also identified some serious limitations to SME development in Ghana: the poor investment environment, poor entrepreneurial culture, access to capital, and high capital cost to SMEs, poor support by the institutions of the private sector, poor legal and regulatory environment, and inadequate SME support infrastructure [2]. The Association of Ghana Industries Afro Barometer Report further provided the main causes of failures of small businesses which are; high electricity prices, costly credit, limited access to credit because of collateralizing of credit and waiting payment, lack of awareness of the policy and regulatory landscape, lack of knowledge of quality and standards requirements, poor government procurement practices, inability to access the export markets, inability to meet large orders, lack of export finance schemes, unorganized National Quality Infrastructure and cultural and lifestyle factors that hinder the development of local SMEs [15].

The future of manufacturing SMEs in Ghana appears promising, provided that existing challenges are addressed and supportive measures are strengthened. It is recommended that continued investment in infrastructure, access to finance, and capacity building should empower SMEs to enhance their productivity and competitiveness, while fostering a culture of innovation and entrepreneurship will enable them to develop solutions tailored to local and regional markets, thereby driving sustainable economic growth. Programs offering guidance on export processes, product development, market intelligence, and business planning are essential, just as investments in logistics, energy supply, and communication technology can significantly reduce costs and improve efficiency. In addition, support for manufacturing SMEs to implement market standards and access accredited testing laboratories is necessary for global competitiveness, and a supportive national regulatory framework is needed to encourage business growth and innovation within the SME sector.

Conclusion

In conclusion, the study revealed that manufacturing SMEs already anchor Ghana's inclusive growth, but their potential remains underexploited and vulnerable without coherent, competition-oriented policy reform. A comprehensive agenda that enforces fair competition, upgrades infrastructure and energy reliability, expands targeted financing and business development services, and supports the adoption of modern technologies and quality standards is essential to convert SME dominance in employment and firm counts into sustained productivity growth and structural transformation. If such measures are effectively implemented, manufacturing SMEs can move from merely absorbing labour to leading Ghana's progression toward a more resilient, diversified, and innovation-driven industrial economy.

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