

# Barriers to Development and Progress of Entrepreneurs: Case of Lesotho

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**Abstract:** This paper gives an analysis on the barriers to development and progress of entrepreneurs in Lesotho. It adopts the use of primary data which was collected through personal interview with structured questionnaire and direct observations. The results reveal that all entrepreneurs regardless of gender are equally faced with economic barriers which comprise lack of finance and problems of markets. Furthermore, the socio-cultural factors which involve negative view of society towards women and individual familial factors especially family problems basically affect women; these could be attributed to the fact that women are liable for domestic responsibilities in their families. However, structural barriers are observed to have an insignificant impact on development and progress of Lesotho entrepreneurs. Following these findings, through trade organizations, the government could assist in supporting the establishment of mentoring networks facilitating the development of the emerging entrepreneurs, as well as providing training workshops on women empowerment. Also, mechanisms to support entrepreneurs and assist them in gaining access to international markets should be developed.

**Keywords:** Development And Progress of Entrepreneurs, structural barriers.

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## 1. INTRODUCTION

Due to the ever increasing world population (relative to creation of jobs), numerous governments around the globe engage in finding ways of curbing the high unemployment rate in attempt to outweigh its effects on the real economy. In most cases, these packages come in a form of advising the unemployed population, particularly the youth to earmark in entrepreneurship. Lesotho is not an exception in this case; it also proposes strategies to reduce the high unemployment rate.

Recent studies estimate that small businesses comprise at least 85 percent of Lesotho's private sector. The 2008 Lesotho Review estimates that there are 100 000 SMEs in the country. Most of them are informal. The majority are sole proprietors employing between one and three staff members. The sector is estimated to employ nearly 200 000 people altogether, in both the formal and informal sectors. However, SMEs in Lesotho fail to grow due to the factors that will be outlined in this paper. To that end, it becomes vital to identify the root of such failure: barriers to progress and development of entrepreneurship in Lesotho.

Basically, there are two main classifications of these challenges; these are the internal psychological factors and the external psychological factors. The former includes risk aversion, fear of failure and aversion to stress and hard work, while the latter comprises lack of social networking together with lack of resources. Both variables (external and internal variables) are believed to have an equally significant impact on entrepreneurial inclination, with factors in the external environment being believed to potentially influence the start-up decision, (Aldrich, 2000).

The paper therefore attempts to present a micro level perspective on barriers to development and progress of entrepreneurs and hence provide an insight on how they can be addressed. The study also focuses on the fact that evidence implies that barriers among entrepreneur women are different from male entrepreneurs; women naturally due to gender

inequality and multiple roles may face particular restrictions. It endeavors to highlight some of the approaches and perhaps policies or instruments that the entrepreneurs could adopt to realize a sustainable growth and development of their businesses.

## 2. LITERATURE REVIEW

### 2.1 Theoretical Literature:

The main barriers to progress and development of entrepreneurs are the economic and financial barriers. These factors serve as a barrier in the following ways. Firstly, the fact that capital markets tend to be efficient to larger firms as opposed to smaller and newer firms translates to growth of smaller firms being dependent upon external sources of finance, thereby constraining the firms from raising enough risk capital, especially for innovative high-technology small firms and for businesses operating in disadvantaged areas. Secondly, the management of micro loans, even though could be believed to be their last resort, is very expensive since the transaction costs are high yet the returns are very low.

Lastly, smaller businesses are unable to access finance from local banks at all, or face strong unfavorable lending conditions, this is attributed to information asymmetry (lender-borrower information), high costs associated to borrowing from banks and regulatory support to engage in SMEs lending, thus impeding a well-functioning SME lending market. This will serve to slow down growth of SMEs, thus negatively affecting innovation and economic growth. The growth and development of SMEs are also constrained by gaps in the financial system, such as high administrative costs, high collateral requirements. These factors coupled with limited personal, family savings and the absence of financial innovation serve to limit the growth prospects and promising startups.

Bureaucracy and inconsistency of government policies, political instability and lack of entrepreneurial education at tertiary level and inadequacy of entrepreneurial training also constitute the external barriers. These and other external factors support the trend of thought that highlights the business environment as a primary factor affecting entrepreneurship. It also suggests that entrepreneurship is not only a function of internal psychological factors, but it is also subject to external environmental variables as well.

Furthermore, there may be a variety of barriers to the success of entrepreneurs depending on the industrial sector, region, and the type of enterprise, and such barriers include: regulatory barriers such as administrative barriers to entry; the cultural and social barriers such as, the fear to failure and lack of entrepreneurial knowledge and skills; and financial and economic barriers, such as insufficient access to risk capital, both seed or early stage and longer term financing. Barriers to exit are also considered to discourage entry as exit and entry rates tend to be closely related since firm entry involves considerable risk with survival chances that are difficult to assess in situations that make exit costly discourage entry.

### 2.2 Empirical Literature:

In Kenya, Nelson and Mwaura (1997) analyzed 30 fast growing SMEs of between 10 and 100 employees, identifying the strategies of these entrepreneurs through the various stages of growth of their firms. They observed that firms strongly valued personal and financial independence and the ability to make their own decisions without interference from a higher authority. They were also very much concerned with the economic well-being of the family. However, these very motives sometimes prevented the infusion of further resources for expansion and led to managerial problems such as reluctance to delegate responsibilities to subordinates. Research shows how entrepreneurship is often associated with class and ethnic background and embedded in close social networks.

Mallika Das (10:2001) realized that women in India were found to be facing similar problems faced by female entrepreneurs in other nations. Mallika pointed out that, cash flow problems were the most commonly stated issue with inadequate working capital, promoting the business, lack of managerial experience and lack of time being mentioned very frequently. Due to the fact that most of the Indian women entrepreneurs (51 percent) used their own funds or funds borrowed from their spouse or family members, to set up their businesses, problems associated with inadequate working capital were to be expected. While 43 percent had taken loans from the financial institutions, for a significant proportion (38%), this was only a part of their original investment and not the primary source of funds. Mallika also indicated that in the case of women in other countries, a significant proportion of these women (66%) had no previous experience in the business; either as employees or as owners. When asked what their most serious current problems were, women

entrepreneurs in Indian highlighted cash flow followed by marketing and employee management as their obstacle to growth.

Moreover, Sandeep Saxena (2012:27) indicated that the major obstacle facing the development and progress of entrepreneurship is lack of finance. Sandeep mentioned that raising funds through equity has been found to be very difficult for rural entrepreneurs because of lack of financial knowledge and also their financial corpus is also low, so loans are primary source of finance for them, yet proved to be the greatest obstacle in developing rural entrepreneurship. Landlords in Punjab proved to be the major source of finance for Indian rural entrepreneurs but the rate of land are reduced due to global recession, so they also lack hard cash. Some banks have not ventured out to serve rural customers because banks are expensive to be reached by rural customers and once reached, they are often too poor to afford bank products. Poor people were found to often have insufficient established forms of collateral to offer, so they are often excluded from the traditional financial markets. The government on the other hand provides subsidies to rural areas but due to high cost of finance, these subsidies are not giving fruitful results. National level institutions in India also provide assistance for setting up new ventures and side by side for modernization and expansion of existing ones but their terms and conditions are negative.

According to Leff (1978), the concentration of economic power in ethnic minorities is a frequently observed characteristic in DCs. Focusing on small scale entrepreneurship; Sverrisson (1993) attempted to explain why industrial development has proved to be so difficult in sub-Saharan African economies. Sverrisson (1993) analyzed small scale carpentry enterprise in two African towns, Nakuru (Kenya) and Mutuare (Zimbabwe). He showed that small firms are embedded in rigid production, social and political networks and alliances which can sometimes retard local innovation and adoption of new and even relatively mature, simple technologies. In line with other studies on Africa, this research shows that within these networks particular social classes take an entrepreneurial lead and, in some cases, arrest the development of other classes by preventing entry. Also, typically, the broad range of customer categories served by each enterprise led to a lack of specialization and division of labor, and a failure to exploit economies of scale and scope very strict to be handled.

### 3. METHODOLOGY

This study is based on primary data which is collected through personal interview with structured questionnaire and direct observations. The method used to collecting primary information was a series of in-depth; one-on-one semi-structured interviews conducted on a sample of 100 entrepreneurs (individually) in Maseru. These in-depth interviews were considered to be the most appropriate data gathering method as they do not only enable researchers to access the required information but also enable the participants to discuss what they believed was important from their perspective. The questionnaire consisted of three sections. The First section comprises of demographic question, second section consists of questions which are based on a 4 point scale while section three comprises of open ended question. The authors defined responses as: 1 – Is the most difficult obstacle; 2 – Basically is an obstacle; 3 – non- impacting obstacle; 4 – Generally is not an obstacle. Entrepreneurs gave their responses to questions (barriers) by marking the most appropriate responses from the list of possible options.

#### 3.1 Research Hypotheses:

Economic, Individual Familial, Socio Cultural and Structural dimensions were studied and analyzed in the research. Regarding these dimensions, the following hypotheses were formulated:

##### Hypothesis 1

H0: Economic factors do not hinder development of entrepreneurs in Lesotho

H1: Economic factors hinder development of entrepreneurs in Lesotho

##### Hypothesis 2

H0: Socio cultural factors do not hinder development of entrepreneurs in Lesotho

H1: Socio cultural factors hinder development of entrepreneurs in Lesotho

**Hypothesis 3**

H0: Individual familial factors do not hinder development of entrepreneurs in Lesotho

H1: Individual familial factors hinder development of entrepreneurs in Lesotho

**Hypothesis 4**

H0: Structural factors do not hinder development of entrepreneurs in Lesotho

H1: Structural factors hinder development of entrepreneurs in Lesotho

**4. DATA ANALYSIS**

An analysis is generated from the questionnaires to fulfill the objective of the study. Data was obtained from total entrepreneurs of 100; 42 males and 58 females. For the convenience of analysis the study has calculated percentages of response and for the easy comprehension, the study presented the information under four headings (Most difficult obstacle, Basically an obstacle, Non impacting obstacle and Generally not an obstacle.

**1. Analysis of Economic barriers:** in overall, the results of Economic barriers show that lack of finance is the most difficult obstacle as indicated by 98% of respondents. Only 2% considered lack of finance as “generally not an obstacle”. With regard to problems of markets, 57% considered it as “most difficult obstacle”, 8% considered it as “basically an obstacle”, 32% indicated that it is generally not an obstacle and 3% considered is as “non-impacting obstacle”. 20% of the respondents stated that lack of cooperation is “most difficult obstacle” and 10% shown it as “basically an obstacle”. However, 62% of the respondents considered lack of cooperation as “generally not an obstacle” while 8% considered it as non-impacting obstacle. In general Table I show the significance of Economic barriers.

Table I

Rating	Lack of finance Frequency	Problems of markets Frequency	Lack of cooperation Frequency
Most difficult obstacle	98	57	20
Basically an obstacle	-	8	10
Non-impacting obstacle	-	3	8
Generally not obstacle	2	32	62
Total	100	100	100

Source: own-computation

**2. Analysis of socio-cultural barriers:** Table II indicates that socio-cultural barriers have significant impact on development of and progress of entrepreneurship in Lesotho. Of the 58 women who were interviewed, 34.5% of respondents indicated negative view of society towards women as “most difficult obstacle”, 3.4% considered it as “non impacting obstacle” while 62.1% of respondents considered it as “generally not obstacle”. Regarding lack of responsibility of relevant authorities, 66% of respondents considered it as “most difficult obstacle”, 6% stated it as basically an obstacle, 3% considered it as non-impacting obstacle while 25% of respondents indicated it as “generally not obstacle”. 26% of respondents indicated lack of societal awareness towards importance of entrepreneurship as “most difficult obstacle” and 9% showed it as basically an obstacle. However, 65% of respondents considered it as “generally not obstacle”.

Table II

Rating	Negative view to women Frequency	Lack of authorities' responsibility Frequency	Lack of awareness Frequency
Most difficult obstacle	20	66	26
Basically an obstacle	-	6	9
Non-impacting obstacle	2	3	-
Generally not obstacle	36	25	65
Total	58	100	100

Source: own-computation

**3. Analysis of individual familial barriers:** The results of individual familial barriers shows that 21% of respondents considered lack of motivation as “most difficult obstacle”, 14% in stated it as “basically an obstacle”, 14% indicated it as non-impacting obstacle. On the contrary, 51% of respondents considered lack of motivation as “generally not obstacle”. Regarding lack of knowledge and experience, 40% of respondents indicated it as “most difficult obstacle” 14% showed it as “basically an obstacle”, 11% indicated it as non-impacting obstacle while 35% of respondents considered it as “generally not obstacle”.65% of respondents indicated that family problems are most difficult obstacles, of the 65% percent, 55% were women. 2% considered it as “basically an obstacle” while 33% indicated it as “generally not obstacle”. The significance of the individual-familial barriers over entrepreneurship development among entrepreneurs has been shown in Table III.

Table III

Rating	Lack of motivation	Lack of knowledge & experience	Family Problems
	Frequency	Frequency	Frequency
Most difficult obstacle	21	40	65
Basically an obstacle	14	14	2
Non-impacting obstacle	14	11	-
Generally not obstacle	51	35	33
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: own-computation

**4. Analysis of structural barriers:** The results of structural barriers on development of entrepreneurship shows that of the 100 respondents, 23 % indicated lack of coordination of information as “most difficult obstacle”, 25 % considered it as “basically an obstacle”, 9 % showed it as “non-impacting obstacle” and 43% indicated it at “generally not obstacle”. Legal problems were indicated as “most difficult problems by 30% of respondents, 3% considered it as “basically an obstacle”, 11% showed is as “non-impacting obstacles. However, 56% of respondents considered it as “generally not obstacle”

Table IV

Rating	Lack of coordination of information	Legal Problems
	Frequency	Frequency
Most difficult obstacle	23	30
Basically an obstacle	25	3
Non-impacting obstacle	9	11
Generally not obstacle	43	56
<b>Total</b>	<b>100</b>	<b>100</b>

Source: own-computation

5. In response to the open ended question which required entrepreneurs to mention and elaborate on other barriers that are not included in questionnaire, 85% of respondents considered lack of proper shelter as a most difficult obstacle. They indicated that it basically and directly impact negatively during rainy seasons and thus destroying their products and shortening their trading hours.

## 5. CONCLUSIONS AND RECOMMENDATIONS

In conclusion, entrepreneurs in Lesotho face significant barriers over development and progress of their enterprises. All entrepreneurs regardless of gender are equally faced with Economic barriers which comprise of lack of finance and problems of markets as well as structural barriers which include legal problems and lack of coordination of information. The findings of this study also show that socio-cultural factors which include negative view of society towards women and individual familial factors especially family problems basically affect women; these could be due to the fact that other than being bread winners, women are liable for domestic responsibilities in their families. Lack of experience and knowledge is also a critical obstacle to entrepreneurs. Lesotho could therefore pay a high price if training needs remain unfulfilled and gaps in the market remain unplugged more especially in the existence of high unemployment rate.

In partnership with successful entrepreneurs, the government through trade organizations could assist in supporting the establishment of mentoring networks facilitating the development of fledgling entrepreneurs. Mechanisms to support entrepreneurs and assist them in gaining access to international markets should be developed. This could be achieved by making the entrepreneurs aware of international demand cycles, underlying trends, and opportunities through capacity training thus establishing sector based training institutions with special emphasis on competitiveness.

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## APPENDIX - A

### Questionnaire to Entrepreneurs:

This questionnaire consists of three sections. The first section comprises of the individual demographic information and the second section comprises of four categories of barriers (Financial /Economic, Socio Cultural, Individual Familial and Structural) and it includes a 4 point scale where responses are coded as follows: 1 – Is the most difficult obstacle, 2 – Basically is an obstacle, 3 – Non impacting obstacle, 4 – Generally is not an obstacle. The third section consists of an open ended question.

1. I. Gender:  Male  Female

II. Education Level:  Primary  Secondary  High School  Tertiary

III. Age:  < 20  21-30  31- 40  41-50  51-60  61<

2.

BARRIERS	1	2	3	4
<b>Financial/ Economic</b>				
a. Lack of Finance				
b. Lack of cooperation				
c. Problems of markets				
<b>Socio Cultural</b>				
a. Negative view of society towards women (female only)				
b. Lack of responsibility of society and authorities				
c. Lack of societal awareness towards importance of entrepreneurship				
<b>Individual-Familial</b>				
a. Lack of belief in women's ability (female only)				
b. Lack of motivation				
c. Lack of knowledge and experience				
d. Family Problems				
<b>Structural</b>				
a. Lack of coordination of information				
b. Legal Problems				

3. What are other barriers that interfere with your operations significantly?