

# Small and Medium-Sized Enterprises and Structural Unemployment in Ghana: Accounting for a Development Paradox

Awuraba Efua Mills

Department of Economics, Kwame Nkrumah University of Science and Technology, Kumasi, Sunyani,  
Bono, Ghana

DOI: <https://doi.org/10.47772/IJRISS.2025.91200287>

Received: 22 December 2025; Accepted: 28 December 2025; Published: 15 January 2026

## ABSTRACT

Small and Medium-Sized Enterprises (SMEs) are widely recognised as critical drivers of employment creation in developing economies. In Ghana, SMEs dominate the private sector and account for a substantial proportion of total employment; nonetheless, unemployment—particularly among young people and tertiary graduates—remains persistently elevated. This study interrogates the apparent paradox of expanding SME activity alongside sustained high unemployment in Ghana. Employing a quantitative descriptive survey design, data were collected from 400 SMEs across the Greater Accra, Ashanti, and Central Regions to assess the employment contribution of SMEs and to identify structural constraints on their labour absorptive capacity. Chi-square analysis indicates that SMEs exert a statistically significant effect on employment generation. However, the predominance of micro-enterprises, low employment intensity, skills mismatches between labour supply and SME demand, and the prevalence of unstable or precarious forms of employment collectively limit the sector's broader potential to reduce unemployment. The study concludes that, although SMEs constitute an indispensable component of Ghana's labour market architecture, their capacity to contribute meaningfully to unemployment reduction is contingent on structural economic transformation, improved alignment between education and labour market skills requirements, and the implementation of targeted, context-specific policy interventions.

**Keywords:** SMEs, unemployment, employment generation, Ghana, labour market, development economics

## INTRODUCTION

Unemployment persists as one of the most critical socio-economic challenges confronting Ghana, despite several decades of economic reform and relatively sustained macroeconomic growth. Although gross domestic product (GDP) growth averaged over 5% in the years preceding the COVID-19 shock, labour market outcomes have not kept pace, with disproportionately adverse effects on young people and tertiary-educated graduates (Ghana Statistical Service [GSS], 2021). This situation is particularly noteworthy in light of the rapid expansion of Small and Medium-Sized Enterprises (SMEs), which constitute more than 90% of registered businesses in Ghana and employ the majority of the private-sector labour force.

At the global level, small and medium-sized enterprises (SMEs) are widely recognised as critical engines of employment creation, innovation, and inclusive economic growth (OECD, 2019; World Bank, 2020). In subSaharan Africa, SMEs account for an estimated 60–80% of total employment and frequently serve as a buffer against the limited absorptive capacity of formal labour markets (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2021). In Ghana specifically, SMEs are reported to contribute approximately 70–75% of gross domestic product (GDP) and more than 80% of employment in the manufacturing sector (GSS, 2020). Nevertheless, despite these substantial contributions, labour market challenges persist, as reflected in the continued rise of unemployment, particularly underemployment and informal forms of joblessness.

This contradiction raises a key question: why do high unemployment and a growing SME sector coexist in Ghana? Answering this is vital for evidence-based policymaking, given the government's reliance on SME promotion—through initiatives such as the National Entrepreneurship and Innovation Programme (NEIP) and the Ghana Enterprises Agency—as a central employment strategy.

This study adds to the literature by empirically examining SME employment dynamics in three key regions of Ghana, going beyond aggregate figures to analyse firm size, employment stability, labour turnover, and structural constraints on job creation.

## LITERATURE REVIEW

### Conceptualising SMEs

There is no universally accepted definition of small and medium-sized enterprises (SMEs), as classification standards vary across countries and depend on the specific objectives of different institutions. Commonly used criteria include the number of employees, annual turnover, and total asset value (Abor & Quartey, 2010). In the context of Ghana, the Ghana Statistical Service defines micro-enterprises as firms employing 1–5 workers, small enterprises as those with 6–30 employees, and medium-sized enterprises as those employing 31–100 workers (GSS, 2016). This study adopts this national classification to ensure contextual and policy relevance.

Empirical evidence suggests that SME-dominated economies often experience high employment elasticity but low productivity growth, particularly when micro-enterprises dominate (McMillan, Rodrik, & Verduzco-Gallo, 2019). This distinction is critical for understanding Ghana's labour market outcomes.

### Unemployment in Developing Economies

In developing countries, unemployment includes underemployment, informal work, and discouraged workers (ILO, 2023). In Ghana, graduate unemployment and skills mismatch have worsened as education expands faster than labour demand (Baah-Boateng, 2020).

Key theories of unemployment include Keynesian demand deficiency, structural mismatch, and innovation-led dynamics. Innovation can create jobs through new firms but also displace labour when firms stay small or adopt labour-saving technologies (Schumpeter, 1934; Vivarelli, 2021).

### SMEs and Employment: Empirical Evidence

Empirical evidence consistently indicates a positive association between small and medium-sized enterprises (SMEs) and employment generation, although the magnitude of this effect varies across firm size categories and economic sectors. Ayyagari et al. (2021) report that smaller firms generate employment at a higher proportional rate but frequently struggle to maintain these jobs over time. In the Ghanaian context, Osei and Adjasi (2022) and Mensah et al. (2023) find that micro-enterprises contribute to employment predominantly via selfemployment and the engagement of unpaid family labour, thereby constraining their capacity for wider labour market absorption. These findings imply that the sheer volume of jobs created is an inadequate metric for assessing the role of SMEs in addressing unemployment; the quality, stability, and scalability of these jobs are also critical dimensions.

## THEORETICAL FRAMEWORK

This study is anchored in the Beveridge Curve, which posits an inverse relationship between job vacancies and unemployment. In theory, rising SMEs should increase vacancies and reduce unemployment. However, outward shifts of the Beveridge Curve—often observed in developing economies—indicate structural inefficiencies such as skills mismatch, labour market frictions, and weak firm growth (Pissarides, 2000).

In Ghana, the persistence of unemployment alongside rising SMEs suggests a structural shift rather than cyclical unemployment, warranting firm-level investigation.

## METHODOLOGY

### Research Design

A quantitative descriptive survey design was adopted to examine SME employment patterns and unemployment dynamics. This approach allows for statistical inference while capturing firm-level heterogeneity.

## Population and Sample

The study targeted SMEs in the Greater Accra, Ashanti, and Central Regions of Ghana—areas with the highest concentration of SMEs according to the Integrated Business Establishment Survey (IBES II). Using Yamane's (1963) formula, a sample of 400 SMEs was selected through a combination of simple random and convenience sampling.

## Data Collection and Analysis

Primary data were collected using structured questionnaires administered to some 400 SME owners and managers. In terms of gender distribution, some 42.2% of the respondent were females and 57.8% were males. In terms of sectoral distribution, 9.5% of the sampled SMEs operate in agri-business, while 15.25% are engaged in commerce. A further 17.5% belong to the manufacturing sector, 42% operate within the service sector, and the remaining fall into other sectors.

Data were analysed using SPSS, applying descriptive statistical procedures and Pearson's Chi-square tests to assess the association between SME growth and employment generation, with the level of statistical significance set at 5%.

## RESULTS

### Structural Characteristics of SMEs and Employment Capacity

The empirical findings indicate that Ghana's SME sector is predominantly composed of micro and small enterprises, which collectively represent more than 84% of the sampled firms. Micro-enterprises alone account for 48.2% of the total sample. This structural configuration has significant implications for employment dynamics. Although the numerical prevalence of SMEs is high, their capacity to generate and sustain employment is constrained, as the majority of firms operate at a very small scale and depend primarily on owner labour, family labour, and apprentices.

The data indicate that 76.5% of small and medium-sized enterprises (SMEs) employ fewer than six workers per year, suggesting that employment generation is highly dispersed across a large number of firms rather than concentrated within a limited subset of scalable enterprises. While aggregate employment effects at the sectoral or economy-wide level are observable, the marginal employment contribution of individual firms remains limited. These results substantiate the assertion that firm size is as critical as the sheer number of firms when evaluating the overall employment impact of the SME sector.

### Nature and Stability of Employment Generated

The study finds that 64.2% of SME jobs are permanent and 35.8% are temporary, indicating a stronger contribution to job stability than informal survivalist work. However, this is offset by high labour turnover, with 66.8% of respondents reporting voluntary worker exits.

Elevated voluntary turnover rates are indicative of worker dissatisfaction arising from factors such as low remuneration, constrained opportunities for career advancement, employment insecurity, and weak contractual protections—conditions frequently characteristic of micro-enterprises in developing economies. Accordingly, although SMEs contribute to gross employment creation, a substantial proportion of these positions do not retain employees for sufficient durations to generate sustained reductions in measured unemployment.

### Layoffs, Labour Turnover, and Net Employment Effects

More than half of the firms (51%) reported that they do not engage in worker retrenchment, and 62% indicated that they experience no layoffs in a typical year, suggesting that small and medium-sized enterprises (SMEs) are not a principal source of job destruction. In instances where layoffs do occur, they generally involve fewer than five employees per year. These findings imply that the persistence of unemployment in Ghana is driven less by workforce reductions in SMEs and more by insufficient job creation relative to the rate of labour force expansion.

However, the joint influence of low hiring intensity, elevated turnover rates, and persistent skills mismatches attenuates the net employment contribution of SMEs. Consequently, the labour market is characterized by continuous worker and job reallocation (churning) without a commensurate reduction in aggregate unemployment levels.

### **Hypothesis Testing**

The chi-square analysis indicates a statistically significant association between SME activity and employment generation ( $\chi^2 = 445.3$ ;  $df = 121$ ;  $p < 0.05$ ). This finding provides robust empirical support for rejecting the null hypothesis and substantiates the conclusion that SMEs constitute a critical component of Ghana's employment structure.

Statistical significance does not imply sufficiency: SMEs contribute to employment, but their current structure and conditions limit their overall impact on reducing unemployment.

## **DISCUSSION**

### **Explaining the SME–Unemployment Paradox**

The concurrent expansion in the number of small and medium-sized enterprises (SMEs) alongside the persistence of elevated unemployment rates in Ghana suggests a fundamentally structural—rather than merely cyclical—dysfunction in the labour market. The empirical patterns align with predictions from the Beveridge Curve framework, indicating outward shifts that are consistent with allocative inefficiencies. These inefficiencies are manifested in skills mismatches, labour market frictions, and binding constraints on firm growth.

The dominance of micro-enterprises within the SME sector implies that a large proportion of SME-related employment is concentrated in self-employment and in low-intensity, frequently informal, wage employment. Although such employment forms contribute to the absorption of surplus labour, they typically lack the productivity levels and scalability necessary to match the pace of demographic expansion and the attendant growth of the labour force.

These findings corroborate earlier empirical evidence suggesting that, in numerous developing economies, small and medium-sized enterprises (SMEs) operate primarily as mechanisms for labour absorption or “employment buffers,” rather than as dynamic engines of sustained employment generation, productivity enhancement, and comprehensive structural transformation.

### **Skills Mismatch and Graduate Unemployment**

One of the most salient findings derived from the data is the pronounced misalignment between the skill sets produced by the formal education system and the competencies demanded by small and medium-sized enterprises (SMEs). Although a substantial proportion of SME owners possess tertiary-level qualifications, their labour demand is oriented predominantly toward workers with technical, vocational, and practice-oriented skills rather than purely academic credentials.

Consequently, graduate unemployment remains high despite the quantitative expansion of SMEs. This skills mismatch contributes to persistent structural unemployment and elucidates why an increase in the number of SMEs does not lead to commensurate reductions in overall unemployment, particularly among educated youth.

### **Innovation, Productivity, and Firm Growth Constraints**

The study's findings are also consistent with innovation-driven theories of employment. Small and medium-sized enterprises (SMEs) in Ghana predominantly operate at relatively low productivity levels and are characterised by constrained innovative capacity, limited access to financial resources, and low levels of technological adoption. Under these structural conditions, firms tend to prioritise short-term survival over growth-oriented strategies, which in turn results in cautious and conservative employment practices.

In the absence of innovation-driven growth, small and medium-sized enterprises (SMEs) tend to remain locked in a low-employment equilibrium, in which they generate additional jobs but at a scale insufficient to absorb

prevailing labour market pressures. This dynamic helps to account for the phenomenon whereby employment creation does not translate into a proportionate reduction in the aggregate unemployment rate.

### **Employment Quality and Worker Retention**

Elevated rates of voluntary labour turnover further compromise employment outcomes. Employees frequently leave positions in SMEs in pursuit of higher wages, greater job security, or employment opportunities in the public sector. This dynamic contributes to increased frictional unemployment and diminishes the sustained employment impact of SMEs. Consequently, the core policy and managerial challenge extends beyond the mere creation of jobs to encompass the enhancement of job quality, employee retention, and career progression.

## **POLICY RECOMMENDATIONS**

Drawing upon the ensuing empirical findings and the subsequent analytical discussion, the following policy recommendations are advanced:

### **Shift SME Policy from Quantity to Quality**

There is the need to shift SME policy focus from quantity to quality. Public policy interventions should extend beyond the mere promotion of SME start-up formation to encompass measures that facilitate firm growth, scaling, and productivity enhancement. Incentive frameworks ought to be oriented toward small and medium-sized enterprises that exhibit demonstrable growth potential, thereby fostering the progression from micro-scale to small and medium-scale enterprises with the capacity to generate and sustain larger levels of employment.

Furthermore, there is a critical need to enhance skills alignment and strengthen technical training in Ghana. The country's education and training systems require comprehensive restructuring to more effectively correspond to the labour demands of small and medium-sized enterprises (SMEs). Technical and vocational education and training (TVET) should be expanded, modernised, and systematically integrated with SME-based apprenticeship schemes. Additionally, universities should incorporate entrepreneurship education and practice-oriented, industry-embedded learning components into their curricula to improve graduate employability and support SME development.

Another critical policy domain involves enhancing access to finance for small and medium-sized enterprises (SMEs). Constrained access to affordable, long-term financial resources significantly limits the capacity of SMEs to scale their operations and invest in productivity-enhancing activities. Financial institutions, in coordination with relevant government agencies, should develop employment-contingent credit instruments that explicitly incentivize firms to engage in sustained job creation and workforce expansion, rather than prioritizing short-term profitability metrics alone.

Enhancing innovation and technology adoption is also a necessary driver for improving the sustainability and long-term viability of SMEs. Targeted innovation support—such as subsidised technology acquisition, digitalisation grants, and structured business development services—should be provided to SMEs to increase their productivity. Firms that achieve higher productivity are better positioned to expand both output and employment concurrently.

Enhancing job quality and labour retention constitutes an additional strategic avenue. Policy interventions focused on improving working conditions, wage stability, and fundamental employment protections within SMEs are critical. Enforcement of labour standards should be calibrated to the specific operational characteristics of SMEs, allowing for a degree of flexibility while simultaneously safeguarding minimum thresholds of employment quality in order to reduce voluntary turnover.

Finally, the establishment of effective labour market institutions is essential for mitigating frictional unemployment. Measures such as strengthening public employment services, enhancing labour market information and monitoring systems, and promoting structured partnerships between small and medium-sized enterprises (SMEs) and educational institutions are expected to improve the efficiency of job matching processes and to reduce skills mismatches.



## CONCLUSION

In summary, small and medium-sized enterprises (SMEs) continue to constitute a critical component of Ghana's employment structure; however, they are not, in isolation, sufficient to resolve the country's unemployment challenge. Achieving substantial and sustained reductions in unemployment necessitates a coordinated policy framework that integrates SME development with broader structural economic transformation, alignment of workforce skills with labour market demands, promotion of innovation, and comprehensive labour market reforms.

## REFERENCES

1. Abor, J., & Quartey, P. (2010). Issues in SME development in Ghana and South Africa. *International Research Journal of Finance and Economics*, 39, 218–228.
2. Ayyagari, M., Demirgüç-Kunt, A., & Maksimovic, V. (2021). Small vs. young firms across the world. *World Bank Economic Review*, 35(1), 1–28.
3. Baah-Boateng, W. (2020). Education and unemployment in Ghana: A paradox. *African Development Review*, 32(2), 241–255.
4. Ghana Statistical Service. (2020). Integrated Business Establishment Survey II. Accra: GSS.
5. Ghana Statistical Service. (2021). Labour Force Report. Accra: GSS.
6. International Labour Organization. (2023). Global Employment Trends for Youth. Geneva: ILO.
7. McMillan, M., Rodrik, D., & Verduzco-Gallo, Í. (2019). Globalization, structural change, and productivity growth. *World Development*, 63, 11–32.
8. Mensah, J., Osei, R., & Frimpong, A. (2023). SME growth constraints and employment outcomes in Ghana. *Journal of African Business*, 24(2), 189–207.
9. OECD. (2019). SMEs and entrepreneurship outlook. Paris: OECD Publishing.
10. Osei, B., & Adjasi, C. (2022). Firm size and employment dynamics in Ghana. *African Journal of Economic Policy*, 29(1), 45–67.
11. Pissarides, C. (2000). *Equilibrium unemployment theory*. MIT Press.
12. Schumpeter, J. A. (1934). *The theory of economic development*. Harvard University Press.
13. Vivarelli, M. (2021). Innovation, employment and skills in advanced and developing countries. *IZA World of Labor*, 154.
14. World Bank. (2020). *Small and medium enterprises (SMEs) finance*. Washington, DC: World Bank.