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LOW BUSINESS DIVERSIFICATION TRIGGERS SMES' MORBIDITY IN FRANCOPHONE CENTRAL AFRICA

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ABSTRACT:

Business and economic diversification remain elusive in most African countries. The situation becomes even more critical when it comes to the francophone part of central Africa. Our Q4 2021 executive survey conducted in Cameroon, the leading economy of this sub-region, showed that only two percent of SME's owners considered their business "well diversified", while only four percent of them thought to be "highly diversified". On the other side of the coin, while thirty percent admitted running their businesses with a "weak diversification" level, the entirely remaining sixty-four percent had "no diversification" at all. This significantly encumbers SMEs' growth in this African sub-region, causing formal businesses of the SMEs class to dwarf in size over years. This paper hypothesizes that there exists an intimate correlation between low level of business diversification and persistent business morbidity and stagnation observed in francophone Central Africa. Its objective is to tackle the challenge of making the SME's sphere of this sub-region prosperous.

Keywords: Business development, Business diversification level, Growth, Francophone Central Africa, SMEs.

I. INTRODUCTION:

Especially in Africa, SMEs play an overriding role in the sustainable economic development of the continent's countries as supported by Ayyagari, Beck & Demirgüç-Kunt (2007), Dalberg (2011), and Umar Lawal Aliyu (2018). SMEs have also helped Sub-Saharan African countries experiencing historical growth rates in the last decade despite that this growth rate was hardly sustained in longer period in many countries of the sub-region (Hove, 2018). These building blocks of a 33% share of the countries' GDP machinery provide 85% of all jobs in the private sector (Forson, 2020), create durable wealth (Kum et al, 2019), foster technological innovation (Von Drachenfels & Kraus, 2009), and therefore significantly contribute to overhauling governments' growth and long-term economic development strategies in the sub-region.

Yet, SMEs in Central Africa are facing massive hindrances to their growth (Evou, 2020), which causes 41% of them to have reported decreasing annual turnovers in the last years (CPCCAF, 2015). Albeit their total number has been steadily increasing over the last decade in the sub-region of interest (Nations Unies, 2020; Savana, 2021), this numerical increase of SMEs does not reflect on the overall economic development of francophone Central Africa countries, as explained by Fjose, Grünfeld, and Green (2010).

Among the several hindrances mentioned in the literature that SMEs in

Central Africa face on their tedious way to growth, low level of business diversification has been reported to be one the leading causes (sometimes also described as a consequence) of this stagnation (Hove, 2018). Moorhouse (2021) sees business diversification as a corporate development strategy in which a company develops new products and services, or enters new markets, beyond the realm of its existing ones. The Ansoff's (1957) product/market matrix also places business diversification as one of his so-called "four major growth strategies of a company". This makes business diversification to be a spearhead on which any SME in francophone Central Africa can rely to intensify and enlarge its activities, thus reaching high growth quickly.

Considering that only little has been published until date regarding the current state and the reasons of the low business diversification level in francophone Central Africa, and Echoing Najji (2019) who argues that it is time to make the development and growth of African SMEs the "number one priority" of heads of states and international financial institutions on the continent, this paper's objective is to contribute to a prosperous formal business sector in Central Africa, thereby reinforcing the sub-regional sustainable economic growth.

II. LITERATURE REVIEW:

2.1. Definition of Business Diversification:

Moorhouse (2021) defines business diversification as a business development strategy in which a company develops new products and services, or enters new markets, beyond the realm of its existing ones. The Corporate Finance Institute (2022), on the other hand, defends that business diversification should be defined as a company's strategy to increase profitability and reach higher sales volumes from commercializing new products.

Based on both definitions, as well as on the results of the executive survey conducted in the framework of this research study, a new definition of business diversification could be proposed. The researcher suggests to define business diversification as a commercial strategy of a company in which more and new, innovative products/services are developed and introduced to new and more markets, in order not only to increase income and revenue, but also, through risk-spreading, to make the company more resilient in case of strong competition and of local, national, or international economic shocks.

2.2. Types of Diversification:

There are two major types of diversification: these are business diversification and economic diversification.

2.2.1. Business or Corporate Diversification:

Diversification entails a shift away from a single income source toward multiple income sources from an ideally increasing spectrum of products, business sectors, and markets (Oyelaran-Oyeyinka & Lal, 2022). Moorhouse (2021) depicts Amazon and Apple as possibly "the highest profile examples of strategic relatedness in business diversification" because both companies developed the largest product portfolio any other company currently possesses in the market. In effect, a diversification strategy helped Apple superseding imminent bankruptcy in the late 1990s. The almost monopolistic market position of Amazon as seen in the present days is also largely credited to its diversification strategy, ranging from just selling books in 1995, to selling cloud computing systems, consumer electronics, webpages, e-commerce, and even an airline company in the present days.

While business diversification implies product diversification, the latter, in turn, usually features a market diversification, which is when the same company enters one or more new market(s) or customer niche(s) that were not its primary focus formerly.

2.2.2. Economic Diversification:

Whilst business diversification occurs at a company or corporate level, economic diversification usually refers to whole countries or economical regions and helps the latter building resilience against intra- and international economic shocks. Western countries display strong, resilient economies because they have sought to diversify their economies at the fullest by reaching a higher structural transformation underpinned by a strong manufacturing sector Hove (2018).

The author underlines that many countries in Sub-Sahara region, although very rich in raw material and primary commodities, rely on only few resources to maintain and grow their GDP. In occurrence, 80% of the average GDP of these countries originates solely from few commodities, which makes them economically fragile and exposed to national and international fluctuations of the demand and offer of the commodities. This confers Central African countries an even lower economic diversification level (Memedovic, 2020). In addition, commodities prices have decreased by about 60% since 2014, and are still collapsing, which does not overhaul the situation.

These countries are also characterized by weak industrialization, low business internationalization, and a febrile exportations sector, whose contributions to the overall sub-regional GDP has not only been reported to have decreased by 5% between 1981 and 2016, but has also kept decreasing to date (Hove, 2018), thereby directly affecting their SMEs and rendering hostile the business climate in which the latter exert. Further, these countries typically also suffer from impaired trade balances (Bakunda, 2003), which, among other consequences, makes their common sub-regional currency, the franc CFA, even weaker.

Summarily, it can be outlined that a country or an economic trade region would only hardly incubate businesses and SMEs with high (or at least good) diversification levels if the country or the sub-region itself does have only a poor economic diversification level. This is the situation countries of the francophone Central African economic sub-region seem to be enduring since years.

2.3. Reasons and Benefits of Business Diversification:

According to Moorhouse (2021), a business seeks to adopt a diversification strategy for four major reasons: the company wants more revenue, less economic risk, its core business is in decline, and/or it wants to exploit potential synergies. Besides this, the Corporate Finance Institute (2022) defends that business diversification plays several key roles in a company growth by mitigating risks in the event of industry downturn, by making it possible to offer more products and eventually renders the company's brand more visible on the market, by using diversification as a shelter to protect the company against aggressive competition, and finally, in case of slow-growing markets, by powerfully increasing the company revenue and cash flow.

III. Research Methodology:

3.1. Research Design:

This research study relied on a basic correlational design to study the correlation between the level of business diversification and the overall slow growth of SMEs in francophone Central Africa, on the example of

Cameroon. If the latter was selected as the model-country for this research work and was thus considered representative for the entire economic and financial region of francophone Central Africa, it is not only because it is widely depicted in the literature as the "miniature Africa" (Euronews, 2017), but also because the country has been the leading economy in the francophone Central African sub-region for decades now (Kum et al, 2019).

3.2. Method of Data Collection:

In order to achieve this research study, an executive survey was conducted in SMEs exerting in the target country. These candidate SMEs were randomly selected in different geographical regions of the country. Furthermore, the survey made no difference between the sectors of activity of the selected SMEs'. Moreover, all these SMEs were formally registered businesses operating in their respective markets since at least five years. These parameters were integrated to the selection process in order to ensure high representativeness and pertinence of the collected data. A second source of data was from diverse literature sources, from the internet, from journals, as well as from relevant business magazines and books.

IV. RESULTS ANALYSIS:

The data used for this research originated from responses to a questionnaire that the interviewed SMEs' executives received. A total sample of 50 SMEs was approached, 25 of which had stopped being active in the market for diverse reasons and at least five years after their official creation, whilst the other half was composed of SMEs still in exercise since at least 5 years.

4.1. Data Presentation:

The following table represents the data that were collected from the interviewed executive during this research work.

Table 4.1: Level of Business Diversification of SMEs in Cameroon

SME activity status	What is the level of business diversification in your SME?			
	None	Weak	Good	High
Closed / Bankrupt	21	4	0	0
Still active	11	11	1	2

4.2. Data Interpretation:

When plotting the reported levels of business diversification against the number of studied SMES, the research data displayed the following figure 4.2.

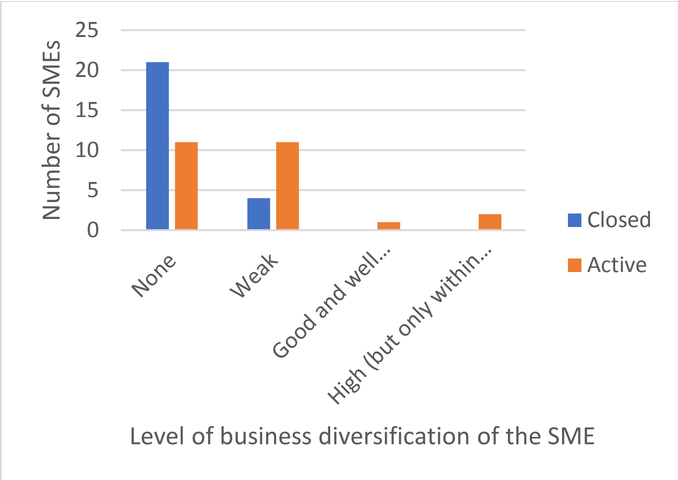

Figure 4.2: Level of Business Diversification of SMEs in Cameroon

The data indicate that 64% of all studied SMEs had no existing business diversification. That is to say that they concentrated on only one product/service in the market and stuck to it for years as long as they felt that this product somehow works. A further 30% of these companies declared to have only a weak level of diversification in the market, while only 2% and 4% of them said to have good and high level of diversification respectively.

Another pertinent remark is that 84% of all SMEs that declared bankruptcy within the first 5 years of exercise responded to have had no existing business diversification integrated to their business development strategy. This seems to largely explain why this group of SMEs performed much lesser than the second group made up of companies that are still active in the market, thereby showing a clear positive correlation between increasing business diversification and stronger company survival and long-term growth ability.

These results demonstrate that, even though several other factors hinder positive business development and growth of SMEs in Central Africa, a missing genuine and consequent business diversification strategy seems to be one of the root causes why francophone Central African SMEs are still lagging behind SMEs in other regions of the globe.

V. CONCLUSION:

As argued by Hove (2018), overdependence on a few markets such as China has exposed a number of African countries to the slowdown and changing structure of the Chinese economy. A better diversification of francophone Central African countries will bring about a more resilient and stable sub-regional economy with more conducive infrastructures that in turn will provide the ideal environment for local and sub-regional SMEs to expand, to export and to diversify, thereby boosting up the sub-regional economy even more. Yet, Beveridge (2017) and Moorhouse (2021) warn against the danger of (over)diversification, when they state that too much diversification can lead to loss of focus on the SME's key products or services, which in turn can lead to loss of important customers, partners, or market shares.

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