

Creating an Environment to Enhance Business Development: The Case of a Developing Country, Lesotho

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Abstract

One of the functions of government is to create an environment conducive for business development, which would eventually impact economic development. This paper explores the perceptions of business owners and managers in Lesotho on the functional interventions by government on infrastructural development, and also identifies shortcomings in the current strategy. It became evident from a survey of 219 business owners and managers, that the infrastructure in Lesotho does not fully support business development, therefore, there is limited economic growth and development. However, the Lesotho government has recognised the need to improve both the quality and delivery of infrastructure services and has embarked on a series of reforms in inter-alia, the telecommunication, transportation, education and health sectors.

Keywords: enhance business development, enabling environment, economic development, infrastructural development

1. Introduction

Functional intervention is the type of government intervention that focuses on all sectors of a country's economy. It requires government participation in education, health and infrastructural development. Sound implementation of functional intervention creates a favourable or enabling business environment that caters for better ways of improving market performances (Riley 2006:1; The World Trade Report 2006:75). According to Nanto (2009:1), governments have found it necessary to concentrate on the creation of competitive environ-

ments that encourage business creation and growth and prevent future crises, which leads to a promising entrepreneurial culture. Governments that focus on education and skills training will enhance human capital development. Porter (1998:627) and Hill (2009:190) stipulate that governments have complete control on improving general skills and knowledge of the nation, through establishing education institutions which upgrades the nation's skills, which may contribute to the success of manufacturing industries.

The purpose of this paper is to report on the positive outcomes and potential pitfalls that functional intervention has on the establishment and growth of businesses in Lesotho. More specifically, the primary research objective was to determine the need if any, for greater government intervention in the infrastructural development by surveying the current status to assess inter-alia, the benefits and limitations of existing strategies.

The findings of the research were expected to:

- Serve as a possible source of information for policy makers in government, and business development agencies in Lesotho, and other developing countries, and
- Contribute to research by serving as reference for researchers interested in determining the impact of the uncontrollable external forces in the macro-environment on business development in a developing economy.

This article is organised as follows: Following a brief review of the relevant literature pertaining to the functional interventions implemented by governments in developed and developing countries in general, and by the Lesotho government specifically. Thereafter, the research methodology and data analysis techniques are discussed, followed by a presentation and discussion of the significant findings and of the managerial implications thereof, as well as some suggestions for further research.

2. Literature Review

2.1 Functional Interventions Implemented by some Developed Countries to Enhance the Business Development

Developed countries is a term used to describe highly industrialised nations such as Australia, Canada, Japan, Singapore and the UK (United Kingdom)

among others, including most OECD (Organisation for Economic Co-operation and Development) member countries. Collectively developed countries are referred to as the North or Group B countries, the reason being the originality of most of them which are in the Northern Hemisphere (AGOA (African Growth and Opportunity Act) 2010; Deardorff's Glossary of International Economics: 2010).

If economies are aiming at higher levels of industrial development that can bring sustainable economic growth, there has to be amongst others, efficient infrastructure and greater emphasis on high-levels of education which interact with production. For instance, to enhance business environment, many developed economies focus more on the quality and content of their educational structures (Kader *et al.*, 2009:).

A summary view on how five different developed countries, namely, Australia, Canada, Japan, Northern Ireland and Singapore (chosen randomly), intervene using functional interventions is reflected in Table 1 below.

Table 1: Some developed countries' government strategies for business and economic development

Country	Strategies
Australia	-The development of a flexible education system responsive to economic needs. -The development of the transport sector.
Canada	-Investment in research and innovation. -Continuous investment in health and education services. -Encourage business to opt for worker training instead of dismissal.
Japan	-Logistic infrastructure such as roads, ports and harbours were given priority. -Industry-academia-government partnership was implemented in all educational institutions in order to develop the training capacity of human resources that led to the creation of industries. -Health care system was developed.

Country	Strategies
Northern Ireland	-Invested massively on its telecommunication infrastructure and the Irish are able to transact easily over the Internet indicating great use of e-commerce. -Investment in education; amongst the best educated regions in terms of performance in the General Certificate of Secondary Education (GCSE) and A-levels.
Singapore	-Invested heavily on physical infrastructure and industrially oriented education. -Enhanced training and productivity to help its citizens with low incomes to earn better salaries.

It is evident from Table 1 that the developed countries focused on inter-alia, infrastructure, health and education development, which have contributed to economic development. For example, the rail freight works were enhanced across Australia and this has supported productivity (Australian Government 1: 2010). Canada relies on research and innovation to set them apart from other economies, and thus ensure their prosperity. The Canadians are also envied for their clean and renewable energies (Government of Canada 1: 2010).

Japan was extremely affected during the World War II and it still experiences disasters, most recently being the earthquake. Many cities were left in ashes after World War II, and close to nine million people were homeless, the country was entirely devastated, with about 40% of the infrastructure destroyed. However, in less than 15 years after the war, Japan recovered to become a strong economic country. Advanced education and efforts of industry-academia-government partnership were implemented in all educational institutions in order to develop the training capacity of human resources which led to the creation of industries (Japanese Government 1: 2011; Japanese Government 3: 2012; Japanese Government 4: 2012).

In Northern Ireland every business and school can access broadband regardless of its location and this has contributed to a massive use of e-commerce in all UK regions (United Kingdom Government 1: 2010). Singapore realised that there is a need to exchange know-how with the

foreigners in order to allow for growth and income generation. The higher education system is industrially oriented (Kader *et al.*, 2009:11; Singaporean Government 1: 2010).

From the brief discussion of the functional interventions with respect to developed countries, it can be argued that these countries have invested greatly in human capital development and this has contributed to economic growth and creation of sustainable industries. Furthermore, the development of transport sector supports productivity as goods and services are provided at a convenient time. These assumedly attract foreign and local investments, hence opportunity for growth and exchange of know-how.

2.2 Functional Interventions Implemented by some Developing Countries to Enhance Business Development

Developing countries are a collection of countries that usually lack a high degree of industrialisation, infrastructure and other capital investments, their populations are not highly modernised, and they have little or no advanced technology, or sophisticated living standards. These countries are known as the Third World or the South, due to their location which is in the Southern Hemisphere (AGOA.info, 2010; Deardorff's Glossary of International Economics, 2010).

According to the World Trade Report (2006:93), when improving the overall competitiveness of their economies, governments need to realise that there are regional differences in infrastructural demands. African industries are generally known to have poor performance and low technological efficiency, coupled with difficulties in gaining access to information. This could be partly due to lack of infrastructure and capital investment resulting in inadequate technological upgrading. According to Porter *et al.* (2004:33), in developing economies there is poor infrastructure and lack of cluster development. Kader *et al.* (2009) asserts that there is low level of industrial development in Africa, and therefore suggests that developing countries should raise the quality standard and quantity of primary schooling and basic technical education.

A brief discussion follows on a few randomly selected countries, namely, Botswana, Ghana, Rwanda, South Africa and Tanzania, and Lesotho so as to highlight similarities in emphasis.

Table 2: Functional interventions implemented by some developing countries to enhance development

Country	Functional Interventions
Botswana	-Investing in both infrastructure and human development. -The National Human Resource Development Strategy implemented in 2009 guides training and facilitates matching of skills with economic needs through a revised Junior Secondary School curriculum which caters for entrepreneurial skills. -The Tertiary Education Policy allows potential students to get loans or grants to go to tertiary institutions.
Ghana	-The strategy of the government is to enhance key infrastructures in the country, in the medium term. -More resources directed to the education sector.
Rwanda	-Human and economic infrastructure development as strategies to reduce poverty; human development includes education and health and economic infrastructure includes the development of transport, energy and communications.
South Africa	-Among the government's initiatives, include the establishment of an Infrastructure Delivery Improvement Programme (IDIP), which initially focused on the education sector, but was later expanded to provincial health, public works and transport departments.
Tanzania	-The budget for 2009/10 was intended to improve and expand essential infrastructure services and a National Economic Empowerment Policy was implemented. -The education sector was allocated 1,743.9 billion shillings in 2009/10, an increase of 22 percent on 2008/09. -The government has put emphasis on recruiting qualified teachers at all levels and providing teaching materials.

In Botswana, in 2009, the implementation of the National Human Resource Development Strategy and, the Tertiary Education Policy resulted in the Internship Programme effectively facilitating transfer of development skills to new Botswana graduates who are unemployed. The implementation of the Tertiary Education Policy has also brought about some changes since it, inter-alia, allow potential students to get loans or grants to go to tertiary institutions. Furthermore, Botswana's economy has been transformed from a resource, to a knowledge-based economy. This major effort was achieved through the establishment of the Botswana International University of Science and Technology (BIUST) (Botswana Government 1: 2010).

In addition to becoming aware that inadequate modern physical infrastructure hinders development, Ghana identified its education as an area of weakness (SAPRIN, 2002:148; Ghanaian Government 1: 2010). Furthermore, the government realised that the poor cannot access education and health care services, due to the introduction of user fees. Therefore, the government started providing free education to all disabled children of school-going age since the beginning of 2010 (SAPRIN, 2002:148,157; Ghanaian Government 1: 2010).

The poverty in Rwanda has been caused by economic and historical factors. The country experienced a civil war which escalated into genocide. The war plunged the country into a severe economic depression with an annual GDP growth of -10 percent in 1993 and -49 percent in 1994. Since the war ended in 1995, the government introduced some recovery measures aimed at stimulating economic growth, which included rebuilding the war-damaged economic infrastructure such as roads and business premises. However, notwithstanding such recovery measures, there are still infrastructural challenges (Wangwe 2002:2). Key constraints on expansion were identified and these include skills shortages, lack of capital, lack of demand and high levels of competition, among others (SBP 2008:114).

The South African government is concerned with alleviating skills shortages, unemployment and poverty through education and training. Among the government's initiatives, include the establishment of an Infrastructure Delivery Improvement Programme (IDIP), which initially focused on the education sector, but was later expanded to provincial health, public works and transport departments (South African Government 1: 2010).

The Tanzanian budget for 2009/10 was intended to improve and expand essential infrastructure services and a National Economic Empower-

ment Policy was implemented. This policy was meant to strengthen the economic infrastructure. The education sector was allocated 1 743.9 billion shillings in 2009/10, an increase of 22% on 2008/09. This was because this sector plays an important role in the economy. Therefore, the government has put emphasis on recruiting qualified teachers at all levels and providing teaching materials (Tanzanian Government 2: 2010).

2.3 Functional Interventions Implemented in Lesotho

According to reports in Lesotho Government 6: (2009), Lesotho is aware that development of physical infrastructure is a prerequisite for development of the industrial sector. The Lesotho government acknowledges the need to provide physical infrastructure needed by a modern economy, which is based on improved quality and efficient delivery of infrastructural services.

Lesotho consequently undertook a series of reforms in its telecommunications, power, water and transportation sectors. For example, for the construction and maintenance of urban and rural roads, M873 million was set aside in 2009. However, despite this investment and allocation, there are still poor and mainly inadequate road transport networks. This weakness constrains development and economic growth (The World Bank 2004:3; 2017; Lesotho Government and European Union 2008:23; ADF 2009:5).

According to the UNDP Human Development Report 2005 concerning education, Lesotho was ranked 149 out of 177 countries on the Human Development Index (Lesotho Government and European Union 2008:13). Furthermore, The ADF (2008:10) found that there are low enrolment rates and poor quality education at secondary and tertiary levels.

The Lesotho government is however committed to increasing access to basic education and ensuring that it is relevant to the socio-economic needs of Lesotho and is of high quality. This was indicated by the declaration of 'Free Primary Education for all' (FPE) since 2000. The introduction of FPE has significantly increased the number of school children in all seven grades of primary education to 82% (UNICEF 2010). In addition, industrial development is heavily influenced by the skills taught in vocational schools (Lesotho Government, 2002:6; Lesotho Government 6: 2009).

Against the background of a brief discussion of functional interventions implemented by some developed and developing countries, including Lesotho, to enhance the business environment, the focus will now

turn to the objectives of current paper, by explaining the methodology and findings.

3. Methodology

The Ministry of Trade & Industry, Co-operatives & Marketing (MTICM) was approached for a list of the registered businesses in all 10 districts of Lesotho, however, only a list of registered businesses in Maseru was received. From the list it was evident that there were 10 341 registered businesses in the Maseru District (Lesotho Government 9, Business Ownership, 2010). Thus, the paper reports on the perceptions of a sample of businesses located in Maseru, the capital city of Lesotho. Due to limited time and financial constraints, it was not feasible to personally interview the business owners and managers. According to some researchers (Sekaran & Bougie 2010:197), using a questionnaire is an accurate and cost effective method of collecting data from a large sample in different geographical regions. Thus a survey was the appropriate method to be used to collect data from a sample of registered businesses in Maseru. The sample size generated using an online sample size calculator, at a confidence level of 95% and confidence interval of 5, from a population value of 10 341 resulted in a sample size of 370 respondents (Survey Systems 2011). However, only 219 usable questionnaires were collected.

Probability sampling, more specifically stratified random sampling was used. Since, stratified random sample assures not only the representation of the overall population, but also the representation of key subgroups of the population (Sekaran & Bougie 2010:272). The population was divided into homogenous subgroups known as strata and then a simple random sample in each subgroup was taken (Hair *et al.* 2007:173).

3.1 Data Collection

A pilot test was conducted among 10 businesses from Maseru which were also selected using simple random sampling. Although the responses from this pilot study were not included in the main study, pilot testing helped to determine the face validity of the questionnaire as well as its relevance and appropriateness. It also became apparent that since the questions were taken from an existing questionnaire (Macamo 2009), the questions were found to measure exactly what they were intending to measure.

3.2 Data Analysis

The Kolmogorov Smirnov test was used to determine whether parametric or non-parametric tests could be used to analyse the data. As reflected in Table 3, it became apparent that the data did not come from a normal distribution, thus non-parametric tests were employed to analyse the data.

Table 3: Kolmogorov Smirnov test results

	Kolmogorov-Smirnov Z	Asymp. Sig. (2-tailed)
Impact of availability of premises	4.670	.000
Premises effect on business	3.230	.000
Impact of skilled staff	3.160	.000
Skilled staff effect on business	3.653	.000

Descriptive statistics such as the mean, median, mode and standard deviation, were calculated for all the questions using Statistical Package for the Social Sciences (SPSS) for Windows Version 18.

The reliability of relevant questions was assessed by determining the Cronbach's alpha co-efficients (Sekaran & Bougie 2010:327). The results of the test were 0.738 for questions on availability of premises and staff, implying a good value, since a value of 0.7 or higher is considered to be good (Sekaran & Bougie 2010:328).

4. Findings

The majority (55%) of the respondents were male, a possible reason being that prior to 2006 when the 'Married Persons Act' was enacted, women could not contract or open bank accounts without the consent of their husbands (Lesotho Government 10: 2011).

It also became evident that although the Basotho comprised the vast majority (87%) of the sample, other populations groups, such as Indians (16%) and Chinese (11%) were also conducting business in Lesotho, implying that the government had not imposed any 'artificial' barriers to business development by foreigners. Although the presence of foreigners is competition to local

traders, this presence also creates the opportunity for indigenous businesses to become innovative and learn from the business practices of foreigners (Garg & Phayane 2014). Furthermore, Kitching *et al.* (2009) argue that ethnic diversity is an essential determinant of business growth around the world.

A large portion (60%) of the respondents were owners and 59% of the businesses were in the growth phase, with the rest (41%) being in the start-up phase. Considering that the establishment and growth of businesses in developing countries are affected by the absence of a conducive business environment (Garg and Phayane, 2014), the findings of this study become more relevant, since it would become apparent what is/not being done by the government to create this supportive environment.

It is evident from Table 4 that 49% of the respondents indicated that the ‘availability of premises’ impacted on their businesses. Not only did they complain about the high rental charges, but also expressed concern at the lack of suitable and suitable located business premises, resulting in businesses operating in remote places far away from the potential customers.

Table 4: Cross tabulation of the impact of the availability of premises with its effect on business

			Premises effect on business				Total
			Proximity to customers	Too high rent	Scarce	Not applicable	
Impact of availability of premises	Does not affect	Count	0	0	0	62	62
		% of Total	.0%	.0%	.0%	32.6%	32.6%
	Positive effect	Count	35	0	0	0	35
		% of Total	18.4%	.0%	.0%	.0%	18.4%
	Negative effect	Count	0	65	28	0	93
		% of Total	.0%	34.2%	14.7%	.0%	48.9%
Total		Count	35	65	28	62	190
		% of Total	18.4%	34.2%	14.7%	32.6%	100.0%

One of the requirements to obtain a business license is for a business to have a physical address, that is, premises from which the business operates. The premises are then inspected by the Maseru City Council (Municipality) to determine their suitability to the business. If businesses do not have adequate facilities to run their operations this requirement can compel them to end up trading informally.

It was ascertained (Table 5) that 39% of the respondents indicated that availability of ‘skilled staff’ impacts positively on their businesses as these staff do not need extra supervision or close supervision. Skilled staff also generally has good relationships with customers, thus portraying a good image of the firm (Fadahunsi 2012). Skilled employees are also an important determinant of firm growth, as they can stimulate the growth process better than employees without qualifications and experience (Elhiraika & Nkurunziza 2006:14).

Only 27% of the respondents indicated that ‘skilled staff’ impacted negatively on their businesses as skilled staff demand high salaries compared to unskilled labour. In addition, they posit that skilled staff often quit their jobs for greener pastures if the opportunity arises. Moreover, sometimes skilled staff seek employment just to gather start-up capital in order to open their own businesses, thus not committing permanently to their jobs.

Only 34% said ‘skilled staff’ do not affect their businesses. A possible explanation could be that they use cheap labour, which is normally trained ‘on-the-job’. This, assumedly, would have a positive outcome in terms of cost minimisation. Thus, anything that can be done to minimise costs, including hiring unskilled staff, is a common strategy used by business owners. This also implies that some business opportunities are neglected without proper costs/benefits analyses.

Table 5: Cross tabulation of the impact of skilled staff with the effect of skilled staff on business

			Skilled staff effect on business			Total
			No need for immediate supervision	Demand high salaries	Not applicable	
Impact of skilled staff	Does not affect	Count	1	0	66	67
		% of Total	.5%	.0%	34.4%	34.9%
	Positive effect	Count	74	0	0	74
		% of Total	38.5%	.0%	.0%	38.5%
	Negative effect	Count	2	49	0	51
		% of Total	1.0%	25.5%	.0%	26.6%
Total		Count	77	49	66	192
		% of Total	40.1%	25.5%	34.4%	100.0%

5. Discussion, Conclusions and Recommendations

Although The World Bank (2004:3; 2017); Lesotho Government and European Union (2008:23); ADF (2009:5) stated that the Lesotho government has improved telecommunication, transportation, education and health sectors, some businesses find the availability or lack of premises to impact negatively on their operations due to high rental charges. This is because adequate business premises are scarce in Lesotho. Avoiding high rent, businesses end up operating in remote places far away from their potential customers. Therefore, this inefficient infrastructure often hinders the growth of businesses. However, there are businesses which still find the availability of premises to impact positively on their operations. This indicates that businesses are faced with insufficient working premises, hence a challenge for the government to fill this gap.

Some businesses acknowledge the importance of skilled staff as they said they have necessary skills and do not need extra supervision or close supervision. They add value to the business by demonstrating their expertise.

The benefit of skilled staff is the ability to build good relationships with customers and showing a good image of the firm. When customers are satisfied they become repeat customers hence the growth of the firm. However, there are still some who believe that skilled staff are expensive to find and retain, as they demand high salaries and block businesses to maximise profits. They have a perception that skilled staff cannot be trusted as they often quit their jobs for greener pastures if the opportunity arises.

The government of Lesotho must be willing to constantly create a conducive business environment to enable firms to contribute to the economic growth. Huge infrastructure projects should be identified by the government as remedies to enhance the country's economic growth rate and creating employment. This should entail developing human capital through the establishment of highly advanced education system and the use of technology.

Free market supporters believe that if the overall infrastructure can be developed (functional intervention), firms can effectively achieve their goals, according to SBP (2008:16), enhanced infrastructure that makes it easier for businesses of all sizes to operate is needed for sustained growth. The Lesotho government has put some initiatives in place to achieve economic growth, however, this seems not to be adequate to cater for existing and new established businesses. Therefore, the major projects like the reconstruction of roads, communication network, establishment of highly advanced education system and health services should be highly emphasised.

Further research is suggested throughout the whole of Lesotho as this study was conducted in the Maseru district only. Furthermore, the survey was more on selective interventions, thus questions on functional interventions were only on physical infrastructure and education.

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