AN EMPIRICAL INVESTIGATION INTO THE FACTORS AFFECTING THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN THE MANUFACTURING SECTOR OF HARARE, ZIMBABWE

BY

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ABSTRACT

This research investigates the factors that affect the performance of Small and Medium Enterprises (SMEs) in the manufacturing sector of Harare, Zimbabwe. To achieve this objective, the research hypothesised that a lack of skilled human resources contributes to the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe. The research further hypothesized that poor management skills such as human resources, financial management, general management, production management and marketing management result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe. A research proposition was also stated which stipulated that the current hyperinflation environment affects the profitability of SMEs in the manufacturing sector of Harare in terms of profitability. This study is important because SMEs, despite their contributions to the Zimbabwean economy, have not been given due attention as the research of performance has been biased towards large enterprises. The results indicate that managerial aspects which are in short supply have negative effects on the performance of SMEs in the manufacturing sector. The results also indicate that the high rate of inflation and other economic factors such as foreign currency shortage, interest rate and exchange rate affect their performance negatively. Lastly, the study recommends that SMEs, the Zimbabwean government and other supporting institutions such Empretec, ILO and SEDCO take measures to ensure the survival, growth and development of this sector which has the potential to steer the economy. These measures are expected to improve the managerial skills in the SME sector and consequently result in improved performance.

DECLARATION

I, the undersigned Stanislous Zindiye, hereby declare that the dissertation is my own original work and that it has not been submitted, and will not be presented, at any other University for a similar or any other degree award.

……

Signature

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DEDICATION

I dedicate this piece of work to my parents, Mr. and Mrs. M.G. Zindiye for their support and inspiration through my studies.

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CHAPTER ONE

INTRODUCTION TO THE RESEARCH PROBLEM

1.1 INTRODUCTION

The focus of the study is on the factors which affect the performance of Small and Medium Enterprises (SMEs) in the manufacturing sector of Harare, Zimbabwe. In Zimbabwe, an SME is described as a registered company with a maximum of 100 employees and an annual turnover in sales of a maximum of 830, 000 U.S. dollars. There are an estimated 10 000 SMEs in Zimbabwe, controlling 65 percent of the total corporate purchasing power (Machipisa, 1998:2).

Small and medium sized firms dominate both developed and developing economies in terms of employment and number of companies, yet their full potential remains untapped. These trends need to be changed. The ability of smaller firms to create jobs is clearly a major attraction for governments in the short term. SMEs must be encouraged and supported to flourish. This is important so that economic objectives (economic growth and development, favourable balance of trade and payment and employment) and social objectives (poverty alleviation and improving standards of living) can be realised. Zimbabwe must respond to the needs of SMEs as they form an important component of the economy (Schlogl, 2004:46).

With the advent of the economic reform programmme in 1991, there has been a significant change in the Zimbabwean government's attitude towards the SME sector. The SME sector is increasingly viewed as an important engine for employment creation and economic growth. This has been necessitated by the increasing awareness within the government that large projects in the industrial sector are less likely to generate the requisite employment opportunities, given the high capital-intensity of output in the sector. Experience in Zimbabwe, as is the case in the rest of the world, has shown that SMEs are more flexible and responsive to changes in the market, require relatively less capital, and therefore have the potential to generate significant levels of employment for skilled and semi-skilled labour (Kapoor, Mugwara & Chidavaenzi, 1997:8-9).

This chapter comprises different sections which include the introduction and background of the study, significance of the research, formulation of the research problem, objectives, hypothesis, literature review, research design and methodology, budgetary considerations and time frame. The background to the study will be discussed in more detail below.

1.2 BACKGROUND TO THE STUDY

SMEs are of great importance to the Zimbabwean economy since it can be a mechanism to stimulate economic growth, thereby employment creation, in the country. This study attempted to establish whether a lack of skilled human resources, poor financial management and a lack of management skills are factors which impact on the performance of Small and Medium Enterprises in Zimbabwe. It furthermore also attempted to establish whether there are other internal factors over and above those identified, which exert an influence on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

The title specifies that there is an interplay between factors and performance with regard to SMEs. It can be stipulated that performance may be measured from different perspectives. Some of the core measures of performance are (Du Plessis, Jooste & Strydom, 2005:61; Nieman & Pretorius, 2004:4):

- Profitability- It constitutes the ability of a business to make a profit after taking into account all the operating costs;
- Turnover- Refers to the volume of sales during the financial year;
- Market share- Indicative of the portion of the market the business is currently serving; and
- Growth in the labour force- Refers to Human Resources in the form of more staff (e.g. management, professional, technical or administrative personnel)

Entrepreneurship entails the establishment of a business and the risking of capital in mobilising resources to satisfy society's needs and to make a profit. This includes the

continuous ownership of the business by the entrepreneur as well as an active involvement in managing it (Cronje, Du Toit and Motlatla, 2000:491).

Entrepreneurship can also be described as the process of bringing together creative and innovative ideas and combining these with management and organisational skills. (refer to section 2.2.1,p.24). This is done in order to combine people, money and other resources to meet an identified need and thereby creating wealth. It results in self-employment and the creation of jobs which aids the economy (Appleby, 1991:27). Bartel and Martin (1990:775) state that a major reason why entrepreneurship has been receiving increasing attention from both scholars and the public press is the growing recognition of the substantial economic and social contributions it brings. The economic contributions include economic growth, maintaining a favourable balance of payments and balance of trade and employment creation. Socially, entrepreneurship results in poverty eradication and improved standards of living. Furthermore, entrepreneurship is important as many small businesses emerge as a result of entrepreneurship in developing countries such as Mexico, Brazil, Zimbabwe and Botswana.

Entrepreneurship is therefore an essential tool for improving the standards of living in a society and the stability of a country. Through entrepreneurship the high rate of unemployment can be combated and poverty levels can be reduced. The role of the small business in job creation and revenue generation is being increasingly recognised by governments worldwide. This is due mostly to the prevailing international trends in downsizing, outsourcing, privatisation and automation which are seeing the traditional large companies cutting jobs. Hence, this has resulted in both the private and the public sector shedding labour in response to economic imperatives of the domestic and global circumstances. The Zimbabwean government cannot create more jobs itself, hence the greater part of the solution to unemployment lies in mobilising new businesses, particularly the job-intensive SMEs in the manufacturing sector. Therefore, the Zimbabwean government will have to make small business growth a primary objective if it wants to achieve the goal of improving the standard of living of its citizens. SMEs

therefore represent an important vehicle to address the challenges of job creation, economic growth and equitable distribution of wealth in Zimbabwe (Franz, 2000:16).

Throughout the world SMEs are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. The stimulation of SMEs must be seen as part of an integrated strategy to transform the Zimbabwean economy to ensure that it becomes more diversified, productivity is enhanced, investment is stimulated and entrepreneurship flourishes.

1.3 DISCUSSION OF TERMINOLOGY

The four terms below, which are an inherent part of the title of the dissertation, are discussed in more detail to provide greater clarity to the research design.

1.3.1 Zimbabwe

Zimbabwe, officially the Republic of Zimbabwe, is a landlocked republic in Southern Africa. The country is bordered on the northwest by Zambia, at the northwest and east by Mozambique, on the south by South Africa and on the southwest by Botswana and the Caprivi strip of Namibia. It was formerly the British colony of Southern Rhodesia (later Rhodesia). In April 1980, following multi-party elections, Rhodesia became formally independent as the Republic of Zimbabwe. The total area of the country is 390 759 sq km. The capital city of Zimbabwe is Harare (Zimbabwe National Army, 2006:1).

1.3.2 Harare

Harare is Zimbabwe's largest city, and main commercial and cultural centre, as well as its capital. Harare is also Zimbabwe's administrative, commercial and communications centre. It is a trade centre for tobacco, maize, cotton and citrus fruits. The private sector economy of Harare is dominated by manufacturing and service industries. Manufactures include textiles and chemicals, and gold is also mined in the area (Zimbabwe National Army, 2006:1; Gono, 2005:15)

1.3.3 Manufacturing sector

Manufacturing is a sector of the economy responsible for producing a wide range of commodities ranging from food and beverages to chemicals, clothing and different metal products. Manufacturing provides approximately 20% of formal employment in Harare. A greater portion of the manufacturing activities in the Harare Metropolitan area are spread in the following categories, namely food processing, textiles, clothing and footwear, plastics and metal products (Gono, 2005:15). All these sectors were included in the study since elements of the sample were selected using a computer random number system where each element in the population will be assigned a different number from one-to-six hundred and nine.

1.3.4 Factors

A factor is a contributory aspect or element (Tuck, 2000:166). The study focused on the factors affecting the performance of SMEs. The emphasis will be on the aspects that affect the growth and development of SMEs in the manufacturing sector of Harare, Zimbabwe. The investigation is on the elements that could have a negative effect on the performance of SMEs.

1.4 PROBLEM STATEMENT

Zimbabwe is currently experiencing economic hardships which are characterised by a high inflation rate (7634% as per August 2007) (Dzirutwe & Banya, 2007). High interest rates make the borrowing of capital expensive, resulting in low levels of investment and a weaker currency which makes the importation of raw materials difficult and expensive at the same time. Access to finance becomes a challenge to Small and Medium Enterprises (SMEs) in Zimbabwe. Due to these prevailing economic conditions most of the skilled personnel have left the country and this has a negative impact on the performance of SMEs as they now suffer from insufficient management skills. It is against this background that the research seeks to investigate whether economic factors, human

resources and management factors affect the performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

Zimbabwe is in dire need of major economic growth. There is disinvestment as major stakeholders in the economy are withdrawing due to high inflation and interest rates which makes investment costly. These stakeholders include multinational companies and Non-Governmental Organisations (NGOs) and private investors. Unemployment is high (refer to section 3.1, p. 54), partly due to a lack of the much-needed efforts to create jobs and also the current state of the economy. Job creation and poverty alleviation are two pressing challenges facing Zimbabwe today. Zimbabwe's capacity to address the high unemployment and poverty levels is partly hampered by the nose diving economic conditions due to sanctions and a high rate of inflation. The encouragement and support of SMEs in Zimbabwe is therefore important in the light of the many economic challenges which the country is currently experiencing (Gono, 2005:7).

Since the economy is characterised by high unemployment rates, the closure of big businesses, declining economic growth and declined standards of living, it becomes important to promote SMEs as they are a vehicle for employment creation and economic growth. An environment conducive for the growth of SMEs is required, and this has necessitated an investigation into the factors affecting the performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

1.5 RESEARCH OBJECTIVES

- To establish whether a lack of skilled human resources contributes to the poor performance of SMEs as perceived by the manufacturing sector of Harare, Zimbabwe;
- To establish whether poor management skills such as human resources management, financial management, general management, production management and marketing management result in the poor performance of SMEs as perceived by the manufacturing sector of Harare, Zimbabwe.

- To establish the economic factors which have an effect on the performance of SMEs as perceived by the manufacturing sector of Harare, Zimbabwe; and
- To establish whether the economic initiatives of the Zimbabwean government aimed at SME development, had an effect on the performance of SMEs as perceived by the manufacturing sector of Harare, Zimbabwe.

1.6 RESEARCH PROPOSITION

The current hyperinflation environment affects the profitability of SMEs in the manufacturing sector of Harare, Zimbabwe.

1.7 RESEARCH HYPOTHESIS

Ho: A lack of skilled human resources contributes to the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

H_1: A lack of skilled human resources does not result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

H_O: Poor management skills such as human resources management, financial management , general management, production management and marketing management result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

H_2: Poor management skills such as human resources management, financial management, general management, production management and marketing management does not result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

H_0: Economic factors do not have an effect on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

H_3: Economic factors have an effect on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

Ho: The economic initiatives of the Zimbabwean government aimed at SME development do not affect the performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

H_4: The economic initiatives of the Zimbabwean government aimed at SME development do affect the performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

1.8 SIGNIFICANCE OF THE RESEARCH

The study seeks to investigate the factors that affect the performance of SMEs in the manufacturing sector of Harare, Zimbabwe. SMEs are important in that they contribute significantly to economic growth through employment creation. Employment creation leads to more people having disposable income which results in an increase in the demand for goods and services. Disposable income also results in more purchases of goods and services which lead to economic growth. As a result of increased economic growth, the general standard of living of people can be improved.

The Zimbabwean economy is currently characterised by soaring inflation and frequent shortages of fuel, food and foreign currency. There is also a high rate of unemployment and disinvestment through the withdrawal of potential investors. As a result of these economic conditions there is a decline in economic growth. To address this problem, more attention should be paid to the promotion of SMEs in Zimbabwe since they are a vehicle for economic growth in the country. It is therefore imperative that a conducive environment for the growth and development of SMEs be established in Zimbabwe to stimulate the country's economic growth rate which could lead to the creation of more employment opportunities.

The role played by SMEs in job creation, income generation and therefore poverty alleviation has been recognised worldwide. Liedholm (2002) indicates that small firms involved in non-primary activities in developing African and Latin American countries employ approximately 17-27% of the working group population. Berry, Rodriguez &

Tambunan (2001) report that micro and small manufacturing enterprises in Indonesia employ 67% of the total working population in the country in manufacturing establishments. Apart from sustaining employment, manufacturing SMEs are likely to offer strong grounds for linkage creation among firms in the manufacturing sector (Ranis and Stewart, 1999). Ishengoma (2004) echoes this by stating that business linkages can also be created between local primary activities and manufacturing sub-sectors since they utilise high percentages of local inputs. This means that SMEs can offer services to large companies through subcontracting (Ishengoma and Kappel, 2004:1).

SMEs are a vital component of every country's economy and their success is a critical aspect. Innovation is mainly achieved through SMEs hence they must be fully supported and guided against failures. It is of great importance to identify and understand the challenges faced by SMEs in Zimbabwe. This is due to the fact that SMEs are the corner stone of the Zimbabwean economy and also many economies in the world. SMEs must be nurtured and supported to ensure their survival, growth and development and they must be guarded against any failure. This study is of value to the owners and managers of SMEs in the manufacturing sector of Harare, Zimbabwe, as different recommendations are made to assist SMEs in their long term development and growth. The study will further reveal the challenges faced by SMEs in the manufacturing sector of Harare for purposes of crafting policies that address the specific challenges of SMEs in Zimbabwe. Furthermore, the study will be of benefit as the Zimbabwean government has committed a large amount of resources (financial, labour) towards the establishment of SMEs, but their failure rate is still very high. Hence, the study will make recommendations to decrease the failure rate.

Since SMEs are an important sector of the economy, factors that affect the performance of SMEs must be established. The establishment of these factors will result in tentative solutions and strategies being adopted to decrease the rate of failure of SMEs in Zimbabwe which is necessary to increase the levels of employment and economic growth in the country.

1.9 LITERATURE REVIEW

1.9.1 The development and growth of SMEs

Prospering countries have SME driven economies because the SME sector is the cornerstone of strong economic growth. Employment opportunities, reduction in poverty levels and subsequent improved standards of living are some of the major contributions of the SME sector. However, this sector has many challenges which hamper its growth thereby negatively influencing its contributions. A discussion of the challenges facing SMEs in the developing world, and specifically Zimbabwe follows in sections 1.9.1.1 and 1.9.1.2 below.

1.9.1.1 Factors influencing the growth of SMEs in the developing world

The role of finance has been viewed as a critical element for the development of small and medium-sized enterprises. Previous studies by Ligthelm and Cant (2003:5) have highlighted the limited access to financial resources available to smaller enterprises compared to larger organisations and the consequences for their growth and development. Typically, smaller enterprises face higher transaction costs than larger enterprises in obtaining credit, insufficient funding has been made available to finance working capital and poor management and accounting practices have hampered the ability of smaller enterprises to raise finances (Abedian, 2001; Peel & Wilson, 1996). Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to smaller enterprises. Information asymmetry is a situation in which one party in a transaction has more or superior information compared to another. This often happens in transactions where the seller knows more than the buyer, although the reverse can happen as well. Potentially, this could be a harmful situation because one party can take advantage of the other party's lack of knowledge. In spite of these claims, studies by Liedholm, MacPherson & Chuta (1994) and Paul (2001:4) indicate that a large number of small enterprises fail because of non-financial reasons such as a lack of forecasting or planning skills, a lack of skilled human resources and poor management practices.

It is widely acknowledged that through its labour intensive production and utilisation of basic raw materials, the SME sector, unlike any other business sector, has the potential of reducing the capital cost of creating new jobs. This opportunity may fail if the current financial problems and lack of management skills such as human resources, marketing and general management are not fully addressed. It is apparent and true that the public and private sectors in both the developed and developing world are contributing effectively in the development of small businesses, but there are some factors in the market environment that might not enhance all the initiatives undertaken for the development of small businesses. These factors encompass a lack of management skills and economic forces. Temtime & Pansiri (2004:5) postulates that the governments of developing countries and private enterprises in developing countries are doing much to facilitate participation for all in terms of the establishment and support for SMEs, but economic forces (inflation, interest and exchange rates) are negatively influencing these efforts and cannot be easily controlled.

According to studies carried out in India, SMEs face high interest rates and experience difficulty in raising loans or equity finance, this is as a result of capital market imperfections. Most of the SMEs lack the drive, imagination, managerial ability and ambition to grow and develop. Taxation in industrial countries discourages SMEs from expanding their operations more than larger companies unless special relief is given. First, founding a business is very risky and taxation (income or company tax) reduces the potential reward that compensates for the risk. Shortages of raw materials or the excessive price of inputs are the primary problems which SMEs are confronted with in developing countries (Little, Mazumdar and Page, 1987:18-21).

Although SMEs offer employment and income to the majority of people in developing countries, their performance has been characterised by low contributions to output low growth rates and the inability to graduate into larger companies (Berry *et al.*, 2001 & Liedholm, 2002). Compared to large firms, the poor performance of SMEs has been connected to limited demand for their products and their inability to access foreign markets and technology (Kimura, 2003). Other factors which are also connected to the poor performance of SMEs in the developing world is a shortage of working capital,

institutional and infrastructural obstacles and their inaccessibility to formal market-supporting institutions and government incentives (Liedholm, 2002; Peel & Wilson, 1996 & Kappel and Ishengoma, 2004).

1.9.1.2 Barriers to SME development in Zimbabwe

In Zimbabwe, the SME sector has faced a variety of constraints that hinder its growth and development. The principal areas of concern affecting the development of the SME sector identified by various studies include (Nyoni, 2002:10):

- Limited access and cost of finance;
- Lack of marketing skills and market knowledge;
- Inadequate management and entrepreneurial skills;
- Lack of access to infrastructure;
- Lack of access to land;
- Lack of information; and
- A hostile regulatory environment.

SMEs have difficulties in securing adequate finance which is mainly due to a lack of collateral and the banks' reluctance to finance their operations. The cost of financing SME operations is very high in terms of the interest rates that they pay at credit institutions. A lack of marketing skills and inadequate knowledge of the market adversely affects the operations of SMEs as they fail to attract and retain customers. The insufficient knowledge of the market also results in them failing to satisfy the needs of customers. Furthermore, a lack of managerial and entrepreneurial skills hampers the growth of SMEs in Zimbabwe (Nyoni, 2002:10).

Since the SME sector has limited access to finance they do not have enough infrastructures such as land, buildings, machinery and equipment to effectively carry out their operations. A lack of information in the market and changing customer trends negatively affect SMEs, whilst a hostile regulatory environment also contributes to the poor performance of SMEs in Zimbabwe. This is due to the continuous changes in

government policies which make it difficult for SMEs to function properly (Ngwenya & Ndlovu, 2003:5).

1.9.1.3 Theoretical summary of the factors affecting the performance of SMEs in Zimbabwe

A closer analysis of the factors affecting the performance of SMEs in Zimbabwe shows that these factors are probably not unique to the country. Limited access to finance and the cost of finance, a lack of managerial skills (financial, marketing, human resources and general) and limited access to raw materials are in all probability the most common factors affecting SMEs worldwide. Finance is essential for the operations of any business entity, in this regard SMEs encounter problems in accessing adequate finance. The costs associated with financing such as the interest rate and the exchange rate are very high which make SME business activities less viable. Inadequate managerial skills also hamper the growth and development of SMEs worldwide. For production purposes a sufficient quantity of raw materials is required. SMEs have difficulties in accessing raw materials and this result in their operations being negatively affected which impair their future survival.

1.9.2 The role and importance of the SME sector in Zimbabwe

Currently Zimbabwe has a dualistic economy which comprise of the formal manufacturing sector and the informal sector. The formal manufacturing sector of the economy employs 17% of the formal labour force (over 200 000 people) in approximately 40 000 enterprises. Most of these enterprises are SMEs with between 5 and 10 employees. The Zimbabwean economy is based on Agriculture, Mining and Quarrying and Manufacturing which contributes approximately 21% to the GDP. The performance of the manufacturing sector has remained depressed registering an estimated GDP slump of 11% in 1994. GDP is the total market value of all the goods and services produced within the borders of a nation during a specified period. During the year 2000, manufactured exports accounted for 20% of total revenue. This situation is not

sustainable, hence the need to increase production of value added manufactures in the export basket (Central Statistical Office, 2001).

The primary importance of the SME sector in Zimbabwe is the creation of employment which contributes to an individual's disposable income. This implies that if people have disposable income they will spend more on goods and services. The consumption of goods and services contributes significantly to economic growth in Zimbabwe. Currently many researchers stipulate that the SME sector is the answer to the alleviation of poverty and creation of jobs in Zimbabwe. The Zimbabwean government and corporate institutions have assigned funds to develop and empower communities through entrepreneurship (Mawadza, 2006).

SMEs represent an important sector of the economy, which has the capacity to absorb the bulk of the unemployed if they produce both for the domestic and export markets, thus contributing to the Sustainable Development Dimension. The SME sector offers employment opportunities to a large section of the labour market (SIRDC, 2001:12). SMEs support a bigger part of the Zimbabwean population and contribute largely to Zimbabwe's Gross Domestic Product (GDP). This support is in the form of income (salaries and wages) as most people are employed in the SME sector and they earn a living through SMEs. The SME sector therefore plays a significant role in economic growth and improving the standard of living of the people of Zimbabwe (Rural Banking, 2007:8).

Against this background it is necessary to discuss the factors that affect the growth of SMEs in developing countries. This is an important area which should be addressed if the full potential of SMEs as a vehicle for economic growth, improvement of standards of living and employment creation is to be realised (Mawadza, 2006).

The next section will focus the research methodology and design to be applied to the study.

1.10 RESEARCH METHODOLOGY AND DESIGN

An important part of the research activity is to develop an effective research design. This will satisfy the most suitable methods of investigation, the nature of the research instruments, the sampling plan and the types of data, i.e. quantitative or qualitative (De Wet, 1997:10). This section will provide an introductory discussion on the research methodology and design strategy to be used in the study and will focus on the research design, research method, research format, research technique, the population, sampling procedure, sampling type, sampling technique and data analysis which is applicable to the study at hand.

1.10.1 Research Design

The research design is the plan to be followed in order to realise the research objectives or hypotheses. It represents the master plan that specifies the methods and procedures for collecting and analysing the required information. A framework is developed to address a specific research problem or opportunity (Tustin, Ligthelm, Martins and Van Wyk, 2005:82).

1.10.2 Research Method

The study used a quantitative research design method since it wanted to solicit responses from a large number of respondents. Using a quantitative method of research the study came up with responses from the sample. The responses from the sample varied and some responses were grouped together in order to come up with percentages and figures as the statistics. Such statistics were analysed to develop conclusions in terms of the factors affecting the performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

1.10.3 Research Format

The research format for this study was descriptive. Since the study is quantitative, a descriptive format can do better than other formats which are more relevant with qualitative research methods, such as explorative, causal or a case study. The quantitative nature of the study attempted to obtain statistics regarding the factors which affect the performance of SMEs in the manufacturing sector of Harare and quantify them to come up with conclusions. This was best executed using the descriptive format of research. Descriptive research provides information about the population being studied and also attempts to find answers to the questions, "who, when, how, what and where" (McNabb, 2002:118-119). The applicable questions to this study are what factors affect the performance of SMEs in the manufacturing sector of Harare, Zimbabwe and how do they affect their performance?

1.10.4 Research Technique

Personal interviews were used in the study. A personal interview is a two-way conversation initiated by an interviewer to obtain information from a participant. The differences in the roles of the interviewer and participant are pronounced. They are generally strangers and the interviewer generally controls the topics and patterns of discussion. The greatest value lies in the depth of information and detail that can be secured. It far exceeds the information secured from telephone and self-administered studies via intercepts and surveys. The interviewer can also do more things to improve the quality of information than with another method. Interviewers can note conditions of the interview, probe with additional questions and gather supplemental information through observation. Interviewers also have more control than with other kinds of techniques. Interviewers can also adjust the language of the interview as they observe the problems and effects the interview is having on the participant. An interviewer can explain what kind of answer is sought, how complete it should be, and in what terms it should be expressed (Cant, 2003:82-87; Cooper & Schindler, 2003:323, 333).

1.10.5 Population

It is the total group of people or entities from which information is required (Tustin *et al.*, 2005). In this study the population of interest was the SMEs in the manufacturing sector of Harare, Zimbabwe. There are currently 609 SMEs in the manufacturing sector (Ncube and Greenan, 2004).

1.10.6 Sampling procedure

1.10.6.1 Sampling type

The study applied the probability sampling method. A probability sampling method is any method of sampling that utilises some form of random selection. The population in the present study is 609 which is large and the researcher wants to make sure that the sample that comes out of it is representative. The probability sampling type ensures that every SME firm in the manufacturing sector has an equal chance of being selected for the purposes of the survey. The predetermined sample in the research was 241 respondents (McNabb, 2002:134) (refer to section 5.3.2, p. 126 for the calculation of the sample size).

1.10.6.2 Sampling technique

The sample was randomly selected from the population of manufacturing SMEs in Harare, Zimbabwe. Random sampling is unique in that each member has an equal probability of being included in the sample (Roberts-Lombard, 2002:112). The sample was selected from the list provided by the Ministry of Small and Medium Enterprise Development in Zimbabwe.

1.10.7 Data analysis

The data analysis was done by the Statistics Department at the University of Fort Hare. The analysis type was descriptive through count. The statistical package which was used to analyse the data is the Statistical Analysis System V8 (SAS). The packages Statistica and SPSS were used for the analysis of graphs. The statistical method which was used to analyse the data is the Chi-Square test for independence. The Chi-Square test for

independence was used to test for association. Cross tabulation was also done to show the distribution of respondents.

1.11 RESEARCH OUTLINE

- **CHAPTER ONE: AN INTRODUCTION TO THE RESEARCH PROBLEM**

This chapter outlines the problem statement which is the foundation of the study. The significance of undertaking the study was highlighted in the chapter. The background to the study as well as specific literature related to the study at hand were discussed. Furthermore, the problem statement, research objectives, research hypotheses, and the proposed research methodology were highlighted in the chapter. .

- **CHAPTER TWO: A PERSPECTIVE ON ENTREPRENEURSHIP**

The focus of this chapter is on entrepreneurship. In the chapter the term entrepreneurship was interpreted and a discussion was provided on the generic elements in the definition of entrepreneurship. The chapter also highlighted the importance of entrepreneurship in the developing world. Furthermore a mythical focus on entrepreneurship was discussed, as these myths hinder the entrepreneurial spirit.

- **CHAPTER THREE: AN OVERVIEW OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN ZIMBABWE**

The chapter emphasised the different interpretations of the term SME from both a Zimbabwean and an international perspective and further discussed the generic elements in these interpretations. The nature of SMEs was also highlighted. Further discussions in the chapter centered on the role of SMEs in the Zimbabwean economy, government support measures for the establishment of SMEs in Zimbabwe and the role of

EMPRETEC, ILO and SEDCO in the establishment of SMEs in Zimbabwe. Finally, the challenges being faced by the SME sector in Zimbabwe were identified and discussed.

- **CHAPTER FOUR: THE PROFESSIONAL MANAGEMENT OF SMES**

The term management was defined and discussed in the chapter. The generic elements in the definition of management were also highlighted. In addition, the chapter focused on the classical management functions, namely planning, organising, leading and controlling in relation to SMEs. The chapter concluded with a focus on the different managerial roles of Mintzberg.

- **CHAPTER FIVE: RESEARCH METHODOLOGY**

This chapter focused on the study at hand in terms of the study area, the study unit and the population. The organisation and design of the questionnaire, the methods of data collection and data analysis were highlighted. The validity and reliability of the research instrument was also discussed. An examination of the applicable statistical tests for the gathered data, reliability and validity of the data as well as the limitations in the collection of the data is furthermore part of the chapter.

- **CHAPTER SIX: RESEARCH RESULTS**

The analysis and interpretation of data are presented in the chapter. Ordinal Multinomial Logit Models were used to test for the effects of explanatory variables on those responses that had more than two categories. For the binary responses, Ordinary Logit Models were used. To assess or evaluate the association among the response factors, Loglinear Modeling was used. These statistical procedures were used as follow-up analyses to the graphical analysis (bar charts and pie charts) provided in the chapter.

❖ CHAPTER SEVEN: CONCLUSIONS AND RECOMMENDATIONS

The chapter incorporates the conclusions on the findings of the study. Recommendations to improve the performance of SMEs were discussed in the chapter. The limitations of the study were highlighted in the chapter. Finally, areas for further research in relation to SMEs were highlighted.

CHAPTER TWO

A PERSPECTIVE ON ENTREPRENEURSHIP

2.1 INTRODUCTION

Entrepreneurship is more than the mere creation of business. The characteristics of seeking opportunities, taking risks beyond security, and having the tenacity to push an idea through a reality combine into a perspective that permeates entrepreneurs. An entrepreneurial perspective can be developed in individuals. This perspective can be exhibited inside or outside an organisation, in profit or not-for-profit enterprises, and in business or non-business activities for the purpose of bringing forth creative ideas. Thus, entrepreneurship is an integrated concept that permeates an individual's business in an innovative manner. It is this perspective that has revolutionized the way business is conducted at every level and in every country (Kuratiko & Hodgetts, 2004:3).

The symbol of business tenacity and achievement is entrepreneurship. Entrepreneurs were the pioneers of today's business successes. Their sense of opportunity, their drive to innovate, and their capacity for accomplishment have become the standard by which free enterprise is now measured. The standard has been held throughout the entire world. Entrepreneurs will continue to be critical contributors to economic growth through their leadership, management, innovation, research and development effectiveness, job creation, competitiveness, productivity, and the formation of new industries (Kuratiko & Hodgetts, 2004:3; Sexton & Kasarda, 1992:48, 53-54).

This chapter comprises of six sections. These sections are an introduction to the theory of entrepreneurship, definitions of entrepreneurship and generic elements to the definitions of entrepreneurship, the elements of entrepreneurship, the importance of entrepreneurship in the developing world, the myths surrounding entrepreneurship and the summary.

2.2 AN INTERPRETATION OF THE TERM ENTREPRENEURSHIP

Entrepreneurship has no universal definition. There are variable definitions to the concept of entrepreneurship. However, in these definitions there are also generic elements which define an entrepreneur. The different definitions of entrepreneurship are discussed below.

2.2.1 Definitions of entrepreneurship

The definitions of entrepreneurship, as discussed by the literature, are illustrated by table 2.1 below.

Table 2.1 Definitions of entrepreneurship

Definition	Reference	Description
A	Van Aardt, Van Aardt & Bezuidenhout (2002:4)	*Entrepreneurship is the act of initiating, creating, building and expanding an enterprise or organisation, building an entrepreneurial team and gathering other resources to exploit an opportunity in the marketplace for long-term gain.*
B	Cronje, Du Toit, Marais & Motlatla (2004:40)	*Entrepreneurship is the process of mobilising and risking resources (land, capital, human resources) to utilise a business opportunity or introduce an innovation in such a way that the needs of society for products and services are satisfied, jobs are created, and the owner of the venture profits from it. This process includes new as well as existing ventures, but the emphasis is usually on new products or services, and new businesses.*
C	Kuratiko & Hodgetts (2004:30)	*Entrepreneurship is a dynamic process of vision, change, and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions. Essential ingredients include the willingness to take calculated risks in terms of time, equity or career, the ability to formulate an effective venture team, the creative skill to marshal needed resources, the fundamental skill of building a solid business plan and finally the vision to recognise an opportunity where others sees chaos, contradiction and confusion.*

D	Rwigema & Venter (2004:6)	*Entrepreneurship is the process of conceptualising, organising, launching and through innovation nurturing a business opportunity into a potentially high growth venture in a complex, unstable environment.*
E	Nieman & Bennett (2006:49)	*Entrepreneurship is the emergence and growth of new businesses.*

In interpreting the term entrepreneurship there are resonances in the definitions. These terms are generic, that is, they are found in almost every definition of entrepreneurship. A discussion of the generic elements to the definitions of entrepreneurship follows in section 2.2.2 below.

2.2.2 <u>Generic elements to the definitions of entrepreneurship</u>

2.2.2.1 Entrepreneurs are risk takers

Risk is the quantifiable likelihood of loss or less than expected returns. It is the possibility of suffering harm, loss or danger. Risk can also be described as the variability of returns from an investment. Few if any entrepreneurs have escaped failure and apart from risking money, they also risk their reputation. Willingness to take calculated risks is one of the defining characteristics of an entrepreneur. Successful entrepreneurs only take calculated risks and are therefore not gamblers who will risk everything for the possibility of success. They are willing to take risks, but calculate the risk carefully and thoroughly, and will do everything possible to avoid failure and tip the odds in their favour. The risks are both financial and personal. In getting together an entrepreneurial team of co-founders and shareholders, entrepreneurs persuade others to share inherent financial and business risks with them. Creditors and customers are also included, since they might advance credit and payments (Van Aardt, Van Aardt and Bezuidenhout, 2002:8; Hellriegel *et al.*, 2004:146).

The following four critical risk areas in respect of the entrepreneur are identified (Van Aardt, Van Aardt and Bezuidenhout, 2002:8-9):

- Financial risks;
- Career risks;
- Family and social risks; and
- Emotional risks.

Entrepreneurs risk resources in the form of capital, land and human resources. Risk takers are greatly rewarded or compensated. The entrepreneur will risk his or her family in that less time will be spent with the family due to the nature of the career. Financial risk means the entrepreneur could lose all his or her money and personal assets should the business venture fails. Failure can also mean that the entrepreneur loses his status in society, especially if the venture goes bankrupt and the personal estate of the entrepreneur is sequestrated. Socially the entrepreneur will suffer in that he or she may be excluded in the community due to the myth of entrepreneurship. In the event of failure an entrepreneur's career will be at risk. The entrepreneur may also suffer emotional in that he or she will be operating in a turbulent business environment which is full of uncertainties (Nieman & Bennett, 2002:58).

2.2.2.2 Business opportunity

An opportunity is a situation or condition favourable for attainment of a goal. It can also be described as a possibility due to a favourable combination of circumstances and an occasion offering a possibility or chance. It is a good position, chance, or prospect for advancement or success. An opportunity is also a gap in the market which presents the possibility of new value being created. Opportunities are pursued with innovations, that is, a better way of doing business for a customer. Entrepreneurs are attuned to new opportunities and are motivated to pursue them (Wickham, 2004:197).

An entrepreneur must be able to identify opportunities in the business environment. Business opportunities are created by the unlimited needs of people and trends that

appear in the environment. A successful entrepreneur is one who has the ability to recognise business opportunities. The identified opportunity must be a real business opportunity. Resources are committed to exploit the recognised opportunity for personal gain. An identified business opportunity must be exploited effectively and timeousilly as the business environment is ever changing and there are also competitors. Entrepreneurs tend to be people who recognise business opportunities and marshal the necessary resources to exploit the opportunity for personal gain (Wickham, 2004:182).

Most entrepreneurs are constantly searching for new opportunities since they are seldom satisfied with their current status. Their strong focus on opportunity seeking means that they become familiar with their industries, customers and competition. This implies that entrepreneurs have an intimate knowledge of customers' needs, are market driven and are focused on value creation and enhancement. Quite often an entrepreneur who has gone through the stages of business growth will seek new opportunities and challenges (Nieman & Bennett, 2002:58).

Most researchers agree that entrepreneurship behaviour involves the taking of tasks in one way or another. In the business world there are variables such as interest rates and currency fluctuations, and new laws which are beyond production and control. The successful entrepreneur is an individual who correctly interprets the risk situation and then determines actions that will minimise the risk. Individuals in the community accept risks in providing products and services for society. Entrepreneurs are rewarded with profits for the risks they take and the initiative they show, but they suffer losses for errors in judgment (Cronje *et al.*, 2005:43).

2.2.2.3 A complex and unstable environment

The business environment is volatile. Entrepreneurs operate in an environment which is difficult to understand and predict. This is mainly due to the continuous change in government legislations on the operations of businesses and the ever changing customer needs. The entrance of new competitors as a result of globalisation also makes the business environment unpredictable. A successful entrepreneur is the one who is able to

understand the environment and exploit the available opportunities. The complexity of the business environment calls for fast and effective decision making and pro-activeness all the time (Hellriegel *et al.*, 2004:102- 103).

Organisations find themselves in an environment made up of macroeconomic features, stakeholders and competitors. This environment offers resources, but also challenges its availability. The available opportunities offer new possibilities such as new product development and growth in the market share whereas threats present the danger that current opportunities may be lost in the future. The environment is defined by a number of factors. In particular, how complex it is (i.e., how fast it is developing or changing, and how predictable those changes are). As with strategy, the influence of the environment or structure impacts through the way in which decision making is shaped. A known, slow-changing, predictable environment encourages centralised decision making. A new or fast-changing and unpredictable environment encourages decision making to be passed down to those in the organisation who are in contact with the environment (Wickham, 2004:197).

2.2.2.4 Innovation and creativity

Innovation can be described as a means of exploiting business opportunities. It encompasses the successful exploitation of new ideas or change that creates a new dimension of performance. The term innovation may refer to either radical or incremental changes to products, processes or services. The often unspoken goal of innovation is to solve a problem and it is a major driver of the economy (Wickham, 2004:183).

In the business environment, a new product or service must be substantially different, not only an insignificant change. The change must increase customer value or producer value. Innovations are intended to make entrepreneurs more financially secure as they are able to meet customer needs through being innovative and offer products that satisfy customer needs. The succession of many innovations grows the whole economy. In the organisational context, innovation may be linked to performance and growth through improvements in efficiency, productivity, quality, competitive positioning, and market

share. Organisations that do not innovate effectively may be destroyed by those that are innovative. This is due to the fact that innovative organisations respond to changes in customer needs and wants. The ability to respond to changes in customer needs and wants enhances an organisation's competitive advantage (Nieman & Bennett, 2002: 58).

Entrepreneurs have innovative ideas, because business involves new products, new processes, new markets, new materials and new ways of product development. Successful entrepreneurs and small business owners are innovative and creative. Innovation results from the ability to see, conceive, and create new and unique products, processes or services. Entrepreneurs see opportunities in the marketplace and visualise creative new techniques to take advantage of the identified opportunities. Innovation or the production of new or original ideas and products is usually included in any definition of creativity (Cronje *et al.*, 2005:43).

2.2.2.5 Vision

A vision is a goal, and it is usually outlined in the form of a vision statement. A vision statement focuses on tomorrow, it is inspirational, it provides clear decision-making criteria and it is timeless and indicates the ideal direction or guiding philosophy of the firm as well as its future position (Van der Walt, Kroon & Fourie, 2004:26). The competitiveness of the business environment due to globalisation requires comprehensive forecasting and an insight into the future. Successful entrepreneurs are able to anticipate and properly plan for the future. This requires the entrepreneur to be pro-active all the time. An entrepreneur's expectations mobilises or results in entrepreneurial activity. If the entrepreneurial spirit is absent, the factors of production will not be fully exploited (Cronje *et al.*, 2005:40).

The entrepreneur's vision is a picture of the new world he or she wishes to create. Vision exists in the tension between what is and what might be. A vision includes an understanding of the rewards that are to be earned by creating the new world and why people will be attracted to it. Vision specifies a destination rather than a route and it is created out of possibilities, not certainties. Vision is an important tool for an entrepreneur

as it defines where the entrepreneur wants to go, illuminates why he or she wants to be there and provides direction for how they might get there. It gives shape and direction to the venture (Wickham, 2004:267-269).

2.2.2.6 Change

Change is a transformation process and organisational change refers to any transformation in the design or functioning of an organisation (Hellriegel *et al.*, 2004:383). Entrepreneurship brings about change, growth and wealth in the economy. Winning nations have entrepreneur-driven economies. An entrepreneur must be flexible and adapt to change in order to keep in line with the changing trends. The business environment is continuously changing due to globalisation, hence the ability to change is an essential characteristic of a successful entrepreneur. These changes encompass a change in products, change in production methods and change in management styles (Cronje *et al.*, 2005:40).

Entrepreneurs are managers and they manage more than just an organisation, they manage the creation of a new world. This new world offers the possibility of value being generated and made available to the ventures' stakeholders. This value can only be created through change. This change is the way operations are done, change in organisations and change in relationships. It is more usually a reward to entrepreneurs for directing their actions in an appropriate way towards an opportunity (Wickham, 2004:267).

2.2.2.7 Energy and passion

People with entrepreneurial talents and skills are able to achieve more than others in mobilising productive resources by starting enterprises that will grow. Entrepreneurship is the spark that brings the other factors of production such as labour, capital and raw materials into motion. Starting a business venture requires dedication which implies that an entrepreneur must be committed. Successful entrepreneurs are passionate about

entrepreneurship and they are energised to put more effort into their business ventures in order to be competitive and ensure its future survival (Cronje *et al.*, 2005:40).

Entrepreneurs strive to achieve goals and measure success in terms of what their efforts have accomplished. Entrepreneurs learn to set challenging but achievable goals for themselves and for their businesses and, when they achieve them, to set new goals. They are driven by the need for achievement. This need energises them and they tend to work hard to achieve their goals. This energy is enhanced through passion. Entrepreneurs are passionate about what they do (Hellriegel *et al.*, 2004:32).

For entrepreneurship to occur there are certain elements that must be present. Without these elements there will be no entrepreneurship. Section 2.3 below discusses these elements in detail and clearly outlines the extent to which they are important in entrepreneurial activities.

2.3 THE ELEMENTS OF ENTREPRENEURSHIP

A closer analysis of the interpretation of the term entrepreneurship reveals that there are key aspects which support entrepreneurial activity. Entrepreneurship is not possible without these important aspects. A lack of these elements will mean that an entrepreneur will not be successful. The three important themes in the definition of entrepreneurship (refer to section 2.2.1, p.24) are:

- The pursuit of opportunities;
- Innovation; and
- Growth

Entrepreneurship strives on opportunities. Entrepreneurs are constantly searching for new opportunities and new ways of operating in order to be competitive and successful. This they do through being innovative all the time. Innovation will result in entrepreneurs coming up with new products and services or new and improved production methods. Through the entrepreneur's commitment and determination an entrepreneurial venture

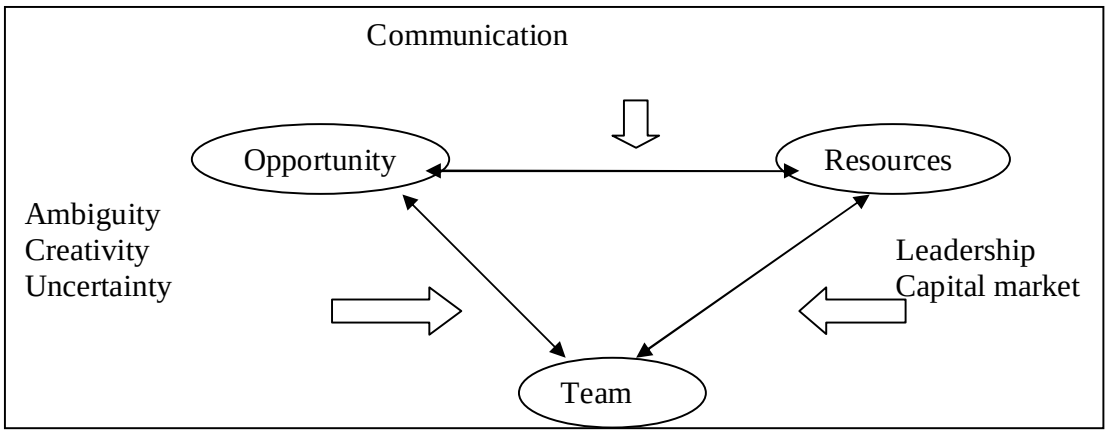
will grow. The pursuit for growth in the business venture is one of the defining characteristics of an entrepreneur (Nieman and Bennett, 2002:58). Entrepreneurs are pursuing opportunities to grow a business by changing, revolutionising, transforming, or introducing new products or services. To ensure the growth and development of their business ventures entrepreneurs must be innovative (refer to section 2.2.2.4, p.28) (Wickham, 2004:183).

For entrepreneurship to be initiated there are certain aspects that need to be in place. These aspects are interdependent and they cannot operate independently. For an identified business opportunity, there is need for a business plan in order to exploit the opportunity. The business plan communicates the manner in which resources, opportunity, and the entrepreneurial team will be harnessed. The exploitation of an opportunity requires resources such as capital and labour. An appropriate structure and a motivated team must be set up in order for an entrepreneurial venture to function effectively and also to be successful. All these aspects are dependent on a founder or lead entrepreneur (Rwigema & Venter, 2004:25). While most ventures are started in various ways, they share common features such as (Rwigema & Venter, 2004):

- An opportunity focus;
- A business plan;
- Resource acquisition and deployment;
- An appropriate structure and a motivated team; and
- A founder or lead entrepreneur.

Entrepreneurship therefore rests on the shoulders of an individual who orchestrates three interdependent variables namely opportunity, resources and an appropriate team. The relationship between these variables is depicted in figure 2.1 below.

Figure 2.1 Elements of the entrepreneurial process



Source: Adopted from (Rwigema & Venter, 2004:25)

Figure 2.1 above depicts the reciprocal interdependence among opportunity, resources and the team, which is anchored by a founding entrepreneur. Each element impacts on and is informed by the other two. A brief discussion of these elements and their importance to entrepreneurship is discussed below.

2.3.1 <u>Opportunity and resources</u>

Entrepreneurs identify opportunities and commit resources to exploit the identified opportunities. The survival and success of business ventures rests on opportunities. One of the defining characteristics of entrepreneurs is the ability to identify opportunities. The required resources are determined by an opportunity. The larger the opportunity, the greater the required investment in cash, staff, raw materials, buildings, and technical and information technology infrastructure. However, the quality and quantum of resources also determine the degree of opportunity realisation (Rwigema & Venter, 2004:25; Longenecker *et al.*, 2006:55).

The above argument clearly illustrates the importance of a strong resource base for the success of any business venture. It therefore means that adequate funding is a necessity for an individual to start a business. The discovery of an opportunity also entails calculated risk taking as a large number of resources are required to convert the opportunity into an operating business. Opportunity and resources are intertwined, i.e. they work together to ensure the success of an entrepreneur. This is due to the fact that without both an opportunity and the required resources, the business venture will fail. The availability of resources such as human resources, financial resources, buildings and equipment without an opportunity to exploit will not result in entrepreneurship.

2.3.2 Opportunity and the team

The link between opportunity and the implementing team is similar. Diversified talent is required for large and dynamic opportunities. A balanced team must be established, that is, the educational background and experience of individuals involved in the business will determine the success of the business venture. Where skills are absent or insufficient, opportunities may be forgone, under-exploited or delayed. Furthermore, a proactive entrepreneurial team is likely to achieve more than a timid, bureaucratic team. This implies that a team work approach is important for the success of an entrepreneurial venture, as the team complement each other in terms of skills and expertise such as financial management, selling and marketing management skills (Rwigema & Venter, 2004:25-26; Longenecker *et al.*, 2006:11, 55).

It can be noted from the above paragraph that the success of any venture highly depends on the entrepreneurial team's ability and knowledge levels. Therefore, it is of great importance for an entrepreneur to ensure the establishment of a balanced team in terms of expertise before committing the resources to ensure the long term success and survival of the enterprise.

2.3.3 Resources and the team

A positive relationship should exist between resources and the team, which itself is a resource. The team and resources must complement each other. The other factors of production such as capital and raw materials are utilised by the team and the team can not function where there are no other resources. The management team determines the relevance and necessity of other resources in the entrepreneurial process. It is the responsibility of the team to manage available resources in a professional and efficient manner. This is the reason why members of a team should possess sound managerial skills such as financial management, marketing management, human resources management, technical and people skills. These skills are required for the survival, growth and development, and success of an entrepreneurial venture. Moreover, a motivated and skilled team can compensate for inadequate financial and physical resources through their level of commitment. However, limited resources inhibit (in the short term at least) the efficacy of even an ambitious team. Limited resources can also impair the ability of a management team to be efficient and successful. A lack of resources will result in the entrepreneurial team not implementing specific effective strategies which can result in the success of a business venture (Rwigema & Venter, 2004:26; Longenecker *et al.*, 2006:11, 55).

Through proper planning and organising an entrepreneur will be successful. The available resources may be fully utilised though effective planning to achieve the goals of the enterprise. A proper plan of action to be followed must be drafted and implemented and should be in the form of a business plan. The objectives and goals to be achieved must be set and control mechanisms must be established. Controlling is important as it ensures the achievement of the set objectives and to take corrective action if the need arises (Griffin, 2005:652-653).

Against this background it is important for an entrepreneur to put in place a good management team to ensure the success of his or her business venture. This management must be in a position to always strive to keep the whole team motivated. A motivated

team will increase the productivity of the enterprise which in turn will lead to the growth and development of the business venture.

2.3.4 The entrepreneur as the anchor of all the elements

The entrepreneur is the galvanising force behind the business venture and is responsible for the blending of an opportunity, resources, and the entrepreneurial team to produce a new or distinctive product or service in the marketplace, to add value in the face of dynamic competition and a volatile environment. In a highly competitive world continuous innovation is required in order to maintain a competitive edge (refer to section 2.2.2.4, p.28). Entrepreneurs are adept net workers and readers who keep themselves abreast of developments. Building a sustainable, high growth venture that meets market needs demands alertness and continual innovation. Products, processes and skills must keep up with market tastes and economical, cultural, technological and other changes (Rwigema & Venter, 2004:26).

Entrepreneurs also act as agents of change. Managing change implies anticipating, executing, and monitoring it (refer to section 2.2.2.6, p.30). This requires proactive engagement with the external environment from which opportunities, resources, and the entrepreneurial team emanate. The entrepreneur must also exercise leadership in raising capital and needs a business plan for this. The business plan is necessary as it clearly articulate the marketing strategy to be adopted and describes the product (Rwigema & Venter, 2004:26; Hellriegel *et al.*, 2004:35).

The identified opportunities must be weighed to determine how feasible they are and a plan to exploit the opportunity must be put in place. This plan must be supported by adequate resources such as capital and human resources. As entrepreneurs act as agents of change, they turn threats into opportunities. This is only possible if an entrepreneur is able to adapt to change by being flexible. Flexibility implies the ability to adapt to change be it change in products or change in production methods (refer to section 2.2.2.6, p.30). Due to the competitive nature of the business environment and the complexity which

characterizes it, fast decision making and quick implementation of decisions will result in the success of the entrepreneur.

Entrepreneurship is important world wide. It is a vehicle for economic growth and development. Unemployment levels can be reduced through entrepreneurship. Hence entrepreneurs are important as they aid in poverty alleviation and improvement in standards of living. The importance of entrepreneurship in the developing world is discussed in section 2.4 below.

2.4 THE IMPORTANCE OF ENTREPRENEURSHIP IN THE DEVELOPING WORLD

The challenge being faced by most of the developing countries is the high rate of unemployment, closure of big companies which results in job losses and decreased standards of living. The developing world is poverty stricken and people do not have enough disposable income to purchase the basic necessities. The answer to all these challenges is the pursuit of entrepreneurship. Through entrepreneurship more employment opportunities can be created which results in improved standards of living. This is due to the fact that individuals will have disposable income and will be able to purchase goods and services. The poverty levels will also be reduced as a result of entrepreneurship (Steinhoff & Burgoss, 1993:4, 11; Rwigema & Venter, 2004:9-12).

Entrepreneurship is one of the most important drivers of local economic development. New firm formation and the activities of SMEs help drive job creation and economic growth through accelerating innovation and promoting the full use of human, financial and other resources. The vitality of the new and small firm sector is therefore a major determinant of local competitiveness, whilst low local economic performance, in this respect, influences national economic performance. Local economic performance refers to a country's economic activities at societal level. National economic activities are the total activities in the whole country which enables it to compete on a global level (OECD,

2005:1). A discussion of the importance and role of entrepreneurship in economic development follows below.

2.4.1 Entrepreneurship and economic development

The majority of the world's booming economies are the result of a vibrant entrepreneurial sector. The economic prosperity of the United States of America is mainly due to the embracing of the concept of entrepreneurship. Entrepreneurs take advantage of new wealth-creating opportunities that arise daily from constant change. The spirit of entrepreneurship transforms most countries' businesses and society through economic growth, improved standards of living and poverty reduction. The notable examples being Brazil, Thailand, Singapore, South Africa, the United Kingdom and America. Entrepreneurs stimulate and expand economic growth as discussed in the sub-sections below.

2.4.1.1 Entrepreneurs create new employment opportunities

The rapid development of the entrepreneurial economy has helped soften the pain of disappearing jobs by creating new jobs to replace those that are lost. Since 1980, the US has added 34 million new jobs. When entrepreneurs are able to create even more jobs than are eliminated due to the closure of big companies, they cut unemployment rates, ensure that less people depend on welfare since they are employed, and help to drive up wages (Anon., 2004:4). SMEs represent about 98% of domestic business activity in Brazil. This implies that 60% of the urban population and 45% of the formal labour force is employed in entrepreneurial firms (Best, 2005:1).

Small businesses play an important role in economic development in both developed and developing countries. Not all small-scale businesses are entrepreneurial, but collectively they make a significant economic contribution. It is among the larger but still small-sale ventures that employment prospects are more promising. In South Africa, 338 000 enterprises employed 734 000 people in 2001, an average of 2.2 employees per enterprise. Based on these figures and the current trend it can be stated that over three

million employees (including the self-employed) are working in the small and micro enterprise sector in South Africa. This amounts to nearly 30% of the 10.8 million people employed in South Africa in 2001 (Statistics SA, 2001:1).

The above paragraph clearly highlights the role of entrepreneurship with specific reference to small businesses in employment creation. Small businesses must therefore be fully supported by the government and other entrepreneurial agencies as they have the potential to ease the unemployment problems being faced by developing countries such as Zimbabwe. Failures to support small businesses and without a continuous supply of entrepreneurs the developing countries are likely to stagnate and decline economically.

The problem of high unemployment rates can therefore only be addressed through entrepreneurship. The role of entrepreneurship in employment creation is clearly illustrated by the case of America. In America unemployment is not a major economic challenge as the culture of entrepreneurship has been embraced and is thriving. The backbone of Thailand's economy is entrepreneurship as it currently has 32 000 registered new enterprises (Best, 2005:2). In Namibia one third of the population is employed in entrepreneurial firms (LaRRI, 2002:6).

2.4.1.2 Entrepreneurs create economic growth and new wealth for reinvestment in the country

Experience in many countries has shown that successful entrepreneurial activity is very important for a healthy market economy and can, specifically, be a major source of job creation. In third world countries and in under developed economic societies, job creation is a high priority. This is true of many countries in Sub-Saharan Africa. Entrepreneurship and the encouragement of this kind of activity are therefore important in these countries. Schumpeter (1934) described entrepreneurship as the driving force behind the economy. Shapero (1985) referred to entrepreneurship as a means of creating diversity, innovation,

development and independence by individuals in society (Bester, Boshoff & van Wyk, 2003:1).

Entrepreneurship has long been the main vehicle of Thailand's economic growth. The Thailand government and other related agencies have initiated several projects and activities to help strengthen and promote entrepreneurship. This has been necessitated by the realisation that economic growth can be achieved through entrepreneurship. Thailand has one of the highest rates of women entrepreneurship activity among Global Entrepreneurship Monitor (GEM) countries, which stood at 18.5% in 2002 (refer to section 2.4.1.1, p.38) (Best, 2007:2). This is a clear indicator that a large percentage of the population is employed by entrepreneurial firms and economic growth is as a result of these firms.

The economic growth generated by entrepreneurial companies is the core engine of a "virtuous cycle." A virtuous cycle is a condition in which a favourable circumstance or result gives rise to another that subsequently supports the first. Successful entrepreneurs, through their breakthrough technologies and rapidly growing businesses, create new wealth that can generate even greater economic growth. For successful entrepreneurs to reinvest some of their wealth, in other new entrepreneurial ventures, they invest with friends or family members (informal investments), through local investment networks ("angel" investments), and through organized venture capital firms. Angel investors are investment managers who provide high yield investment advice (Anon., 2004:5).

Entrepreneurs are goal driven and they are achievement oriented. Reinvestment is important in the economy and on the part of an entrepreneur. Through continual investments small business owners will move from being survivalists into large companies which are globally competitive. Reinvestment should be encouraged as it results in more job opportunities for people.

2.4.1.3 Entrepreneurs improve a country's global economic competition

Finding opportunities in change, entrepreneurs have pushed US companies into dominating positions in critical global industries such as the internet, biotechnology and pharmaceuticals. The most successful economies will be those where established industries rapidly adjust to changes in the global environment. By their very nature, entrepreneurs see ways to make the economy more adaptable. They do not do business "the way it has always been done" but rather make changes and introduce intense levels of competition into even established industrial sectors (Acs, 2006:101).

Due to globalisation the world has become a global village. Intense competition is now being witnessed in terms of business activities as a result of trade liberalisation (free trade). The economies which are able to survive this level of competition are the ones that are entrepreneurial driven. This is due to the fact that entrepreneurs are creative and innovative and they are able to offer customers the right products to suit their needs. Being in a position to compete will help to improve the standards of living of people in a specific country since quality products are offered at affordable prices.

Entrepreneurs have helped shape American companies into formidable international competitors. This is due to the fact that they have formed new companies and industries to take advantage of global change. As many entrepreneurs build their companies on new technologies and communications systems, they feel as comfortable selling their products and services internationally as they do in the USA. Small firms are becoming America's most successful exporters, showing the fast growth rates in terms of export value and the number of exporting companies (Anon., 2004:5).

According to Qiangui (2002) the number of SMEs in China had exceeded eight million, which results in a larger percentage of the population being employed in entrepreneurial ventures. The industrial output and export volume of these SMEs make up 60% of China's total Gross Domestic Product (GDP). SMEs which make up 99% of all enterprises in China are a vital force for the sustainable development of the Chinese economy.

Small businesses with fewer than 500 employees make up nearly 97% of all US exporting firms, and their importance is growing. Between 1987 and 1997, the number of these small company exporters tripled. Between 1992 and 1997 the value of small company export dollars also tripled to $171,9 billion. Companies with fewer than 20 employees have been the most successful exporters. They are the fastest growing both in numbers of exporters and in numbers of export dollars (Anon., 2004:5).

Entrepreneurship brings foreign currency through exports. This is important in that parts and raw materials which require foreign currency can be easily acquired. A favourable balance of payment and balance of trade will be maintained through exports because the country will have more exports as compared to imports and this is a healthy economic situation. This clearly shows the importance of entrepreneurs and the economic role which is played by entrepreneurship. Section 2.4.2 below discusses the societal contributions and significance of entrepreneurship.

2.4.2 Entrepreneurship and society

Entrepreneurship is an important aspect of the society as it brings societal development and helps in the alleviation of poverty within the society. Although they face risks, entrepreneurs discover innovations to exploit opportunities. This results in the building and growth of entrepreneurial ventures. A discussion of the role of entrepreneurship in society follows below.

2.4.2.1 Entrepreneurs use innovation to improve the quality of life of citizens

Entrepreneurs use innovations to improve the quality of life of a society's citizens. They create new technologies, new products, and new services that multiply the choices and enrich the lives of individuals. People's lives are enriched in that it is made easier, innovation makes individuals more productive at work, and they are entertained in new ways, improving their health, helping people to communicate better with one another and in other countless ways through technological changes. As a result of the established

entrepreneurial ventures the quality of life of the entrepreneur is enhanced. Entrepreneurial ventures provide an enhanced quality of life to employees, customers, and the community (Marcketti, Niehm & Fuloria, 2006:241-259).

Through innovation efficient and effective methods of performing tasks in the work place can be adopted. These will in-turn result in increased productivity. An increase in productivity will lead to increased chances of survival, growth and competitiveness of companies. The advent of the internet has also made communication simple and easy. The emergence of computers and the internet is mainly as a result of the innovativeness of entrepreneurs.

Small entrepreneurs lead the way in developing ideas. They are responsible for more than half of all innovations. In America 67% of inventions and 95% of radical innovations since world war two are attributed to the innovativeness of entrepreneurs. In addition to bringing particular inventions to the market, entrepreneurs have created whole new industries that are integral parts of people's daily lives. New industries that did not exist a generation ago include personal computing, voice mail, cellular phones, fast oil changes, internet shopping, convenience foods, superstores, and digital entertainment. Entrepreneurs often bring new products and services when larger companies lack the vision or interest to bring innovations to the market (Anon., 2004:3-4). The importance of innovation in entrepreneurship is clearly outlined above. Entrepreneurs highly depend on innovation to succeed and be competitive in a turbulent and globalised business environment.

2.4.2.2 Entrepreneurs are involved in socio-economic programs

Entrepreneurs require the support of society to ensure the success of its entrepreneurial activities. To obtain such support, entrepreneurs are involved in activities where they sponsor community development projects. For example, they can carry out clean-up campaigns or they can donate medication for the needy in society. Entrepreneurs may also sponsor youth activities through sports so that they can cultivate a culture of responsibility among the youth. Social responsibility will lead to a closer relationship

between the entrepreneur and the communities in which they operate. This cordial relationship is helpful in that the entrepreneur will receive the necessary support that he or she requires for the success of their business ventures and loyalty can also be achieved. Entrepreneurship plays a significant role in the educational system and section 2.4.2 below outlines the relationship between entrepreneurship and education.

2.4.3 Entrepreneurship and education

As entrepreneurial knowledge proliferates, so do schools, universities, and other educational institutions. In industrialised countries, entire schools exist for entrepreneurship. Entrepreneurship is increasingly being taught as a stand-alone module or as a major subject. As a result of the spread of capitalism and globalization, entrepreneurship continues to gain importance. Due to globalisation entrepreneurs are being exposed to competition world wide. As tariffs reduce and trading spills national borders, survival will depend upon the creativity of a country's entrepreneurs (Rwigema & Venter, 2004:10).

Globalisation has resulted in intense and fierce competition in the world market. The world is slowly becoming a global village and as a result of this it is now difficult for people to secure employment. This is due to the fact that employment in the formal sector declines and companies are increasingly outsourcing work to countries with cheap labour. Therefore it becomes imperative to teach entrepreneurship in schools in order to prepare people for the future. The entrepreneurial spirit can be instilled into people at an early age thereby encouraging them to be innovative and creative. Through innovation and creativity more jobs can be created which will help in improving the standard of living of people as they will be having disposable income. Innovation and creativity will also lead to economic development and growth, since more business ventures will be established through entrepreneurship.

2.4.4 Entrepreneurship and the political environment

The impact of change and the need for entrepreneurship is pertinent in education, sport, charity work and in virtually every aspect of life, including politics. Coping with change, although stressful, is potentially rewarding. Those who analyse the situation accurately and reposition strategically, change the odds in their favour. Opportunities are present in all spheres even where there are threats. For example, in the United States and other industrialised western nations, parties are run on business principles, parlaying their leaders as marketable 'products' (Rwigema & Venter, 2004:12).

Those organisations and politicians who continually apply entrepreneurial skills will have a competitive edge as compared to those who cling to the status quo. This therefore means that there is a need for change in the way different entities operate because in today's business world there is no room for inertia. Entrepreneurial leadership therefore remains relevant in the political arena, non-profit organisations and social and cultural ventures. In short, entrepreneurship is pertinent to every endeavour. Its principles apply wherever people aspire to manage change.

The above discussion is aimed at highlighting the role played by entrepreneurship in economic development and the significance of entrepreneurship. For organisations, both profit making and non-profit making, to survive, grow and develop they need to embrace entrepreneurship. Entrepreneurship enhances the competitiveness of businesses as they operate according to international standards due to the global nature of the business environment. It is universally relevant to all business and must be fully integrated into their operations as it is the cornerstone of the growth and survival of organisations. Without entrepreneurship the lifespan of many businesses will be shortened.

Although entrepreneurship is important, there are certain beliefs or aspects that are put across by people which stifles entrepreneurship. These beliefs are termed myths and they discourage the growth and development of entrepreneurship. Furthermore, they are a

hinderance to emerging entrepreneurs as they are also discouraged by these myths. A brief discussion of the myths surrounding entrepreneurship follows below in section 2.5.

2.5 A MYTHICAL FOCUS ON ENTREPRENEURSHIP

Entrepreneurship is a very important aspect for economic growth and development. The challenge of unemployment can be solved through engaging in entrepreneurial activities. Although entrepreneurship is important there seems to be a lack of knowledge with regard to it. People do not understand entrepreneurship which has given rise to the different myths surrounding entrepreneurship as discussed in section 2.5.1 below.

2.5.1 The different myths surrounding entrepreneurship

The different myths surrounding entrepreneurship portray people's ignorance of entrepreneurship. The myths stifle the emergence of entrepreneurs as they are discouraged from undertaking entrepreneurial activities. When talking about entrepreneurs, people tend to stereotype them, and entrepreneurship is often referred to as a characteristic that leads to underhandedness, for example, a student who sells his or her tasks or test papers to others to generate income. Van Aardt *et al.* (2000:10:12); Kuratiko & Hodgetts (2004: 30-33); Cronje *et al.* (2005:40) and Nieman & Bennett (2002:58) identified fifteen popular myths about entrepreneurs, namely:

- **Entrepreneurs are doers, not thinkers**

Although it is true that entrepreneurs tend towards action, they are also thinkers. Indeed, they are often methodical people who plan their activities carefully. The emphasis is today on the creation of clear and complete business plans which is an indication that "thinking" entrepreneurs are as important as "doing" entrepreneurs.

The ability to think is a requirement for an individual to be a successful entrepreneur. This is being necessitated with the emergence of competition which has resulted in

products being similar. For an entrepreneur to be successful under competitive conditions innovation is therefore essential since it is a product of creative thinking.

- **Entrepreneurs are born, not made**

The idea that the characteristics of entrepreneurs cannot be taught or learned, that they are innate traits an entrepreneur must be born with, has been prevalent for a long time. These traits include aggressiveness, initiative, drive, a willingness to take risks, analytical ability, and skill in human relations. Today, however, the recognition of entrepreneurship as a discipline is helping to dispel this myth. There exist models, processes and case studies in entrepreneurship to be studied and knowledge to be acquired. These are available so that the concept of entrepreneurship can be better understood.

While entrepreneurs are born with certain native intelligence, a flair for creating, and energy, these talents in themselves are like unmoulded clay or an unpainted canvas. The making of an entrepreneur takes place by accumulating the relevant skills, know-how, experience and contacts over a period of years and includes large doses of self-development. The creative and capacity to envisage and then pursue an opportunity is a direct descendant of ten or more years of experience that have led to pattern recognition.

- **Entrepreneurs are always inventors**

The idea that entrepreneurs are inventors is a result of misunderstanding from people. Although many inventors are also entrepreneurs, numerous entrepreneurs encompass all sorts of innovative activity. Entrepreneurship encompasses innovation and creativity. It requires a complete understanding of innovative behaviour in all forms. For entrepreneurs to survive they must be innovative; this may be by introducing new products or services or improved efficient and effective methods of production.

Due to the competitive nature of the business environment innovative entrepreneurs have a competitive advantage. This is the result of products that are becoming similar in nature

hence there is a need for innovation and creativity in order to differentiate the products of a business from those of its competitors.

- **Entrepreneurs are academic and social misfits**

The belief that entrepreneurs are academically and socially ineffective is a result of some business owners having started successful enterprises after dropping out of school or quitting a job. This, however, is not always the case, as entrepreneurship is a skill which must be acquired and it is also one of the factors of production. Entrepreneurship is that spark that brings the other factors of production into motion.

The availability of labour, capital and raw materials without the entrepreneurial spirit will not result in entrepreneurship. An entrepreneur utilises all other factors of production and the success of a business venture depends on how entrepreneurial an individual is. This being the case, an entrepreneur compliments and completes the factors of production. (refer to section 2.3, p.31).

- **Entrepreneurs must fit the profile**

Many books and articles have presented checklists of characteristics of the successful entrepreneur. These lists were based on case studies and on research findings among achievement-oriented people. This means that studies about entrepreneurs were carried out and they tend to exhibit the same characteristics such as energy, passion and an achievement orientation. Today it has been realised that a standard entrepreneurial profile is hard to compile. The environment, the venture itself and the entrepreneur have interactive effects, which result in many different types of profiles.

Due to the ever changing trends in the business environment it is currently difficult to develop unique characteristics that define an entrepreneur as it is now depended on how well an entrepreneur exploits the opportunities in a complex and unstable environment. This is due to the fact that the survival of an entrepreneurial venture now depends on the

flexibility of the entrepreneur, i.e. the ability to adapt to change and meet customer needs and expectations.

- **All entrepreneurs need is money**

It is true that a venture needs capital to survive, it is also true that a large number of business failures occur as a result of a lack of adequate financing. However, having money is not the only hedge against failure. Failure due to a lack of proper financing is often an indicator of other problems. These problems include managerial incompetence, a lack of financial understanding, poor investments, and poor planning. Many successful entrepreneurs have overcome the lack of money while establishing their ventures. To those entrepreneurs, money is a resource, but never an end in itself. Proper planning, management and organising are essential elements in the survival of an entrepreneurial venture and must be combined with proper financing.

- **All entrepreneurs need is luck**

In the business environment the concept of "luck" is not applicable, since the success of an entrepreneur depends on his or her preparedness to exploit any opportunity that might arise. Prepared entrepreneurs who seize an opportunity when it arises will always have a competitive edge over the others. This is due to the fact that they take the initiatives ahead of competitors and they establish the new product first. They are in fact simply better prepared to deal with situations and turn them into a success. Successful entrepreneurs are quick to realise an opportunity and exploit it before competitors. What appears to be "luck" is preparation, determination, desire, knowledge and innovativeness.

Entrepreneurship is not built on "luck", but it is a characteristic that is possessed by a few individuals. It depends on an individual's ability to exploit the other factors of production such as capital, labour and raw materials. These factors are utilised to exploit an identified business opportunity which as one of the key determinant characteristics of successful entrepreneurs.

- **Ignorance is bliss for entrepreneurs**

The myth that too much planning and evaluation lead to constant problems, that over-analysis leads to paralysis does not hold up in today's competitive markets, which demand detailed planning and preparation. Identifying a venture's strengths and weaknesses, setting up clear timetables with contingencies for handling problems and minimising these problems through careful strategy formulation are all key factors for successful entrepreneurship. Thus careful planning is the mark of an accomplished entrepreneur.

- **Entrepreneurs seek success, but experience high failure rates**

It is true that many entrepreneurs suffer a number of failures before they are successful. In fact, failure can teach many lessons to those willing to learn and often leads to future successes. Due to the energy, passion and commitment of entrepreneurs they are able to turn failures into success. Entrepreneurs are not easily discouraged and they are achievement oriented and always motivated to succeed. A belief in themselves (i.e. self-belief) is necessary to succeed, but that failure can lead to success in the future.

- **Entrepreneurs are extreme risk takers (gamblers)**

Risk is a major element in the entrepreneurial process. However, the public's perception of the risk most entrepreneurs assume is distorted. Although it may appear that an entrepreneur is taking risks, the fact is the entrepreneur is usually working on a moderate or "calculated" risk. Entrepreneurs usually commit resources after calculating their chances of success. Most successful entrepreneurs work hard through planning and preparation to minimise the risk involved in order to better control the destiny of their vision.

Successful entrepreneurs take very careful, calculated risks. They attempt to influence their chances of success positively by getting others to share their risk with them and by

avoiding or minimising risks if they have the choice. Often they slice up the risk into smaller pieces and only then do they commit the time or resources to determine whether that piece will work. They do not deliberately seek to take more risks or take unnecessary risk, nor do they shy away from unavoidable risks.

These ten myths have been presented to provide a background for today's current thinking on entrepreneurship. By sidestepping these myths, a foundation can be built for critically researching the contemporary theories and processes of entrepreneurship.
Entrepreneurship is important world wide as a vehicle for economic growth and development. Unemployment levels can be reduced through entrepreneurship and entrepreneurs are important as they aid in poverty alleviation and contribute to improvements in the standards of living.

2.6 SUMMARY

This chapter emphasised that entrepreneurship is always about creation. Most creative endeavours, especially entrepreneurial endeavours, is shaped by ego, namely the ego satisfied by the control of destiny and the ego satisfied by accomplishment. Linked to creativity is innovation. The survival of many entrepreneurs and the success of entrepreneurial ventures is directly linked to creativity and innovation. Entrepreneurs are achievement oriented and they aim for growth. Risk taking is one of the main defining characters of entrepreneurs. Without the taking of risk, entrepreneurs will not be compensated. However, entrepreneurs take calculated risks and they weigh their chances of success continuously before committing their resources.

The success of entrepreneurs is dependent on the identification of opportunities. Resources are important for opportunity exploitation. These resources are human resources, capital, land, machinery and equipment. A business plan is drawn and it is important as it communicates the manner in which resources, opportunity, and the entrepreneurial team will be harnessed. It is important that an entrepreneur puts a well balanced entrepreneurial team in place. The entrepreneurial team is essential as it

complements each other in terms of skills and areas of expertise. The team is an important aspect of entrepreneurship and it results in the success of the entrepreneurial venture.

Entrepreneurship is an important aspect which should be fully embraced for economic growth and development. Through entrepreneurship more jobs are created, the improved standards of living of people can be achieved and poverty is reduced. The notion of entrepreneurship is applicable in all spheres of life and society ranging from NGOs, politics, education and the economy. Survival in a globalised world therefore depends on the ability of an individual or a country to be entrepreneurial oriented.

The next chapter will be an overview of the SME sector in Zimbabwe. The different definitions of small and medium enterprises (SMEs) will be discussed, the role of SMEs in the Zimbabwean economy will also be highlighted, the role of SEDCO in SME development, the challenges faced by SMEs will be studied and finally the support measures to help entrepreneurs will also be identified and discussed.

CHAPTER 3

AN OVERVIEW OF SMALL AND MEDIUM ENTERPRISES IN ZIMBABWE

3.1 INTRODUCTION

In Zimbabwe there is a realisation that Small and Medium Enterprises (SMEs) are innovative, flexible and require low start up capital. There is an increased interest in pursuing SMEs as a poverty reduction strategy. SMEs account for the employment of at least 57% of the productive population in Zimbabwe. The current formal unemployment rate in the country is approximately 80% (Robertson, 2007). This figure is fast increasing due to the shrinkage in the formal sector, subsequent retrenchments and the outpouring of graduates from tertiary institutions joining employment seekers while the formal sector can only absorb 20 000 graduates or less annually (Ndlovu & Ngwenya, 2003:6). Robertson (2007) stipulates that with 80 percent formal unemployment and shrinking productivity, few of the 2 million young people and graduates who turned 18 since 2000 found jobs with a regular income, training, advancement or career prospects.

The term SMEs covers a wide range of definitions and measures, varying from country to country and between the sources reporting SME statistics. Some of the commonly used criterions are the number of employees, total net assets, sales and investment level. However, the most common definitional basis used is employment, but, there is a variation in defining the upper and lower size limit of an SME (Ayyagari, Beck & Demirguc-Kunt, 2003:4).

This chapter comprises of eight sections. These sections are an introduction to an overview of SMEs in Zimbabwe, definitions of SMEs and generic elements to the definitions of SMEs, the nature of SMEs, the role of SMEs in the Zimbabwean economy, government support measures for the establishment of SMEs in Zimbabwe, the role of Empretec, ILO and SEDCO in the establishment of SMEs in Zimbabwe, challenges facing the SME sector in Zimbabwe and the summary.

In the next section, the various definitions of SMEs are explored in section 3.2 on the next page.

3.2 DEFINITIONS OF SMALL AND MEDIUM ENTERPRISES

SMEs will be defined from both a Zimbabwean perspective and an international perspective. These definitions are aimed at highlighting the similarities and differences of definitions over borders. There are differences that exist in these definitions due to differences in the economic systems of countries and some of the variables used in the description of SMEs world wide. There are also similarities in the definitions of SMEs which is mainly due to the importance of the SME sector world wide.

3.2.1 Zimbabwean definitions of Small and Medium Enterprises (SMEs)

The Zimbabwean definitions of SMEs, as discussed by the literature, are illustrated by table 3.1 below.

Table 3.1 Zimbabwean definitions of SMEs

Definition	Reference	Description
A	Government of Zimbabwe (2000a)	*The government of Zimbabwe defines a small enterprise as one that employs not more than 50 people with assets of less than Z$3.0 million, and acting as a registered entity. Medium enterprises are employing up to 75 and 100 people with a capital base of between Z$7 million to Z$12 million.*
B	Ministry of Small and Medium Enterprise Development in Zimbabwe (2002)	*A registered enterprise with employment levels ranging from 30 to 70 employees and depending on the type of industry will be referred to as a small or medium scale enterprise.*
C	Small Enterprise Development Corporation (SEDCO) of	*An SME is an enterprise employing not more than 75 people with a fixed asset*

	Zimbabwe (2004)	*base not exceeding Z$500 000.*

For the purposes of this study a Small and Medium enterprise refer to a registered company with a maximum of 100 employees and an annual turnover in sales of a maximum of 830 000 US dollars (refer to section 1.1, p.2).

3.2.2 International definitions of SMEs

The international definitions of SMEs, as discussed by the literature, are illustrated by table 3.2 below.

Table 3.2 International definitions of SMEs

Definition	Reference	Description
A	Ayyagari, Beck & Demirguc-Kunt (2003:4-5)	*SMEs are formal enterprises which have a cut-off range of 0-250 employees.*
B	Cronje *et al*. (2001:495)	*An SME in South Africa is any business with fewer than 200 employees, an annual turnover of less than R5 million, capital assets of less than R2 million, and the owners are directly involved in the management of the business.*
C	Quartey (2001:5)	*In developing countries a small firms employs between 5 and 9 employees, whilst a medium firms employs between 20 and 90 employees.*
D	United States of America Small Business Administration (2004)	*An SME is an entity that is independently owned and operated, and is not dominant in its field of operation.*

E	European Union (2004)	*A small firm employs fewer than 50 employees and a medium firm has fewer than 250 employees.*

3.2.3 Generic elements to the Zimbabwean and international definitions of SMEs

Characteristic to the Zimbabwean and international definitions of SMEs are similar or related features which are termed generic elements. These elements are encompassed in almost all the definitions. The common features are the number of employees, capital base, assets and that the enterprise must be registered. A discussion of the generic elements of the definitions of SMEs follows below.

3.2.3.1 Employees

Employees which are often referred to as human resources are one of the most important resources of a business organisation. The growth of a business may sometimes be measured using the number of employees. An increase in the number of personnel may be a signal for the growth and development of a business entity and it might also be indicative of the level of success and how well the business is performing.

An analysis of both the Zimbabwean and the international definitions of SMEs show that there is now agreement as to what constitutes an SME in terms of the number of employees. The minimum number of employees is 50 and the maximum is approximately 500 for medium enterprises depending on the industry or sector. Small enterprises have between 1 and 50 employees and this largely depends on the industry with the manufacturing sector employing the largest number of employees in both small and medium enterprises.

3.2.3.2 Capital base

An identified business opportunity requires resources and capital is one of the essential resources for exploiting an opportunity. Without capital entrepreneurship will not take place. The capital needs of businesses differ according to the type of industry or sector. As per the definition there is no holistic or fixed amount of capital across borders which may be attributed mainly to the different currencies in use and the different levels in terms of economic development. What is of great importance is that sufficient capital must be made available, so that the SMEs will be successful as they will be able to grow and develop.

3.2.3.3 Assets

For production to take place a business must have assets. These assets are divided into two characteristics, namely non-current assets and current assets. Non-current assets include goodwill, land, buildings, equipment, machinery and motor vehicles. Current assets encompass cash, bank (cash or money in a business bank account), debtors and inventory. The assets being referred to in the definitions are non-current which are required in the production process. Current assets are required for meeting day-to-day business operating expenses. As per the definition the asset base differs across borders, but it is essential that a company should have a sufficient capital base for production purposes and also for everyday operations.

3.2.3.4 Registered

In the economy there are both formal and informal business organisations. The formal businesses are registered for tax purposes whilst the informal businesses are not registered and they do not usually pay taxes. Most governments, in calculating their Gross Domestic Product (GDP) and Gross National Product (GNP), focus on the formal and registered business organisations. There seems to be an agreement in both the Zimbabwean and the international definitions of SMEs that an SME must be registered and be formal. This is essential as it enables governments to assess the contributions of SMEs to the economy if they are properly registered.

3.3 THE NATURE OF SMEs

The term "nature" refers to the essential characteristics and qualities of a person or thing (Answers.Com). In this instance the essential characteristics of SMEs are outlined. Because the economies of countries differ, it is difficult to provide a universally accepted definition of an SME. However, some important characteristics of SMEs can be distinguished. In developing countries, with a shortage of capital and growing labour surpluses, the following characteristics of SMEs are observed (Cronje, Du Toit & Motlatla, 2001:492):

- SMEs are generally more labour intensive than larger businesses;
- On average, SMEs generate more direct, and possibly also more indirect, employment opportunities per unit of invested capital. In service industries the capital invested per employment opportunity is even less;
- SMEs are an instrument for utilizing the talents, energy and entrepreneurship of individuals who cannot reach their full potential in large organisations;
- Smaller businesses often flourish by rendering services to a small or restricted market which larger businesses do not find attractive;
- SMEs are a breeding ground for entrepreneurial talent and a testing ground for new industries;
- SMEs make a contribution to the competitiveness of the economy; and
- SMEs create social stability since they cause less damage to the physical environment than larger factories, stimulate personal savings, increase prosperity in rural areas and enhance the population's general level of economic participation.

SMEs also offer ample opportunities for personal initiative, innovation and the development of new products, services and techniques. Because of the competition that small enterprises engender, they serve as a cornerstone of free markets. Small businesses also play an important role in the social life of the free-market system as they bring competition in the business environment. This competition eliminates monopolies and

encourages free trade which results in quality products and services being offered to customers (Longenecker *et al.*, 2006:14).

The small business is a partner to big business and provides products and services that normally cannot be provided by the latter. This they do through special niche markets and the niche might consist of a uniquely specialised service or product, or it may be a focus on serving a particular geographical area. By finding a special niche, a small business may avoid intense competition from big business. A small business gives an entrepreneur an opportunity to enter the business world. Sometimes a small business is the only provider of necessary products and services in thinly populated and small markets (Longenecker *et al.*, 2006:15).

SMEs are important world wide and their contributions are being recognised globally. The influence of SMEs on the economy is of major importance. In addition to their key role as providers of employment, they initiate technological innovation, play a role in the production of new products and the establishment of new businesses, and support large businesses as suppliers and subcontractors. Small business is important world wide and the World Bank estimates that one of the strongest factors in the growth of any nation's GNP is the presence of SMEs. Today, widespread efforts are being made in almost all nations to encourage the development of SMEs. Governmental efforts range from small contributions of capital or time, to large, multi-dimensional programs that cross multiple national boundaries. For these reasons small businesses deserve much more attention, especially with regard to management education (Cronje *et al*., 2001:498).

It is against this background that the role of SMEs in the Zimbabwean economy is discussed.

3.4 THE ROLE OF SMEs IN THE ZIMBABWEAN ECONOMY

In recent years there has been increasing awareness by governments in the developing world of the role played by SMEs and their contribution to the economy. The importance of the small business sector is also recognised internationally in terms of its contribution to employment creation, GDP and innovation. In the Zimbabwe situation, the development of the small business sector is regarded as crucial for the achievement of broader development objectives. These objectives include poverty alleviation, spreading employment to rural areas, improving the situation of women and increasing indigenous ownership of investment in the economy (Nyoni, 2002:1). A discussion of the contribution of the SME sector to the Zimbabwean economy follows below.

3.4.1 SMEs creates employment opportunities

Since the opportunities on formal employment are shrinking globally, there is a need to turn the focus to the SME sector as the potential for investment and for making a meaningful contribution to employment generation. As conventional sources of employment are shrinking, formal employment opportunities are becoming increasingly limited in Zimbabwe. The medium term experience in the economy has been that investment levels are not sufficient to generate employment for the 300 000 graduates in Zimbabwe on an annual basis (Nyoni, 2002:2; Rwafa, 2006:8).

The lack of employment opportunities in Zimbabwe turns the focus on the SME sector as the potential for investment and for making a meaningful and substantial contribution to employment generation. As the primary employment-creating sector of the Zimbabwean economy, small businesses are responsible for the livelihood of millions of Zimbabweans as they employ the largest number of people which result in them having disposable income (refer to section 3.1, p.69). The availability of disposable income will therefore enable people to purchase goods and services which they need for their day-to-day survival (Nyoni, 2002:1-2; Ndlovu & Ngwenya, 2003:6).

3.4.2 Contribution of the SME sector to the economy

In the Zimbabwean context, there is increasing awareness within all sectors that large projects are less likely to generate the requisite employment opportunities, given the high capital-intensity of employment creation. Experience in Zimbabwe, as is the case globally, has shown that SMEs are more flexible and responsive to changes in the market. They require relatively less capital, and therefore have the potential to generate significant levels of sustainable employment for skilled and semi-skilled labour (Ndlovu, 2004:8). Among the potential benefits of SME developments are (Nyon1, 2008):

- Mobilising and stimulating the vast potential for entrepreneurship;
- Facilitating a wide economic base and the creation of wealth;
- Increasing the nation's wealth through fuller utilisation of all the country's human resource capabilities;
- Developing an economic structure that is self-sustaining with a high degree of sectoral linkages; and
- Increasing indigenous ownership of investment in the economy.

The Zimbabwean government has identified SMEs as the engine for national growth and a vehicle for economic development since SMEs contribute more than 50% of the GDP of the country. This is the result of a macro-economic meltdown that has seen, in the past 5 years, Zimbabwe experience a 50% decline in economic growth, 60% closure in factories, a 60% formal unemployment rate and a near 100% decline in foreign currency reserves. Inevitably, this has lead to an increase in informal trading, with each and every empty space in urban areas transformed to a flea market, fruit vendor, and carpentry or iron craft workshop. Zimbabwean craft ware has found its way to top galleries from Cape Town to Cologne, all through the ingenious creativity of SMEs (Ngwenya, 2006).

SMEs play an important role in economic growth, social development and overall poverty eradication. Economic growth is achieved through the establishment of successful entrepreneurial ventures. These ventures will create employment opportunities

for the people in the society in which they will be operating. Employment opportunities will result in people having disposable income which leads to the demand of goods and services and ultimately purchase of the commodities in demand. Disposable income will lead to improved standards of living and will also result in the reduction of poverty levels in the country (Chuma-Mkandawire, 2004:13).

The SME sector in Zimbabwe is also a major role player in national development, employment creation, uplifting of the standards of living for urbanites, as well as the promotion of urban economies. This has been necessitated by rural-urban migration which has resulted in many people migrating to urban areas. Due to SMEs diversity in nature, character and business exploits, SMEs have become a vehicle for economic emancipation and sustainable development. As a result, local authorities have taken a firm stance in implementing government policy to stimulate SME growth, which will ultimately result in economic growth (Simbi, 2004:16). To accelerate growth and reduce poverty, the World Bank Group and other international aid agencies provide targeted assistance to SMEs in developing economies. For example, the World Bank Group approved more than $10 billion in SME support programmes over the last decade, including $1.5 billion in 2002 (Beck, Demirguc-Kunt & Levine, 2003:2).

The pro-SME policy of the World Bank is based on 3 core arguments. First, SME advocates argue that SMEs enhance competition and entrepreneurship and hence have external benefits on the economy. These benefits are efficiency, innovation, and aggregate productivity growth. From this perspective, direct government support of SMEs will help countries exploit the social benefits from greater competition and entrepreneurship. Secondly, proponents of SME support frequently claim that SMEs are generally more productive due to their ability to specialize in special-niche areas compared to large firms, but financial market and other institutional failures impede SME development. Thus, pending financial and institutional improvements, direct government financial support to SMEs can boost economic growth and development. Finally, the advocates of SME development also argue that SME expansion boosts employment more

than large firm growth because SMEs are more labour intensive. From this perspective, subsidising SMEs may represent a poverty alleviation tool (Beck *et al.*, 2003:2).

Due to the innovative nature of SMEs, they aid economic development. This is a result of new products and services in the market or in the form of new and improved production methods which result in the efficient and effective exploitation of opportunities and resources. The end result of innovation and creativity is economic growth. A strong SME sector will therefore result in poverty eradication and improved standards of living. A country will also be able to compete globally if it has a vibrant SME sector as it is in a position to offer standardised and quality products which comply with international standards (Gono, 2006:1-2).

The influence of SMEs on the economy of a country is therefore of major importance. In addition to their key role as providers of employment, they initiate technological innovation, play a role in the production of new products and the establishment of new businesses, and support large businesses as suppliers and subcontractors. For these reasons small businesses deserve much more attention, especially with regard to management education (Cronje *et al.*, 2001:498).

The potential of SMEs to provide employment in Zimbabwe could be doubled in the next 10 years. To this end a specific strategy to encourage the survival, growth and development of SMEs needs to be developed by the Zimbabwean government. This strategy will enable SMEs to achieve their goals which include employment creation, improving standards of living and poverty alleviation. The Zimbabwean government should include the following in their strategy (Gono, 2006:1-2):

- The creation of an environment conducive to entrepreneurship and the development of SMEs;
- Mobilisation of financial resources to promote SMEs through financial aid programmes;

- Provision of low-cost, affordable premises that may be leased or bought by SMEs in areas where there are none at present;
- The upgrading of SME management skills and knowledge (training); and
- The establishment of appropriate professional support programmes.

SMEs have become increasingly important to Zimbabwe's economic growth. Given the number of retrenches due to the economic downturn Zimbabwe has experienced since 2000, SMEs offer the best alternative means of livelihood for the majority of the people in the country. As a result, there is a definite need to support the growth of the SME sector in Zimbabwe so that it contributes more meaningfully to national economic development. Against this background support services for the establishment of SMEs offered by the Zimbabwean government are discussed below.

3.5 GOVERNMENT SUPPORT MEASURES FOR THE ESTABLISHMENT OF SMEs IN ZIMBABWE

The major advantages of a small business are its potential for innovation, flexibility, low start-up costs, rapid development and the distribution of risk. Small businesses provide a solution to the employment problems facing Zimbabwe since the majority of the people are employed in this sector. This is due to the fact that large companies are closing down and others are downsizing their operations. Small businesses, however, encounter a cascade of constraints in financing, management capabilities, access to information sources, technology support, marketing and export facilities and bureaucracy. All of these make it difficult for small businesses to establish themselves and compete in a free market (Nyoni, 2002:1).

The government of Zimbabwe, through the Ministry of Industry and International Trade, and in conjunction with the Ministry of Youth Development, Gender and Employment Creation established a Policy Document for the support of Small, Micro and Medium Enterprises (SMMEs), which was approved by Cabinet in July 2002. The document maps out strategies to address various obstacles facing the small business operator. This policy

document is aimed at providing a shared vision by all stakeholders in advancing the cause of small business and providing an enabling environment for them to realise their full potential. In a bid to strengthen the SME sector the government of Zimbabwe has set up an SME bourse to promote their activities so that SMEs will be listed on the Zimbabwe Stock Exchange (ZSE). An SME bourse is a secondary stock exchange which is aimed at enhancing the SMEs' financial position as well as improving SME growth (Gogo, 2007; Hwamiridza, 2007).

In spite of the importance of the SME sector, various barriers to entry have been identified. These barriers range from a hostile regulatory environment, limited access to finance, inadequate management and entrepreneurial skills. The SME policy of the government of Zimbabwe maps out measures to address these constraints. It is recognised that although various initiatives have been put in place to support the SME sector, there is a need for an integrated coherent policy and strategy for the development of the SME sector in Zimbabwe (Nyoni, 2002:1).

The main objective of the SME policy is to generate sustainable employment, reduce poverty, to stimulate economic growth and generate foreign currency earnings, thus contributing to the economic well being of all Zimbabweans. It also aims to create an enabling environment in order to double the number of small business entities in Zimbabwe by the year 2007. The policy, furthermore, also attempts to define how the government of Zimbabwe, the private sector and other stakeholders can encourage and create an enabling environment for SMEs to grow, and to enhance the contribution of this sector to national development. The main focal points of the Zimbabwean government's SME policy can be highlighted as follows (Nyoni, 2002:2):

- Ensure the co-ordination of the different policies and programmes at national level;
- Provide an appropriate institutional mechanism to facilitate SME development efforts;
- Commit SME growth over the long term rather than dependence on any quick-fix solutions;

- Set priorities and the appropriate allocation of limited public resources;
- Rationalise support programmes;
- Co-ordinate resource mobilisation strategies; and
- Delegate tasks, responsibilities and accountability.

Key strategies which deal with the above mentioned areas of concern which affect the growth and development of SMEs in Zimbabwe include the creation of an enabling legal and regulatory environment, investment promotion, financial assistance, market promotion, technology and infrastructure support, entrepreneurship, management and skills development, targeted support, relationships and partnerships, and institutional reform. A discussion of the Zimbabwean government's policy on SMEs follows below.

3.5.1 Government policy on SMEs

With the advent of the economic reforms in 1991, there has been a significant change in the Zimbabwean government's attitude towards the private sector and the small enterprise sector is increasingly viewed as an important engine for employment creation and economic growth. Government support for the SME sector has been repeatedly enunciated in various policy documents such as the following (Nyoni, 2002:3):

- Framework for Economic Reform;
- The Zimbabwe Programme for Economic and Social Transformation (ZIMPREST); and
- The Economic Recovery Programme.

Furthermore, given the SME's high labour-to-capital ratios, the Industrial Policy Framework recognises SMEs and their "need to be encouraged to spread and grow in order to reduce unemployment". Various government support programmes have been put in place for the SME sector. These programmes are supported by institutions such as the Small Enterprise Development Corporation (SEDCO), Zimbabwe Development Bank, Credit Guarantee Company of Zimbabwe, Agricultural Development Bank (Agribank),

and the Venture Capital Company of Zimbabwe. However, this support has been piecemeal and uncoordinated (Nyoni, 2002:3-4).

Guided by the Zimbabwe Programme of Economic and Social Transformation (ZIMPREST) document, Industry Policy Framework, Economic Recovery Programme, research on the sector and consultations with stakeholders, the Zimbabwean government's SME Policy addresses the following areas of concern (Nyoni, 2002:7-8):

- Enabling Legal and Regulatory Environment;
- Investment promotion;
- Financial Assistance;
- Market Promotion;
- Technology and Infrastructure Support;
- Provision of Information;
- Entrepreneurship, Management and Skills Development;
- Targeted Support;
- Relationships and Partnerships; and
- Institutional Reform.

An individual discussion of the above mentioned aspects follows below.

3.5.1.1 Enabling Legal and Regulatory Environment

The complexity of the regulatory environment and the multiplicity of bureaucratic requirements are some of the constraints SMEs face in Zimbabwe. For example, the process of registering a business, getting the necessary licences and the cost of compliance can be a major deterrent for small-scale entrepreneurs. These processes can take years to complete. Concerns by prospective entrepreneurs range from business formation, reporting procedures to tax requirements. For example, taxation favours large-scale businesses over small ones because the reporting demands of taxation which are too frequent and highly bureaucratic require a high degree of business resources (e.g. time or personnel) (Ndlovu, 2002:7).

While a regulatory framework is necessary for the operation of businesses, over-regulation is a worldwide threat to the competitiveness of the business sector. Furthermore, complex regulations can create an environment for avoidance as prospective entrepreneurs will be reluctant to engage in business activities as a result of stringent regulations. Despite the fact that solid progress has been made during the first phase of deregulation in Zimbabwe (e.g. the deregulation of the financial, transport and agricultural sectors), the deregulation agenda in the country is still unfinished. The current deregulatory environment stifles the establishment of new entrepreneurial ventures (Ndlovu, 2002:7; Kapoor *et al.*, 1997:10).

The Zimbabwean government has put in place specific intervening strategies which are aimed at revising laws and regulations to reduce the burden of doing business. Policy makers will ensure that regulations in place are pro-active and do not impose disproportionate costs on businesses or the consumer. Legal instruments and regulations are aimed at ensuring minimal administrative work. The regulatory remedies focus on the following (Ndlovu, 2002:7):

- Simplification of Complex Regulations;
- Improved Access to Information; and
- Centralising and Streamlining Procedures.

For these remedies to be effective in addressing the SME challenges in Zimbabwe, the government has come up with the following initiatives (Ndlovu, 2002:7-8):

- *The Small Business Act*

It is a legal instrument for facilitating the growth of the SME sector in Zimbabwe. This act is used as a basis for defining SMEs and to facilitate the provision of support targeted at both individual entrepreneurs and associations within the sector. The act also aims to create an effective mechanism for giving incentives to SMEs and specifies rewards and

penalties for non-compliance with the provisions. An audit mechanism to ensure compliance by all ministries and government departments is encompassed in the act.

- *Business Formation and Licensing Procedure.*

The responsible authorities for business formation have a duty to simplify and minimise procedures for establishing new entrepreneurial ventures. Local authorities have developed simple procedures that require minimum time and effort to issue the relevant licence and permits.

- *Reporting and Administrative Requirements*

The ultimate goal of the Zimbabwean government is to minimise reporting and administrative requirements of SMEs such as taxation requirements. This has resulted in the introduction of standardised formulae for calculating tax liability and tax forms which are user friendly and which have been designed for SMEs. The simplified administrative requirements are also applicable to labour markets such as abiding by specified codes of conduct, employment conditions and wage levels.

3.5.1.2 Investment Promotion

Investment promotion is critical to the development of SMEs. High interest rates and high inflation adversely affect the growth and development of the SME sector in Zimbabwe. It becomes critical for macro economic policies to create a conducive environment for SME development. There must be considerations for incentives to SMEs at their start-up phase and at their growth stage so that they do not face difficulties in trying to establish themselves. A balance must be achieved between promoting and taxing small businesses so that they remain viable and achieve their roles of employment creation and improving standards (Kapoor *et al*., 1997:10).

In order to attract foreign investors, the government of Zimbabwe has formulated the following strategies for intervention to stimulate the growth and development of the SME sector in the country (Gono, 2006:8; Ndlovu, 2002:7; Kapoor *et al.*, 1997:10):

- *Tax Relief*

The small business sector in Zimbabwe receives a tax relief from the government, i.e. they are not subjected to the full rate of tax. This implies that SMEs have a lower corporate and capital gains tax threshold. SMEs are also given a five year grace period on taxation during their start up phase. This tax incentive is also used as a transitional process to encourage the graduation of small businesses from the informal to the formal sector and to widen the tax base. The Zimbabwean government has also introduced tax breaks for companies which subcontract to SMEs or which earmark funds for the sector such as 'business angels'. Business angels are financial backers who provide venture capital funds to small start-ups or entrepreneurs.

- *Rebates and Discounts*

Local authorities and utilities in Zimbabwe are encouraged to identify incentives that encourage small businesses to establish themselves and register. Rate rebates or discounts on land and services, for example, can represent a valuable incentive. These are viewed as some of the most effective incentives in that a discount in land cost will result in a reduced cost of production which will increase the viability of SMEs.

3.5.1.3 Access to Finance

The two principal constraints currently affecting the SME sector in Zimbabwe are limited access to finance and the high cost of finance. The secondary constraints of SMEs are absence of security and the lack of a track record. The majority of SMEs lack equity to finance their enterprises and invariably resort to borrowing from financial institutions to start and expand their businesses. This has resulted in SMEs being highly geared i.e. they

have a high debt to equity ratio, which means that they are mainly financed through borrowing. In order to lessen these financial constraints on SMEs the Zimbabwean government has put the following measures in place, namely (Hinton, Mokobi & Sprokel, 2006:17):

- *Credit finance*

It incorporates the establishment of institutions that assist the viability of SMEs in obtaining unsecured funding at concessionary interest rates. The Zimbabwean government has introduced incentives such as a reduction in the tax rate paid and easy access to foreign currency for the purposes of acquiring imported inputs and parts. The inputs and parts are required in the production process. Credit finance is to existing financial institutions that are SME friendly. SME friendly institutions are those institutions that fully support SMEs and help them financially and on advisory capacity.

- *Credit Guarantees*

It is used as an option to address finance accessibility and collateral constraints of SMEs. The Zimbabwean government is taking a leading role in providing a guarantee fund for SMEs since they act as surety for the SMEs when they want to borrow from banks and credit institutions.

The Zimbabwean government is also encouraging a culture of saving among SMEs through the formation of Cooperatives and Credit Unions. The SMEs will be depositing money for each other in these Cooperatives and Credit Unions as a support mechanism to ensure their financial survival in the future. This is done in order for SMEs to plough back their profits in the form of additional investments which results in growth. Government provides financial and institutional support to those SMEs establishing groups to mobilise resources such as credit unions and group insurance, in particular, for cooperatives and rural women.

- *Risk capital*

It includes private equity, business angels and corporate venturing. Private equity refers to equity capital that is made available to companies or investors, but not quoted on a stock market. Incentives for initiatives such as tax breaks for those investing their own equity into high growth businesses have also been introduced.

The Zimbabwean government is also promoting the establishment of secondary markets. The secondary markets are aimed at increasing the attractiveness of small businesses to the lending community and allow the lenders to meet the credit needs of small businesses through equity involvement. This arrangement provides a hedge against liquidity problems for SMEs. This is due to the fact that SMEs will be listed on the sock exchange and their performance will be monitored.

3.5.1.4 Market Penetration

Access to markets, both local and foreign, remains a significant constraint facing the small-scale entrepreneur. Many SMEs in Zimbabwe have failed to operate successfully because they do not have sufficient information and intelligence on market opportunities and market trends. The SME sector is also not geared for exports and most entrepreneurs find the costs and complications of exporting onerous. Export procedures are complicated since there is a large number of paperwork to be completed and red tape involved in the process making it too bureaucratic. Furthermore, import duty refunds under the duty draw back system take too long to process. The duty drawback system is a scheme that enables exporters to claim refunds of duties initially paid on imported inputs used in the manufacture of products for export, upon proof of such export. The delay in the processing of duty will deprive SMEs of the money needed for reinvestment purposes. Therefore, these delays have a negative impact on SME growth as they experience financial problems (Nyoni, 2002:9).

To counter the above mentioned market penetration challenges being encountered by SMEs, the Zimbabwean government has come up with the following strategies for intervention (Nyoni, 2002:9-10):

- *Market Intelligence*

It is important that information on market trends through industry sector studies and other strategies be provided on a continuous basis to SMEs. The government has availed pre-investment studies that are sector specific to SMEs so that they can enhance their competitive advantage. Business associations are providing a service to SMEs on market opportunities so that they can tailor their operations towards the exploitation of the available opportunities. Technical assistance provided by ZimTrade is also strengthened to increase the marketing knowledge of SMEs and to identify niche markets to target. By targeting a specific market SMEs will increase their survival chances and profitability. ZimTrade provides international trade information, facilitates the development, diversification, promotion and coordination of all export related activities leading sustainable export growth in Zimbabwe. The Zimbabwean government assists small businesses to attend international and regional trade fairs so that they can enhance their business knowledge. This will result in SMEs becoming more competitive both locally and internationally and this will enable them to survive as they are now operating in a global market which is competitive.

- *Business Linkages*

Significant access to markets by SMEs will also be gained through the promotion of sub-contracting, franchising, licensing, joint ventures and other forms of business linkages. In such incidences, the Zimbabwean government has introduced regulations to protect SMEs from exploitation such as the prompt payment legislation. This legislation is geared towards protecting SMEs after they have rendered services to large firms who are normally in the habit of defaulting payments. Set aside arrangements in various sectors are introduced to give preference to small businesses in terms of obtaining contracts.

- *Marketing and Distribution Support*

The government has developed data banks and marketing houses to support SME exports. These marketing houses as well as distribution networks have been enhanced to support SME exports. The distribution networks have been set up by Zimtrade and the private sector to enhance the SME export process and also to assist in reducing the processes that SMEs go through in exporting their products and services.

- *Quality Assurance*

The Zimbabwean government is encouraging quality assurance measures and accreditation to ISO 9000 and other standards in order to enhance product competitiveness. ISO 9000 is a standardised quality for manufactured products which must be met. Meeting these standards will increase the global competitiveness of SMEs as they are able to offer quality products to the market both internationally and locally. The Standards Association of Zimbabwe is also embarking on a support programme targeted at SMEs. This is being done to enable SMEs to produce products to the required and expected standards which increase their competitive advantage.

- *Trade Facilitation*

In creating a facilitative trading environment, procedures for exporting and importing have been simplified and costs minimized for SMEs by the Zimbabwean government. Schemes such as the duty draw back system and the inward processing scheme are functioning efficiently in Zimbabwe and their administration has been decentralised in all regions of Zimbabwe. An inward processing scheme is a duty suspension scheme that allows registered beneficiaries, normally the larger exporters, to import inputs in bond without paying duty required to maintain accurate inventory records. Duty is only paid in the event of such inputs being used to manufacture for the Zimbabwean market. The tariff system is being constantly reviewed to ensure that it responds to ever changing domestic and international circumstances and trends. The immigration regulations have

been made user-friendly for SMEs to facilitate smooth cross-border trading in order to lessen the bureaucratic procedures and red tape. This process is being steered by the Export Processing Council of Zimbabwe and ZimTrade. These two institutions are responsible for the exports that firms are engaged in and they help in completing all the necessary formalities and procedures.

3.5.1.5 Technology and Infrastructure support

SMEs are unable to identify sources of technologies appropriate to their specific activities due to a lack of knowledge. Surveys of the SME sector often cite respondents complaining about not knowing where to go for procuring the most cost effective technology. This technology will enable SMEs to service their clientele, however, they end up investing in costly technology which sometimes might not be suitable for their operations. A lack of knowledge with regard to information technology also hampers the development and growth of SMEs in Zimbabwe since it results in an increased cost of production which minimise the viability of SMEs (Nyoni, 2002:10).

The Zimbabwean government has put in place various strategies for intervention which are aimed at assisting SMEs in their quest for growth and development. A discussion of the intervening strategies follows (Nyoni, 2002:10-11):

- *Technology Information*

Existing institutions such as the Scientific, Industrial, Research and Development Centre (SIRDC) and the Centre for Innovation and Enterprise Development in Zimbabwe have been encouraged by the government to strengthen their programmes to assist SMEs. These programmes will assist SMEs in two ways. Firstly it will identify appropriate technologies which are necessary in the daily operations of SMEs. Secondly, the programmes will also provide SMEs with updated information on technological advancement to keep them abreast with the changing trends that will enhance the quality and competitiveness of their products. This is as result of the fact that efficient and effective production methods are applied. Study tours to expose SMEs to new

technologies will be undertaken in technological-oriented firms in order to make SMEs aware of the already existing and new technologies and how they can be applied in their operations.

- *Provision of Workspace*

The Zimbabwean government, through the local authorities, is making market trading and manufacturing points for the small business sector, especially the informal sector, attractive. Local authorities are revising the operative master plans and local plans in order to site facilities for the informal sector close to both the market and suppliers of raw materials. This is being done for the convenience of SMEs in that they will have access to the source of raw materials for production purposes and the market for their products.

- *Business incubators*

In order to reduce the need for a large up-front capital outlay for infrastructure support, business incubator start-up SMEs are being established in Zimbabwe. This temporal structure help to reduce the start-up costs of SMEs and enables them to establish quickly. Tools for incubators to be provided include computers and e-mail facilities as these facilities are necessary in any business set-up. In the long term, technology parks will be introduced as public-private sector initiatives to encourage innovation. This will enable SMEs to keep abreast with technological changes and embrace the new trends in the market place.

- *National Productivity Centre*

The government of Zimbabwe is set to establish the National Productivity Centre to set-up productivity benchmarks both at national, regional and international level. These benchmarks are necessary to ensure that business organisations are meeting the globally required product standards. Support programmes will be established to assist SMEs to enhance their productivity. This is geared towards increasing the global competitiveness

of SMEs as they will be able to produce products to the required and specific international standards.

- *Electronic Commerce*

The Zimbabwean government is encouraging SMEs to adopt information technologies such as electronic and wireless commerce to enhance their competitiveness. This will enable SMEs to respond to the demands of the 21st century in that they are able to communicate quickly and effectively. Also it leads to prompt processing of orders as they reach them fast.

3.5.1.6 Entrepreneurial management and skills development

A lack of management skills and expertise is a major constraint impeding the progress of the SME sector in Zimbabwe. Several studies in Zimbabwe suggest that entrepreneurs in the SME sector attach low priority to training and are often unwilling to participate in programs which require them to finance even a small proportion of total training costs. The areas of weaknesses identified range from cash management to marketing strategies and finance. Business start-ups lack technical skills such as designing and to produce quality products, but also expertise in implementing growth strategies for their enterprises (Nyoni, 2002:11).

In order for the government of Zimbabwe to address these challenges, skills development and training are being provided at shop floor, management and entrepreneurial level. Under these strategies for intervention the main focus are as follows (Nyoni, 2002:11-12):

- *Entrepreneurship Development*

Entrepreneurship training is being carried out on a national basis targeted at women, the youth and the unemployed. These two groups are targeted since they are the most affected by unemployment and are also more willing to take risks. The training is mainly

in business skills which includes drafting business plans and small business bookkeeping. This kind of training is necessary due to the fact that for an entrepreneur to access funds, a suitable business plan is required. Furthermore, a basic knowledge of accounting is required since SMEs cannot afford the services of professional accountants during their initial operating periods as they will not be well established and, therefore, less viable and profitable.

- *Business management and support*

The focus area of SME training in Zimbabwe is on strategic marketing, business planning, financial management, business ethics and Information Technology (IT) skills. Extension services are being strengthened to mentor and monitor small business ventures to reduce their failure rates. Specialised training is being provided to entrepreneurs in areas that address productivity and environmental awareness since they have a bearing on their competitiveness. Programmes on quality assurance are being developed and SMEs will be assisted through matching grants to attain international quality standards (refer to section 3.5.1.3, p.71). This is geared towards ensuring the survival, growth and development of the SME sector in Zimbabwe. This training is necessary due to skills deficiency amongst SMEs in Zimbabwe.

- *Technical skills training*

Technical skills are provided to sharpen the production skills of SMEs in order for them to produce goods to the required international standards which in turn enhance their global competitive advantage. Institutions of higher learning, technical colleges, vocational training centres and the private sector play a key role in this exercise since they are involved in the actual training as service providers. Emphasis is given to the development of IT training through technical colleges, private institutions and even high street internet cafes in order to build confidence and to grow the skills base. A skills base aims to provide tools that can be used to identify and capture skills, knowledge and experience. In addition, a skills base will also lead to an improvement in the levels of

business expertise which results in the successful operations of business entities. The government is encouraging the private sector to provide mentorship support to emerging entrepreneurs in the form of big and small brother relationships.

- *Information and advise*

Lead ministries such as the Ministry of Small and Medium Enterprise Development, Ministry of Finance, Ministry of Economic Development, Ministry of Industry and International Trade and the Ministry of Agriculture, which support small businesses, are setting up small business resource centres countrywide. Commercial banks and business associations are being encouraged to develop written guidelines to help SMEs to comply with regulations and to develop formats of business plans and financial statements. In order for SMEs to access assistance, information on service providers and their areas of expertise is published by the government through the Ministry of Small and Medium Enterprises Development and institutions such as the Small Enterprise Development Corporation (SEDCO). In this regard, a database of service providers is provided by the Zimbabwean government and quality assessment of their competencies undertaken to ascertain quality programme delivery to SMEs. This is done in order to ensure that SMEs receive the best services to ensure their survival and future growth.

3.5.1.7 Targeted Support

The focus of targeted support is on how best the culture of entrepreneurship can be encouraged. The Zimbabwean government is paying special attention to the growth and development of SMEs through initiatives such as the cluster based development, gender dimension, youth development and rural focus. Each of these focal points is discussed in more detail below (Nyoni, 2002:12):

- *Cluster based development*

The purpose of cluster initiative organisations is to promote economic development within the cluster by improving the competitiveness of one or several specific business

sectors. The government of Zimbabwe places high priority on export promotion and the emphasis of the government have shifted to a cluster-based approach which focuses on adding value at every level of the manufacturing value chain. Specific support programmes will be provided by the Zimbabwean government for clusters that have a potential for growth and where there are greater opportunities for down stream and value added activities. The identified clusters are food processing, light engineering and metal products, carpentry and furniture making, textiles and home crafts and tourism. Service sectors related to information technology and back office data processing, because of the country's human capital endowment, have also been identified. The development of these industries can be significant engines for economic growth in Zimbabwe, making the SME sector in the country globally competitive.

- *Gender Dimension*

Research indicates that the percentage of women in Zimbabwe who start SMEs is smaller than the average in developed countries. Twenty five percent of the businesses in advanced market economies are owned and operated by women. As a result, a plan of action for encouraging women entrepreneurs and the establishment of SMEs by women will be put in place by the Zimbabwean government. Specific programmes will range from strategies to remove barriers for women cross-border traders, the amendment of the Banking Act with regard to married women's access to finance, home-based business as an option and motivational and confidence building workshops for the girl child. The focus on women by the Zimbabwean government is based on the fact that women constitute more than 52% of the total population in Zimbabwe and the majority of them are not formally employed. Based on this scenario it is easier to cultivate a spirit of entrepreneurship in women which means that their active involvement in business will result in economic development and the socio-economic development of the nation. Women business owners are innovators, job creators and providers of economic security. As owners of SMEs women can also supply multinational companies with ideas, inventions, technology, raw materials, components and business services. All these can be achieved through a stronger focus on women entrepreneurs.

- *Youth Development*

This is a strategy to create an entrepreneurial culture and to prepare youth for self employment. A comprehensive integrated programme providing funding, technical skills (including IT skills) and entrepreneurship training will be targeted at the youth by the Zimbabwean government. The youth also constitutes a larger percentage of the Zimbabwean population and most of them are unemployed graduates. The Zimbabwean youth must, therefore, be encouraged to engage in entrepreneurial activities since they are supposed to take an active role in the economic activities by virtue of them being the economic active group. Furthermore, this will safeguard them against engaging in illegal and dangerous activities such as drug abuse and armed robberies.

- *Rural Focus*

Special attention is being provided by the Zimbabwean government to small businesses in rural areas. Particular attention is related to market support with regard to the transportation of goods, sourcing and the storage of raw materials. The focus is directed at the rural population to venture into innovative and value-added employment generation projects that tap resources endowed in various provinces. SMEs can grow and develop in the rural areas since there is a large amount of untapped resources such as raw material and labour in these areas.

3.5.1.8 Relationships and partnerships

Technological innovations in recent years as well as diversified and advanced needs of the general public are demanding for SMEs to provide new products and services. In order to equip SMEs to deal with the new economic environment, they need technical and managerial knowledge over a wide range of business areas. In general, a large proportion of SMEs have a limited range of skills, managerial knowledge and scarce resources to deal with these new challenges such as the emergence of global competition. In this regard SMEs are being encouraged to network and establish partnerships and joint ventures at local, regional and international levels with large businesses. Partnerships,

such as joint ventures, franchise arrangements and subcontract arrangements will facilitate the provision of capital injections, market access, managerial expertise and the transfer of technology. This will increase the survival rate of SMEs and result in them being successful and competitive in a global environment (Wagner, Fillis & Johnson, 2003:343; Nyoni, 2002:13).

3.5.1.9 Institutional Reform

The existing institutional infrastructure for SME support in Zimbabwe is fragmented and needs to be rationalised to ensure better coordination. The structures in place are not suitable for the growth and development of SMEs in Zimbabwe. The capacities of institutions to help SMEs will be strengthened to enhance effective service delivery. The applied strategies to enhance capacity will be through organised training programmes, attachments, hands on technical assistance, and study tours. Capacity building programmes will include policy formulation techniques, research methods, advocacy skills and business consultancy techniques. Structures to establish an institutional framework which facilitates the growth and the development of an SME sector in Zimbabwe include the Ministry of Industry and International Trade, Ministry of Youth, Gender and Employment Creation, Small Business Advisory Council, Small Business Authority, National Association of SMEs, Business Associations, ZimTrade, Scientific Industrial Development and Research Centre, Standards Association of Zimbabwe, Export Processing Zone, Zimbabwe Investment Centre, The National Productivity Centre, Financial Institutions, and Industrial Task Force (Nyoni, 2002:13-15).

Government efforts to make the SME sector vibrant in Zimbabwe are being recognised and both public and private institutions have joined hands with the government to make the sector a success. These role players also want to achieve the objectives of generating employment in Zimbabwe and to stimulate the economic growth rate of the country. A brief discussion of the role played by EMPRETEC, International Labour Organisation (ILO) and Small Enterprise Development Corporation (SEDCO) in the development of the SME sector in Zimbabwe follows in section 3.6 below.

3.6 THE ROLE OF EMPRETEC, ILO and SEDCO IN THE ESTABLISHMENT OF SMEs in ZIMBABWE

SMEs account for two thirds of total employment provision in Zimbabwe, making them the principal generators of new jobs in the country. To ensure that the contributions of the SME sector are fully realised the Zimbabwean government has joined hands with supporting institutions such as EMPRETEC, ILO and SEDCO to help the SME sector.

EMPRETEC is an organisation which aims at empowering SMEs through training and the provision of support services. It is involved in the training of entrepreneurs and potential entrepreneurs with managerial skills and other skills such as bookkeeping, human resource management and marketing and communicating skills to operate their business ventures. Under the Business Management Training Course offered by EMPRETEC, the focus is mainly on imparting business management skills to entrepreneurs and their employees. As an initiative of the Government of Zimbabwe and the United Nations Development Programme (UNDP), EMPRETEC was born out of the need to build and nurture a high quality growth oriented community of Zimbabwean entrepreneurs. It is training a new breed of dynamic, highly motivated self-confident and focused entrepreneurs. EMPRETEC has also established an Internet Café for SMEs, an audio, video and publications library, where audio and video cassettes, journals and other publications are easily accessed as reference and training materials (Hwengere, 2004:13).

The International Labour Organisation (ILO) supports SME development in Zimbabwe. Recommendation 189 of 1998 agreed to assist member states of the ILO to develop policies that facilitate the start up, growth and promotion of SMEs. The ILO is actively involved in training SME entrepreneurs through programmes such as Start Your Business (SYB) and Start and Improve Your Business (SIYB) in Zimbabwe. ILO is also funding the Expand Your Business (EYB) training for SMEs and is providing seed money as start up capital for SMEs. ILO is, furthermore, concerned with the impact of HIV and AIDS among SMEs in Zimbabwe and has drafted possible policy frameworks for

implementation to help in the fight against the HIV and AIDS pandemic among entrepreneurs in the country (Chuma-Mkandawire, 2004:5, 12-13).

The Small Enterprise Development Corporation (SEDCO) is leading the way in the development of small enterprise development as it reaches out to emerging businesses in Zimbabwe's small, but vibrant economic sector. It falls under the Ministry of Small and Medium Enterprises Development and is a leading player in the promotion of SMEs in Zimbabwe. SEDCO focuses on the promotion and facilitation of the development of SMEs in Zimbabwe. It assists in the creation of employment through the establishment of income generating projects which would also sustain viable enterprises. It also provides business management and entrepreneurship training to develop professional skills in business management. The training is basically record keeping and skills development training. SEDCO aims to foster self-reliance and greater participation in economic life by the majority of Zimbabwean nationals through the stimulation and increase of exports from the small enterprise sector (Fifteen, 2004:10).

Through SEDCO, a number of loan facilities have been channeled to SMEs. These included the SME Revolving Fund, Reserve Bank of Zimbabwe (RBZ) Productive Facility, The Loan Booth Programme, People's Shops Programme, Business Infrastructural Development Programme and Business Management and Entrepreneurship Training (Fifteen, 2004:10-11).

Despite the importance of the SME sector, the efforts of the Zimbabwean government and other supporting institutions' efforts to promote and support this sector in ensuring that it fulfills its role, it still encounters some problems and challenges which affect its growth and development. These challenges have a negative effect on the contribution of the sector to employment creation and economic growth and development. Section 3.7 below discusses some of the major challenges being experienced by the SME sector in Zimbabwe.

3.7 CHALLENGES FACING THE SME SECTOR IN ZIMBABWE

In their quest to improve the standards of living of Zimbabwean citizens, reduce the levels of poverty and unemployment and significantly contribute to the economic growth and development of the Zimbabwean economy, the SME sector faces a number of challenges which impair their growth and development. These challenges are highlighted below.

A lack of transport, inadequate equipment and insufficient resources to execute planned activities are some of the main challenges being faced by the SME sector in Zimbabwe. Manufacturing SMEs experience difficulties in accessing transport facilities to deliver their finished products to the market. The SME sector in Zimbabwe is, furthermore, experiencing problems such as a lack of appropriate management skills to run their business entities, access to loans, inhibiting legal frameworks, access to markets, quality products and registration bureaucracy (Masuko & Marufu, 2003:29).

SMEs in Zimbabwe lack the necessary human resources skills, marketing skills, financial management skills and general management skills to ensure the continued survival of the sector in the country. Insufficient management skills therefore have a negative effect on the growth of the SME sector in Zimbabwe. The legal framework is also not favourable towards the establishment of SMEs in Zimbabwe. SMEs have limited access to the market since it is dominated by large companies. SMEs are not in a position to produce quality products which meet international standards due to their inability to purchase all the required raw materials as a result of financial constraints.

SMEs are currently also facing challenges such as the limited growth of their businesses and increased competition in the SME sector due to globalisation. The dynamics of small-scale industries have become more challenging. As SMEs are required to offer products to the required international standards they cannot compete in a globalised world. This is due to the fact that SMEs have limited access to finance which reduces their ability to procure quality raw materials hence they become less competitive (Nyoni,

2004:9) In Namibia challenges such as the regulatory environment which is not favourable to serve as an incentive to SME development are affecting the growth of the SME sector.(Gaomab, 2004).

Furthermore, SMEs in Zimbabwe are also experiencing challenges such as bad publicity in the western media and fuel shortages which, contributes to the high failure rate of SMEs in the country (Ndlovu, 2004:19). This negative publicity will result in low foreign direct investments which consequently increase the SMEs' challenge of limited access to sources of finance.

3.8 SUMMARY

The SME sector plays an important role in the Zimbabwean economy through creating employment opportunities, economic growth and development, poverty eradication and improving the standards of living of people. Government and other institutions are making significant contributions in the growth and development of the SME sector. The support is necessary in that it will enable the SME sector to achieve its goals. These goals are mainly employment creation, improving the standards of living as many people will be having disposable income to spend on goods and services.

Although the Zimbabwean government and other supporting institutions are fully committed towards the growth of the SME sector, this sector is still experiencing some difficulties. The notable major challenges which hamper the growth of the SME sector in Zimbabwe are limited access to markets and finance, limited managerial skills (finance, marketing, human resources and general management skills) and foreign currency shortages.

Chapter four will focus on the professional management of SMEs. Various definitions of management will be outlined. The managerial functions will be discussed in relation to SMEs. These functions include the classical managerial functions and Mintzberg's managerial roles. The requisite managerial skills will also be discussed and how to sustain managerial skills in SMEs.

CHAPTER FOUR

THE PROFESSIONAL MANAGEMENT OF SMEs

4.1 INTRODUCTION

Management skills are critical to the success of an enterprise and the national pool of management expertise has a crucial bearing on the economic development of a nation. Poor management skills in SMEs are recognised as an acute problem worldwide. Managerial weakness is therefore a key factor in the failure of small and medium sized businesses internationally. The success of SMEs is often largely related to the performance of their management (often the owner-manager). Thus, the skills of managers in SMEs are an important factor for any economy's SME sector to succeed (Heraty, 2005:7). There is a need for entrepreneurs worldwide to acquire the necessary management expertise to ensure the future survival of the SME sector. The owners and managers of SMEs who have inadequate management knowledge and skills cannot operate effectively and efficiently enough to yield better than marginal results. This implies that these SMEs might be successful in the short run, but will not be in a position to realise their full potential over the long term (Dzansi, 2004:138).

SMEs are crucial for economic growth and development, as well as employment creation. In order to ensure the full development of the SME sector in the world economy, proper management of SMEs is required. The success of entrepreneurial ventures will lead to improved standards of living and reduced levels of poverty in underdeveloped communities. However, this segment of the world economy may not be able to fulfill its roles if it cannot grow rapidly and compete in the face of globalisation. Among others, the rapid growth of SMEs and their ability to compete internationally would require that the management skills of those who found and manage these SMEs be improved from the current dismal state to a more efficient level (Makatiani, 2006). Entrepreneurial capacity is available in many people, but managerial competence which is essential for the continuity and sustainability of the small and medium enterprise is insufficient. The success of any business is also highly dependent on the capabilities and ingenuity of its management (Schollhammer& Kuriloff, 1979:179).

If the desired outcomes of a venture are to be achieved in SMEs certain tasks need to be performed by owners and/or managers. However, the extent to which the managers of SMEs perform these tasks is relatively different in comparison to big businesses because of a shortage of technical and managerial skills (Kyambalesa, 1994:174). Research findings by Sawas & Feng (2005), Kakati (2003) and Sonfield & Lussier (1997) have indicated that a lack of managerial competence result in the failure of SMEs worldwide.

Cronje *et al.* (2003:98) stipulates that one of the primary causes of failure in a small enterprise is poor management. This is also echoed by Longenecker *et al.* (2006:385) who argue that SMEs are more vulnerable to managerial weakness as a result of a lack of professional staff due to financial constraints. The managerial inadequacies in SMEs can be attributed to low levels of formal education among the majority of owners and/or managers. A major challenge for the SME sector worldwide is therefore the development of the managerial skills of the owners or managers of SMEs to ensure their long term success (Kyambalesa, 1994:174; Murphy, 1996:14 and Cronje, *et al.*, 2003:98).

In Zimbabwe where SMEs play a key role in the economy in terms of employment creation and economic growth and development, the success of SMEs becomes critical, hence the need for their proper management. However, providing the necessary management skills for SMEs requires a clear understanding of these skills which are necessary for the smooth and profitable running of small businesses. Furthermore, there is a need to establish what management skills currently exist within the SME sector and which ones are missing in order to ensure that SMEs in Zimbabwe are well managed. Management is crucial in the operations and growth of business ventures. Against this background, the term management is defined and discussed in section 4.2 below.

4.2 A DISCUSSION OF THE TERM MANAGEMENT

The word management is centuries old, and denotes both a function and the people who discharge it. Management has different definitions and descriptions. As a function, management involves setting objectives, organising, motivating and communicating, measurement and developing people (Griffin, 2005:7).

Depending on the context in which it is applied or used, management may imply the following (Kyambalesa, 1994:159):

- The group of persons who are responsible for managing the affairs of any given organisation;

- The discipline concerned with understanding and improving the knowledge and skills in managing a business or any other organisation; and

- The process of co-coordinating and integrating the various resources of an organisation.

The focus of this chapter will be on the management process that focuses on the functional approach within SMEs. According to Rue & Byars (1995) the idea of management as a process was first intimated in 1916 by Henry Fayol and became popular as a result of the works of Oliver Sheldon in 1923, and Ralph Davis in 1935. An examination of some definitions under the process approach is now undertaken with the view of identifying the essential managerial functions that may be applicable to SMEs.

4.2.1 Defining the term "Management"

Table 4.1 below outlines the various definitions of management. The section that follows will elaborate on the generic elements in the definitions of management where common characteristics or features of the definition are discussed.

Table 4.1 Definitions of Management

Definition	Reference	Description
A	Stoner (1995:7)	*Management is the process of planning, organising, leading and controlling the work of organisation members and of using all available organisational resources to reach stated organisational goals.*
B	Dayani (1996:3)	*Management is the process through which resources are employed in such a way that the goals of an organization are accomplished. This process consists of four fundamental elements or activities of management, planning, organizing, leading and controlling, supported by several supplementary activities, such as information management, decision making, communication and negotiation*
C	Smit & Cronje (1992:9)	*Management is to combine, allocate, coordinate and deploy resources or inputs in such a way that the organisation's goals are achieved as productively as possible.*
D	Cronje, du Toit & Motlatla (2000:100)	*Management is the process whereby human, financial, physical and informational resources are employed for the attainment of the objectives of the organization.*
E	Grundy & Brown (2004:3)	*Management is the process of an instance of managing or being managed, or the professional administration of business concerns.*
F	George (2005:xiii)	*To manage is being able to lead, inspire, and champion followers.*

G	Griffin (2005:7)	*As a function, management involves setting objectives, organising, motivating and communicating, measuring and developing people.*
H	Robbins & DeCenzo (2005:7)	*Management is the process of getting things done, effectively and efficiently, through other people.*

4.2.2 Generic elements to the definitions of Management

A thorough analysis of the above definitions of management highlights that there are similar features and also differences in descriptions. These differences are mainly as a result of the context in which the term management is applied. As per the definitions of management above, the aspects which are central to management are planning, organising, leading, control, efficiency and effectiveness, process, objectives or goals and people. These core aspects are central to the function of management and will form the core of the discussion in this chapter. A brief discussion of these generic elements in the definition of management follows below.

4.2.2.1 Planning

Planning is the first primary management task and the most basic managerial function. When done properly, it sets the direction for the organising, leading and controlling functions. A more elaborate discussion will be provided in section 4.3 below.

4.2.2.2 Organising

It entails structuring the activities of the organisation to facilitate the attainment of its objectives (Nieman & Bennett, 2004:106). Businesses must put specific procedures in

place which are aimed at achieving organisational goals. This will ensure the successful performance of organisational activities and the long term profitability of the organisation. A more elaborate discussion will be provided in section 4.3 below.

4.2.2.3 Leading

Leadership is the process of influencing employees in order to get them to perform in such a way that the organisational objectives can be achieved (Nieman & Bennett, 2004:113). It is important that organisations have people who provide directions and guidelines to employees in order to achieve organisational goals. A more elaborate discussion will be provided in section 4.3 below.

4.2.2.4 Controlling

Despite good planning, organisations seldom function perfectly. As a result managers must monitor operations to discover deviations from plans and to ensure the firm is functioning as intended. Managerial activities that check on performance and correct it when necessary are part of managerial control, they serve to keep the business on course (Hodgetts & Kuratko, 2002:304-05). A more elaborate discussion will be provided in section 4.3 below.

4.2.2.5 Efficiency and effective

Effectiveness and efficiency deal with the activities and performance of individuals. Efficiency means doing the task correctly and refers to the relationship between inputs and outputs. Efficiency seeks to minimise resource costs. Effectiveness means doing the right task towards goal attainment. Managers and employees alike should try to attain organisational goals as efficiently as possible. Efficiency is achieved by both minimising inputs (labour, land and capital) and maximising productive outputs (Robbins & DeCenzo, 2005:7; Hellriegel *et al.*, 2004:121).

The success of an organisation depends on how effective and efficient it is. Organisational objectives, such as profitability, are achieved through motivating employees to improve their level of service delivery to both the internal and external customers of the organisation. In managing businesses, managers must therefore strive to be efficient and effective in their approach towards employees (Hellriegel *et al.*, 2004:121).

4.2.2.6 People

These are the individuals who work towards the accomplishment of organisational goals. They are both managers and employees, that is, they are managing or are being managed (Grundy & Brown, 2004:116). The managers and employees of an organisation have to be trained and developed in order for them to be in a position to carry out tasks effectively and efficiently. Training and developing will result in people being efficient in the execution of their given tasks. This will lead to the achievement of organisational goals and profitability.

4.2.2.7 Organisational goals or objectives

Organisational goals may be expressed both qualitatively and quantitatively (what is to be achieved, how much is to be achieved, and by when it is to be achieved). To the management of an organisation, objectives are the starting point of the management process and the guidelines for developing plans. An objective is a particular future state of aspects to be achieved by the organisation and its employees (Hellriegel *et al*, 2004:121; Nieman & Bennett, 2004:105). Goals give direction to an organisation's operations and activities. In managing organisations managers must be goal-oriented and driven since it will increase motivation because there are targets to be reached. The set goals must be attained to keep the employees motivated.

4.2.2.8 Process

The term "process" in the definition of management represents the primary activities managers perform. Process also implies knowledge of, and ability to use a range of business skills (Grundy & Brown, 2004:3; Robbins & DeCenzo, 2005:7).

Section 4.3 below discusses the classical managerial functions of planning, organising, leading and control.

4.3 CLASSICAL MANAGERIAL FUNCTIONS

Section 4.2 above highlighted and briefly discussed the generic elements in the definition of management. From the various definitions given, four key elements of the management process were identified. This section discusses these elements in more detail linking them to SMEs. According to the classical management theory the management process consists of four basic activities, namely (Kyambalesa, 1994; Longenecker, *et al.*, 2004, Nieman & Bennett, 2002 and Cronje *et al.*, 2003):

- Planning;
- Organising;
- Leading; and
- Controlling.

The management process starts with planning and it is through planning that the owner or manager decides what activities to undertake. Planning, as the first step in the management process, enables management to develop a mission statement and goals for the business, to indicate how these goals are to be attained, to identify the resources required and to specify the procedures to be followed. The second step involves organising where both human resources and other resources such as land and capital are allocated. Organising also involves the determination of the organisational structure that will be suitable for carrying out activities. Leading is the third step and it entails

instructing human resources and motivating them in such a way as to direct their actions in conformity with the plans and goals. This task requires good communication between the owner or manager and the employees of the business. The final stage, control, involves the continuous measurement of activities to ascertain whether they are performed according to predetermined goals. If there are deviations, corrective actions must be taken. Not only will deviations be corrected, but it may also require that goals and plans be reconsidered (Cronje *et al.*, 2003:102).

Motivation, communication, coordination and directing are generally regarded as the secondary management tasks, while planning, organising, leading and controlling are regarded as the primary general management tasks. A detailed discussion of the four primary management tasks follows below.

4.3.1 Planning in the SME sector

A firm's path to the future is stipulated in a document called a long-term plan or strategic plan. A strategic plan encompasses strategy decisions relating to aspects such as niche markets and features that differentiate a firm and its products from its competitors. Strategic planning is essential even in established businesses, in order to ensure that changes in the business environment can be addressed as they occur. Short-range plans are action plans designed to deal with activities in production, marketing and other areas over a period of one year or less. An important part of a short-range operating plan is the budget. A budget is a document that expresses future plans in monetary terms. A budget is usually prepared one year in advance, with a breakdown by quarters or months (Longenecker *et al*., 2006:366-67; Nieman & Bennett, 2004:103; Hellriegel *et al*., 2004:71).

Planning is therefore an important key towards the achievement of organisational goals and gives the business direction. Through proper planning, organisational success will be achieved. Planning also results in easy decision making as the objectives to be attained would have been established. Dzansi (2004:144) stipulates that an interest in the study of planning in small firms emerged for two reasons. First, it is the belief that since planning

is so prevalent in large firms, it must be a good management practice. Secondly, a growing number of researchers have found an association between planning activity in small businesses and its performance.

Planning is the process of setting objectives and determining the steps that have to be carried out in order to attain them. The planning process has eight steps and the owner/manager of an SME should be familiar with them. These steps are identified as follows (Hodgetts & Kuratko, 2002:288):

- Be aware of opportunities;
- Set objectives;
- Forecast the environment;
- Determine alternative courses of action;
- Evaluate the alternative courses of action;
- Select and implement a course of action;
- Formulate support plans; and
- Budget the plan.

4.3.1.1 The importance of planning in SMEs

The success or failure of SMEs is largely dependent on the level of planning, hence the performance of these business entities are affected by planning. Planning is the starting point of the management process and whether strategic, tactical or operational, it does not always take place in well-defined steps. It is a vital management process that involves goal setting, determination of vision and mission, setting short, medium, and long-term objectives and the implementation of plans through the remaining management processes. However, the ability to plan is dependent on the mental capacity of the planner, which in the case of SMEs is usually the owner or manager. Therefore, just as in large businesses, SME owners or managers need to have experience, intelligence, vision, and good judgment. These are some of the most important mental tools to be able to plan properly (Dzansi, 2004:145).

The majority of the owners or managers of small and medium enterprises do perform the planning function in their businesses, but the amount of planning they do is limited. Their planning tends to be short term driven and focused on specific, immediate issues. An example of this is how much inventory to purchase or whether to lease or purchase a new piece of equipment. Circumstances affect the degree to which formal planning is needed, but most businesses could function more profitably by increasing the amount of planning done by managers and making it more systematic. The payoff from planning comes in several ways. Firstly, the process of thinking through the issues confronting a business and developing a plan to deal with those issues can improve productivity. Secondly, planning provides a focus for a business, managerial decisions over the course of the year can be guided by the annual plan and employees can work consistently toward the same goal. Thirdly, evidence of planning increases credibility with bankers and suppliers (Longenecker *et al*., 366-67).

4.3.1.2 The extent of planning within SMEs

Planning is widely regarded as the key component of the management process in any business without which the other management tasks cannot function effectively. Despite this awareness, the planning function is lacking in most SMEs. Limited planning takes place in SMEs and the extent of planning is usually related to the performance of the business. The smaller the size of the SME, the lesser the amount of planning that occurs. Most SMEs use planning for specific purposes, for example they might use business plans to legitimise requests for financing. SME planning usually involves short time horizons and are informal, irregular, and incomprehensive. However, where formality was found to exist, it may have been related to survival (Dzansi, 2004:146).

The lack of planning in SMEs is mainly as a result of resource constraints. Since SMEs lack financial and other resources all the management tasks of planning, organising, leading, and controlling have to be done by one person, namely the owner or manager. This puts enormous pressure on the owners or managers of SMEs to the extent that they are caught up in the day-to-day operational activities of their businesses and have little time to do formal planning (Schollhammer & Kuriloff, 1979:181).

Peel & Bridge (1998) reports that there is a positive relationship between the success of SMEs and the degree of long-term planning which they undertake. Glaister & Falshaw (1999) echoes the importance of strategic planning in an organisation as it results in improved performance. This is also supported by a study carried out by Stonehouse & Pemberton (2002) who states that it could also be argued, however, that a greater use of strategic planning tools for the analysis of the business environment, as well as for internal analysis, would facilitate improved organisational learning, enhance strategic thinking and help to reduce failure rates among SMEs. It can therefore be concluded that planning is important for the survival, growth and development of a business since it gives direction to its operations.

4.3.1.3 Formalising planning in SMEs

Given the importance of systematic planning in organisational success, it becomes imperative to encourage SMEs to institute formal planning systems. The following guidelines can help the owners or managers of SMEs to develop an effective planning approach to their businesses (Schollhammer & Kurloff, 1979:207 and Stonehouse & Pemberton, 2002):

- SME planning barriers need to be understood first;
- Formalised planning should start simple and progressively expand as the firm's planning experience increases;
- The owner or manager as the Chief Executive Officer (CEO) must show a strong commitment towards formal planning and should instill a high degree of planning consciousness among subordinates;
- Noticeable benefits of formal planning must not be expected immediately;
- Formal planning should only be introduced after reappraisal of current managerial practices;
- During the planning process attention should be paid to organisational structure; and

- Planning should be viewed as a learning process where the approach to planning should be changed with a company's planning experience.

From the above discussions it can be noted that effective planning is necessary for the survival and prosperity of SMEs. The second primary task of management, namely organising, is discussed below.

4.3.2 Organising in the SME sector

According to Hodgetts & Kuratko (2002:293) organising is the process of assigning duties and coordinating efforts among all organisational personnel to ensure maximum efficiency in the attainment of objectives. Organising naturally follows planning, since it involves the determination of procedures to be followed in reaching the predetermined objectives. In fact, research reveals that successful businesses follow the adage "from strategy to structure". This adage implies that planning comes before organising. In general terms, planning helps a business to interact with its environment by setting goals in its strategic plans, while structure helps it to carry out operations efficiently through the establishment of procedures and processes to be followed.

After plans have been put in place, organisation is initiated. The plan outlines what the organisation needs to do or achieve which might be the reasons for its existence. For these plans to be met or fulfilled formal procedures have to be established through organising. Organising must be done in conjunction with the other management functions so as to ensure the long term success of the business and proper coordination of activities and operations. It is important for the outlined plans to be organised in a manner that make their attainment easier. Organisation is important in SMEs in achieving set objectives. Section 4.3.2.1 below discusses the importance of organising in organisations.

4.3.2.1 Importance of organising

Organising helps the business organisation to operate more efficiently by determining the tasks and responsibilities of each employee in order to achieve the set goals. It also helps to eliminate or at least minimise the incidence of overlap and duplication since every employee's duties are clearly demarcated. Organising helps in defining the relationship among the firm's activities and its employees without which confusion and uncertainty will be the outcome. For example, by determining the optimal span of control, supervisors are able to supervise effectively, and by delegating less important issues to subordinates, over stretched owners or managers of small businesses are able to focus their time and energy on more important issues (Longenecker *et al.*, 2000:392, 395; Hodgetts & Kuratko, 2002:300).

4.3.2.2 Symptoms of poor organising

Given the importance of proper organising to the successful running of any business, it becomes imperative that the owners or managers of SMEs look out for signs of poor organising and take corrective measures. According to Bekker & Staude (1992:144), the poor use of time, slow decision making, and high rates of customer complaints are indications of poor organising. The owners or managers of SMEs must be aware of these symptoms of poor organising to ensure the future survival and growth of their businesses. Each of these symptoms are discussed in more detail below (Baumback & Lawler, 1979:261; Bekker & Staude, 1992:144-145; Dzansi, 2004:152; Longenecker *et al.*, 2002:392-393 and (Hodgetts & Kuratko, 1998:301) :

- *Poor use of time*

In the 1970's, it was highlighted that poor time management was a major problem facing owners or managers of SMEs and this trend has not changed. Most managers, particularly those in the SME sector, spend more time on operational matters than on managerial tasks. This may be due to the fact that the manager is simply doing what he or she likes best and feels is best instead of what will benefit the entire business. This might result in

important items being overlooked or deferred due to personal preference. It is recommended that by making a job analysis of each task, preparing a job specification, and assigning responsibilities to each job, it will help a manager to be more aware of the tasks that have been completed and those that still needs to be done.

- *Slow decision making*

Decision making forms the cement which holds the whole management process together. Management is often confronted with making both strategic and day to day decisions that requires both a sound decision making ability and instant judgment. The failure of management to make a decision quickly could have a negative influence on customers as their needs might not be satisfied and they may defect to a competitor. Slow decision making often occurs because all decisions are made by the owners or managers of the business. A possible solution to this problem is to give employees authority when they are assigned responsibilities, as this speeds up decision making. Businesses are operating in a turbulent environment which is ever changing and characterised by new competitors and more demanding customers. Based on this it is important to make quick decisions as a postponed decision may become obsolete (Hellriegel *et al*., 2004:219-220).

- *High rate of customer complaints*

The expression 'the customer is the king' is boldly displayed in many businesses. This would imply, amongst others that delivery performance will be excellent and customer complaints handling would be prompt. However, the contrary is often the case and the problem can be attributed to the over-commitment of existing staff capacity, resulting in them paying less attention to customer care. Poor delivery performance that results in high rates of customer complaints is therefore not the correct approach to build customer loyalty. As a result, managers need to pay closer attention to the amount of customer complaints they receive to ensure customer satisfaction, which results in customer retention and customer loyalty.

4.3.2.3 Extent of organising within SMEs

There is currently not a large amount of empirical evidence regarding the existence or non-existence of organising in SMEs. However, normative assertions seem to indicate the following (Longenecker *et al.*, 2006:392; Hodgetts & Kuratko, 1998: 298):

- The organisational structure of SMEs tend to evolve with little conscious planning. Certain people begin performing specific functions when the company is formed and retain those functions even as the company matures;
- The owner or manager's span of control is usually large in SMEs;
- The most common way of departmentalisation is by function. However, as the business grows into a medium enterprise, many owners or managers find it useful to change from functional to product departmentalisation. This will increase efficiency and also the ability to focus on customers. This is necessary so that they can have more focus on their customers in a quest to satisfy customer needs;
- In small firms, a climate of informality and flexibility makes it easy to short-circuit the chain of command. The practical problem here is that whilst a strict adherence to the chain of command may be impossible, a frequent and flagrant disregard for the chain of command may undermine the bypassed manager; and
- The owners or managers of small businesses are more reluctant to delegate authority in comparison to large businesses due to a variety of reasons that range from the smallness of their size to an unwillingness to relinquish control.

The above assertions indicate that organising in SMEs is less structured as compared to big businesses. Further, the need for organising arises mostly when the business starts to grow hence in the SME sector it is more likely that the incidence of formal organising will be found in medium enterprises than in the small firms. After plans have been put in place and procedures and processes established, employees have to be influenced in order to attain the set goals and this is done through leadership. Section 4.3.3 below will focus on leading which is also an important component of the management function.

4.3.3 Leading

Leading, directing and guiding are often used interchangeably in the management literature to describe the same management task. Whichever term is used, it is widely acknowledged that leading people is perhaps the most difficult part of a manager's responsibilities due to the complex nature of human beings. Leadership is the process of influencing people to direct their efforts towards the achievement of a specific goal. Leading is important because an individual must know how to influence workers in order to direct their efforts towards the achievement of company goals (Hodgetts & Kuratko, 2002:298-99).

Cronje & Smit (1992:333) and Hellriegel *et al.*, (2004:286-87) stipulate that leadership is the influencing and directing of individual behaviour in such a way that they work willingly to pursue the goals of the organisation. People have to be influenced to act towards the attainment of a goal. Leadership is based on interpersonal relationships, not administrative activities and directives. In a small business, the owner or manager directs the behaviour of employees to be as productive as possible so that the enterprise will be profitable, workers will keep their jobs, and every employee in the business earns sufficient amounts of money to satisfy their needs.

Leadership, therefore, elicitates the voluntary participation from employees towards achieving organisational goals. However, voluntary response can only be achieved in an atmosphere of cooperation and teamwork among all employees. Within the SME sector, the potential for good teamwork among employees is enhanced by the small size of the enterprise (Longenecker *et al.*, 2000:390). The different leadership types are discussed in section 4.3.3.1 below.

4.3.3.1 Types of leaders

An analysis of the definitions of leadership reveals the notion that motivating or arousing enthusiasm among employees will motivate them to willingly work towards achieving

organisational goals. Successful leadership depends on the leader establishing trust, clarifying the direction in which people should be headed, communicating so that people feel confident that they can make the right decisions, encouraging others to take risks and having a source of power (Hellriegel *et al.*, 2004:286-87).

Given the diversity in human behaviour, it is expected that leadership behaviour among individuals will differ. This is the view of social psychologists who suggest that the process of leadership involves certain types of interpersonal behaviour (behaviours which assist progress towards achieving an objective). Leaders should, therefore, be categorised into distinct groups based on the behaviour of individuals in their respective leadership roles. This categorisation should make it possible to determine which style of leadership will best be able to elicit enthusiasm among employees and which types will be suitable to drive SMEs to success. The difference in nature between SMEs and large corporations results in differing demands in terms of leadership between the two business categories (Dzansi, 2004:156).

The following classifications constitute the most popular forms of leadership styles:

- *To classify leaders as task oriented or people oriented*

Managers who have a task-oriented style closely supervise employees to be sure the task is performed satisfactorily. In this respect, the action of the task-oriented leader is seen as skewed towards completion of the assigned work. The emphasis of the leader is on completing the task at hand through a thorough monitoring in order to achieve organisational goals. Managers with an employee-oriented style put more emphasis on motivating rather than controlling subordinates. Hence, the people oriented leader's behaviour shows consideration for and support of employees which results in motivated employees who work independently towards the attainment of set goals (Stoner *et al*., 1995:474).

- *To classify leadership as being autocratic, democratic, laissez-faire or participative.*

An autocratic leadership style encompasses decision making which rests solely with the leader and there is little consideration towards the needs of subordinates. This style is inappropriate because it has the potential to make employees rebellious. Democratic decision making, on the other hand, refers to a decentralised and participative leadership style. This leadership style is the most appropriate in the management of SMEs as the employees are always informed and involved which results in them being motivated and, as a result, increases productivity (Kyambalesa, 1994:165; Longenecker *et al*., 2006:362).

A "laissez-faire" style of leadership refers to a leader which allows activities to run their own course. In this style of leadership there is a low concern for people and low concern for tasks or production. The leader does not take a leadership role and this style is also known as improverished management. For the owners or managers of small and medium enterprises, this style may not be appropriate as it could lead to wastage, misuse of scarce and limited resources and the eventual failure of the business. Finally, according to the participative leadership style the leader attempts to gain the full cooperation of subordinates in important decisions by considering their needs. This style of leadership is closely related to the democratic style (Stoner *et al*., 1995:479).

A manager leads and gives direction to others so that the internal activities of the business can progress and tasks can be undertaken timeously. Based on this alone, leadership in both SMEs and big businesses should be task oriented. At the same time, it needs to be realised that SMEs, by their small size, is characterised by close and significant interactions between employees and the leader (the owner or manager) Longenecker *et al.*, 2000:390). In the case where the employee-leader relationship is sound, it will elicit a strong feeling of personal loyalty that can contribute positively to business success (refer to section 4.3.3. p.105). This aspect is a strong motivation for SME leaders to be people oriented.

The same arguments could be advanced for democratic, autocratic, laissez-faire, and participative styles. It, therefore, becomes apparent that the situational approach, which suggests that leadership styles should be varied depending on the situation, would seem more appropriate for SMEs given the dynamic environment in which they operate. Leaders or managers in the SME sector must make an analysis of the environment in which they are operating before adopting a style of leadership. This will increase effectiveness and lead to the attainment of organisational goals.

4.3.3.2 Importance of leading

The performance of any enterprise, large or small, is directly related to the quality of leadership. The success of a business can also be attributed to a particular leader's excellent leadership (Cronje *et al.*, 2003:147). In SMEs, the personal involvement of the owner or manager in the business and his or her leadership skill is even more important. Unlike large corporations, the owner or manager of an SME is not a faceless unknown, but an individual whom employees see and relate to in the course of their normal, daily schedules (Longenecker *et al.*, 2000:390). Therefore, if the manager-employee relation is good, which among others is dependent on the manager's leadership style, employees in SMEs develop strong feelings of personal loyalty to their employer. This loyalty will translate into motivated subordinates whose performance should lead to the realisation of organisational goals.

Leading, therefore, involves a constant interaction between a leader and employees. When a leader is able to gain the loyalty of employees through his or her personal relationships with workers, it tends to have positive outcomes for the business. However, the nature of the business would, at times, require the leader to be more task-oriented. This is because there are some business operations which needs to be carried out in such a way that little error should be made. In this instance constant monitoring and supervision is required. Furthermore, given the different kinds of small businesses, a leader also needs to adopt the type of management style that suites the type of business

operation. Therefore, a universal style of leadership for all types of SMEs may not be possible as leadership style tends to be situational at times (Dzansi, 2004:160).

Management as a process has four components which are executed in an orderly manner. Firstly, the planning process results in plans being put in place through set goals and objectives to be achieved. Procedures and processes to be followed in executing the set goals are established through organising which is the second component of management. Thirdly, there must be people who can influence others' behaviour towards goal attainment through the process of leadership. At this stage it becomes important for organisations to check performance and measure it against set standards. This is done through a process of controlling. Section 4.3.4 below focuses on the final component of management which is controlling.

4.3.4 Controlling in SMEs

Irrespective of whether the owner or manager of an SME is monitoring the sales results of product lines or the performance of employees, the approach is the same. Known as the control process, it entails establishing standards, comparing performance with these standards, and correcting deviations. Performance standards should be set by the owner or manager of the SME in the planning process. In this regard, controlling actually starts with the formulation of objectives. However, the process works independently when performance is compared with the standards. After making this comparison, the manager determines if corrective action is required (Hodgetts & Kuratko, 2002:304-05).

4.3.4.1 A description of control

Control is regarded as the final stage in the management process and can be described as the process of evaluating the nature of activities taking place in an organisational setting and fine-tuning the operation of the organisation to achieve superior results (Kyambalesa, 1994:176). It is also the process of establishing standards, comparing performance with

these standards and correcting deviations (Hodgetts & Kuratko, 1998:311). Control involves the use of mechanisms to ensure that the behaviours and performance of individuals, groups and teams conform to an organisation's rules and procedures. To the majority of individuals, the word control has a negative connotation of restraining, forcing, checking-up, limiting, watching or manipulating (Hellriegel *et al*., 2004:408). According to Nieman & Bennett (2002:116) control is the management task that ensures the coordination and effective functioning of all the organisational activities, so that formulated organisational objectives are implemented and pursued according to plan.

Planning is the formal process of developing goals, objectives, strategies, tactics and action plans regarding the transformation of inputs (production factors such as natural and human resources, technology, capital and entrepreneurship) into outputs (products and services). Controls help ensure that decisions, actions and results are consistent with those plans and set objectives. Furthermore, all standards developed for control measures must be based on the original goals of the organisation, department, team or individual. This means that standards can, in certain cases, be perceived as a breakdown of an existing goal formulated during the planning process. Planning prescribes desired behaviours and results in terms of outcomes and outputs. Controls help maintain or redirect actual behaviours and results in order to maximize the outputs of individuals and work teams in an organisation (Hellriegel *et al*., 2004:408). The control process begins with the establishment of standards. This is evidence of the connection between planning and control, for it is through planning and goal setting that control standards are established. Planning translates goals into norms (standards) by making them measurable (Longenecker *et al*., 2006:369-70; Grundy & Brown, 2004:116 and Nieman & Bennett, 2004:116).

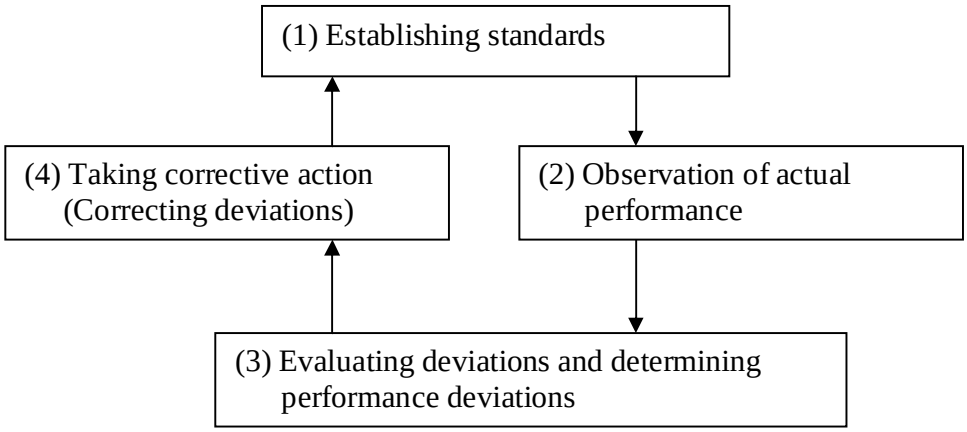
Therefore, it is important for organisations to be continuously aware of how they are performing and why they are performing in such a way. This will increase the effectiveness of the business functions and will result in the accomplishment of organisational goals. This makes control an important aspect in the management of any business venture.

4.3.4.2 The control process

The control process involves establishing standards, comparing performance with these standards, and correcting deviations. Control is essential for the success of a business as it ensures that tasks and activities are completed according to laid down procedures and standards. This will result in efficiency and effectiveness being achieved in the attainment of organisational goals. Control is a continuous process and involves the following steps as depicted in fig 4.1 below:

- Setting of performance standards according to formulated objectives;
- Measuring of actual performance;
- Comparing actual performance to standards; and
- Taking corrective action if necessary, or alternatively reinforce.

Fig 4.1 The control process



Adopted from Cronje *et al. (*2004:264)

Planning and control are inseparable since a part of planning is the development of objectives. Setting objectives is the starting point to both planning and controlling as objectives must be considered before standards can be developed. Objectives, in a sense,

are standards, but additional standards could also be used to measure whether the organisation is meeting its objectives. For standards to be complete, they should measure performance levels in the areas of quantity, quality, time, cost and behaviour. Performance measurement reflects how successful an organisation is, or, if it is not successful, what its level of performance is, thus reflecting a need to improve current performance. An important consideration in the control process is what to measure and how frequently to measure it. During this process requirements for performance measurement must be adhered to. The measuring process must always be reliable, valid, linked to the objectives, concentrated on critical performance areas and should finally initiate correction if necessary (Nieman & Bennett, 2004:116-17).

In evaluating deviations and determining performance deviations the manager must compare the actual results measured in step 2 of figure 4.1 with the objective or standard as set in step 1. This outcome will indicate whether the organisation is on schedule to achieve (or has achieved) the objective or standard. Step 3 of the control process is relatively easy if the manager has set reasonable performance standards as well as measured the actual performance correctly. This comparison determines the type of control, if any, required in the final step of the control process. During the service delivery process, concurrent controls are used to correct performance in order to meet standards. Corrective action must focus on defining the actual problem, based on the results achieved in step 3. When the manager is aware of the actual reason for the deviation between the set standard and the actual performance, he can implement corrective action (step 4). In cases where the deviation is within limits, reinforcement will allow for continuous improvement (Nieman & Bennett, 2004:117).

Control must be fully embraced in the SME sector as it results in the attainment of set goals according to the required standards. With adequate control procedures, SMEs will be able to compete on a global level with big organisations. This is due to the fact that they will be in a position to offer products and services of the required standard which results in them being competitive. SMEs must pay attention to control as it completes the

management process which derives organisational success. Section 4.3.4.3 below highlights the importance of control in the operations of business organisations.

4.3.4.3 Importance of control

Control is a complex process and small business owners or managers spend much of their valuable time and limited resources on setting standards for the attainment of objectives. From a systems perspective of the management process where control is intimately linked to the other management tasks, control function as a key component of management. Cronje *et al.* (2004:267) argue that the business environment is dynamic where changes often affect the performance of individuals in an organisation. In line with this observation SMEs need to monitor performance through control mechanisms. This makes control an important component of management as it leads to the achievement of organisational goals.

Another reason for the importance of control that is relevant to the SME sector relates to the fact that SMEs normally start as micro enterprises with minimum management related activities taking place. In due course they grow in size as they move from small to medium, and eventually into large businesses. For this growth to result in profitability, performance standards have to be set and monitored in a quest to achieve or meet the set standards. As the business grows more staff is employed to cater for the wide range of customers. In the case of manufacturing firms new products are developed and new machines are added. With time the small business becomes a network of activities that include production, administration, staff, finance and marketing. The owner or manager alone cannot perform these tasks and would therefore have to delegate to subordinates who are capable of making poor decisions. Without an effective control system the owner or manager might never know when a faulty decision has been made. This makes control an important component of management to cater for business growth and to ensure that the organisation is still in line with its set goals and standards (Cronje *et al.*, 2004:267).

Finally, it is well known that irrespective of the size of a business, the delegation of duties occurs. After delegating, the owner or manager needs to ascertain whether assigned duties have been performed or not and to determine the reasons for it. If the tasks have been performed, the owner or manager must further determine whether those duties were performed according to the required standards of the business. Without an adequate control system this important managerial activity cannot be performed. Conclusively, control can be described as the narrowing of the gap between the set objectives of the business and the actual performance of employees enabling the business to achieve those objectives successfully or not (Cronje *et al.*, 2004:268).

In the management process of planning, organising, leading and controlling managers have different roles. These roles are important in deriving the organisation towards the achievement of organisational objectives. Section 4.3.5 below discusses the managerial roles according to Mintzberg.

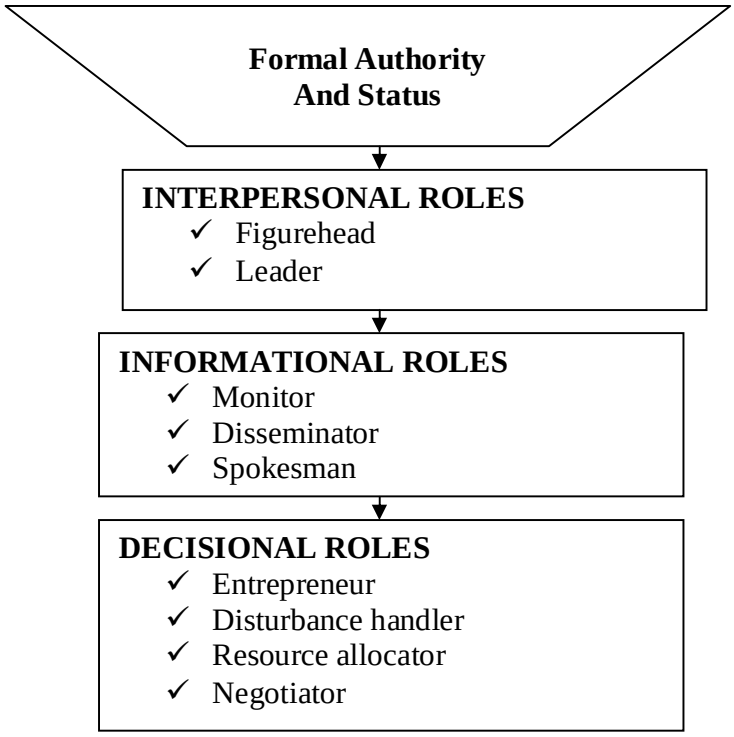
4.3.4 MINTZBERG'S MANAGERIAL ROLES

The traditional functional view of management which emphasises the formal aspects of organisation has dominated the management literature between 1890 and 1930. Traditionalists were concerned with the formal relations among an organisation's departments, tasks and processes. Traditional management stresses the manager's role in a hierarchy. Although traditionalists may recognise that people have feelings and are influenced by their friends at work, their overriding focus is on efficient and effective job performance (Hellriegel *et al.*, 2004:53). However, an equally important perspective emerged in the seventies that became known as Mintzberg's managerial roles. According to this perspective a manager must not only perform the traditional tasks of planning, organising, leading and controlling as was stipulated by the classical approach (refer to section 4.3, p. 96), but must also satisfy specific needs (refer to figure 4.2) while accepting certain responsibilities (Griffin, 2005:18-20).

The origin of this approach has been traced to Henry Mintzberg (1980) who criticised the traditional functional approach as unrealistic. He further concluded that functions does not fully describe the tasks which managers perform, but rather indicate the vague objectives managers have when they work (Kreitner, 1986:14). Mintzberg (1980) identified ten specific roles (refer to figure 4.2) which managers perform and these roles are linked to their formal authority and status. These roles are also categorized into three broad categories which are interpersonal, informational and decision-making roles. Managers perform several of these roles simultaneously, and have to assume each of these roles in order to influence the behaviour of individuals or groups, both inside and outside the organisation. For this reason management skills need to be continuously developed to empower the owners or managers of a business to successfully perform these roles (Nieman & Bennett, 2002:101).

Figure 4.2 below illustrates the different roles that managers can perform in their daily operations. Each of these roles will be discussed in the sections that follow.

Figure 4.2 The manager's roles



Adopted from Griffin (2005:18)

4.3.5.1 Interpersonal roles

The interpersonal roles performed by managers involve interaction with various individuals. As a result of their formal authority and superior status, managers engage in a large number of interpersonal contacts. Such interpersonal contact is even greater in SMEs given their small size. There are three interpersonal roles inherent in the task of a manager. These roles are figurehead, leader, and liaison (Griffin, 2005:19). These three roles are briefly discussed below (Griffin, 2005:16-19; Cronje *et al.*, 2004:130-132):

- Figurehead

Managers are often required to serve as a figurehead. He or she does this by taking visitors to dinner and attending ribbon-cutting ceremonies. These activities are typically

more ceremonial and symbolic than substantive. In SMEs the figurehead's role is important as it helps in giving exposure to the business and also in negotiating with prospective stakeholders. During outings such as dinners, important contacts may be established which will result in the enterprise having contracts.

- Leader

The manager is also expected to serve as a leader by hiring, training and motivating employees. A manager who formally or informally illustrates to subordinates how to perform set tasks and how to perform under pressure is leading. Owners or managers of SMEs have to ensure that they hire qualified and experienced individuals who can accomplish the tasks at hand. Finally, these individuals must be kept motivated to ensure that the enterprise remains productive which will result in it being profitable. Motivated employees will be productive and will feel a sense of belonging to the organisation.

- Liaison

Managers can also have a liaison role. This role often involves serving as a coordinator or link between people, groups, or organisations. The liaison role is important in the SME sector as it is crucial for networking purposes. Through networks important contracts may be obtained which will increase the sustainability of the enterprise in the long term.

4.3.5.2 Informational roles

The informational roles of managers involve the processing of information and these roles are important as information is a vital component to ensure the future success of an organisation. In SMEs, these roles become even more important because, as owners or managers, their ability to obtain, control, and selectively disseminate information will determine the effective use of relevant information for business success. The three informational roles identified by Mintzberg flow naturally from the interpersonal roles discussed above (refer to section 4.3.5.1, p. 116). Typical informational roles of a manager are, acting as a monitor, disseminator, and a spokesperson. The process of

carrying out the roles of figurehead, leader and liaison place the manager at a strategic point to gather and disseminate information (Griffin, 2005:19). A brief discussion of the informational roles of a manager follows below (Griffin, 2005:16-19; Cronje *et al.*, 2004:130-132):

- Monitor

The first informational role is that of a monitor who actively seeks information that may be of value. The manager questions subordinates, is receptive to unsolicited information and attempts to be as well informed as possible. Information is important for the owners or managers of SMEs as it empowers them to respond to any changes in the business environment in a faster and more successful manner.

- Disseminator

The manager is also a disseminator of information, transmitting relevant information back to others in the workplace. When the roles of monitor and disseminator are viewed together, the manager emerges as a vital link in the organisation's chain of communication. Communication is an important aspect of any business organisation as it informs employees of matters arising in the organisational operations.

- Spokesperson

The third informational role focuses on external communication. The role of spokesperson involves dealing in a substantive way with individuals outside a unit or organisation. Although the roles of spokesperson and figurehead are similar, there is one basic difference between them. When a manager acts as a figurehead, the manager's presence as a symbol of the organisation is the focal point of interest. In the spokesperson role, however, the manager carries information and communicates it to others in a formal sense. The interests of the organisation must be represented and clearly communicated to key stakeholders and this makes the informational role of a manager important.

4.3.5.3 Decision-related roles

These are mainly decisions that must be made in the operational activities of the organisation. The manager's informational roles typically lead to the decisional roles. The information acquired by the manager as a result of performing the informational roles has a significant bearing on important decisions that he or she makes. In their decision making roles, managers balance competing interests and make choices, and strategies are formulated and put into action. The four decision roles which management fulfill are those of entrepreneur, disturbance handler, resource allocator, and negotiator (Griffin, 2005:19-20). A discussion of these decisional roles follows below (Griffin, 2005:16-19; Cronje *et al.*, 2004:130-132):

- Entrepreneur

The first decisional role of a manager is that of entrepreneur, the voluntary initiator of change. For example, the manager may recognise a problem or spot an opportunity to be exploited. An entrepreneurial role is important in any business organisation as opportunity and threat identification are essential for the growth and development of any business venture.

- Disturbance handler

A second decisional role is initiated not by the manager, but by some other individual or group. The manager responds to his or her role as a disturbance handler by handling such problems as strikes, copyright infringements and energy shortages. The day-to-day operations of organisations are characterised by problems which requires management expertise. The manager's role as a disturbance handler becomes important in these scenarios.

- Resource allocator

The third decisional role is that of resource allocator. In this role the manager decides who in the unit will be given what resources and who will have access to the manager's time. For example, a manager typically allocates the funds in the unit's operating budget among the unit's members (employees) and projects. The role of resource allocator is important in the SME sector since resources needs to be fully utilized, hence they have to be distributed equitably. The equitable distribution of resources is important as it results in the allocation of resources where they will be fully used to increase productivity hence improved performance is achieved.

- Negotiator

The final decisional role is that of negotiator. In this role the manager enters into negotiations as a representative of the company. For example, managers may negotiate a union contract, an agreement with a consultant, or a long-term relationship with a supplier. Negotiations may also be internal to the organisation. The manager may, for instance, mediate a dispute between two subordinates or negotiate a certain level of support from another department. This role is important in the functioning of any business organisation, whether small, medium or large.

4.3.6 SUMMARY

The focus of the chapter was on the management of SMEs. Management is regarded as consisting of a series of decisions that deal with planning, organising, leading and controlling. Although these basic functions are essentially the same in both large and small businesses, the scope and complexity of these two types of businesses differ. As a result of this, SME owners or managers need to give special considerations when they attempt to apply these functional activities into their business ventures.

In order to be effective and also achieve their organisational goals, the managers of both large and small enterprises need to do proper planning, organising, leading and controlling. However, for SME owners or managers to successfully execute all management tasks, they need to posses the necessary managerial skills. The owners or managers of SMEs do not have the finances to appoint the skilled staff which will assist them in the functions of planning, organising, leading and control, resulting in them having to perform these tasks themselves. This is why it is important for the owners or managers of SMEs to have adequately trained management skills since they will perform these tasks themselves.

Chapter five will discuss the methodology applied to the empirical part of the study. It will provide a detailed analysis of the study unit and the study population. In addition, the sampling method and the sample size will be discussed, the questionnaire design, pre-testing, and data analysis procedure will also be explained. Finally, the chapter will examine the reliability of the results. The various errors such as response and non-response errors that can affect the validity of the results will be highlighted.

CHAPTER FIVE

RESEARCH METHODOLOGY

5.1 INTRODUCTION

Research methodology refers to the method by which data are gathered for a research project. It is the blueprint for the collection, measurement, and analysis of data in order to achieve the objectives of a research project. Research methodology is important in a research work because it specifies the sampling design. Here the researcher explicitly defines the target population and the sampling method used. The researcher also provides the motivation for choosing a specific sampling method. Additionally, the researcher identifies the data collection method used. This could be self-administered questionnaires, postal surveys, or interviews, and the rationale for choosing a particular data collection method. Furthermore, the researcher identifies the methods of data analysis, describes data handling, statistical tests, computer programs and other technical information, and the rationale for using a particular method. Finally, the researcher focuses on the limitations of the research. The researcher identifies significant methodology or implementation problems such as sampling errors, response and non-response errors and the constraints of cost and time (Cooper & Schindler, 2003:663, Wheather & Cook, 2000:195).

This chapter will attempt to explain the survey at hand in terms of the study area, the study unit and the population. Furthermore, the chapter highlights the organisation and design of the questionnaire as well as the methods of data collection and data analysis. The data collection instrument employed in the investigation, the administration of the instrument as well as their reliability and validity will also be described. Finally, the chapter will examine the different statistical tests used to analyse the gathered data, the reliability, and the validity of the results as well as the limitations in the collection of the data.

5.2 SCOPE OF THE SURVEY

5.2.1 The survey area

The study covered SMEs in the manufacturing sector of Harare Zimbabwe adhering to the definition of an SME as specified in chapter 3 (refer to section 3.2.1, p. 55). Harare is the capital city of Zimbabwe and it is also one of the ten administrative provinces in Zimbabwe. The private sector economy of Harare is dominated by manufacturing and service industries. Manufacturing provides approximately 20% of formal employment in the area. A greater portion of the manufacturing activities in the Harare Metropolitan are spread in the following categories, food processing, textiles, clothing and footwear, media and publishing houses, plastics, chemicals, metals and metal products, and transport (Gono, 2005:15).

5.2.2 The study unit

This study covered SMEs in the manufacturing sector of Harare, Zimbabwe. Manufacturing is a sector of the economy responsible for producing a wide range of commodities ranging from food and beverages to chemicals, clothing and metal products of all kinds. Manufacturing provides approximately 20% of formal employment in the area. A greater portion of the manufacturing activities in the Harare Metropolitan area are spread in the following categories, namely food processing, textiles, clothing and footwear, media and publishing houses, plastics, chemicals, metals and metal products, and transport (Gono, 2005:15). All these sectors were included in the study as elements of the sample were selected using a computer random number system where each element in the population was assigned a different number from one-to-six hundred and nine.

5.2.3 Survey population

Wheather & Cook (2000:201) describe the term "survey population" as the list of population elements from which the sample will be drawn. In practice, it is difficult to find complete lists or records of all of the elements in the survey population. This results in a sample drawn from lists which do not necessarily contain all of the elements. The survey population, for this study, was obtained from the Ministry of Small and Medium Enterprise Development in Zimbabwe. The Ministry is responsible for the entrepreneurial activities taking place in the country. It also maintains an updated address register on establishments in Zimbabwe. This information is classified according to economic activity, size of the business, geographical area, number of employees and the annual turnover in sales and is stored computerised. The register revealed that there are six hundred and nine (609) SMEs in the manufacturing sector of Harare, Zimbabwe which adhere to the definition of an SME as specified in section 1, chapter 1.

The sampling method applied to select a representative sample for the study is an important part of the research and will further be explained in section 5.3.

5.3 THE SAMPLING METHOD

Cooper & Schindler (2003:179) describe sampling as the procedure by which some elements of a given population are selected as representative of the entire population. The primary purpose of sampling is that by selecting some elements of a population, the researcher can draw conclusions about the entire population. A sampling method can be classified as probability or non-probability.

The following section examines the sampling method selected by the researcher for the study, and the motivation for selecting the sampling method. It also examines the sample size that was used for the research study and, furthermore, explains how the sample size was calculated.

5.3.1 Probability sampling

The researcher used the probability sampling method for the study. Probability sampling involves selection methods in which all the members of a sample are chosen through a random process. The researcher chose the probability sampling method because with probability sampling each of the population of the 609 SMEs in the manufacturing sector has a known, non-zero chance of being included in the sample. Therefore, sampling was not done at the discretion of the researcher, as this would have been the case if the non-probability sampling method was applied. Roberts-Lombard (2002:107) agrees that in non-probability sampling, the probability of selection of the respondents is not known and, for this, the researcher cannot be sure that the sample is representative of the population.

5.3.1.1 Simple random sampling

The researcher used simple random sampling to select the 241 respondents from the population (refer to section 5.4.2, p.128). Cooper & Schindler (2003:160) define simple random sampling as a probability sample in which each population element has a known and equal chance of selection. It requires a serial numbered list of population elements. Each element had a different number from 1 to 609. A computerised random number generator was used to select the 241 respondents out of the whole population of 609. The researcher applied the simple random sampling technique for the study because each element of the population had an equal chance of being selected. Therefore, bias was eliminated.

5.3.2 Sample size

Martins (1999:262) note that the correct sample size in a study is dependent on the nature of the population and the purpose of the study. The sample size usually depends on the population to be sampled. Although there are no general rules, thirty cases are sufficient for studies in which statistical analysis is to be done.

The formula below was used for the calculation of the sample since it was relevant to studies where a probability sampling method was used (Roberts-Lombard, 2006:87):

- Formula:

$n \geq N/ (1+Nd^2/10\ 000)$, where:

N= Total population

d= error estimate with a confidence interval of 95%

n= sample size

- Application:

✓ $n \geq 609/ [1+609(5)^2/10000]$

✓ $n \geq 241$

A strong focus must be attached to the organisation of the survey, and the most appropriate instrument of data collection must be selected such as questionnaires or interviews or any other instrument that would support the achievement of the objectives of the research. Section 5.5, below, provides a detailed analysis of the organisation of the survey.

5.4 ORGANISATION OF THE SURVEY

In this section, the researcher examines the motivation for choosing questionnaires as the instrument of data collection. The importance of a good questionnaire design, the choice of questions (whether open ended or close ended) and the motivation for pre-testing the questionnaire are also given attention.

5.4.1 A quantitative research design

Quantitative research generally involves the collection of primary data from large numbers of respondents with the intention of projecting the results to a wider population. It seeks to quantify data by applying a form of statistical analysis. The aim is to generalise about a specific population, based on the results of a representative sample of the population. The research findings are subjected to statistical manipulation to produce broadly representative data of the total population and forecasts of future events under different conditions (Tustin, Ligthelm, Martins & Van Wyk, 2003:89; Cant, 2003:144).

Quantitative primary data can be collected through surveys, observation and experiments. The study at hand is quantitative in nature as it has made use of personal interviews as a data collection method which is part of the survey method, hence a component of quantitative research methods. Qualitative research methods were not used as the data collection procedures are not strictly formalised as in a quantitative approach. The scope of the study was clearly defined unlike in qualitative research where the scope is likely to be undefined. For analysis purposes statistical methods were applied which is only possible if the research is quantitative in nature as qualitative research is concerned with non-statistical methods and small samples, often purposively selected (De Vos, Strydom, Fouche & Delport, 1998: 74).

Furthermore, qualitative research also generates data that are frequently difficult to quantify. It is unstructured, exploratory research based on small samples that provide insights and understanding of the research problem. This research approach is often expressed as personal value judgments from which it is difficult to draw any collective general conclusions. It seeks insights through a less structured, more flexible approach (Tustin, Ligthelm, Martins & Van Wyk, 2003:90; Cant, 2003:144).

5.4.2 A descriptive research format

Descriptive research studies are constructed to answer who, what, when, where and how questions. It is used to describe the marketing problem in detail. It is explicit in

descriptive research that the researcher already understands the underlying relationships of the problem area. Researchers may have a general understanding of the research problem, but conclusive evidence that provides answers to the questions should still be collected to determine a course of action. The research methods used in this research design were structured and quantitative. As the underlying relationships of the problem are known, descriptive research hypotheses or questions often exist, but they may be tentative and speculative. This was the case with the study under review (Tustin, Ligthelm, Martins & Van Wyk, 2003:86-87; Cant, 2003:31).

In causal studies the researcher investigates whether one variable causes or determines the value of another variable. Experiments can be used to measure causality. While exploratory research is initial research conducted to clarify and define the nature of the research problem by giving ideas as to how the research problem can be addressed. It is marketing research that is used to gather preliminary information to help paraphrase the marketing problem. It is used when searching for insights into the general nature of the problem, the possible decision alternatives and relevant variables that need to be considered (research purpose). Typically, there is little prior knowledge on which to build (Tustin, Ligthelm, Martins & Van Wyk, 2003:84, 87; Cant, 2003:28-29).

Exploratory research was not used as it is qualitative whilst the study was quantitative. The study was structured and formal which eliminates exploratory research since it is unstructured and conducted in an informal manner. Causal research was not used as it focuses on a small sample normally in a laboratory set up.

5.4.3 The questionnaire

The primary research instrument that was used in this study was the questionnaire. Churchill (1998:201) describes a questionnaire as a booklet of structured standardised procedure, pre-coded and containing open ended questions at times that are used to collect information from the respondents who record their own answers. It can also be regarded as a data-collection instrument that sets out the questions to be asked in a formal way in order to produce the desired information. Furthermore, a questionnaire is a

structured sequence of questions designed to draw out facts and opinions and which provides a vehicle for recording the data (Tustin *et al*., 2005:385). It can contain different types of questions. A discussion of the different types of questions follows below.

- **Open-ended responses**

It is a free response that is, it calls for a response in the respondent's own words and it is normally unaided. The response variations may be vast. No set of alternative responses is supplied. Open-ended responses are very versatile. Using this response type, various types of primary data can be collected, from demographic characteristics to opinions, attitudes and behaviour. Open-ended responses are of great value in exploring complex and variable topics. They are often used to probe for additional information through questions such as 'Why?' (Tustin *et al*., 2005:396-97; Cooper & Schindler, 2003:375).

- **Closed-ended questions**

There are three types of closed-ended responses which are dichotomous responses, multiple-choice responses and scaled responses or Likert Scale. A brief discussion of each type follows below.

- ✓ Dichotomous responses: is the simplest form of closed-ended responses and allows only two possible responses which are normally opposing each other. Dichotomous responses generate nominal data for example, yes or no. For these responses to be valid, the answer must fall into one of the two categories (Tustin *et al*., 2005:398; Cooper & Schindler, 2003:377).
- ✓ Multiple-choice responses: is fixed-alternative response but it offers more than two fixed-alternative responses. Respondents are asked to give one alternative that correctly expresses their opinion or, in some instances, to indicate all the alternatives that apply. These types of response are used when information can be classified into reasonably fixed categories, or when the respondent's thoughts are deliberately channeled in a certain direction. Nominal data is generated through multiple choice

questions. When the choices are numbers, this response structure will produce at least interval and sometimes ratio data. When the choices represent ordered numerical ranges (for example a question on family income), the multiple choice question generates ordinal data (Tustin *et al*., 2005:398; Cooper & Schindler, 2003:379).

- ✓ Scaled-responses: scaling permits the measurement of the intensity of respondents' answers to multiple-choice responses. Furthermore, many scale-responses incorporate numbers, which may be used directly as codes. The marketing researcher is able to employ far more powerful statistical tools by using some scaled-responses. Ordinal and interval data can be generated from the rating scale (Tustin *et al*., 2005:400; Cooper & Schindler, 2003:375).

The researcher used questionnaires for the research study because of the following reasons (Buckingham & Saunders, 2004:43).

- It is economical in terms of time and money; and
- The use of questionnaires enables the respondents to remain anonymous and be honest in their response.

5.4.3.1 Questionnaire design

The layout of the questionnaire was kept very simple to encourage meaningful participation by the respondents. The questions were kept as concise as possible with care taken to the actual wording and phrasing of the questions. The reason being that the appearance and layout of the questionnaire are of great importance in any survey where the questionnaire is to be completed by the respondent (Loubser, 1999:287). The literature in the study was used as guidelines for the development of the questions in the questionnaire. The questions that were used in the questionnaire are:

- Dichotomous questions;
- Multiple-choice questions; and
- Five-point Likert scale type questions.

A dichotomous question is a question which offers two alternative answers to choose from. A multiple-choice question is a fixed question with more than two alternative answers, whilst a Likert scale is a verbal scale which requires a respondent to indicate a degree of agreement or disagreement. The combination of the three types of questions ensures the collection of complete information from the respondents (Loubser, 1999:221).

Dichotomous questions were used because of the following reasons (Cooper & Schindler, 2003:377):

- Some questions in the questionnaire have only two possible answers. For example, questions relating to the gender of the respondents; and
- The ease of coding and analysing, since the responses are predetermined.

Multiple-choice questions were used for the study because of the following reasons (Cooper & Schindler, 2003:377-379):

- These types of questions are easy to answer by the respondents. Non-response error is thereby reduced; and
- The ease of coding and analysing since the responses are predetermined.

Five-point Likert scale questions were used by the researcher for the following reasons (Cant, 2003:113):

- It eliminates the development of response bias amongst the respondents;
- It assesses attitudes, beliefs, opinions and perception;
- Using a Likert scale makes the response items standard and comparable amongst the respondents; and
- Responses from the Likert scale questions are easy to code and analyse directly from the questionnaires.

Twenty eight (28) out of the thirty three (33) questions were closed ended. Cooper & Schindler (2003:361) describe closed ended questions as those that present the respondents with a fixed set of choices. The respondent is limited to choosing from a set of alternatives. Closed ended questions were used for the following reasons (Cant, 2003:108):

- To enable the respondents to easily understand the questions; making it less time consuming for them to complete the questionnaires. Non-response error is thereby reduced; and
- Closed ended questions are easy to code and analyse, since the responses are predetermined.

The use of open-ended questions was limited to five and was used to establish the total annual turnover as well as the total net asset value of the respondents and the respondents' view on transaction costs. Cooper & Schindler (2003:362) describe open-ended questions as the ones that do not limit the responses of respondents, but provide a framework of reference for their answers. The respondents are free to provide answers in their own words to the questions in the questionnaire. The use of open- ended questions in the study was limited because of the following reasons (Cant, 2003:107).

- They are more time-consuming to complete. This may lead to non-response errors; and
- Open-ended questions are difficult to code and analyse, as the responses are not predetermined.

The questionnaire consisted of the following sections:

- *Section A: Biographical details*

This section consisted of seven (7) statements, determining the biographical details of both the respondent and the small and medium enterprises which the respondent represents.

- *Section B: Requirements of the Ministry of Small and Medium Enterprises Development*

This section consisted of nine (9) questions, determining the status of the respondents' enterprise under the requirements of the Ministry of Small and Medium Enterprises Development.

- *Section C: Factors affecting the performance of SMEs*

This section consisted of ten (10) questions on the factors affecting the performance of SMEs.

- *Section D: Management questions*

This section consisted of five (5) questions on managerial issues affecting SMEs.

- *Section E: Required skills for SME development*

This section had one (1) question based on the required financial management skills required in the operations of SMEs.

- *Section F: SME support*

This section consisted of eight (8) questions on SME support by the Zimbabwean government and other institutions.

5.4.3.2 Pre-testing

Pre-testing refers to the testing of the questionnaire on a small sample of respondents to identify and eliminate potential questions. All the aspects of the questionnaire should be tested, including wording sequence and layout. The respondents in the pre-test should be similar to those who will be included in the actual survey (Roberts-Lombard, 2002:132). Pre-testing is critical for identifying questionnaire problems. These can occur for both respondents and interviewers regarding question content, "skip patterns," or formatting. Problems with question content include confusion with the overall meaning of the question, as well as misinterpretation of individual terms or concepts. Problems with how to skip or navigate from question to question may result in missing data and frustration for both interviewers and respondents. Questionnaire formatting concerns are particularly relevant to self-administered questionnaires, and if unaddressed may lead to the loss of vital information (Snijkers, 2002:97).

The questionnaire was pre-tested in a pilot study involving SMEs in the manufacturing sector in King William's Town and East London. A pilot study is described as the using of a questionnaire on a trial basis. Pre-testing is essential if the researcher is satisfied that the questionnaire being developed will perform its various functions in the interview situation. Furthermore, the data collected will be relevant and as accurate as possible, the target respondents will participate and co-operate as fully as possible and the collection and analysis of data will proceed smoothly (Cooper & Schindler, 2003:320).

Pre-testing was used in the study to identify flaws in the questionnaire and to determine the time required by a respondent to complete the questionnaire. Furthermore, in the study at hand pre-testing the questionnaire was to test its face and content validity, and to identify and rectify problem areas. After pre-testing the instrument, it was refined for the data to be collected.

The pre-test reviewed that some of the respondents were not willing to divulge their age and educational levels. The respondents did not understand some of the concepts and

questions in the questionnaire and this resulted in the researcher coming up with an explanatory note to some questions**.** Furthermore, the arrangements of some of the questions were faulty. The result of the pre-test, consequently, led to some amendments to the questionnaire. The researcher was able to obtain most of the required information.

The performance of a questionnaire can be enhanced by the data gathering technique to be applied to the research process. Section 5.5 below provides an insight into the data gathering technique that was used in this study.

5.5 VALIDITY AND RELIABILITY OF THE QUESTIONNAIRE

The research literature agrees that content validation is a judgmental process that can be done in many ways. According to Cooper and Schindler (2001:212), a researcher may choose to use a panel of experts to judge how well the instrument meets standards or use his own judgement. This is further supported by Dzansi (2004:188-189) that a researcher can use own judgement to judge if the instrument meets the standards. In this study, the decision was made to rely on own judgment. The researcher did, however, study the literature (books, journals, dissertations, theses) to determine how well the research instrument meets standards.

In addition, the assistance of the Statistical Department of the University of Fort Hare was requested to determine the validity of the research instrument. P-values which are less than 0.05 are significant. From the acceptance and rejection of hypothesis the p-values were found to be significant in section 6.4 and all the null hypotheses were accepted as they had p-values which were less than 0.05 (refer to section 6.4, pp.222-229). This clearly indicates that the research instrument was both valid and reliable. Furthermore the sample size was large enough, from the total population, which does not require validity testing. This was aided by the use of a sample size calculator which is used to determine what the sample size of your marketing research project will need to be. It also determines the marginal of error to be allowed. With a sample size of 241, the margin of error will be 6.27%. 5% is the common choice. The margin of error is the amount of error you can tolerate. For example, if 90% of the respondents answer yes,

while 10% answer no, you may be able to tolerate a larger amount of error than if the respondents are split 50-50 or 45-55 (Raosoft, 2004).

The above argument is further supported by Kumar (2005:168), who argues that findings based upon larger samples have more certainty than those based on smaller ones. As a rule, the larger the sample size, the more accurate will be the findings.

There exist evidence from published masters and doctoral theses in the fields of Entrepreneurship and Small Business Management that the use of different types of questions does not affect the validity and reliability of the questionnaire. Dzansi (2005) carried out a doctoral study on the social responsibility of SME enterprises and used different types of questions (open-ended, multiple choice, and close-ended) on the questionnaire. A study by Panasen, Laukkanen & Niittykangas (2002) on the factors affecting the performance of SMEs in peripheral locations used both open ended and close-ended questions. The research instrument was valid in their study. Fatoki (2007:111-114)) used different questions (open-ended, multiple choice, and close-ended) in his research instrument on the study of the impact of debt usage on profitability in small manufacturing firms. The questionnaire was tested for reliability and was found to be reliable. Chiliya (2007:117-118) also made use of different questions (open-ended, dichotomous and close-ended) in his instrument as a measurement tool in a study which determined the impact of marketing strategies on the profitability of black grocery shop owners in Mdantsane, East London. The questionnaires were tested for reliability and were found to be reliable. The completed studies focused on entrepreneurship and small business management research and used the same type of questions as this research study, and the results were accepted as valid.

A study by Mutezo (2005:65-66) on obstacles in the access to SMME finance used close-ended questions on demographic information and used both close-ended and open ended questions on the profile of business activities. The results were accepted as valid. Furthermore a study by Boschman & Webster (2004:7) made use of checklists, open

ended questions and likert scales in their study on outsourcing as an operations strategy and the results were accepted as valid.

The above information therefore indicates that the researcher's questionnaire was valid since similar questions were used in the questionnaires applied by the studies mentioned above to gather data and measure the stated objectives. This further indicates that the researcher's study was not the first in the entrepreneurial or small business field to use open-ended, multiple choices, and close-ended questions on a questionnaire. This makes the research instrument, applied to this study, relevant as a measuring tool.

5.6 DATA GATHERING TECHNIQUE

This section focuses on the rationale for using personal interviews as the data gathering technique, and how the actual survey was conducted with the respondents. The section also examines the rationale for using a cover letter by the researcher.

5.6.1 Personal Interviews

A personal interview is a two-way conversation initiated by an interviewer to obtain information from a participant. The differences in the roles of the interviewer and participant are pronounced. They are generally strangers and the interviewer generally controls the topics and patterns of discussion. The greatest value lies in the depth of information and detail that can be secured. It far exceeds the information secured from telephone and self-administered studies via intercepts and surveys. The interviewer can also do more things to improve the quality of information than with another method. Interviewers can note conditions of the interview, probe with additional questions and gather supplemental information through observation. Interviewers also have more control than with other kinds of interviews. They can prescreen to ensure the correct participant is replying and they can set up and control interviewing conditions. Interviewers also can adjust the language of the interview as they observe the problems and effects the interview is having on the participant. An interviewer can explain what

kind of answer is sought, how complete it should be, and in what terms it should be expressed (Cant, 2003:82-87; Cooper & Schindler, 2003:323, 333).

Personal interviews were used in this study as they ensured good cooperation from respondents and increased the quantity of data collected due to their personal nature and the limited effort required of respondents. It enabled the researcher to answer questions about the survey, probe for answers, use follow-up questions and gather information by observation. Due to the difference in literacy levels in the population the researcher was able to reach all respondents regardless of their literacy level, hence quality data was obtained as the researcher clarified problematic aspects (Tustin *et al*., 2005:147-149).

5.6.2 Covering letter

A covering letter was collected from the Department of Business Management of the University of Fort Hare, explaining the nature of the research and, indicated that information collected from the respondents would be kept in strict confidence. The covering letter was provided to the respondent to read before the personal interview was conducted. A covering letter was used to motivate the respondents to cooperate by describing the project, stating why the respondents had been chosen and emphasised the benefits to the respondents of completing the questionnaire (Smith and Martins, 1999:152).

Data analysis forms an integral part of any research project. This involves the editing, coding and processing of data. Section 8.7, below, provides a detailed analysis of how the data collected by the researcher will be analysed.

5.7 DATA ANALYSIS

Data analysis involves the reduction of accumulated data to a manageable size, developing summaries, looking for patterns and applying statistical techniques. It also includes the interpretation of research findings in the light of the research questions, and

determines if the results are consistent with the research hypotheses and theories (Cooper & Schindler, 2003:87).

Editing, coding and processing of data form an integral part of data analysis. Each of these components of data analysis will be discussed in more detail below.

5.7.1 Editing, coding and processing of data

5.7.1.1 Editing of data

Responses from each item of the questionnaire were edited. According to Cooper & Schindler (2003:236), editing involves a thorough and critical examination of the completed questionnaire, in terms of compliance with the criteria for collecting meaningful data, and in order to deal with questionnaires not duly completed. Editing of data detects errors and omissions, corrects them where possible and certifies that the minimum data quality standards have been achieved. Therefore, the primary purpose of editing is to guarantee that data are accurate, consistent with the intent of the questions, uniformly entered, complete and arranged to simplify coding and tabulation. Data collected from the respondents were edited to achieve these objectives. The completed questionnaires were edited and organized to simplify the process of coding.

5.7.1.2 Coding of data

All the questions in the questionnaire were coded for easy classification. Coding involves assigning numbers or other symbols to answers so that responses can be grouped into a limited number of classes and categories. The classification of data into limited categories is necessary for efficient analysis. Coding assists the researcher to reduce a large number of replies into a few categories containing critical information required for analysis. Pre-coding is particularly helpful for data entry because it makes the intermediate step of completing a coding sheet unnecessary. Data can be accessed directly from the questionnaire (Cooper & Schindler, 2003:456).

5.7.1.3 Processing of data

The processing of the data was done with the assistance of statisticians in the Department of Statistics at the University of Fort Hare, using the Statistical Analysis System (SAS). This statistical package is readily available in the university. SAS is an integrated set of modules used for manipulating, analysing and presenting data. The SAS package consists of a statistical number of written computer programs which can be stored on the computer. This relieves the researcher of the need for writing his or her own program. The SAS program is also written to be flexible in terms of data that can be used, the minimum or maximum sample size and the number of variables allowed (Cooper & Schindler, 2003:509).

5.7.1.4 Statistical analysis of data

Ordinal Multinomial Logit Models were used to test for the effects of explanatory variables on those responses that had more than two categories. For the binary responses Ordinary Logit Models were used. To assess or evaluate the association among the response factors Loglinear Modeling was used. These statistical procedures were used as follow-up analyses to the graphical analysis (bar charts and pie charts). All tests were carried out at a five percent (5%) significant level. These statistical tools were used since the data contained categorical variables where responses are classified. Furthermore, the sections in the questionnaire were divided into an explanatory section, namely sections A and B and response sections, that is, sections C to F.

Regression analysis gives a description of the nature of the relationship between two or more variables; it is concerned with the problem of describing or estimating the value of the dependent variable on the basis of one or more independent variables. It statistically establishes the relationship of a dependent variable, such as the sales of a company, and one or more independent variables, such as family formations. The correlation coefficient is the ultimate yardstick of regression analysis: a correlation coefficient of 1 means the relationship is direct relationship; -1 means there is a negative relationship; and a coefficient of zero means there is no relationship between the two factors.

Analysis of variance (ANOVA) is a statistical technique that can be used to evaluate whether there are differences between the average value, or mean, across several population groups. With this model, the response variable is continuous in nature, whereas the predictor variables are categorical. In the simplest case, where two population means are being compared, ANOVA is equivalent to the independent two-sample t-test. One-way ANOVA evaluates the effect of a single factor on a single response variable. When interpreting the results from the ANOVA procedures it is helpful to comment on the strength of the observed association, as significant differences may result simply from having a very large number of samples. ANOVA is a statistical model that tests whether or not groups of data have the same or differing means. The ANOVA model operates by comparing the amounts of dispersion experienced by each of the groups to the total amount of dispersion in the data.

5.8 RELIABILITY OF THE RESULTS

A sample survey, even when properly conducted, can yield only estimates, but not exact values. A sample survey is a survey in which a sample is selected to be representative of the whole population. The major types of errors in research are sampling, response and non-response errors (Loubser, 1999:215). Each of these errors is discussed in more detail below.

5.8.1 Sampling errors

Sampling errors arise from estimating a population characteristic by looking at only one portion of the population rather than the entire population. It refers to the difference between the estimate derived from a sample survey, and the true value that would result if the whole population was tested under the same conditions (Loubser, 1999:289; Babbie, 2007:196).

Sampling errors were minimised in the survey by using a large sample size of approximately forty percent (40%) of the population. A large sample size is more representative of the population.

5.8.2 Response error

Response errors are the estimated inaccuracy that can be introduced by the researcher, the interviewer or the respondents. The researcher may make the error in the design of the measurement instrument or may not properly define the problem and the related information required. Response errors can also occur when the respondent deliberately or mistakenly provides incorrect answers to the survey questions (Cooper & Schindler, 2003:332; Tustin *et al*, 2005:378; Cant, Gerber-Nel & Nel, 2003:79).

Response errors were minimised by carefully constructing and pre-testing the questionnaires. The use of self-administered questionnaires, also, assisted in reducing response errors, because unclear questions were clarified by the researcher to the respondents. However, data for the study at hand was only obtained from the owners who were willing to complete the questionnaire. This might have created a bias relative to owners who refused to participate in the survey.

5.8.3 Non-response error

Loubser (1999:286) describes a non-response error as an error caused by failure to contact all members of a sample and/or the failure of some contacted members of the sample to respond to all or a specific part of the questionnaire. The non-response error occurs because people who respond to the survey might not have characteristics similar to those who do not. Non-response errors were reduced to the absolute minimum in the research study by using personal interviews which involves a direct meeting between the researcher and the respondents and by repeated telephone calls and visits to the respondents (Roberts-Lombard, 2002:117-20; Cant, Gerber-Nel & Nel, 2003:80; Buckingham & Saunders, 2004:70).

The sample was big enough to ensure representativeness and the use of personal interviews improved the response rate as respondents were willing to co-operate. Refusals were replaced by contacting other members of the population to make sure that 241 respondents were interviewed.

5.9 SUMMARY

The chapter has examined the research methodology. The scope of the survey, the sampling method and the organisation of the survey were comprehensively discussed. Additionally, the chapter examined the data gathering technique to be used for the research study, especially the rationale for choosing the self-administered questionnaire, and the need for a covering letter. Furthermore, the chapter focused on the editing, coding and processing of data and the statistical packages to be used to analyse data. Finally, the chapter examined the reliability of the results. The errors that can affect the validity of the results and the techniques that will be used by the researcher to minimise them were discussed.

In the following chapter the research results will be discussed. The chapter concentrates on the responses of the respondents to the questions in the questionnaires. Tables, pie charts and bar charts were used to aid the analysis of the data.

CHAPTER SIX

RESEARCH RESULTS

6.1 INTRODUCTION

This chapter focuses on the analysis and interpretation of the questionnaire (refer to addendum one). Data analysis and interpretation of data are closely related. In data analysis, the collected data is broken up into groups or elements which the researcher examines separately, and translates into immediate results. In interpretation, the immediate results will be translated into integrated and meaningful general references and findings. The findings must be relevant to the objectives of the research. If both data analysis and interpretation are not carried out properly, the success of the study cannot be assured (Proctor, 2000:273).

Descriptive statistics such as tables, pie charts and bar charts were used to aid the analysis of data because they are effective illustrations of depicting relations and trends. This chapter will illustrate the accumulation of results obtained from the questionnaires. The questionnaires were personally administered to the Small and Medium Enterprises (SMEs) in the sample chosen from the population of firms in the study area. Variable numbers were allocated to each question and its components, in the questionnaire, so that responses can be grouped into a limited number of categories. This is required for the efficient analysis of the questions. Staff members of the Department of Statistics of the University of Fort Hare assisted in the coding and processing of data that were obtained from the returned questionnaires.

Section 6.2 below examines the analysis and interpretation of data obtained from the respondents through the questionnaire.

6.2 DISCUSSION OF THE EMPIRICAL RESULTS

This section deals with the analysis and interpretation of data obtained from the respondents in the study area through self-administered questionnaires. Each section and question in the questionnaire will be discussed individually. The questions applicable to

each section will be provided as well as the reasons for asking them. The obtained answers will be supported by either a table, a figure or both. The interpretation of the answers to the questions will then be effected. Finally, the results obtained from each question will be compared with empirical studies to confirm if they are consistent or inconsistent with previous literature related to the questions.

6.2.1 Section A: Demographic data

This section identified and discussed demographic factors related to SMEs in the manufacturing sector of Harare, Zimbabwe and the respondents answered on behalf of the enterprises. Aspects related to the enterprise such as product(s) manufactured, status, gender, age and educational qualifications of the respondent, period of operating, and the legal status of the business will be discussed in this section.

Proctor (2000:157) explains that demographic data are needed to obtain basic information about the respondent. It provides identification material about the respondent such as age and gender. Demographic data, in addition, helps through the analysis of subgroups to provide a method for identifying differences in key results in responses by subgroups such as on age and gender.

Demographic factor 1 below examines the status of the respondents. This information is necessary to enable the researcher to obtain information on whether the respondents are owners or managers of the business.

Demographic factor 1: Status of the respondents

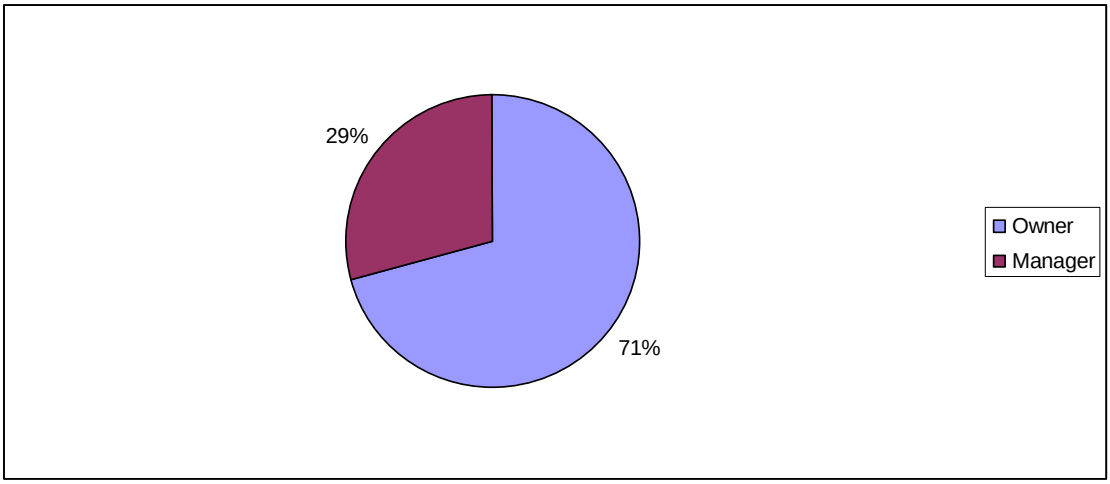
Table 6.1 below describes the findings of the study in respect of the status of the respondents

Table 6.1 Responses on the status of the respondents

Status	Frequency	Valid percent
Owner	146	71
Manager	95	29
Total	241	100

The information shown in table 6.1 above is statistically portrayed in a pie chart in figure 6.1 below.

Figure 6.1 Responses on the status of the respondents



Comment:

Seventy one percent (71%) of the respondents are owners of the business. This result indicates that a larger percentage of SMEs in the manufacturing sector of Harare, Zimbabwe, are managed by their owners. This result is in agreement with a study that was conducted in Cyprus by Bruce *et al.* (1998) which showed that more than eighty percent (80%) of small manufacturing enterprises are family operated or managed. However, forty percent (40%) of the respondents in this study indicated that the owners are not involved in managerial aspects. Based on these results and previous studies it can

be concluded that most SMEs are managed by their owners who are actively involved in the day to day operating of their enterprises.

Demographic factor 2 relates to the gender of the respondents. This information is necessary to enable the researcher to obtain information on whether the respondents are male or female.

Demographic factor 2: Gender of the respondents.

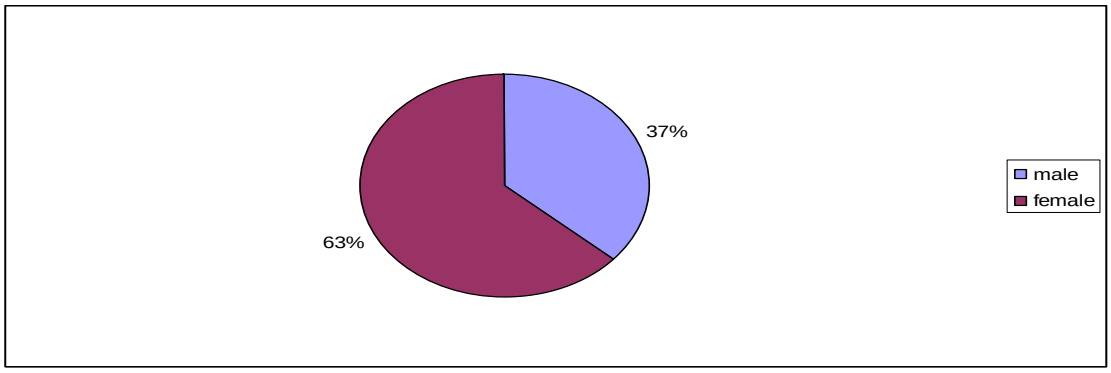
Information on the gender of the respondents is provided in table 6.2 below.

Table 6.2 Responses on the gender of the respondents

Gender	Frequency	Valid percent
Male	88	37
Female	153	63
Total	241	100

The information depicted in table 6.2 above is statistically portrayed in a pie chart in figure 6.2 below.

Figure 6.2 Responses on the gender of the respondents



Comment:

Sixty three percent (63%) of the respondents in this study are female, while thirty seven percent (37%) are male. This result indicates that women are more involved in entrepreneurial ventures than men. This could be attributed to the fact that traditionally most men occupy top positions at work and most large corporations are directed by men. In addition, it can also be attributed to the government's targeted support which focuses on women that is, gender dimension, aimed at encouraging the growth of SMEs (refer to section 3.5.1.7 p. 80). Gender dimension is a programme which encourages women entrepreneurs in Zimbabwe as they constitute approximately 52% of the Zimbabwean population (Kwidini, 2007).

This result is in accordance with the 1972 Bureau of Census in the United States of America (hereafter referred to as the USA) where only 4.6% of all US businesses were women-owned. However, in 1999 there were 9.1 million women-owned businesses, employing 27.5 million workers with reported revenues of almost $3.6 trillion (Center for Women's Business Research, 1999). From 1997 to 2002, women formed new businesses at twice the national rate (Center for Women's Business Research, 2002). By 2003 women were clearly recognized as a driving force in the U.S. economy, whether measured by the number of businesses owned, the revenues generated or the number of people employed. Female entrepreneurs are increasingly prominent as employers, customers, suppliers and competitors in the USA and in the global community, in general (Greene *et al*., 2003:1).

Demographic factor 3 on the next page examines the age of the respondents. This information is necessary to enable the researcher to obtain information on whether the respondents are young or old.

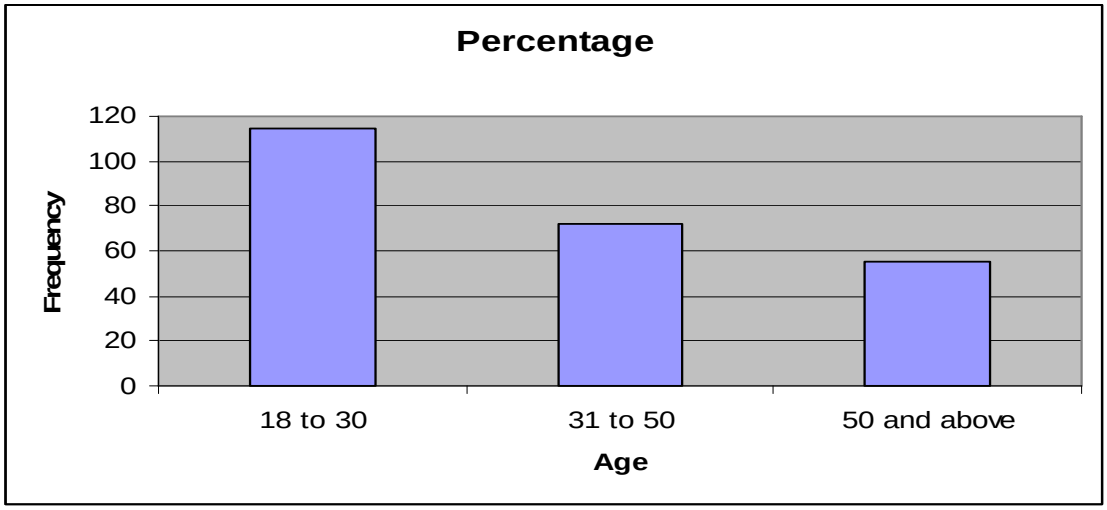
Demographic factor 3: Age of the respondents

Table 6.3 provides information on the age of the respondents

Age	Frequency	Valid percent
50 and above	55	23
31 to 50	72	30
18 to 30	114	47
Total	241	100

The information shown in table 6.3 above is statistically portrayed in a bar chart in figure 6.3 below.

Figure 6.3 Responses on the age of respondents



Comment:

Forty seven percent (47%) of the respondents are within the age bracket of 18- 30 whilst thirty percent (30%) of the respondents are in the 31-50 age bracket. Twenty three percent (23%) of the respondents are in the 50 and above age bracket. None of the respondents are below 18 years. This result illustrates that SME owners are generally

active between the ages of 18- 50. It is also in agreement with the findings by Price (2006) who maintained that there are two natural age peaks correlated to entrepreneurship, namely the late twenties and mid-forties. The study findings are almost similar to a study done in America by Muijanack, Vroonhof and Zoetmer (2003:6) who determined that the optimum age for entrepreneurs was 25-35.

Demographic factor 4 below examines the educational qualifications of the respondents. This information is necessary to enable the researcher to obtain information on whether the respondents are educated or illiterate.

Demographic factor 4: Educational qualifications of the respondents

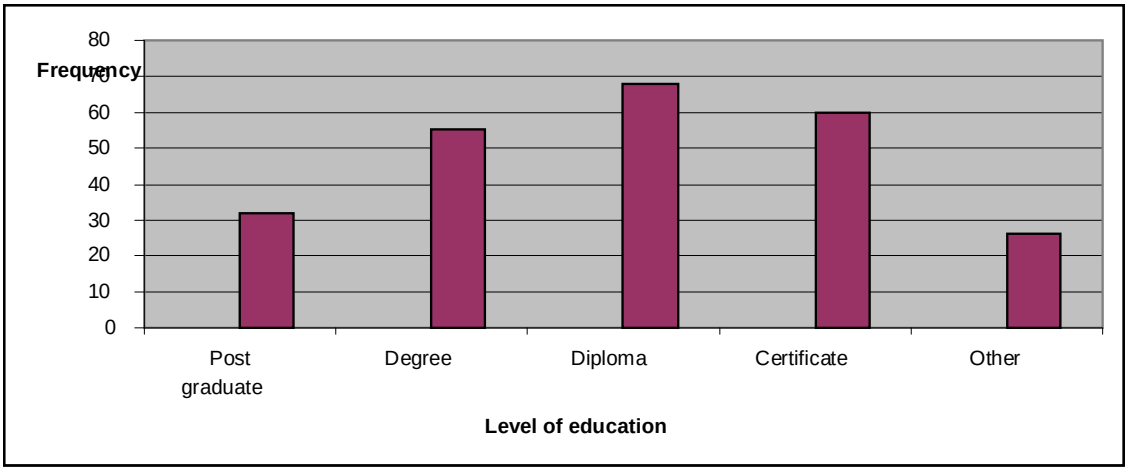
Information on the educational qualifications of the respondents is shown in table 6.4 below.

Table 6.4 Responses on the educational qualifications of the respondents

Qualification	**Frequency**	**Valid percent**
Post graduate	32	13
Degree	55	23
Diploma	68	28
Certificate	60	25
Other	26	11
Total	241	100

The information shown in table 6.4 above is statistically portrayed in a bar chart in figure 6.4 on the next page. This figure reflects the educational qualifications of the respondents.

Figure 6.4 Responses on the educational qualifications of the respondents



Comment:

Twenty eight percent (28%) of the respondents have diplomas, twenty five percent (25%) certificates, twenty three percent (23%) degrees, thirteen percent (13%) post graduation qualifications and eleven percent (11%) have other forms of education. The result indicates that SMEs owners or managers in the study area are well educated. The majority of the respondents have certificates, diplomas and university degrees. Education increases the likelihood of identifying good business opportunities and the chance of the success of the business.

Previous empirical studies appear to be in agreement with this result. Marten (2005:12) in a study on the success of small businesses in Canada, found that the education of the owner is positively related to the success of the business. Small businesses operated by people with at a minimum of a secondary education, had their revenues grow more than twice as fast compared to enterprises managed by individuals with less than a high school education. Driver *et al*. (2001) argue that in South Africa, individuals with a matric or those with a tertiary education are, significantly, more likely to own a small business than those without matric.

Demographic factor 5 examines the legal status of the business of the respondents. This information is necessary to enable the researcher to obtain information on whether the business of the respondents is a close corporation, sole proprietorship, partnership or private company.

Demographic factor 5: Legal status of your enterprise

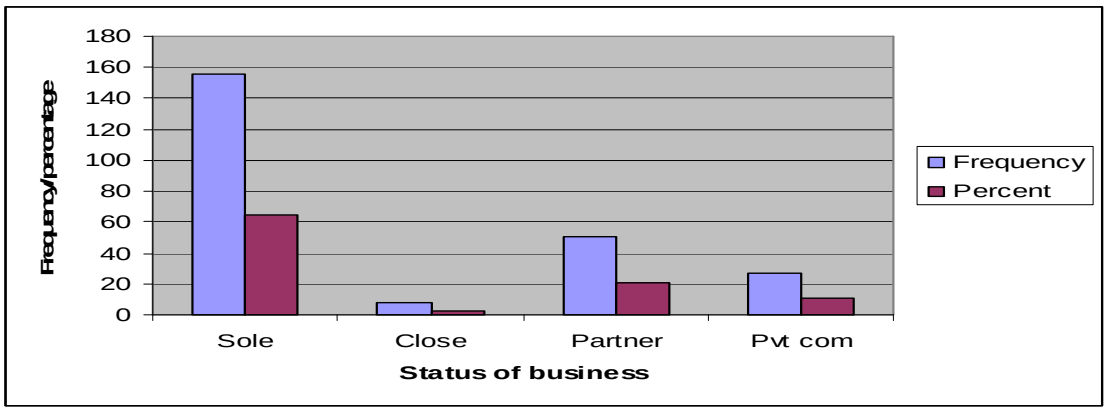
Information on the legal status of the business is provided in table 6.5 below.

Table 6.5 Responses on the legal status of the respondents' enterprises

Legal status of enterprise	Frequency	Valid Percent
Sole proprietorship	156	65
Close corporation	8	3
Partnership	50	21
Private company	27	11
Total	241	100

The information shown in table 6.5 above is statistically portrayed in a bar chart in figure 6.5 below. This figure depicts the legal status of the businesses of the respondents.

Figure 6.5 Responses on the legal status of the respondents' enterprises



<u>Full name of the abbreviations used for the X-axis in Figure 6.5 on the previous page</u>:

- **Sole** = Sole proprietorship
- **Close** = Close corporation
- **Partner** = Partnership
- **Pvt com** = Private company

Comment:

Sixty five percent (65%) of the respondents are sole proprietorships. Twenty one percent (21%) are partnerships, eleven percent (11%) private companies, and three percent (3%) close corporations. This result indicates that most of the SMEs are sole proprietorships and partnerships. This could be attributed to the fact that sole proprietorships are easy to form. Cronje *et al*. (2004:59) point out that a sole proprietorship is by far the most popular form of business. A sole proprietorship is a business that is owned and managed by one individual. It is a simple form of business, and the least costly form of ownership for starting a business. The result is consistent with the study by Rwigema & Karungu (1999:115) which established that seventy four percent (74%) of the respondents surveyed in the study of small firms in Johannesburg are sole proprietorships, five percent (5%) close corporations and one percent (1%) are private companies.

Demographic factor 6 below examines the products manufactured by the respondents. This information is necessary to enable the researcher to obtain information on products manufactured by respondents.

Demographic factor 6: Products(s) manufactured.

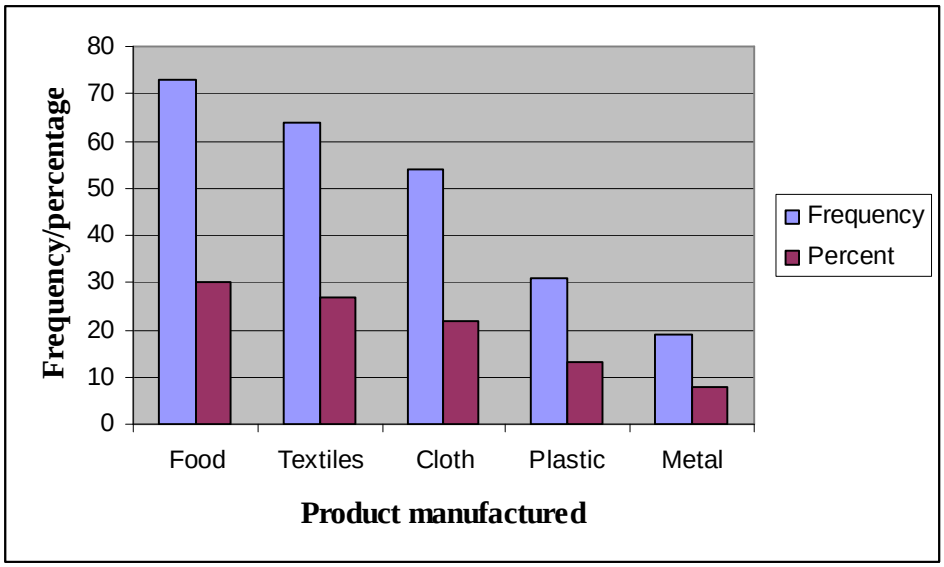
Table 6.6 on the next page provides insight into the product(s) manufactured by the respondents.

Table 6.6 Responses on the products manufactured by the respondents

Product manufactured	Frequency	Valid percent
Food processing	73	30
Textiles	64	27
Clothing and footwear	54	22
Plastic	31	13
Metal fabrication	19	8
Total	241	100

The information depicted in table 6.6 above is statistically portrayed in a bar chart in figure 6.6 below.

Figure 6.6 Responses on the products manufactured by the respondents



<u>Full name of the abbreviations used for the x-axis in Figure 6.6 above:</u>

- **Food** = Food processing
- **Cloth** = Clothing and footwear

- **Metal** = Metal fabrication

Comment:

Thirty percent (30%) of the respondents are operating in food processing. Twenty seven percent (27%) are involved in textile whilst twenty two percent (22%) are in clothing manufacturing. Other products manufactured include plastic, thirteen percent (13%) and metal fabrication, eight percent (8%). The predominance of SMEs in the food processing industry can be attributed to the relatively low capital requirement since most food processors tend to be, primarily, involved in light rather than heavy manufacturing such as bread making.

This result is consistent with the findings of the study by Mather (2005) which found that the processing industry is the most important component of South Africa's manufacturing economy. Small businesses dominate the food processing industry since the sector was deregulated by the South African government in the 1990's. Deregulation implies the removal of government control from an industry or sector to allow for a free and efficient market place. Mather (2005) concludes that agricultural manufacturing accounts for twenty eight percent (28%) of all manufacturing employment, thirty one percent (31%) of all manufacturing production, and twenty five percent (25%) of the manufacturing sector's contribution to the gross domestic product of South Africa in the year 2000. The findings above are especially interesting since both Zimbabwe and South Africa are viewed as developing economies.

Demographic factor 7 on the next page examines the duration of the business of the respondents. This information is necessary to enable the researcher to obtain information on how long the business of the respondent has been in operation.

Demographic factor 7: Period of business operating

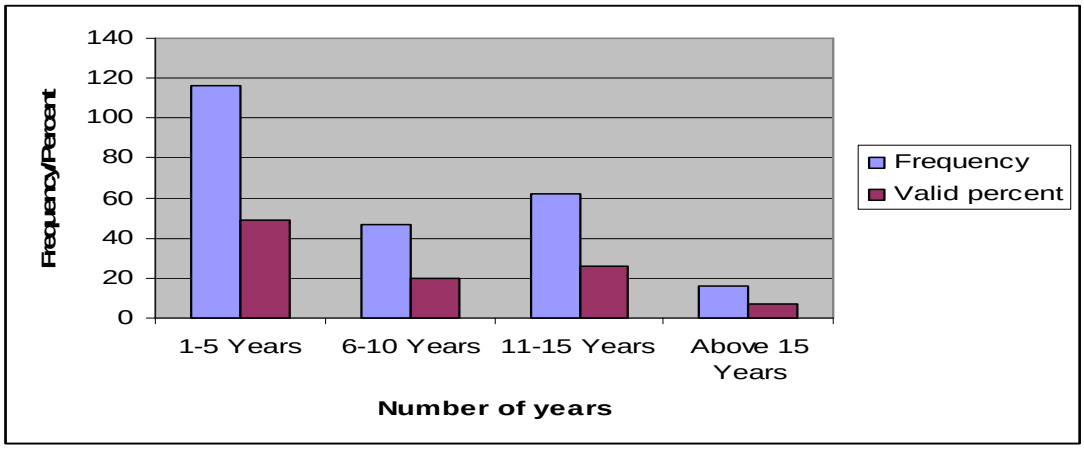
Table 6.7 below highlights information on the duration of the business of the respondents

Table 6.7 Responses on the duration of the business of the respondents

Period	Frequency	Valid percent
1-5 Years	116	48
6-10 Years	47	20
11-15 Years	62	26
Above 15 Years	16	6
Total	241	100

The information shown in table 6.7 above is statistically portrayed in a bar chart in figure 6.7 below. This figure illustrate the duration of the business.

Figure 6.7 Responses on the duration of the business of the respondents



Comment:

Forty eight percent (48%) of the respondents have been in operation for between 1 and 5 years, twenty percent (20%) have been in operation for 6-10 years, twenty six percent

(26%) have been in operation for 11-15 years, and six percent (6%) in operation for more than 15 years. This result indicates that the majority of SMEs in the manufacturing sector of Harare, Zimbabwe, namely sixty nine percent (69%) are operating for less than ten years. However, thirty one (31%) of the SMEs has been in operation for more than ten years.

This result is consistent with previous empirical studies on the age of SMEs in South Africa. Rwigema and Karungu (1999:114), in a study of SMEs in Johannesburg, stipulate that forty seven percent (47%) of enterprises surveyed had operated between one and ten years. The high rate of unemployment in Zimbabwe since 1997 is the primary motivation for starting SMEs.

6.2.2 Section B: Requirements of the Ministry of Small and Medium Enterprise Development

The questions in this section were required to determine whether the SMEs in the manufacturing sector of Harare, Zimbabwe, meet the requirements of the Ministry of Small and Medium Enterprise Development. Questions 1 to 8 depict the criteria to be met for a business to be categorised as small or medium, answers from the respondents, and whether these observations meet the requirements of the ministry.

Question 1: How many employees did you start with?
Question 2: What is your current number of employees?

For analysis purposes the difference in terms of employees was done based on employees working for the SME sector in Harare, Zimbabwe on a full time and a part time basis. It is for this reason that questions 1 and 2 are combined. The information is statistically depicted below in tables 6.8 and 6.9 on the next page.

Table 6.8 Full time employees working for SMEs in the manufacturing sector of Harare, Zimbabwe

Full Time employees	Frequency	Cumulative Percentage	Cumulative Frequency	Percentage
0	48	19.92	48	19.92
1	10	4.15	58	24.07
2	183	75.93	241	100.00

Table 6.9 Part time employees working for SMEs in the manufacturing sector of Harare, Zimbabwe

Part Time employees	Frequency	Cumulative Percentage	Cumulative Frequency	Percentage
0	39	16.18	39	16.18
1	50	20.75	89	36.93
2	152	63.07	241	100.00

Zero (0) implies that there is no difference between the number of employees employed when the small or medium enterprise was established and the number of employees currently employed by the small or medium enterprise. In other words, there was no increase or decrease in the number of employees in these firms. One (1) implies a negative difference or a decrease in the number of employees, whilst 2 indicate that there is a positive difference or an increase in the number of employees. The above result shows that approximately seventy six percent (76%) of the SMEs experienced an increase in the number of their full time employees. However, twenty percent (20%) had the same number of full time employees while four percent (4%) experienced a decrease in the number of their full time employees. In terms of the part time employees of the SME sector in Harare, Zimbabwe, sixty three percent (63%) of the respondents indicated that they experienced an increase, twenty one percent (21%) experienced a decrease while sixteen percent (16%) did not have any change.

Question 3: During the first year of operation what was your turnover?

Question 4: What is the current annual turnover of your firm?

For analysis purposes only the difference in annual turnover was considered in order to establish whether there was an increase or a decrease in the turnover of SMEs in the manufacturing sector of Harare, Zimbabwe. The information obtained is statistically depicted in table 6.10 below.

Table 6.10 Difference in annual turnover of SMEs in the manufacturing sector of Harare, Zimbabwe

Part Time employees	Frequency	Cumulative Percentage	Cumulative Frequency	Percentage
0	39	14.94	36	14.94
1	15	6.22	51	21.16
2	190	78.84	241	100.00

Zero (0) implies that there was no significant increase or decrease in the annual turnover of SMEs in the manufacturing sector of Harare, Zimbabwe. One (1) refers to a negative difference or a decrease in the annual turnover of SMEs, whilst 2 indicate that there was a positive difference or an increase in the annual turnover of these SMEs. The above result shows that approximately seventy nine percent (79%) of the SMEs experienced an increase in turnover. However, fourteen percent (14%) had the same number turnover while six percent (6%) experienced a decrease in turnover.

Question 5: What was the net asset value of your firm when you started?

Question 6: What is the current net value of your firm?

For analysis purposes only the difference in net asset value was considered in order to establish whether there was an increase or a decrease in the total net asset value of SMEs in the manufacturing sector of Harare, Zimbabwe. The information obtained is statistically depicted in table 6.11 on the next page.

Table 6.11 Difference in the net asset value of SMEs in the manufacturing sector of Harare, Zimbabwe

Part Time employees	Frequency	Cumulative Percentage	Cumulative Frequency	Percentage
0	48	19.92	48	19.92
1	25	10.37	73	30.29
2	168	69.71	241	100.00

Zero (0) implies that there was no significant increase or decrease in the net asset value of SMEs in the manufacturing sector in Harare, Zimbabwe. One (1) refers to a negative difference or a decrease in the net asset value whilst 2 indicate that there is a positive difference or an increase in the net asset value of these SMEs. The above result shows that approximately seventy percent (70%) of the SMEs had an increase in their net asset value. However, nineteen percent (19%) had approximately the same net asset value while 10 percent (10%) had an increase in their net asset value.

Question 7: Is your company managed by its owners?

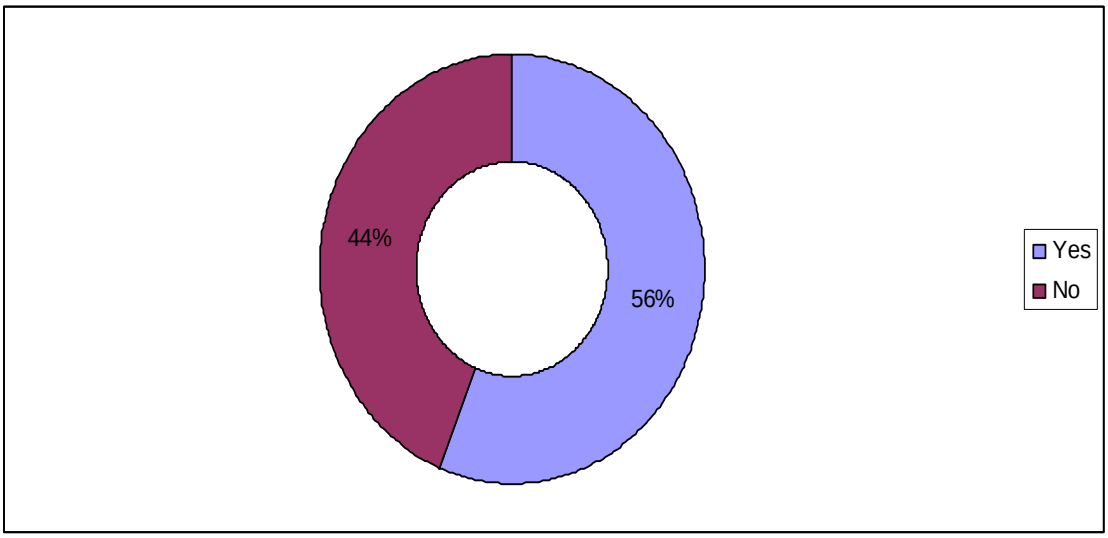
Table 6.12 below provides information on the percentage of SMEs in the study which are managed by their owners.

Table 6.12 The number of SMEs managed by their owners

SME owner managed	Frequency	Valid percent
Yes	135	56
No	106	44

The information in table 6.12 above is illustrated in a pie chart in fig 6.8 on the next page.

Figure 6.8 The number of SMEs which are managed by their owners in the manufacturing sector of Harare, Zimbabwe



Comment:

Fifty six percent (56%) of the respondents indicated that the SMEs in the manufacturing sector of Harare, Zimbabwe are managed by their owners. This result is in agreement to a study that was conducted in Cyprus by Bruce *et al*. (1998) which showed that more than eighty percent (80%) of small manufacturing enterprises are family operated or managed. This result is also consistent with the National Small Business Act of South Africa of 1996 as amended in 2003 which expects small businesses to be managed by their owners. However, forty four percent (44%) of the respondents indicated that the owners are not involved in managerial aspects. This implies that SMEs that are not subjected to owner-managed businesses are not subject to unique challenges in terms of development and growth. Poor time management, a lack of confidence and ineffective leadership and management are amongst the many people-related issues that owner-managed businesses face. This scenario has an influence on the success of SMEs.

Question 8: Is the company privately owned?

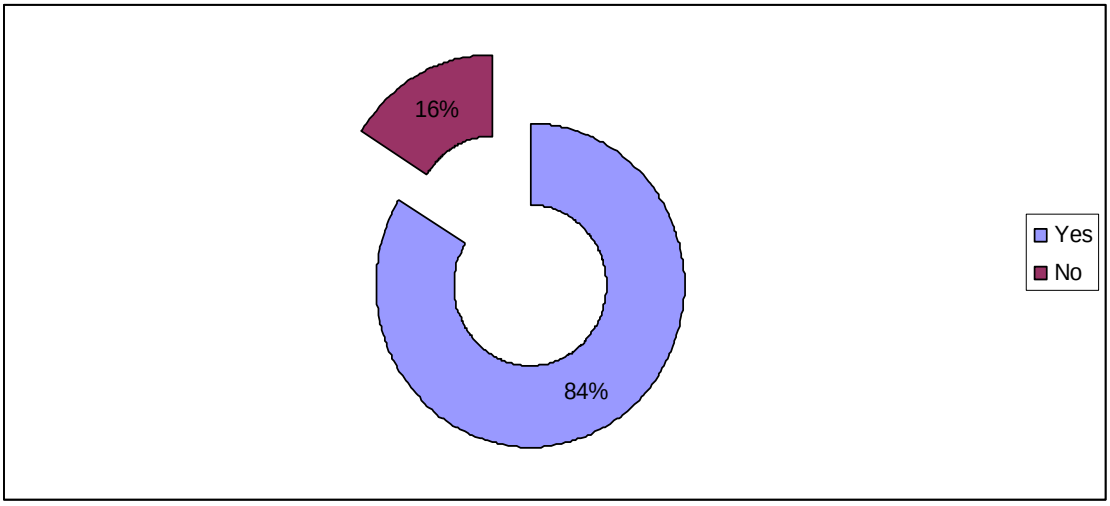
Table 6.13 below provides information on the percentage of SMEs in the study which are privately owned.

Table 6.13 The number of SMEs which are privately owned

Private ownership	Frequency	Valid percent
Yes	203	84
No	38	16

The information in table 6.13 above is illustrated in a pie chart in fig 6.9 below.

Figure 6.9 The number of SMEs which are privately owned in the manufacturing sector of Harare, Zimbabwe



Comment:

Eighty four percent (84%) of the respondents indicated that they are privately owned. However, sixteen percent (16%) of the SMEs were publicly owned. A publicly owned

SME in Zimbabwe refer to an SME that is owned and managed by the Zimbabwean government.

6.2.3 Section C: Factors affecting the performance of SMEs

The questions in this section were developed with the first objective, second objective and third objective of the study in mind, namely:

- To establish whether a lack of skilled human resources contributes to the poor performance of SMEs as perceived by the manufacturing sector of Harare, Zimbabwe;
- To establish whether poor management skills such as human resources management, financial management, general management, production management and marketing management result in the poor performance of SMEs as perceived by the manufacturing sector of Harare, Zimbabwe; and
- To establish the economic factors which have a direct effect on the performance of SMEs as perceived by the manufacturing sector of Harare, Zimbabwe.

These objectives sought to contribute a comprehensive understanding of managerial aspects and economic factors that have an effect on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe. Against this background the researcher had hypothesised that:

- A lack of skilled human resources contributes to the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe;

- Poor management skills such as human resources management, financial management, general management, production management and marketing management result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe; and

- Economic factors have a direct effect on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe. (Refer to sections 1.7, p.8).

The questions posed to respondents in this section sought to provide information on the effect of management and economic issues on the performance of SMEs in the manufacturing sector. The questions referred to above are questions 10-19.

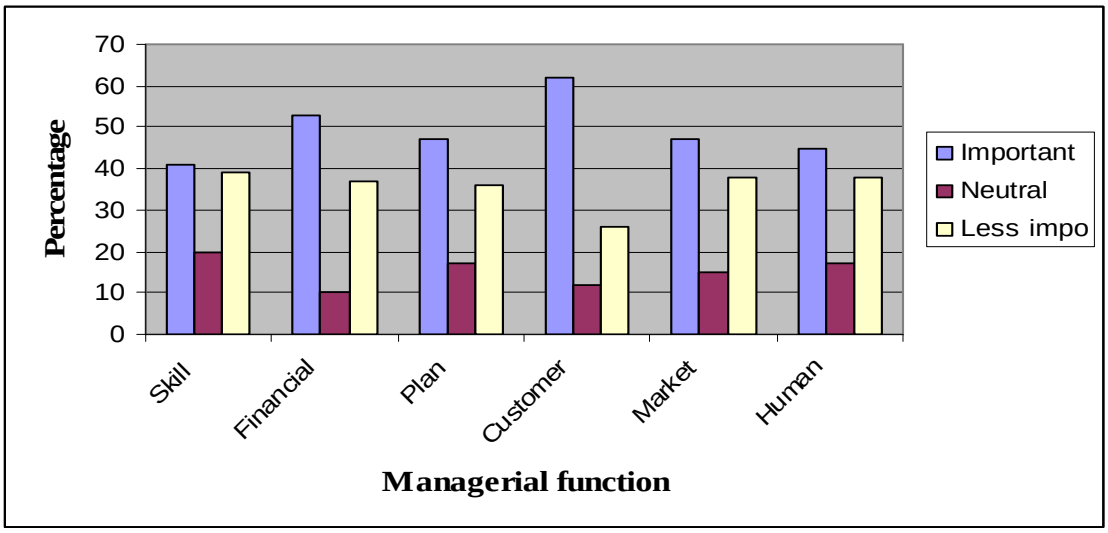
Question 10: Which of the following managerial functions contribute to the performance of your business?

Table 6.14 Responses on managerial functions

Managerial function	**Important**	**Neutral**	**Less Important**
Skilled personnel	41%	20%	39%
Financial management skills	53%	10%	37%
Planning skills	47%	17%	36%
Customer care	62%	12%	26%
Marketing knowledge & skills	47%	15%	38%
Knowledge of human resources	45%	17%	38%

The information in table 6.14 above is depicted in fig 6.10 on the next page.

Figure 6.10 The contribution of managerial functions to the performance of SMEs in the manufacturing sector of Harare, Zimbabwe



<u>Full name of the abbreviations used for the X-axis in Figure 6.10 above</u>:

- **Skill** = Skilled personnel
- **Financial** = Financial management skills
- **Planning** = Planning skills
- **Customer** = Customer care
- **Market** = Market knowledge and skills
- **Human** = Knowledge of human resources

Comment:

Forty one percent (41%) of the respondents highlighted the importance of skilled personnel in their business. Fifty three percent (53%) of the respondents indicated that financial management skills are important in the performance of their business. Forty seven percent (47%) indicated the importance of planning skills in their operations, whilst sixty two percent (62%) of the respondents view customer care as the most important function on the performance of their business. Forty seven percent (47%) of the

respondents concluded that marketing knowledge and skills are important for the performance of their business. Forty five percent (45%) of the respondents regarded knowledge of human resources as an important managerial function which has a positive effect on the performance of their business. A closer analysis on the responses of the respondents shows that customer care, marketing knowledge and skills, planning skills and financial management skills are the most essential management functions that affect the performance of SMEs.

A stronger focus on the four areas indicated above will empower the owners and/or managers of SMEs in the manufacturing sector of Harare, Zimbabwe to strengthen the success of their businesses in the future. This implies that more research needs to be done amongst the consumers of SMEs to determine their needs and wants on a regular basis. This would require training in the field of consumer research and questionnaire design to empower the owners and/or managers of SMEs to apply a more structured approach to marketing research. There is also a clear need for increased training opportunities in the fields of marketing and financial management to be provided to the owners of SMEs. Furthermore, there is also a need for SME owners to be taking their employees for refresher courses on customer care to enhance customer loyalty which will lead to the success of SMEs. The emphasis should also be on enhancing planning skills in SMEs since it is a key area for the success of SMEs in the manufacturing sector of Harare, Zimbabwe.

The outcome of the findings for this question is in agreement with a study carried out in Botswana which focused on small business critical success/ failure factors in developing economies. The study showed that marketing activities such as product marketing, market research and demand forecasting were perceived by the respondents to have greater impact on their business than any other factor. Investment analysis and working capital management related problems were also rated by the respondents as having a significant impact on small business performance. Identifying the right sources of capital for the right purpose is a challenge for SMEs. Proper management of fixed capital may lead to proper implementation of strategic plans while proper management of working

capital minimizes short-term obstacles to achieve competitive advantages in the marketplace. Customer relationship was also rated high by the respondents in its impact on the performance of SMEs. Service and merchandising firms spent much time and resources to retain their customers. Customer loyalty and retention have been the main strategy for these firms to achieve competitiveness (Temtime & Pansiri, 2004:8).

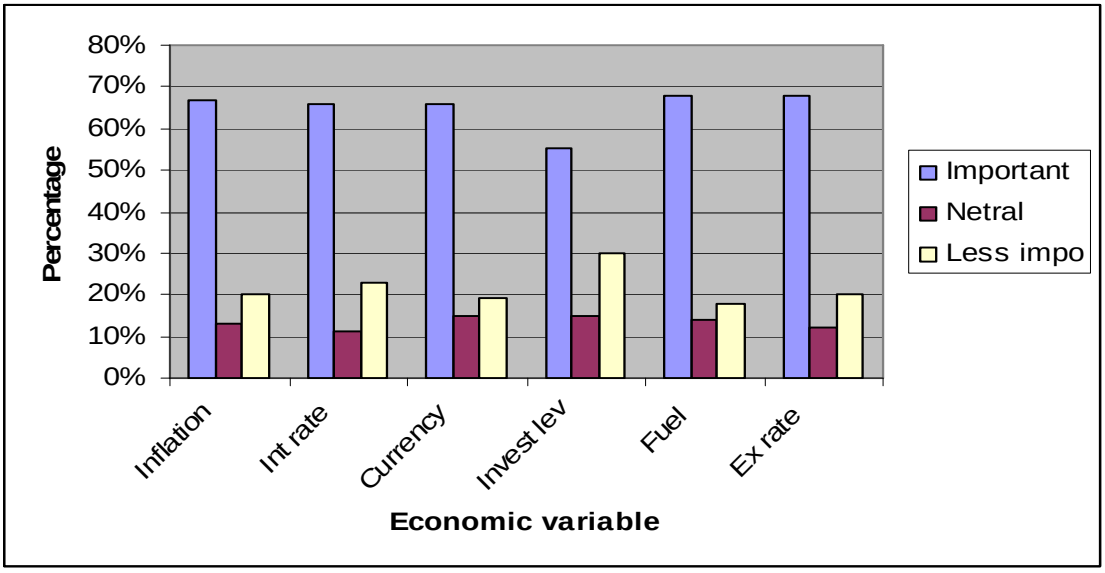
Question 11: Which of the following factors have a direct influence on the performance of your business?

Table 6.15 Responses to the influence of economic factors on the business performance of SMEs

Economic factor	Important	Neutral	Less important
Inflation	67%	13%	20%
Interest rates	66%	11%	23%
Currency	66%	15%	19%
Investment levels	55%	15%	30%
Fuel and energy	68%	14%	18%
Exchange rate	68%	12%	20%

The information in table 6.15 above is graphically illustrated in fig 6.11 on the next page.

Figure 6.11 The influence of economic factors on the business performance of SMEs in the manufacturing sector of Harare, Zimbabwe



<u>Full name of the abbreviations used for the X-axis in Figure 6.11 above:</u>

- **Int rate** = Interest rate
- **Invest lev** = Investment level
- **Ex rate** = Exchange rate

Comment:

Sixty seven percent (67%) of the respondents felt that inflation has a direct influence on the performance of their businesses. Sixty six percent (66%) indicated that interest rates have a direct influence on the performance of their businesses. Currency has a direct influence on the performance of SMEs according to sixty nine percent (69%) of the responses. This is the exchange value of the Zimbabwean dollar against major currency such as the South African Rand, the US Dollar and the British Pound. Fifty five percent (55%) of the respondents indicated that the investment level in Zimbabwe has a direct impact or influence on the performance of their businesses. Investment is both in their

businesses and in the economy at large as SMEs depends on larger businesses for inputs (e.g. raw materials) and services (e.g. accounting, marketing and advertising). Sixty eight percent (68%) respondents indicated that fuel shortages and power cuts have a direct influence on the performance of SMEs as most of their operating activities require fuel and energy. According to sixty eight percent (68%) of the respondents the exchange rate has a direct influence on the performance of SMEs as the Zimbabwean dollar is weaker versus other currencies. This result indicates that economic factors have a direct influence on the performance of SMEs.

The influence of economic factors on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe implies that the Zimbabwean government needs to be pertinently aware of the influence which these factors have on the growth of the SME sector in the country. A subsidised pricing policy which provide SMEs with the opportunity to purchase raw material, electricity and petrol at reduced prices, will lower their overhead costs, thus improving their profit margins. Through this process the continued growth and success of the SME sector in Zimbabwe can be stimulated. However, against the background of the current economical climate in Zimbabwe (refer to section 1.4, p. 6), the economic factors identified above will remain a negative influence which impair the growth of SMEs in the manufacturing sector of Harare, Zimbabwe.

This result is consistent with the findings of a study carried out in Botswana which concluded that economic factors were important for the positive performance of SMEs. According to Temtime & Pansiri (2004:5) economic factors refer to the influence of inflation, recession, changes in the interest rate and exchange rates, market size, the spending power of customers, the availability of business premises in the community and the intensity of competition in the market. The respondents evaluated these items and perceived them to be critical success factors for SMEs.

Question 12: Does a shortage of finance affect the growth and development of your business?

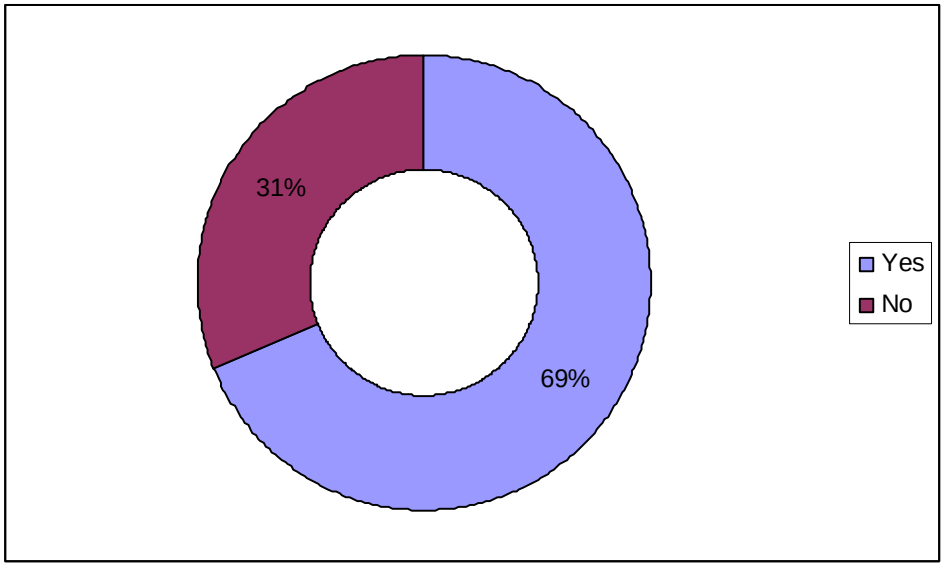
Table 6.16 below provides information on whether the respondents' companies are affected by financial shortages.

Table 6.16 Responses on whether SMEs are affected by financial shortages

Financial shortage	Frequency	Valid percent
Yes	161	69
No	80	31

The information in table 6.16 above is depicted in a pie chart in fig 6.12 below.

Figure 6.12 Responses on financial shortages experienced by SMEs in the manufacturing sector of Harare, Zimbabwe



Comment:

Sixty nine percent (69%) of the respondents are affected by the shortage of finance. This result indicates that the shortage of finance is one of the major challenges being faced by SMEs in the manufacturing sector of Harare Zimbabwe. This is in agreement with an empirical study by Ligthelm and Cant (2003:5) which concluded that the limited access to financial resources available to smaller enterprises compared to larger organisations have negative consequences for their growth and development. However, thirty one percent (31%) are not being affected by the shortage of finance. This result indicates that besides finance there also exist other factors that affect the performance of SMEs in the manufacturing sector of Harare, Zimbabwe (refer to question 11, p. 169)

Question 13: A high tax rate reduces the potential financial rewards in a business.

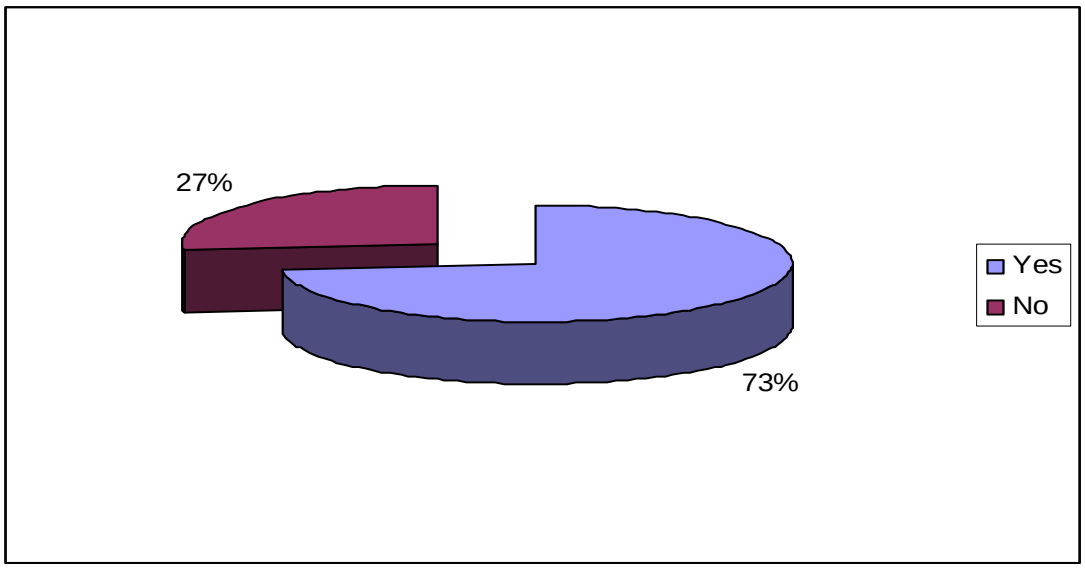
Table 6.17 below provides information on whether the potential rewards of the respondents are affected by a high tax rate.

Table 6.17 Responses to whether SMEs are affected by a high tax rate

Tax rate	**Frequency**	**Valid percent**
Yes	176	73
No	65	27

The information in table 6.17 above is statistically illustrated in fig 6.13 on the next page.

Figure 6.13 Responses to the influence of a high tax rate on the potential financial rewards of SMEs in the manufacturing sector of Harare, Zimbabwe



Comment:

Seventy three percent (73%) of the respondents concurred that a high tax rate reduces the potential financial rewards in a business. This result clearly indicates the negative impact of taxes on the viability of SMEs. This can also be supported by empirical evidence which concluded that taxation in industrial countries discourages SMEs from expanding their operations more than larger companies unless special financial relief is provided. Taxation (income or company tax) reduces the potential reward that compensates for the risk undertaken in committing resources both financial and non-financial in starting a business (Little, Mazumdar and Page, 1987:18-21). Although this was the case with most SMEs, twenty seven percent (27%) of the respondents have not felt the impact of the tax rate on their returns on investment.

Question 14: Have the myths to entrepreneurship stifled your entrepreneurial aspirations?

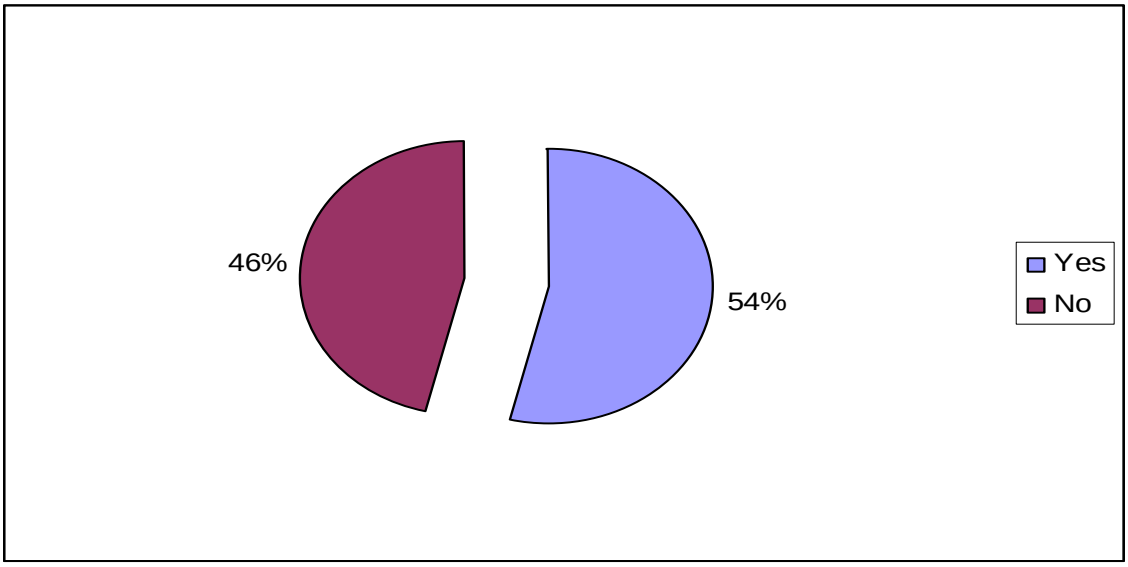
Table 6.18 below provides information on whether the entrepreneurial aspirations of the respondents were affected by the myths to entrepreneurship.

Table 6.18 Responses on whether the myths to entrepreneurship has stifled the entrepreneurial aspirations of the respondents

Stifled by the myths to entrepreneurship	Frequency	Valid percent
Yes	**129**	**54**
No	**112**	**46**

The information in table 6.18 above is depicted in fig 6.14 below.

Figure 6.14 Myths to entrepreneurship



Comment:

Fifty four percent (54%) of the entrepreneurial aspirations of the respondents were never stifled by the myths to entrepreneurship. This result indicates that the entrepreneurs fully understand these myths and have managed to continue with their ventures regardless of the existence of these myths. However, the results do indicate that forty four percent (44%) of the respondents alluded to the fact that the myths to entrepreneurship has stifled their entrepreneurial aspirations (refer to section 2.5.1, p. 46). This therefore illustrate that the general approach of the Zimbabwean public towards to relevance and importance of entrepreneurship as a form of employment, need to change. The reason for this is that the mindset of the majority of Zimbabweans is that of seeking white collar employment after completing their studies.

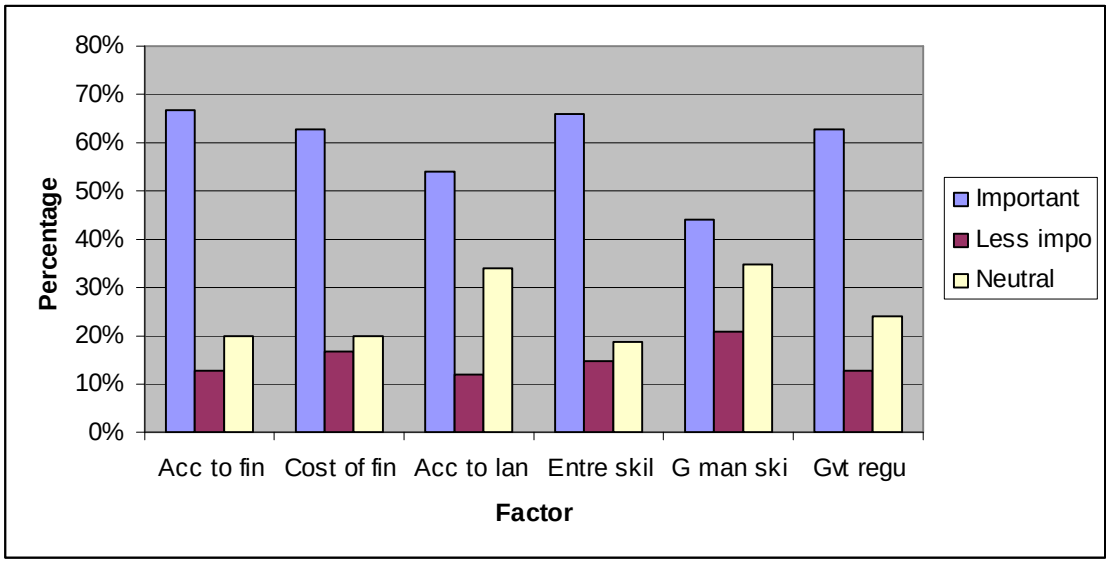
Question 15: Which of the following factors have a direct influence on the performance of your business?

Table 6.19 Responses to the factors that have a direct influence of SME performance

Factor	**Important**	**Neutral**	**Less important**
Access to finance	67%	13%	20%
Cost of finance	63%	17%	20%
Access to land	54%	12%	34%
Entrepreneurial skills	66%	15%	19%
General management skills	44%	21%	35%
Government regulations	63%	13%	24%

The information in table 6.19 above is depicted in fig 6.15 below.

Figure 6.15 Responses on factors that have a direct influence on SME performance



<u>Full name of the abbreviations used for the x-axis in Figure 6.15 above</u>:

- **Acc to fin** = Access to finance
- **Cost of fin** = Cost of Finance
- **Acc to lan** = Access to land
- **Entre skil** = Entrepreneurship skills
- **G man ski** = General management skills
- **Gvt regu** = Government regulations

Comment:

Sixty seven percent (67%) of the respondents indicated that access to finance has a direct influence on the performance of their businesses as they do not have sufficient funds to finance their operations and for expansion purposes. Sixty three percent (63%) view the cost of finance to have a direct influence on the performance of their businesses as it will be expensive for SMEs to borrow money from banks and lending institutions. Fifty four percent (54%) felt that access to land has a direct influence on the performance of their businesses as SMEs do not have enough space for expansion purposes. Entrepreneurial

skills have a direct influence on the performance of SMEs according to sixty six percent (66%) of the respondents as they lack the necessary skills to manage their enterprises in order to survive and grow. Forty four percent (44%) of the respondents indicated that general management skills have a direct influence on the performance of their businesses as they do not have enough skills to manage their businesses. Sixty three percent (63%) of the respondents concurred to the fact that government regulations have a direct influence on the performance of their businesses as the Zimbabwean government is the responsible authority which formulates the regulations on how businesses operate in the country.

This result is agreement with previous studies on SMEs. The role of finance has been viewed as a critical element for the development of small and medium-sized enterprises. Previous studies by Ligthelm and Cant (2003:5) have highlighted the limited access to financial resources available to smaller enterprises compared to larger organisations and the consequences for their growth and development. Typically, smaller enterprises face higher transaction costs than larger enterprises in obtaining credit, insufficient funding has been made available to finance working capital and poor management and accounting practices have hampered the ability of smaller enterprises to raise finances (Abedian, 2001; Peel & Wilson, 1996). Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to smaller enterprises. In addition, studies by Liedholm, MacPherson & Chuta (1994) also show that a large number of small enterprises fail because of non-financial reasons such as a lack of forecasting or planning skills, a lack of skilled human resources and poor management practices (Paul, 2001:4). (Refer to section 1.9.1.1, p. 11).

Fatoki (2006:23) noted that although small businesses do make unique contributions to employment and economic development, there are specific challenges that affect them more directly than the influence of these challenges on large corporations. The major constraints facing small businesses in South Africa, are inadequate financing, access to markets, acquisition of skills and managerial expertise, inadequate access to appropriate resources and technology, the quality of infrastructures, especially in the rural areas, and

bureaucratic government regulations. These challenges can result in limited profitability and the decision to voluntarily close the business due to financial failure.

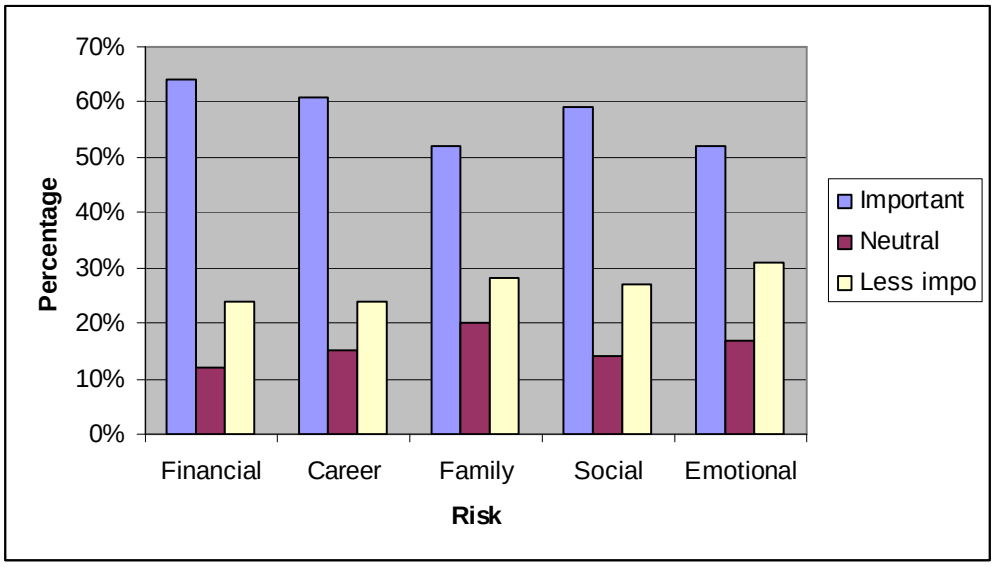
Question 16: Which of the following risks hampers your entrepreneurial ability?

Table 6.20 Responses on risks that hamper the entrepreneurial ability of respondents

Risk	Important	Neutral	Less important
Financial risk	64%	12%	24%
Career risk	61%	15%	24%
Family risk	52%	20%	28%
Social risk	59%	14%	27%
Emotional risk	52%	17%	31%

The information in table 6.20 above is graphically illustrated in fig 6.16 below

Figure 6.16 Risks which hamper the entrepreneurial ability of SME owners and/or managers in the manufacturing sector of Harare, Zimbabwe



Comment:

Sixty four percent (64%) of the respondents indicated that financial risk hampers their entrepreneurial ability. Sixty one percent (61%) indicated that career risk hampers their entrepreneurial ability. Fifty two percent (52%) alluded to the fact that family risk hampers their entrepreneurial ability. Fifty nine percent (59%) concurred that social risk hampers their entrepreneurial ability. Fifty two percent (52%) concluded that emotional risk hampers their entrepreneurial ability. This result indicates that financial risk and carrier risk are the two critical risks that hamper the entrepreneurial abilities of SME owners and/or managers in the manufacturing sector of Harare, Zimbabwe.

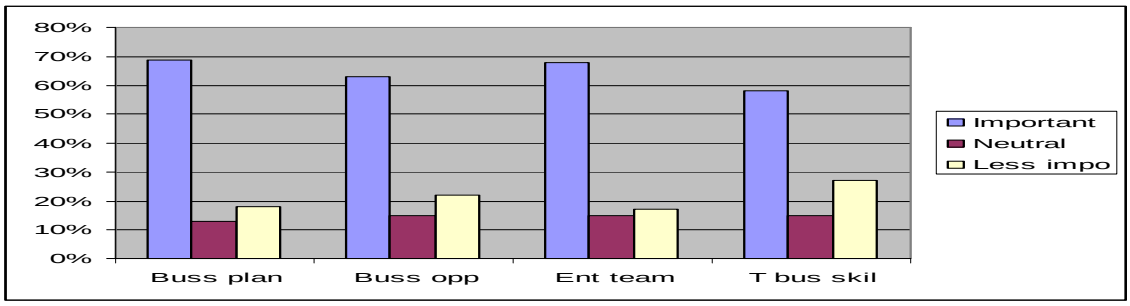
Question 17: Which of the following aspects are important for the success of your business venture?

Table 6.21 Responses on the important aspects for SME success

Aspect	Important	Neutral	Less important
Business plan	69%	13%	18%
Business opportunities	63%	15%	22%
An entrepreneurial team	68%	15%	17%
Training in business skills	58%	15%	27%

The information in table 6.20 above is illustrated graphically in fig 6.17 below.

Figure 6.17 Responses on the important aspects for SME success in the manufacturing sector of Harare, Zimbabwe



Full name of the abbreviations used for the X-axis in Figure 6.17 on the previous page:

- **Bp** = Business Plan
- **Bop** = Business opportunities
- **Ent team** = Entrepreneurial team
- **T bus skil** = Training in business skills

Comment:

Sixty nine percent (69%) of the respondents indicated that a business plan is important for the success of their business ventures. Sixty three percent (63%) of the respondents felt that the availability of business opportunities is also important for the success of their business ventures. Sixty eight percent (68%) alluded to the fact that an entrepreneurial team is essential for the success of their business ventures. Fifty eight percent (58%) concluded that training in business skills is important for the success of their business ventures. A closer analysis of the result leads to the conclusion that a business plan and an entrepreneurial team are the two most important aspects for the success of any business venture. Taking this into consideration, SMEs in the manufacturing sector of Zimbabwe should therefore ensure that they equip their employees with the necessary business plan skills. A business plan enables SMEs to secure financing. An entrepreneurial team is necessary to implement the businesses' objectives as outlined in the business plan.

This result is consistent with the work of Hannan & Atherton (1997:4) who noted that for those businesses that developed and used a business plan, ninety three percent (93%) indicated that the plan helped in guiding company operations and seventy two percent (72%) responded that it assisted in attracting major customers. A business plan is the key to long term success for new and old businesses. The business plan is a framework which a business must operate within. It will ultimately determine whether the business succeeds or fails. For management or entrepreneurs seeking external support, the plan is the most important sales document that they are ever likely to produce. It acts as the key to raising finance. Preparation of a comprehensive plan will not guarantee success in

raising funds or mobilising support, but having no plan at all will more likely result in failure (Cox, 2007:1-2). According to Renee (2007:1) a sound business plan may make a difference between a business that succeeds and a business that fails. Approximately 90% of small businesses fail before two years, according to the Small Business Association. And even after that two year mark has been passed, there are no guarantees. This is mainly due to a lack of business plan knowledge and the absence of a business plan (Cox, 2007:1-2; Renee, 2007:1).

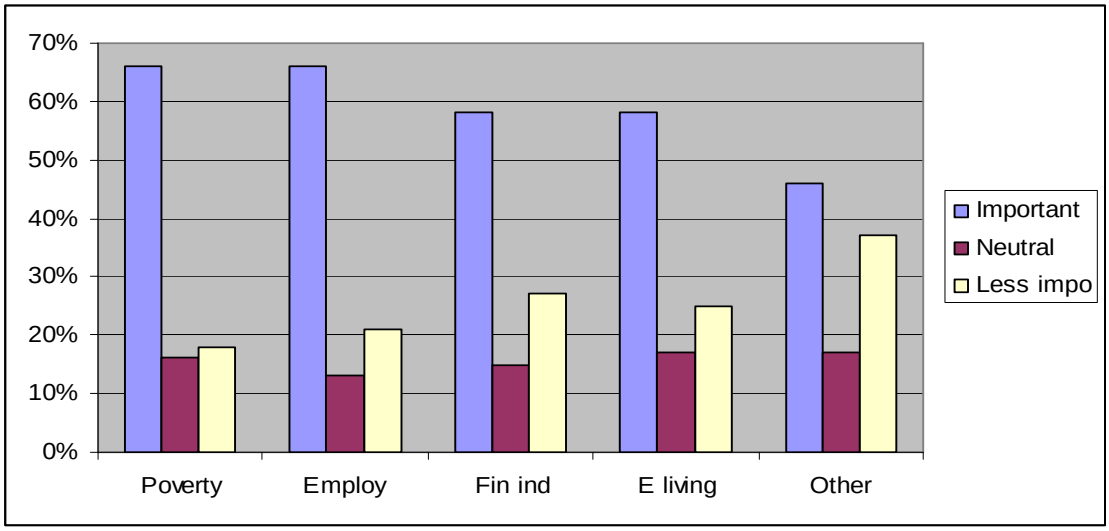
Question 18: Indicate the reason(s) why you started your own business?

Table 6.22 Responses on why the respondents started their own businesses

Reason	Important	Neutral	Less important
Poverty eradication	66%	16%	18%
Create employment	66%	13%	21%
To become financially independent	58%	15%	27%
To earn a living	58%	17%	25%
Other	46%	17%	37%

The information in table 6.22 above is graphically illustrated in fig 6.18 below.

Figure 6.18 Responses on why the respondents started their own businesses



<u>Full name of the abbreviations used for the X-axis in Figure 6.18 on the previous page</u>:

- **Pov** = Poverty
- **Emp** = Employment
- **Fin ind** = Financially independent
- **E living** = Earn a living

Comment:

Sixty six percent (66%) of the respondents indicated that they started their business as a tool to alleviate poverty. Sixty six percent (66%) alluded to the fact that they started their businesses in order to create employment. Fifty eight percent (58%) started their businesses in order to be financially independent. Fifty eight percent (58%) started their own businesses so as to earn a living and forty six percent (46%) for other reasons. Based on this result it can be concluded that most SMEs in the manufacturing sector of Harare, Zimbabwe were started to address socio-economic aspects such as unemployment and poverty (refer to section 3.1, p. 54). This can be attributed to the fact that most developing countries are faced with the challenge of high rates of unemployment and high levels of poverty.

Question 19: What is your view on the prevailing transaction costs in relation to the performance of your business?

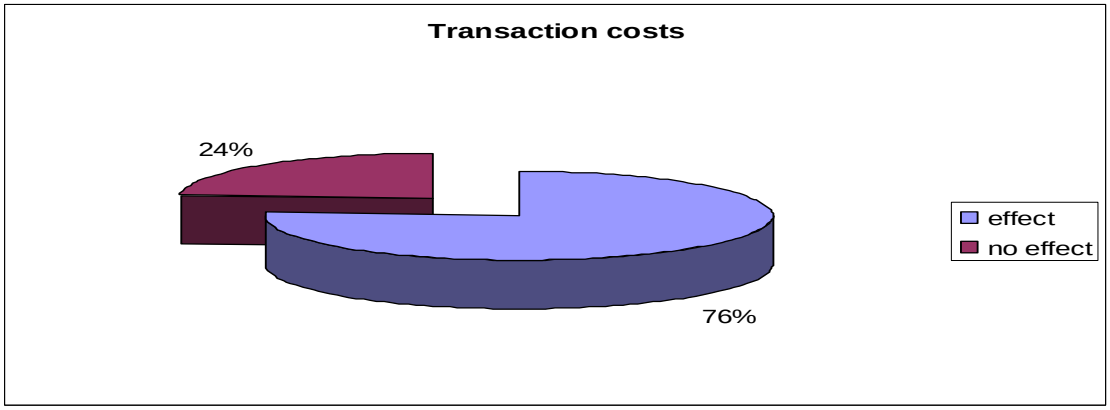
Table 6.23 below provides information on the view of respondents regarding the influence which the prevailing transaction costs have on the performance of their respective businesses.

Table 6.23 Responses to the influence of transaction costs on the performance of SMEs

Transaction cost effect	Frequency	Valid percent
Severe effect	183	76
No effect	58	24

The information in table 6.23 is illustrated in a pie chart in fig 6.19 below.

Figure 6.19 Responses to the influence of transaction costs on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe



Comment:

Seventy six percent (76%) of the respondents view the prevailing transaction costs as very high which in turn have a negative impact on the performance of their businesses. This result is consistent with the findings in Namibia where it was concluded that SMEs have limited access to low cost finance (borrowing is mainly through commercial banks via high cost overdrafts) (NEPRU, 1999:5). This limited access to low cost finance results in SMEs incurring high transaction costs which reduce potential rewards.

Transaction costs can be described as the costs incurred by commercial banks in evaluating the loan applications of small firms. Transaction costs also include the costs of

monitoring the performance of small firms by the commercial banks once the loans have been granted. Obtaining reliable information on the creditworthiness of small firms is difficult and costly. The reason being that little, if any public information exists about their performance. Small firms are not quoted on the stock exchanges or rated by credit rating agencies. Furthermore, small firms often lack audited financial statements. Commercial banks, therefore, incur costs in obtaining reliable information about the performance of small firms. In addition, lenders usually incur costs in monitoring the credit arrangements with small firms. These costs are passed by the banks to the small firms in the form of transaction costs. The more carefully a loan appraisal is done, the higher the transaction cost (Nieuwenheizen & Kroon, 2003:129). Eriotis, Franguoli & Neokosmides (2002:89) also indicated that relatively high transaction costs, especially for smaller firms when issuing long-term financial instruments, is a major detriment to the use of debt by small firms. Therefore, when the high costs of debt are removed from the interest deductibility of debt, the tax advantage of debt becomes very small and insignificant.

However, twenty four percent (24%) are content with the prevailing transaction costs.

6.2.4 Section D: Management questions

The questions in this section were developed with the first objective and second objective of the study in mind, namely:

- To establish whether a lack of skilled human resources contributes to the poor performance of SMEs as perceived by the manufacturing sector of Harare, Zimbabwe; and

- To establish whether poor management skills such as human resources management, financial management, general management, production management and marketing management result in the poor performance of SMEs as perceived by the manufacturing sector of Harare, Zimbabwe.

These objectives sought to contribute a comprehensive understanding of managerial aspects that have an effect on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe. Against this background the researcher had hypothesised that:

- A lack of skilled human resources contributes to the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe; and

- Poor management skills such as human resources management, financial management, general management, production management and marketing management result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe. (Refer to sections 1.7, p.8).

The questions posed to respondents in this section sought to provide information on the influence which management aspects have on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe. The questions referred to above are questions 20-24.

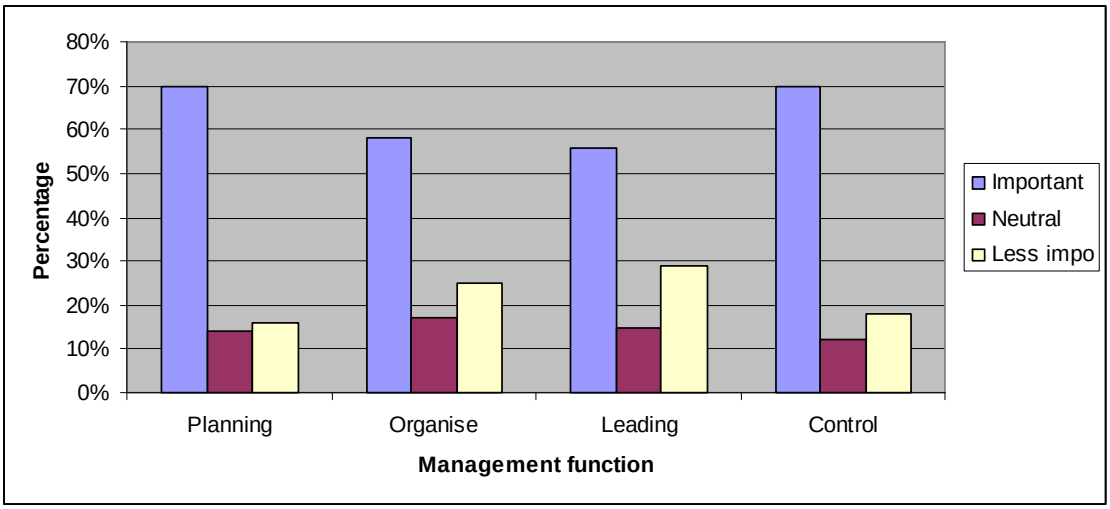
Question 20: Which of the following management functions are important for the growth of your business?

Table 6.24 Responses on management functions that are important for SME growth

Management function	**Important**	**Neutral**	**Less important**
Planning	70%	14%	16%
Organising	58%	17%	25%
Leading	56%	15%	29%
Controlling	70%	12%	18%

The information in table 6.24 above is graphically illustrated in fig 6.20 on the next page.

Figure 6.20 Responses on management functions that are important for SME growth in the manufacturing sector of Harare, Zimbabwe



Comment:

A total of seventy percent (70%) of respondents indicated that planning and controlling were the most important management functions to ensure the future growth of their businesses. This result is consistent with several studies that identify a consistently positive relationship between the extent of planning activities and firm performance (Bracker *et al*., 1986). Specific studies of small businesses have also suggested that there is a correlation between planning and successful performance (Schwenk & Shrader, 1993; Robinson, 1984). This correlation implies that the stronger the focus is on the professional planning of activities in SMEs, the larger their profit ratio and success rate is. This therefore leads to the conclusion that SMEs in the manufacturing sector of Harare, Zimbabwe should put more emphasis on planning and controlling in their business activities to ensure their future survival. The result also highlights the importance of controlling in the business. Facing increased competitive pressure due to globalisation, as well as increased quality and service requirements from their customers, small and medium-sized manufacturers must increase their productivity and their competitiveness in order to survive and prosper. One approach to the evaluation of a

SME's economic position is to compare the firm's business practices and performance with those of a group of similar firms, that is, to "benchmark" the organisation. As management challenges have increased in complexity, benchmarking has become a strategic tool for organisations of all sizes. Whatever the type of benchmarking used, internal, competitive or generic, it is deemed to be a strategic tool that allows the firm to identify possible sources of improvement in order to increase its performance and its competitiveness (St-Pierre & Delisle, 2006:106-107).

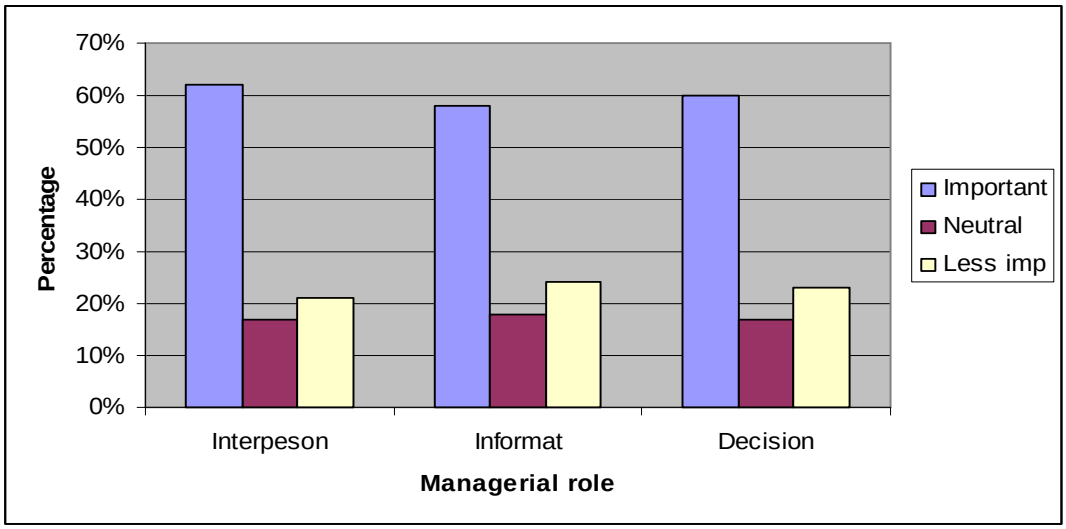
Question 21: Which of the following managerial roles consume most of your time?

Table 6.25 Responses on managerial roles in SMEs

Managerial role	Important	Neutral	Less important
Interpersonal	62%	17%	21%
Informational	58%	18%	24%
Decision making	60%	17%	23%

The information in table 6.25 is illustrated graphically in fig 6.21 on the next page.

Figure 6.21 Responses on important managerial roles in SMEs



Full name of the abbreviations used for the X-axis in Figure 6.21 above:

- **Interpers** = Inter personal
- **Informat** = Informational
- **Decmak** = Decision making

Comment:

According to the responses from the respondents, interpersonal roles and decision-making are the managerial roles which consume most of their time. Sixty two percent (62%) of the respondents indicated that the majority of their time is spent on interpersonal roles. An interpersonal role is when managers interact with people inside and outside their work units (Williams & Kinicki, 2006:20). Sixty percent (60%) indicated that they spent most of their time on decision making. The result shows that these two managerial roles are essential for the continued existence of SMEs.

Previous studies by Gottschalk (2002:2) stipulate that managers perform ten roles in their managerial roles regardless of the functional or hierarchical level. However, differences exist in the importance and effort dedicated to each managerial roles based on job content, different skill levels, and expertise. These ten roles consist of three interpersonal roles (figurehead, leader, and liaison), three informational roles (monitor, disseminator, and negotiator), and four decisional roles (entrepreneur, disturbance handler, resource allocator, and negotiator). As per this study decisional roles are the most important. Despite the fact that SME owners/managers spent a large amount of time on managing interpersonal roles and decision making, it does not impair on their ability to do efficient planning and organising. This is due to the fact that all their activities are guided by their business plan.

Question 22: Which leadership style do you apply in the daily operations of your business activities?

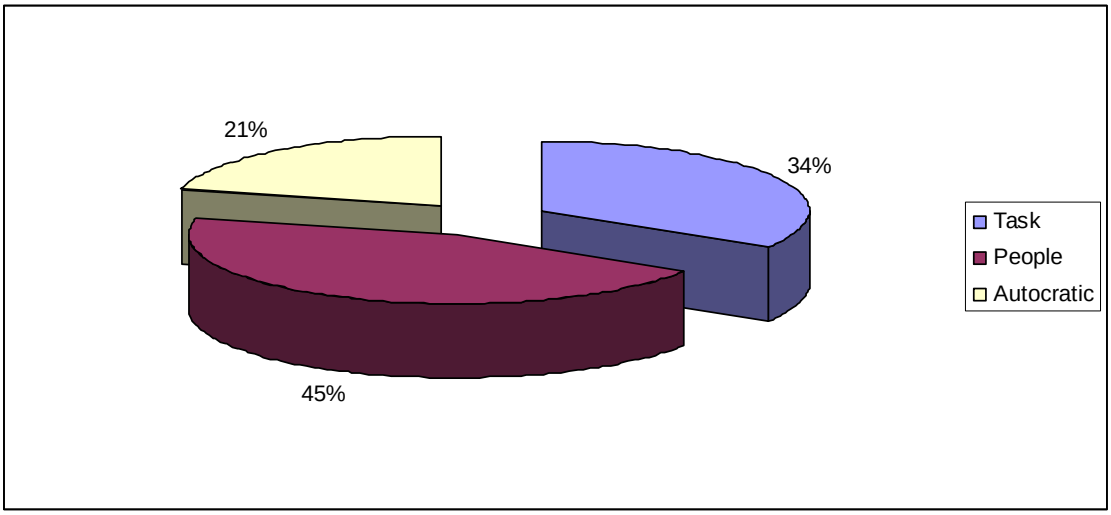
Table 6.26 below provides information on the leadership style applied by the owners and/or managers of SMEs in the survey

Table 6.26 Responses to the applicable leadership styles at SMEs

Leadership style	Frequency	Valid Percent
Task oriented	82	34
Democratic (People oriented)	109	45
Autocratic	50	21
Total	241	100

The information provided by table 6.26 above is illustrated in a pie chart in fig 6.22 on the next page.

Figure 6.22 Responses to the applicable leadership styles at SMEs in the manufacturing sector of Harare, Zimbabwe



Comment:

The most common leadership styles among the SMEs are democratic and task oriented. Forty five percent (45%) of the SMEs use a democratic style of leadership whilst thirty four percent (34%) make use of a task oriented leadership style. The remaining twenty one percent (21%) apply the autocratic leadership style to the daily management of their business. The result is in agreement with empirical studies by Martinez & Soriano (2007:5) who concluded that by including subordinates in decision making motivates them to assume responsibilities for their own work. This will in turn satisfy the needs of innovation thereby improving the organisation's performance.

According to Barnett (2005:2) the results of a leadership skills survey released in 2005 indicated that 64% of SMEs preferred a tactical approach of leadership style. Nine teen percent (19%) chose a task oriented approach while 12% favoured constant change and a wide range of strategies. Five percent (5%) of SMEs favoured an authoritarian and intimidating style of leadership. The ability to inspire and motivate followers to achieve results greater than originally planned, termed transformational leadership, was found to be important for the success of SMEs. This is due to the fact that SME entrepreneurs can be transformational leaders who inspire, energise and intellectually stimulate their employees. This is important since it will result in employees being more productive as they will be motivated and feel a part of the organisation. This transformational leadership is similar to the democratic style of leadership. All the above arguments implies that SMEs should strive to involve their employees in decision making and provide them with the opportunity to be innovative as this will increase their motivational levels and lead to an increase in productivity. The end result will be growth which will lead to a positive performance of the business.

Question 23: Do you do formal planning in your business?

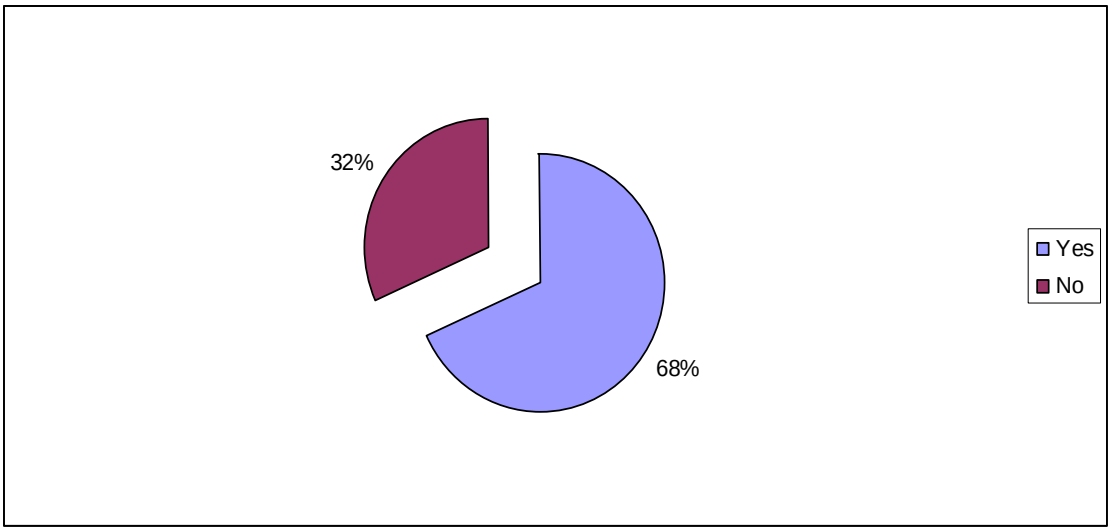
Table 6.26 below provides information on whether the respondents do formal planning in their businesses.

Table 6.27 Responses on whether the owners and/or managers of SMEs do formal planning

Formal planning	Frequency	Valid percent
Yes	163	68
No	78	32

The information in table 6.27 above is illustrated in a pie chart in fig 6.23 on the next page.

Figure 6.23 Responses on whether the owners and/or managers of SMEs in the manufacturing sector of Harare, Zimbabwe do formal planning



Comment:

Sixty eight percent (68%) of the respondents indicated that they do formal planning in their businesses whilst thirty two percent (32%) indicated that there is no formal planning in their business activities. The result highlights the importance of formal planning in any business activity. This result is consistent with several studies that identify a consistently

positive relationship between the extent of planning activities and firm performance (Bracker *et al*., 1986). Specific studies of small businesses have also suggested that there is a correlation between planning and successful performance (Schwenk & Shrader, 1993; Robinson, 1984). This implies that a business which is focused on planning activities before it is initiatied has a higher rate of success and is likely to perform better compared to a business does not plan. According to O'Regan & Ghobadian (2002:1-3) SMEs that engages in formal strategic planning experience fewer barriers on implementation of plans than those that do not. They further stated that the elements of goal formulation, developing distinctive competencies, determining authority relationships, deploying resources, and monitoring implementation receive more effective attention when small businesses engage in formal planning. This strategic plan gives SMEs a competitive edge and enables them to measure achievements against expectations.

This view is further supported by McKiernan & Morris (1994) who argued that the majority of literature on corporate performance in SMEs has indicated that the absence of formal strategic planning (or inadequacies in its process) can be directly linked with failure, while its presence can be linked to success. Cant, Brink & Lighthelm (2004:3) also indicated that deficiencies in the internal environment are the major cause of SME failures and revolve around management skills, financial knowledge, and a lack of expertise in functional areas such as marketing and human resource management. Some of the weaknesses emanating from these factors include specific management issues such as a lack of business management training and skills as well as a limited family business culture in South Africa. Other reasons for failure include the inability to act as an entrepreneur, to control business growth and an overemphasis on financial rewards. Management actions which are lacking inter alia are the inability to set strategic goals, plan forward, the reluctance to seek advice, a lack of management commitment and an unwillingness to adapt to change (Ligthelm and Cant, 2002:6).

Question 24: Do you have any control mechanisms in your operational activities?

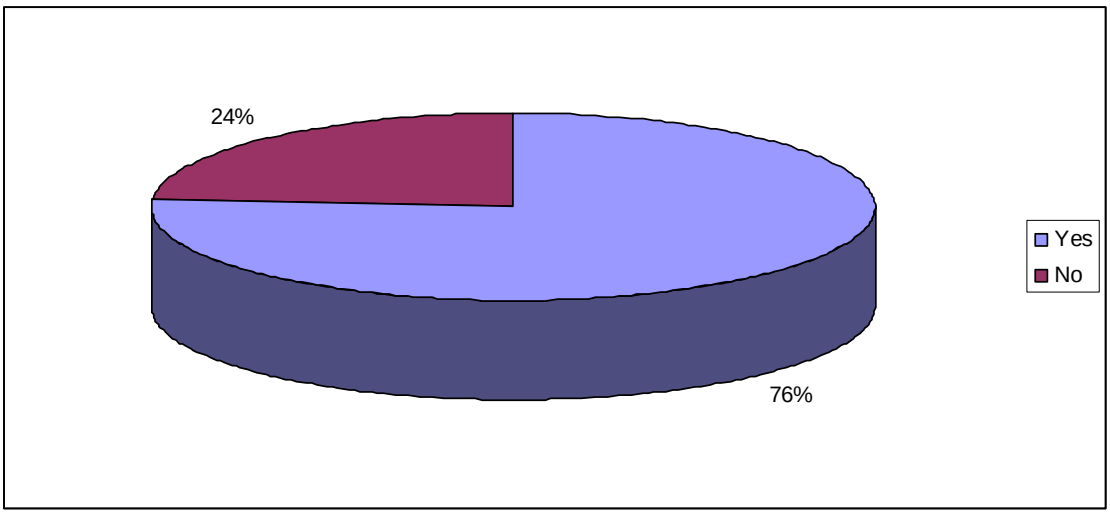
Table 6.28 below provides information on whether the respondents have any control mechanisms in their operational activities.

Table 6.28 Responses on whether SMEs have control mechanisms in their operational activities

Control mechanisms	Frequency	Valid percent
Yes	182	76
No	59	24

The information in table 6.28 above is illustrated in a pie chart in fig 6.24 below..

Figure 6.24 Responses on whether SMEs in the manufacturing sector of Harare, Zimbabwe have control mechanisms in their operational activities



Comment:

Seventy six percent (76%) of the respondents indicated that they have control mechanisms in their operational activities, whilst twenty four percent (24%) indicated that there are no control mechanisms in their operational activities. The result highlights the importance of controlling in the production process. Controlling is the process of evaluation and correction that is required to make certain that the business remains on track towards its goals. Planning and controlling are closely linked since planning sets the goals and standards for performance. Controlling essentially checks to make certain the plan is being followed. It also provides feedback for the plan to be revised, if required. An effective control system sets standards for the performance of people and processes, communicates those standards, and ensures that they are applied with appropriate monitoring and corrective action, if required. The control process should be a continuous flow of measuring, comparing and action. An example of how controlling can make a difference in the success of a business is surviving in an economic downturn. It is possible to stay profitable even when the world is falling apart around you. The control system can pick up the signs of trouble and the business can take appropriate steps before the business is overwhelmed by the economic downturn.

This implies that SMEs in the manufacturing sector of Harare, Zimbabwe must have control mechanisms in their operational activities in order to address any deviations. This leaves planning and control on the top of important aspects affecting the performance of SMEs. Global competitiveness can be achieved if organisations implement control mechanisms in their operational activities St-Pierre & Delisle, 2006:106-107).

6.2.5 Section E: Required skills for SME development

The questions in this section were developed with the first objective and second objective of the study in mind, namely:

- To establish whether a lack of skilled human resources contributes to the poor performance of SMEs as perceived by the manufacturing sector of Harare, Zimbabwe; and
- To establish whether poor management skills such as human resources management, financial management, general management, production management and marketing management result in the poor performance of SMEs as perceived by the manufacturing sector of Harare, Zimbabwe.

These objectives sought to contribute a comprehensive understanding of the skills that have an effect on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe. Against this background the researcher had hypothesised that:

- ❖ A lack of skilled human resources contributes to the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe; and
- ❖ Poor management skills such as human resources management, financial management, general management, production management and marketing management result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe; and

The questions posed to respondents in this section sought to provide information on the skills that influence the performance of SMEs in the manufacturing sector of Harare, Zimbabwe. The questions referred to above are questions 25-28.

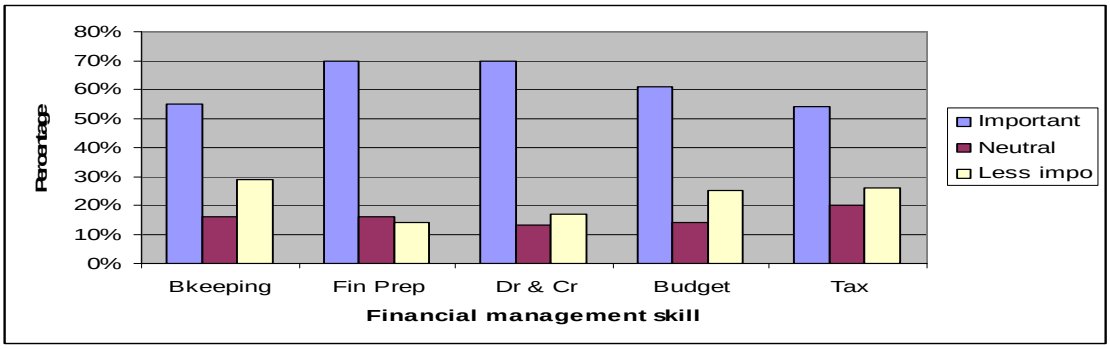
Question 25: Which of the following financial management skills are important for the growth of your business?

Table 6.29 The financial management skills which are important for the growth of SMEs

Financial management skill	Important	Neutral	Less important
Book keeping skills	55%	16%	29%
Financial statements preparation	70%	16%	14%
Debit and credit control	70%	13%	17%
Budgeting skills	61%	14%	25%
Tax calculation	54%	20%	26%

The information in table 6.29 above is illustrated graphically in fig 6.25 below.

Figure 6.25 Responses on important financial management skills in SMEs



<u>Full name of the abbreviations used for the X-axis in figure 6.25 on the previous page:</u>

- **Bkeep** = Book keeping
- **Fin Prep** = Financial Statements Preparation
- **Dr & Cr** = Debit & Credit control
- **Budget** = Budgeting skills
- **Tax** = Tax calculation

Comment:

Fifty five percent (55%) of the respondents viewed bookkeeping skills as important for the growth of their businesses. Seventy percent (70%) of the respondents felt that the ability to prepare financial statements is important for the future success of their businesses. In addition, a total of seventy percent (70%) indicated that knowledge of debit and credit control is important for the growth of their businesses. Sixty one percent (61%) of the respondents also viewed budgeting skills as important for future business success. Fifty four percent (54%**)** indicated that tax calculation is important for the growth of their businesses. A closer analysis of the results shows that the preparation of financial statements and debit and credit control are the most important financial management skills for the growth of SMEs in the manufacturing sector of Harare, Zimbabwe. The respondents' views are driven by the fact that for financing purposes from possible lenders proper financial statements is a prerequisite. In addition, SMEs also need to be in a position to control debts and credits.

The above views from respondents are supported by Makatiani (2006:1) who stipulate SMEs face skills shortages in areas such as financial management and human resources management. Ntsika (2002) stated that the major constraints facing small businesses in South Africa are inadequate financing, access to markets, acquisition of skills and managerial expertise, inadequate access to resources as quoted by Fatoki (2006:23). What this implies is that inadequate access to resources affects the SMEs' ability to acquire skills and managerial expertise. These expertises are inclusive of financial management skills. Financial management skills are important as they enable the business to ascertain their financial position and financial performance.

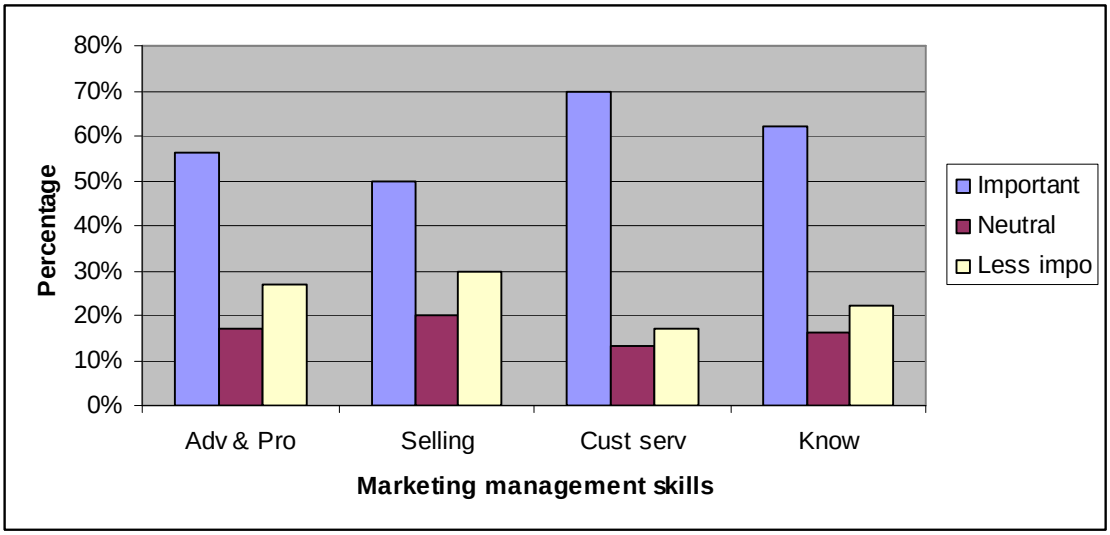
Question 26: Which of the following marketing management skills are important for the growth of your business?

Table 6.30 Responses on important marketing management skills in SMEs

Marketing management skill	Important	Neutral	Less important
Advertising and promotion	56%	17%	27%
Selling	50%	20%	30%
Customer service	70%	13%	17%
Knowledge of the market	62%	16%	22%

The information in table 6.30 above is depicted graphically in fig 6.26 below.

Figure 6.26 Responses on important marketing management skills in SMEs in the manufacturing sector of Harare, Zimbabwe



Comment:

Fifty six percent (56%) of the respondents viewed advertising and promotion as important for the growth of their businesses. Fifty percent (50%) indicated that selling is important to ensure the future success of their businesses. Seventy percent (70%) of the respondents felt that customer care is an important factor that influences the growth of their businesses. In addition, sixty two percent (62%) concluded that knowledge of the market is important to ensure future business success. This result shows that customer

care and a sound knowledge of the market are important marketing management skills for the growth of SMEs. This result implies that SMEs in the manufacturing sector of Harare, Zimbabwe should prioritise customer care in order to cultivate customer loyalty. Through repeat purchases customer loyalty is built. Nieman and Bennet (2004:76) describe customer loyalty as the behaviour which customers exhibit when they make frequent repeat purchases of a brand. Nieman and Bennet (2004) further state that it is seven times more expensive to win new customers than to keep old ones, but usually firms are not concerned about high customer turnover rates. It is the responsibility of any firm to consider customer loyalty as a priority, and to ensure that it renders customer service of high quality. SMEs should also have knowledge of the market so that they will be in a position to offer customers the products and services that will satisfy their needs. This will also result in the creation of loyal customers.

The most generally accepted paradigm within the marketing discipline is the marketing concept (Drucker, 2005). The marketing concept is basically the philosophy of a firm that places the customer at the centre of the firm's activities (Berman and Evans, 2004:56). This implies that the firm's culture is one that is predominantly customer focused. Kotler (2000:3) states that the marketing concept defines a distinct business culture that puts the customer in the centre of the firm's thinking about strategy and operations. The concept holds that the key to achieving a firm's goals consists of the firm being more effective than its competitors in creating, delivering and communicating value to its chosen target markets (Kotler, 2000:19). A firm must put the customer at the core of doing business, that is, the long-term survival and growth of the firm is conditioned by the ability of the firm to create superior value for customers. The focus on goal attainment indicates that in order to survive, it is a prerequisite that the firm delivers value to customers at a profit. The integration of the marketing concept with the whole firm indicates that delivering superior value to customers is not the sole responsibility of the marketing department, instead, creating and delivering superior value to customers is a firm-wide activity that ought to underpin every activity performed by the firm. Porter (2004:33) argues that competitive advantage stems from many discrete activities that a firm performs in designing, producing, marketing, delivering and supporting its products and services.

Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation. The marketing concept goes hand in hand with the concept of marketing orientation. Market orientation is a way of implementing the marketing concept as a "roadmap" for putting the marketing concept philosophy into work.

Several empirical studies of market orientation show that being market orientated improves a firm's performance (Jaworski and Kohli, 1993:53; Narver and Slater, 1990:20; Langerak 2001:221). Market orientation is the key success factor with regard to product development. In relation to product development, the term "market orientated" states that the purpose of product development is to develop products that create superior value for customers and is the foundation of the marketing concept (Jaworski and Kohli, 1993:53). What all the above arguments implies is that SMEs in the manufacturing sector of Harare, Zimbabwe must have the necessary marketing management skills in order to offer customer value and be successful.

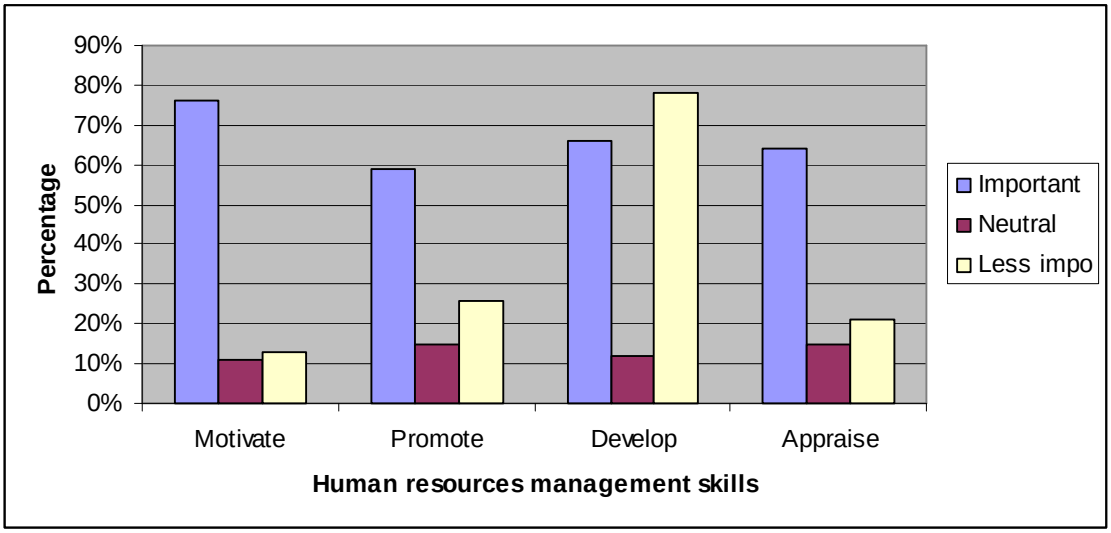
Question 27: Which of the following human resource management skills are important for the growth of your business?

Table 6.31 Responses on important human resource management skills in SMEs

Human resources management skill	Important	Neutral	Less important
Staff motivation	76%	11%	13%
Staff recognition and promotion	59%	15%	26%
Staff development	66%	12%	78%
Performance appraisal	64%	15%	21%

The information in table 6.31 above is depicted graphically in fig 6.27 on the next page.

Figure 6.27 Responses on important human resources management skills in SMEs



Comment:

Seventy six percent (76%) of the responses from the respondents shows that staff motivation is important to ensure the future success of their businesses. Fifty nine percent (59%) indicated that staff recognition and promotion is essential for the growth and development of their businesses. Sixty six percent (66%) stipulated that staff development is important for the future success of their businesses. Sixty four percent (64%) argued that performance appraisal is important for the growth of their businesses. An analysis of this result highlights motivation and staff development as important human resources management skills required for the growth of SMEs in the manufacturing sector of Harare, Zimbabwe. Human resources are an important component of any organisation and it is therefore important for SMEs in the manufacturing sector of Harare, Zimbabwe to ensure that they have all the necessary human resources management skills. This is due to the fact that the performance of an organisation highly depends on motivated staff.

A study by Ferlig, Prasniker & Jordan (2004) indicate that a link indeed exists in that human resource efforts in SMEs contribute to the competitive advantage of companies.

This therefore implies that SMEs in the manufacturing sector of Harare, Zimbabwe must ensure that they have adequate human resources management policies to enhance the performance of their employees.

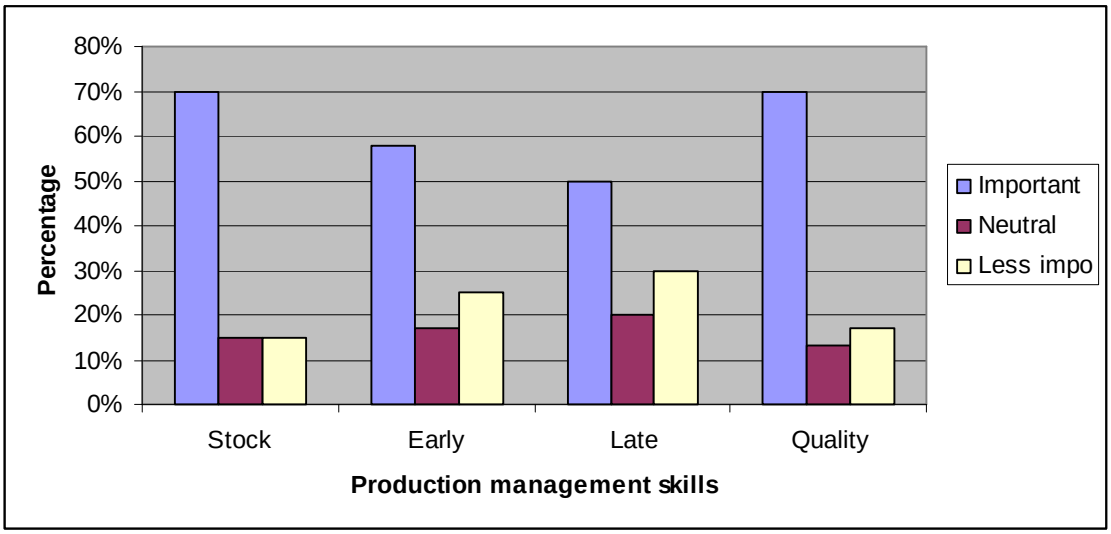
Question 28: Which of the following production management skills are important for the growth of your business?

Table 6.32 Responses on important production management skills in SMEs

Production management skill	Important	Neutral	Less important
Receiving stock on time	70%	15%	15%
Opening the business early morning	58%	17%	25%
Closing the business late at night	50%	20%	30%
Quality control	70%	13%	17%

The information in table 6.31 above is depicted graphically in fig 6.28 below.

Figure 6.28 Responses on important production management skills in SMEs in the manufacturing sector of Harare, Zimbabwe



Full name of the abbreviations used for the X-axis in figure 6.28 on the previous page:

- **Stock** = Receiving stock on time
- **Early** = Opening the business early morning
- **Late** = Closing the business late at night
- **Quality** = Quality control

Comment:

Seventy percent (70%) of the respondents indicated that receiving stock on time is important to ensure the future growth of their businesses. Fifty eight percent (58%) felt that opening early is important for the success of their businesses. Fifty percent (50%) concurred that closing late is important for the growth of their businesses. Seventy percent (70%) indicated that quality control is an important factor that ensures the future success of their businesses. This result indicates that quality control and receiving stock on time are important production management skills for the growth of SMEs. The responses from the respondents highlight the importance of production management skills in SMEs. The emphasis in SMEs should be on quality control to ensure that they offer quality products to customers. This will translate into satisfied customers and results in loyal customers. Receiving stock on time from suppliers will result in reliable SME production times (operations) which will be transferred to customers in terms of meeting deadlines and customer demands.

6.2.6 Section F: SME support by the Zimbabwean government and other institutions

The questions in this section were developed with the fourth objective of the study in mind, namely:

- To establish whether the economic initiatives of the Zimbabwean government aimed at SME development, had an effect on the performance of SMEs as perceived by the manufacturing sector of Harare, Zimbabwe.

This objective sought to contribute a comprehensive understanding of Zimbabwean government policies that have an influence on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe. It is against this background that the researcher had hypothesised that:

- ❖ The economic initiatives of the Zimbabwean government aimed at SME development do affect the performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

The questions posed to respondents in this section sought to provide information on the Zimbabwean policies and support measures and the role of other supporting institutions on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe. The questions referred to above are questions 29-34.

The series of questions in this section were asked in order to establish the extent to which the Zimbabwean government and other supporting institutions are playing a role in the survival, growth and development of SMEs. They are important role players for SMEs to achieve their socio-economic roles.

Question 29: Is the Zimbabwean government doing enough to promote investment through tax relief such as rebates and discounts?

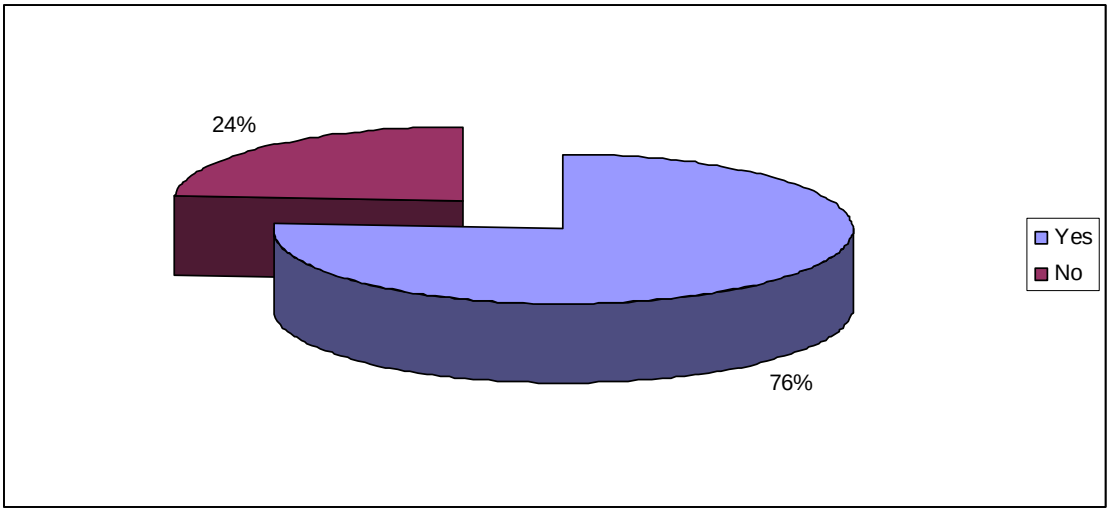
Table 6.33 on the next page provides information on whether the respondents appreciated the Zimbabwean government's investment promotion measures.

Table 6.33 Responses on whether the Zimbabwean government is doing enough to promote investment in the SME sector

Investment promotion	Frequency	Valid percent
Yes	182	76
No	59	24

The information in table 6.33 above is illustrated in a pie chart in fig 6.29 below.

Figure 6.29 Responses on whether the Zimbabwean government is doing enough to promote investment in the SME sector



Comment:

Seventy six percent (76%) of the respondents concurred that the investment support measures of the Zimbabwean government through tax relief are enough as this stimulates investment. This can be attributed to the fact that tax payments reduce the returns of a business. This is in correlation with the feedback provided by the respondents on question 13, page 186. SMEs in the manufacturing sector of Harare, Zimbabwe are therefore benefiting from tax relief which enhances the viability of their businesses. However,

twenty four percent (24%) of the respondents said that the government is not doing enough to promote investment. This result is in support of previous studies that indicated that taxation in industrial countries discourages SMEs from expanding their operations more than larger companies unless special relief is given. The establishment of a business is very risky and taxation (income or company tax) reduces the potential reward that compensates for the risk (Little, Mazumdar and Page, 1987:18-21).

Question 30: Have you benefited from the Zimbabwean government's measures to ensure SME's access to finance through credit finance, risk capital and credit guarantees?

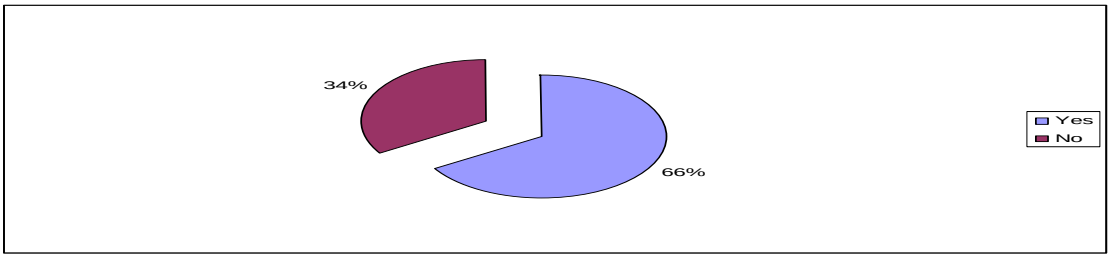
Table 6.34 below highlights the responses of SMEs in terms of those who have benefited from the government's measures to ensure that SMEs have access to finance.

Table 6.34 Responses on whether SMEs have benefited from government's measures to ensure that they have access to finance

Access to finance	Frequency	Valid percent
Yes	158	66
No	83	34

The information in table 6.34 above is illustrated in a pie chart in fig 6.30 on the next page.

Figure 6.30 Responses on whether SMEs in the manufacturing sector of Harare, Zimbabwe have benefited from the Zimbabwean government's measures to ensure that they have access to finance



Sixty six percent (66%) of the respondents have benefited from the Zimbabwean government's measures to ensure that SMEs' have access to finance through credit finance, risk capital and credit guarantees. This result shows that the respondents appreciate government's effort to address financial issues affecting SMEs. This is an important area as most SMEs are severely affected by a shortage of financial resources. Previous studies by Ligthelm and Cant (2003:5) have highlighted the limited access to financial resources available to smaller enterprises compared to larger organisations and the consequences for their growth and development. Typically, smaller enterprises face higher transaction costs than larger enterprises in obtaining credit, insufficient funding has been made available to finance working capital and poor management and accounting practices have hampered the ability of smaller enterprises to raise finances (Abedian, 2001; Peel & Wilson, 1996). However, thirty four percent (34%) of the respondents have not yet benefited from the Zimbabwean government's measures to enhance SME access to finance.

Question 31: Has the Zimbabwean government done enough to address skills shortages in SMEs?

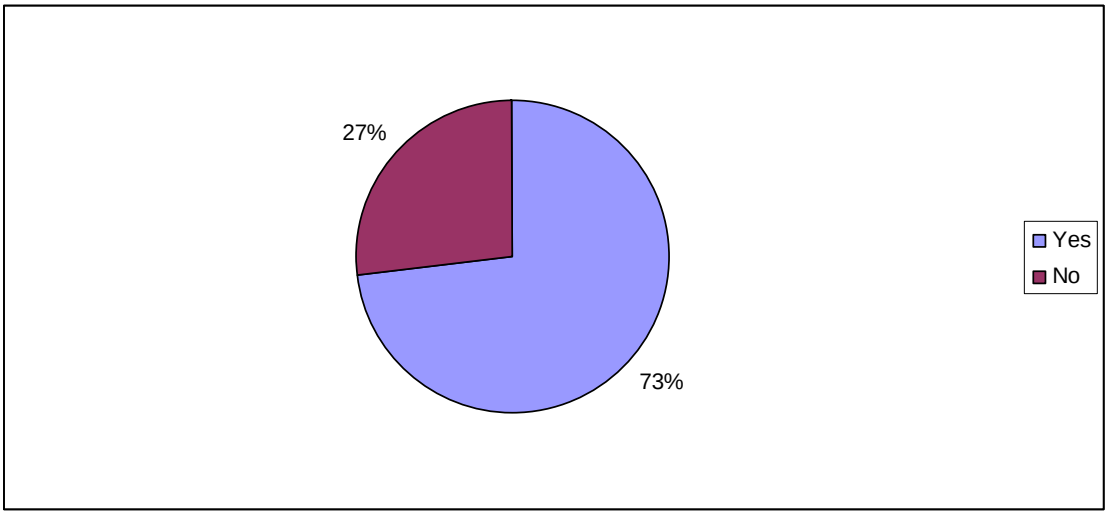
Table 6.35 below illustrates the responses of SMEs on whether the Zimbabwean government is doing enough to address the skill shortage in SMEs.

Table 6.35 Responses on whether the Zimbabwean government has done enough to address skills shortages in SMEs.

Addressing skills shortage	Frequency	Valid percent
Yes	175	73
No	66	27

The information in table 6.35 on the previous page is illustrated in a pie chart in fig 6.31 below.

Figure 6.31 Responses on whether the government has done enough to address skills shortages in SMEs.



Comment:

Seventy three percent (73%) of the respondents are satisfied with the Zimbabwean government's initiatives to address skill shortages in SMEs. This has been necessitated by the fact that in a large number of cases, the failure of SMEs has been attributed to a lack of skills. Research findings by Sawas & Feng (2005), Kakati (2003) and Sonfield & Lussier (1997) have indicated that a lack of managerial skills (refer to question 23, p.

191) result in the failure of SMEs. Therefore, this result clearly indicates that SMEs in the manufacturing sector of Harare, Zimbabwe are benefiting from the Zimbabwean government's efforts to minimise the failure rate of SMEs through equipping them with managerial skills. Workshops and seminars are provided to the owners and/or managers of SMEs where they are equipped with managerial skills.

Question 32: Has the government's targeted support aimed at encouraging the growth of SMEs achieved its goals?

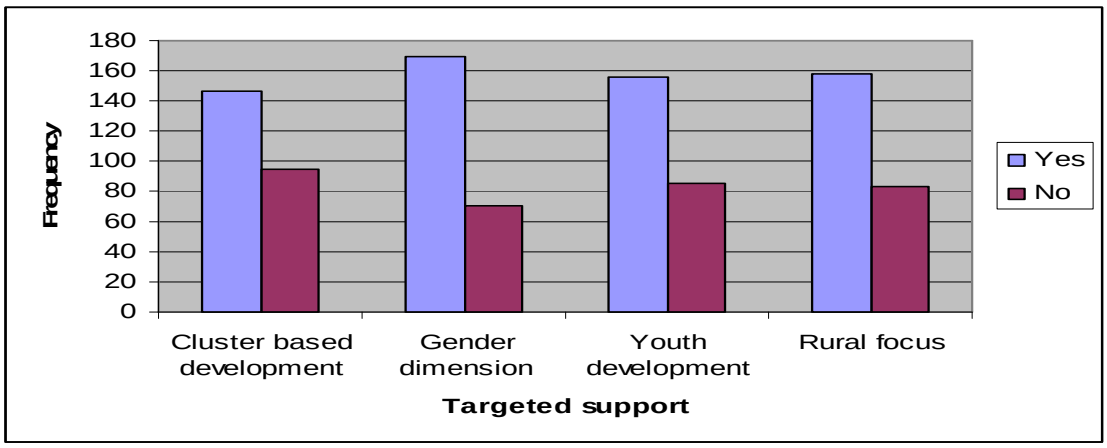
Table 6.36 below highlights the responses of SMEs with regard to the Zimbabwean government's targeted support.

Table 6.36 Responses on government's targeted support to encourage the growth of SMEs.

Government's targeted support	**Yes**	**No**
Cluster based development	146	95
Gender dimension	170	71
Youth development	156	85
Rural focus	158	83

The information depicted in table 6.36 above is statistically portrayed in a bar chart in figure 6.32 on the next page.

Figure 6.32 Responses on government's targeted support to encourage the growth of SMEs.



Comment:

Approximately sixty six percent (66%) of the respondents concur that the Zimbabwean government's targeted support aimed at encouraging the growth of SMEs has achieved its goals. This result can be attributed to the fact that more women are now in business and the majority of the respondents were below 50, the age group where the government is mainly focusing. This result also shows that the government has targeted the category of people who cannot secure white collar employment in large organisations namely the youth and women. The youth are being encouraged to start their own businesses as a substitute for formal employment in Zimbabwe. This result is consistent with what happens in Canada where SME-Youth programmes are aimed at encouraging a community of young entrepreneur. There are volunteer advisors who share their expertise with young businesspeople who possess small and medium enterprises (SMEs). Thus, the youth benefit from advice, structured support and mentoring from experienced business owner/managers (Gregoire & Gregoire, 2005:1).

Question 33: Empretec, ILO and SEDCO are playing a significant role in the survival, growth and development of SMEs.

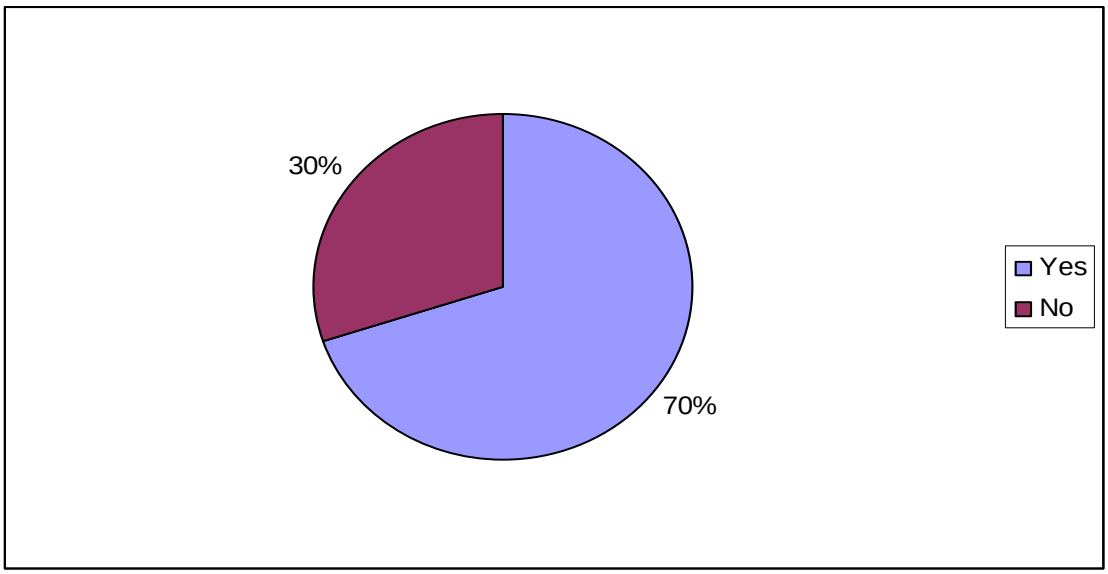
Table 6.37 below highlights the responses of SMEs with regard to the role of Empretec, ILO and SEDCO in the survival, growth and development of SMEs.

Table 6.37 Responses on the role of Empretec, ILO and SEDCO in the survival, growth and development of SMEs.

Supporting institutions	Frequency	Valid percent
Yes	169	70
No	72	30
Total	241	100

The information depicted in table 6.37 on the previous pages is statistically portrayed in a pie chart in figure 6.33 below.

Figure 6.33 Responses on the role Empretec, ILO and SEDCO.



Comment:

Empretec, ILO and SEDCO are supporting institutions that work closely with the Zimbabwean government (refer to section. 3.6, p.84) to provide entrepreneurial skills to entrepreneurs and emerging entrepreneurs. The results indicate that the majority of the respondents are satisfied with the roles being played by these supporting institutions. This is supported by the responses from the respondents where seventy percent (70%) alluded to the fact that Empretec, ILO and SEDCO are playing a significant role in the survival, growth and development of SMEs. This result can be attributed to the fact that these supporting institutions focuses on offering managerial skills training (e.g. bookkeeping skills, advertising and promotion techniques) to SMEs which is one of the critical areas that have a negative effect on their performance.

Empretec is primarily involved in the training of SMEs. It has trained various SME owners and employees in managerial aspects such as human resources management, financial management and marketing management. ILO has also been involved in the training of SME entrepreneurs through programmes such as 'Start Your Business (SYB) and Start and Improve Your Business (SIYB). SEDCO has provided funds to SMEs through its funding schemes. These funding schemes are the SME Revolving Fund, the RBZ Productive Sector Fund, the Distressed Companies Facility and the Loan Booth Programme. It has also provided business management and entrepreneurship training to SMEs throughout Zimbabwe (National Economic Consultative Forum, 2004:5)**.**

Question 34: Which of the following Zimbabwean policies on the development of SMEs is most helpful?

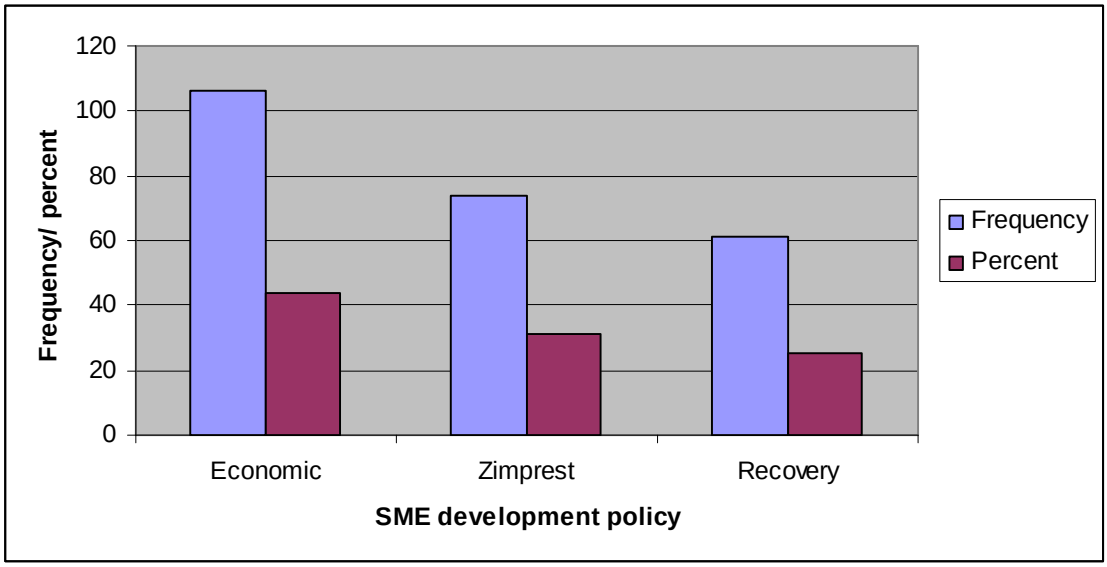
Table 6.38 below illustrates the responses of SMEs with regard to the policies of the Zimbabwean government on the development of SMEs.

Table 6.38 Responses to the policies on SME development by the Zimbabwean government

Policies on SME development	Frequency	Valid percent
Economic Reform Framework	106	44
Zimprest	74	31
Economic Recovery Programme	61	25
Total	241	100

The information depicted in table 6.38 above is statistically portrayed in a bar chart in figure 6.34 on the next page.

Figure 6.34 Responses to the policies on SME development by the Zimbabwean government



<u>Full name of the abbreviations used for the X-axis in Figure 6.34 above:</u>

- **Economic** = Economic Reform Framework
- **Recovery** = Economic Recovery Programme
- **Zimprest** = Zimbabwe Programme for Economic and Structural Transition

Comment:

Forty four percent (44%) of the respondents have found the Economic Reform Framework to be the most helpful policy. Thirty one percent (31%) appreciate the Zimprest, for the reasons stipulated below, whilst twenty five percent (25%) have found the Economic Recovery Programme to be most helpful in their operational activities.

The primary objective of Zimprest was the creation of a stable macro-economic environment which allows increased savings and investment in order to achieve higher growth and improvement in the standard of living for all Zimbabweans. During the first three years of the Zimprest, the highest economic growth was achieved at 7% in 1996, while lower growth rates were achieved at 2 % in 1997 and an estimated 1.6% in 1998, and equally low levels in 1999 and 2000. However, one outstanding achievement during the first 3 years of Zimprest was the marked improvement in Zimbabwe's fiscal performance. Zimbabwe managed to reduce its budget deficit, as percentage of GDP, from 12.9% in fiscal year 1994/95, to 9.7% in 1995/96, 6.7% in 1996/997 and 6.4% in 1997/8, (the latter being the lowest ratio since the inception of the reform programmes in 1991). This improvement in fiscal performance was due to improved revenue collection and enhanced expenditure management which was the major focus of the Zimprest. The strong fiscal position laid the groundwork for a stable macro-economic environment which was achievable once the balance of payments position improved.

Most SMEs have found the Economic Reform Framework and the Economic Recovery Programme to be the most helpful policy as it has resulted in the Zimbabwean government putting measures in place to support companies, especially those in the manufacturing sector. SMEs stand to benefit from these initiatives as the government is geared towards boosting the economy through increased production in the manufacturing sector.

Question 35: Which of the following market penetration measures established by the Zimbabwean government are most helpful in your operations?

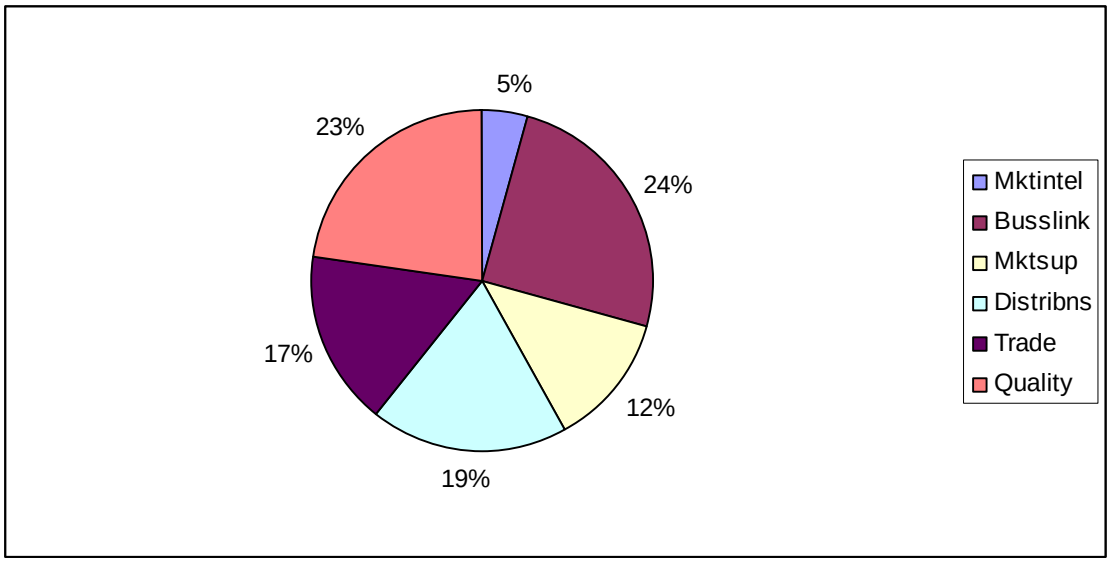
Table 6.39 below illustrates the responses of the respondents with regard to the Zimbabwean government market penetration measures.

Table 6.39 Responses on market penetration measures by SMEs

Market penetration measures	Frequency	Valid percent
Market intelligence	11	4
Business linkages	60	25
Marketing support	30	12
Distribution support	45	19
Trade facilitation	40	17
Quality assurance	55	23
Total	241	100

The information depicted in table 6.39 above is statistically portrayed in a pie chart in figure 6.39 below.

Figure 6.35 Responses on market penetration measures by SMEs in the manufacturing sector of Harare, Zimbabwe.



Comment:

Twenty four percent (24%) of the respondents indicated that business linkages are the most helpful market penetration measure. Five percent (5%) alluded to the fact that market intelligence was the most helpful market penetration measure. This is because market intelligence will result in SMEs having enough knowledge of the market and the customers. This will result in SMEs offering customers need satisfiers and enhance their competitive position in the market. Twelve percent (12%) viewed marketing support as a helpful market penetration measure. Marketing support helps SMEs in that it enhances their advertising and promotional techniques which might give them a competitive edge. A total of nineteen percent (19%) of the respondents viewed distribution support as the most helpful market penetration measure. Distribution support is important in that it ensures that SMEs' products are easily accessible to customers. Seventeen percent (17%) felt that trade facilitation was the most helpful in penetrating the market. Trade facilitation is important as a market penetration measure as SMEs will be assured of customers and suppliers in the business operations. Twenty three percent (23%) of the respondents concluded that quality assurance was the most helpful market penetration measure. These results indicate the importance of business linkages and quality assurance in order for SMEs to penetrate the market. Business linkages are important as businesses depend on each other for survival. This is due to the fact that most businesses in Zimbabwe outsource services and subcontract. Similarly, to be competitive an organisation needs to offer quality products or services, hence quality assurance becomes important for the growth of any business.

Question 36: Which of the following infrastructure support measures had a positive impact on the performance of your business?

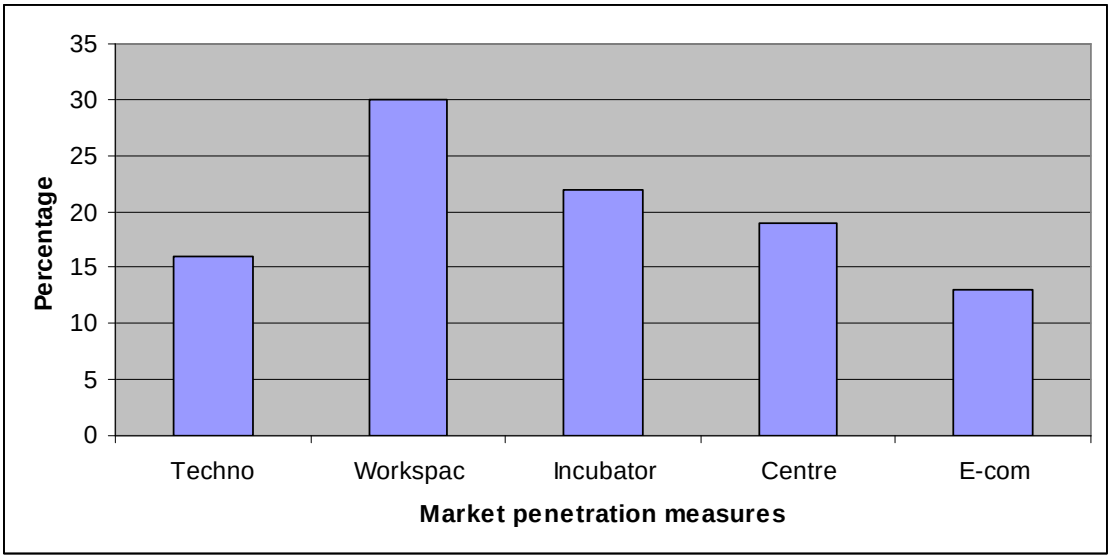
Table 6.40 below illustrates the responses of the respondents in regard to infrastructure support measures.

Table 6.40 Responses on infrastructure support measures by SMEs

Infrastructure support measures	Frequency	Valid percent
Technology information	39	16
Provision of workspace	72	30
Business incubators	54	22
National productivity centre	45	19
Electronic commerce	31	13
Total	241	100

The information in table 6.40 above is illustrated graphically in fig 6.36 below.

Figure 6.36 Responses on infrastructure support measures by SMEs in the manufacturing sector of Harare, Zimbabwe



<u>Full name of the abbreviations used for the X-axis in Figure 6.36 above:</u>

- **Techno** = Information technology
- **Workspac** = Provision of workspace
- **Incubator =** Business incubators

- **Centre** = National productive centre
- **E-com** = Electronic commerce

Comment:

The results stipulate that thirty percent (30%) of the respondents value the provision of workspace as a component that have played a pivotal role in their operations. This result shows the importance of land for operational activities in the manufacturing sector of Harare, Zimbabwe. Twenty two percent (22%) of the respondents have found business incubators to be more important as it resulted in the positive performance of their enterprises. This can be attributed to the fact that these incubators help in the training of SME owners and/or managers to ensure the increased sustainability of SMEs in the manufacturing sector of Harare, Zimbabwe. In terms of the other support measures, the results indicate a nineteen percent (19%) for national productivity centre, sixteen percent (16%) for information technology, and thirteen percent (13%) for electronic commerce. This result clearly indicates that the support measures that have been put in place are having a positive impact on the performance of SMEs in the manufacturing sector in Zimbabwe.

Business incubators have been helpful in that they also focus on providing business infrastructure for entrepreneurs who are unable to start their businesses because they lack the necessary facilities.

6.3 RESEARCH PROPOSITION MEASUREMENT

Inflation is the rise in the general level of money prices, measured by the annual rate of increase in the retail price index (Myddelton, 2000:186). The retail price index refers to an index that gathers the prices of several retail goods in outlets in order to give an indication of the rate of inflation. Lenders expect to be compensated for inflation. If there is a general increase in prices, lenders would want to receive an amount at least

equivalent to the principal amount plus the inflationary rate (Blake, 1997:46). Inflation rates in Zimbabwe have been high for several years and continue to increase at a fast rate. According to the Reserve Bank of Zimbabwe (RBZ), inflation was 1070.2% in October 2006, 1281.1% in December 2006 and 2200% by March 2007 (Gono, 2007:24). In Zimbabwe, where expected inflation will be high, firms will pay high interest rates and this will result in a high actual rate of inflation.

Zimbabwe is currently experiencing economic hardships which are characterised by a high inflation rate (Dzirutwe & Banya, 2007) (refer to section 1.4, p. 6). High interest rates make the borrowing of capital expensive, resulting in low levels of investment and a weaker currency which makes the importation of raw materials both difficult and expensive. Temtime & Pansiri (2004:5) postulates that the governments of developing countries and private enterprises in developing countries are doing much to facilitate participation for all in terms of the establishment and support for SMEs, but economic forces (inflation, interest rates and exchange rates) are negatively influencing these efforts and cannot be easily controlled. This is further supported with a study by Rogerson (1998:293) on the finance of small manufacturing firms in South Africa. The study finds that the major reason why small firms prefer not to request for loans from commercial banks is because of the high interest rates. The result of this is limited finacing options for SMEs.

Economic factors such as inflation, recession, changes in interest rates and exchange rates, market size, the spending power of customers, availability of business premises in the community, the intensity of competition in the market were the factors that affect the performance of SMEs. This was according to a study on small business critical success/ failure factors in developing economies, some evidence from Botswana. The respondents evaluated these items and perceived them to be critical success factors for the development and growth of SMEs. It was concluded that economic factors such as inflation, interest rates and exchange rates are rated to have a significant impact on SME growth as well as its future survival (Temtime & Pansiri, 2004:5) (refer to question 11, p. 169).

Threatened by increasing failure rates due to high taxes and inflation, small businesses must band together and take immediate political action. The National Federation of Independent Business in the USA has consistently reported that the two greatest problems facing modern business are inflation and taxes. Unfortunately for the economic health of the country, these two problems are ones over which owners of small businesses feel that they have almost no control. Not surprisingly, due to increasing inflation and tax rates, the failure rate of businesses in the United States is also rising. Eighty percent (80%) of all businesses in the United States are in bankruptcy or receivership within ten years of their founding. Even more staggering is the fact that failure "due to all causes" exceeds ninety five percent (95%) within ten years across all types and classes of businesses in the United States. Needless to say, the failure rate is expected to increase before it will improve unless meaningful actions are taken to reduce significantly both inflation and taxes (Hand & Ray, 2001:65).

Ironically, those companies which are aware of the severity of inflation and tax-related problems are actually fortunate. Lately, more and more businesses are falling into what Harold Williams, Chairman of the Securities and Exchange Commission, calls "unconscious liquidation". Small business is particularly susceptible to this form of liquidation. The process is similar to a cancer that slowly squeezes the life out of a business. It leads to a pertinent, but slow decline in real profits (and subsequently cash) that slowly precludes the ability to expand, the ability to reduce debt, and, most importantly, the ability to replace, first, capacity and then, the equipment needed to be competitive. Because it is a slow process, the small business owner gets trapped by the process and it is often too late to break away. After inflation and taxes exceed profits, the business can no longer grow. It is possible that hundreds of thousands small businesses in the USA are unknowingly in the process of unconscious liquidation (Hand & Ray, 2001:65).

According to Tommasi (1999:221), entrepreneurial growth is affected by a high rate of inflation as prices will be high. It is further argued that high inflation affects the

efficiency of the price system to guide transactions and allocate resources towards their most productive uses (refer to question 11, p. 169).

All the arguments above therefore validate the research proposition which states that the current hyperinflation environment affects the profitability of SMEs in the manufacturing sector of Harare, Zimbabwe.

6.4 THE ACCEPTANCE AND REJECTION OF HYPOTHESES

Hypothesis testing is the use of statistics to determine the probability that a given hypothesis is true (Wolfram Mathworld, 2006). All the research hypotheses will be statistically tested below in this section. The table below is for ANOVA results for the relationship between skilled human resources and business performance.

Table 7.41 ANOVA results for the relationship between skilled human resources and business performance

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.679	31	.538	1.014	.453
	Residual	110.914	209	.531		
	Total	127.593	240			

a Predictors: (Constant), PERFAPP, PLANSKIL, BUSOPP, FORMPLAN, LEADSTYL, KNOWMKT, MKTKNSKIL, DECROLE, STARECPRO, INTROLE, FMANSKIL, ENTTEAM, CUSTSERV, TRAINBSKIL, STAFFDVT, BUGETSKIL, BKSKIL, ENTSKIL, CONTMECH, CUSTCARE, BUSPLAN, LEAD, FINSTATPRE, PLAN, SKILLPERS, ORG, CONTROL, KNOWHRP, STAMOT, GENMNSKL, INFOROLE
b Dependent Variable: TURNOVERDIFF

Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	1.752	.526		3.330	.001
	SKILLPERS	-.107	.057	-.131	-1.862	.064
	FMANSKIL	3.272E-02	.055	.042	.600	.549
	PLANSKIL	2.141E-02	.056	.026	.385	.701
	CUSTCARE	5.940E-03	.059	.007	.101	.919

	MKTKNSKIL	-3.333E-02	.055	-.042	-.601	.549
	KNOWHRP	-4.917E-02	.056	-.061	-.870	.385
	ENTSKIL	-7.983E-02	.060	-.091	-1.322	.188
	GENMNSKL	-6.984E-02	.060	-.084	-1.171	.243
	BUSPLAN	-.136	.066	-.145	-2.076	.039
	BUSOPP	.132	.062	.149	2.137	.034
	ENTTEAM	-5.962E-02	.063	-.065	-.953	.342
	TRAINBSKII	-6.201E-03	.058	-.007	-.106	.916
	PLAN	2.062E-02	.069	.021	.301	.764
	ORG	7.585E-02	.061	.088	1.252	.212
	LEAD	1.452E-02	.059	.017	.246	.806
	CONTROL	-4.431E-02	.068	-.046	-.650	.516
	INTROLE	-7.675E-02	.062	-.085	-1.239	.217
	INFOROLE	-2.294E-02	.063	-.026	-.366	.715
	DECROLE	-1.281E-02	.061	-.015	-.210	.834
	LEADSTYL	1.206E-02	.069	.012	.174	.862
	FORMPLAN	-5.250E-04	.106	.000	-.005	.996
	CONTMECH	-1.169E-02	.114	-.007	-.102	.919
	BKSKIL	2.458E-02	.059	.030	.418	.676
	FINSTATPRE	.103	.066	.109	1.551	.123
	BUGETSKIL	-4.579E-02	.058	-.053	-.787	.432
	CUSTSERV	5.422E-02	.068	.056	.799	.425
	KNOWMKT	.108	.061	.122	1.778	.077
	STAMOT	-3.996E-02	.069	-.041	-.581	.562
	STARECPRO	.130	.060	.151	2.167	.031
	STAFFDVT	-1.681E-02	.061	-.019	-.275	.784
	PERFAPP	2.675E-02	.058	.032	.463	.644

a Dependent Variable: TURNOVERDIFF

- **Hypothesis 1**

A lack of skilled human resources does not result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe. The statistical programmes ANOVA (Analysis of variance) as well as a regression analysis were employed to statistically test the significance of this assertion.

When the hypothesis which states that a lack of skilled human resources does not result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe is tested at a 5% level of significance, it was discovered that skilled human resources do play a significant role in determining the performance of SMEs. It was observed (refer to tables 7.41 and 7.42, pp.222, 224)) that variables such as the business plan (p=0.039), and

business opportunity (0.034) play a significant role in the performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

Hence, this statistically implies that a lack of skilled human resources result in the poor performance of the SMEs.

Statistically, the hypothesis which states that a lack of skilled human resources does not result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe is rejected and the null hypothesis is accepted.

- **Hypothesis 2**

Poor management skills such as human resources management, financial management, general management, production management and marketing management does not result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

Table 7.42 ANOVA results showing the relationship between management skills and business performance

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	70.321	39	1.803	1.115	.308
	Residual	324.991	201	1.617		
	Total	395.311	240			

a Predictors: (Constant), QUALCON, FORMPLAN, MKTKNSKIL, PLANSKIL, SKILLPERS, FINSTATPRE, ACC1LAND, OPBSOEL, KNOWMKT, DECROLE, RECSTOTM, ENTTEAM, CLBSLATE, CUSTSERV, TAXCALCU, KNOWHRP, GENMNSKL, STAFFDVT, INTROLE, FMANSKIL, TRAINBSKIL, DANDCCONT, BUGETSKIL, ORG, PERFAPP, CONTMECH, CUSTCARE, PLAN, INFOROLE, LEADSTYL, BUSPLAN, ENTSKIL, STARECPRO, ADVTPROM, STAMOT, SELL, LEAD, BKSKIL, CONTROL

b Dependent Variable: TURNNOW

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	4.569	.998		4.576	.000
	SKILLPERS	-.106	.100	-.074	-1.058	.291
	FMANSKIL	3.958E-02	.100	.029	.396	.692
	PLANSKIL	9.540E-02	.099	.067	.963	.337
	CUSTCARE	-5.754E-02	.105	-.038	-.546	.586
	MKTKNSKIL	-1.010E-02	.098	-.007	-.103	.918
	KNOWHRP	-2.686E-03	.101	-.002	-.027	.979
	ACC1LAND	-.215	.108	-.145	-1.988	.048
	ENTSKIL	-8.251E-02	.112	-.053	-.739	.461
	GENMNSKL	6.026E-02	.103	.041	.583	.561
	BUSPLAN	-.217	.120	-.131	-1.816	.071
	ENTTEAM	-8.251E-02	.114	-.051	-.727	.468
	TRAINBSKIL	-4.719E-03	.106	-.003	-.044	.965
	PLAN	-.221	.121	-.128	-1.822	.070
	ORG	-5.153E-02	.107	-.034	-.482	.630
	LEAD	-6.991E-02	.108	-.048	-.645	.520
	CONTROL	-8.002E-02	.149	-.047	-.536	.593
	INTROLE	-.214	.110	-.134	-1.942	.054
	INFOROLE	.242	.111	.158	2.184	.030
	DECROLE	8.261E-02	.108	.053	.767	.444
	LEADSTYL	6.769E-02	.125	.038	.542	.588
	FORMPLAN	-.147	.189	-.054	-.775	.439
	CONTMECH	.151	.205	.051	.738	.461
	BKSKIL	-7.814E-02	.109	-.053	-.715	.476
	FINSTATPRE	.168	.116	.101	1.441	.151
	DANDCCONT	-.225	.148	-.130	-1.518	.131
	BUGETSKIL	5.603E-02	.104	.037	.539	.591
	TAXCALCU	8.397E-02	.111	.056	.759	.449
	ADVTPROM	.267	.110	.178	2.431	.016
	SELL	-.109	.108	-.075	-1.015	.311
	CUSTSERV	-8.052E-02	.120	-.047	-.671	.503
	KNOWMKT	-3.989E-02	.108	-.026	-.370	.712
	STAMOT	-.141	.125	-.083	-1.132	.259
	STARECPRO	6.854E-02	.110	.045	.625	.533
	STAFFDVT	-.111	.109	-.071	-1.020	.309
	PERFAPP	.119	.105	.081	1.134	.258
	RECSTOTM	1.379E-02	.118	.008	.116	.907
	OPBSOEL	-3.274E-02	.110	-.021	-.297	.767
	CLBSLATE	1.579E-02	.104	.011	.151	.880
	QUALCON	-3.994E-03	.115	-.002	-.035	.972

a Dependent Variable: TURNNOW

The statistical programmes ANOVA (Analysis of variance) as well as a regression analysis were employed to statistically test the significance of this assertion.

When the hypothesis which states that poor management skills such as human resources management, financial management, general management, production management and marketing management does not result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe is tested at a 5% level of significance, it was discovered that management skills do play a significant role in determining profitability. It was observed (refer to tables 7.41 and 7.42, pp.222, 224) that management skills such as the advertising and promotion of products (p=0.016), and manager's informational role (p=0.030) play a significant role in the performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

The hypothesis that states that poor management skills such as human resources management, financial management, general management, production management and marketing management does not result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe is rejected, but the null hypothesis is accepted.

- **Hypothesis 3**

Economic factors have a direct effect on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

Table 7.43 ANOVA results showing the relationship between economic factors and business performance

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.414	11	.856	1.335	.206
	Residual	146.835	229	.641		
	Total	156.249	240			

a Predictors: (Constant), TRANSCOST, COSTOFIN, ACC2FIN, SHORTFIN, EXRATE, CURRENCY, INVESTLEV, FUELENE, TAXRATE, INTRATES, INFLATION

b Dependent Variable: NAVDIFF

Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	1.115	.355		3.137	.002
	INFLATION	-4.949E-02	.068	-.049	-.729	.467
	INTRATES	9.634E-03	.065	.010	.148	.882
	CURRENCY	.177	.070	.164	2.519	.012
	INVESTLEV	-7.021E-03	.059	-.008	-.118	.906
	FUELENE	3.807E-02	.068	.037	.560	.576
	EXRATE	3.782E-02	.069	.036	.546	.586
	SHORTFIN	-.199	.111	-.116	-1.790	.075
	TAXRATE	.188	.119	.104	1.583	.115
	ACC2FIN	2.086E-02	.041	.034	.508	.612
	COSTOFIN	-1.818E-02	.039	-.031	-.464	.643
	TRANSCOST	6.515E-02	.066	.064	.989	.324

a Dependent Variable: NAVDIFF

The statistical programmes ANOVA (Analysis of variance) as well as a regression analysis were employed to test statistically, the significance of this assertion.

When the hypothesis which states that economic factors have an effect on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe is tested at a 5% level of significance, it was discovered that economic factors do play a significant role in determining the performance of SMEs. The economic factors being referred to are inflation, interest rates, currency, investment levels, fuel and energy and the exchange rate. The variable that was found to have the most prominent relationship to business performance was currency (p=0.012). This factor was found to be statistically significant at a 5% confidence level. This implies that the volatility of the currency results in the poor performance of SMEs in the manufacturing sector.

The hypothesis which states that economic factors have an effect on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe is therefore accepted and the null hypothesis rejected..

Hypothesis 4

The economic initiatives of the Zimbabwean government aimed at SME development do affect the performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

Table 7.44 ANOVA results showing the relationship between government's economic initiatives and business performance

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	9.736	12	.811	1.270	.237
	Residual	145.642	228	.639		
	Total	155.378	240			

a Predictors: (Constant), INFSUPMS, MKTPEN, ZIMPHELP, GVTREG, YTHDVT, PROMINV, SKILSHOT, GVTMEAS, GENDIM, CLBASDVT, SIGROL, RULFOC
b Dependent Variable: FULLDIFF

Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	1.696	.473		3.588	.000
	GVTREG	6.097E-02	.062	.064	.979	.329
	PROMINV	-2.468E-02	.123	-.013	-.201	.841
	GVTMEAS	1.069E-02	.111	.006	.096	.923
	SKILSHOT	-8.965E-02	.118	-.050	-.758	.449
	CLBASDVT	-.228	.099	-.153	-2.317	.021
	GENDIM	.240	.115	.136	2.083	.038
	YTHDVT	-2.676E-02	.109	-.016	-.247	.805
	RULFOC	-.202	.112	-.120	-1.802	.073
	SIGROL	-3.398E-02	.116	-.019	-.294	.769
	ZIMPHELP	1.423E-02	.063	.015	.227	.821
	MKTPEN	2.690E-02	.033	.054	.822	.412
	INFSUPMS	4.636E-02	.042	.073	1.114	.266

a Dependent Variable: FULLDIFF

The statistical programmes ANOVA (Analysis of variance), as well as a regression analysis were employed to statistically test the significance of this assertion.

When the hypothesis which states that the economic initiatives of the Zimbabwean government aimed at SME development do affect the performance of SMEs in the manufacturing sector of Harare, Zimbabwe is tested at a 5% level of significance it was discovered that the economic initiatives of the Zimbabwean government play a significant role in determining the performance of SMEs in the manufacturing sector of Harare. Initiatives such as cluster based development (p=0.021), and gender dimension (p=0.038) were found to have a significant effect on business performance. What this means is that the economic initiatives of the Zimbabwean government are assisting the SMEs in the manufacturing sector of Harare, Zimbabwe to develop and grow.

The hypothesis which states that the economic initiatives of the Zimbabwean government aimed at SME development do affect the performance of SMEs in the manufacturing sector of Harare, Zimbabwe is therefore accepted and the null hypotheses rejected.

6.5 THE ACHIEVEMENT OF OBJECTIVES

This study focused on establishing whether a lack of skilled human resources contributes to the poor performance of SMEs as perceived by the manufacturing sector of Harare in Zimbabwe. It also wanted to establish whether poor management skills such as human resources management, financial management, general management, production management and marketing management result in the poor performance of SMEs as perceived by the manufacturing sector of Harare in Zimbabwe. The study further wanted to establish the economic factors which have a direct influence on the performance of SMEs as perceived by the manufacturing sector of Harare, Zimbabwe. Finally, the study also wanted to determine whether the economic initiatives of the Zimbabwean government aimed at SME development, had an influence on the performance of SMEs as perceived by the manufacturing sector of Harare, Zimbabwe.

The objectives were measured empirically through a questionnaire containing open ended, dichotomous, Likert-scale and closed-ended questions (refer to Addendum 1). The questionnaire consisted of six sections which contained questions formulated to gather data for the measurement of the objectives. The objectives of this study were achieved by focusing on the following aspects:

- A comprehensive literature review was provided on the nature and importance of entrepreneurship in the developing world, the nature and role of SMEs in the Zimbabwean economy as well as the professional management of SMEs (refer to chapters 2-4, pp. 22-121).

- The empirical study tested the hypothesis that a lack of skilled human resources do not result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe (refer to section 1.7, p.8).

- The empirical study tested the hypothesis that poor management skills such as human resources management, financial management, general management, production

management and marketing management do not result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe (refer to section 1.7, p.8).

- The empirical study tested the hypothesis that economic factors have a direct influence on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe (refer to section 1.7, p.8).

- The empirical study tested the hypothesis that the economic initiatives of the Zimbabwean government aimed at SME development do affect the performance of SMEs in the manufacturing sector of Harare, Zimbabwe (refer to section 1.7, p. 9).

- The recommendations to SME owners or managers regarding the outcome of the study in relation to the factors that affect the performance of SMEs in the manufacturing sector of Harare, Zimbabwe is discussed in chapter 7 (refer to section 7.3, pp. 251-257).

The conclusion can therefore be drawn that the objectives of this study was achieved on the basis of the findings (conclusions) and recommendations which are specified for this study (refer to sections 7.2, p. 234 & 7.3, p. 251).

6.6 SUMMARY

The results of the data gathered from the questionnaires have assisted the researcher to reach certain conclusions on the formulated hypotheses. Through these results, the researcher discovered that SMEs in the manufacturing sector still suffer from inadequate managerial skills. This result supports both the hypothesis that poor management skills such as human resources management, financial management, general management, production management and marketing management result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe. In addition, a lack of skilled human resources also contributes to the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe. The results also support the third and fourth hypothesis

which states that economic factors have a direct influence on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe and that the economic initiatives of the Zimbabwean government aimed at SME development do influence the performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

The next chapter will focus on the conclusions and recommendations of the study and will suggest areas for further research. Conclusions related to the research proposition and the four hypotheses will be discussed. Furthermore, recommendations will focus on the following, the factors affecting the performance of SMEs in the manufacturing sector of Harare, Zimbabwe, the required skills for SME development in the manufacturing sector of Harare, Zimbabwe, the economic factors affecting the performance of SMEs as perceived by the manufacturing sector in Harare, Zimbabwe, the economic initiatives of the Zimbabwean government to develop SMEs, the influence of a hyperinflation environment on the profitability of SMEs in the manufacturing sector of Harare, Zimbabwe. Finally, the chapter will examine the areas for further research.

CHAPTER SEVEN

CONCLUSIONS, RECOMMENDATIONS AND AREAS FOR FURTHER RESEARCH

7.1 INTRODUCTION

The primary objective of this research study was to investigate the factors that affect the performance of SMEs in the manufacturing sector of Harare, Zimbabwe. The research proposition that flows from this objective stated that the current hyperinflation environment affects the profitability of SMEs in the manufacturing sector of Harare in terms of profitability. The first hypothesis stated that a lack of skilled human resources contributes to the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe. The second hypothesis stipulated that poor management skills such as human resources, financial management, general management, production management and marketing management result in the poor performance of SMEs in the manufacturing sector of Harare, Zimbabwe. The third hypothesis stated that economic factors do not have a direct influence on the performance of SMEs in the manufacturing sector of Harare, Zimbabwe. The fourth hypothesis stipulated that the economic initiatives of the Zimbabwean government aimed at SME development do not influence the performance of SMEs in the manufacturing sector of Harare, Zimbabwe.

The conclusions of this study will be explained in relation to each of these hypotheses and the research proposition. The conclusions will also be compared with empirical studies to ascertain their consistency or inconsistency. Recommendations and areas for further studies will be suggested.

7.2 CONCLUSIONS

- **Skills required for SME development as perceived by the manufacturing sector of Harare, Zimbabwe**

The skills required for SME development are divided into five categories, namely general management, marketing management, production management, financial management and human resources management skills. A discussion of the required skills follows below.

- ***General management skills***

SMEs in the manufacturing sector must ensure that they have control mechanisms in their operational activities and also that they implement strategic planning in their operations. Strategic planning will provide the business with a clear direction in their operations as it clearly outlines what has to be done in order to achieve the set objectives. Controlling will enable the business to make comparisons of their operational activities (current versus previous) and detect any deviations from the standard that would have been set and rectify the deviations**.** This makes planning and controlling the most important management functions in the operational activities of SMEs. Organisational skills are important in that they result in the implementation of the strategic plans of the business hence SMEs in the manufacturing sector of Harare, Zimbabwe must have these skills. Sound organisational skills are important for the growth of the SMEs as this will lead to the implementation of the set goals. Managers or owners of SMEs must take note of their managerial roles (interpersonal, informational and decisional) in the day to day operating of their enterprises. Interpersonal roles are important on the growth of SMEs in that it results in a cordial relationship between management and employees. This relationship is important as it raises moral at the work place which leads to increased productivity as the employees will be motivated. Informational roles are important on the growth of SMEs in that the manager will always make sound decisions if he or she is well informed about the internal and external environment of the SME. Decisional roles are important on the growth of the SME in that the ability of a manager to make decisions will result in the faster implementation of the decisions made. The speedily implementation of decisions is important in that it will lead to the attainment of the set objectives. These management skills are required to manage and run an SME in the manufacturing sector of Harare, efficiently.

- ***Marketing management skills***

In terms of marketing, four components were highlighted by respondents to be of great importance in SME development in the manufacturing sector of Harare, Zimbabwe.

- *Customer care*: According to respondents customer care is important for business growth. Seventy percent (70%) of the respondents felt that customer care is important for the growth of their businesses. It becomes important for SME owners and/ or managers to ensure that they care about their customers, especially with regards to customer needs. The needs and wants of customers should be determined by the owners/managers of SMEs on a regular basis to ensure continuous customer satisfaction. Cooperation with customers is therefore important as a customer care measure.

- *Knowledge of the market*: Sixty two percent (62%) of the respondents concluded that knowledge of the market is important for the growth of their businesses. SMEs must have enough knowledge of the market, incorporating information on competitor activities and the current and changing needs of customers. Knowledge of the market is essential as it enables the organisation to produce what is demanded in the market. Furthermore, market knowledge will result in the competitiveness of an organisation as it can come up with appropriate marketing strategies to address consumer needs and competitor actions in a direct manner.

- *Advertising and promotion*: Fifty six percent (56%) of the respondents viewed advertising and promotion as important for the growth of their businesses. The manner in which SMEs sensitise the public about their products are important. This is due to the fact customers must be well informed about the available products and their benefits. Care must therefore be taken when informing the public about available products to ensure that customer needs and wants are met. It is the responsibility of the owners/managers of the SME to establish trust in their relationship building initiatives with customers by delivering on promises (e.g. providing products at the advertised price to the consumer and having enough stock available for purchasing during the advertised period). SMEs must also ensure that they use different channels of communication when advertising or promoting their products. Through this approach the owners/managers of SMEs will reach a broader target market to purchase the products that they offer.

- *Selling*: Fifty percent (50%) indicated that selling is important for the growth of their businesses. The selling of products is an important skill under the auspices of marketing that SMEs must take into consideration. SMEs have sales representatives who negotiate with prospective customers for their manufactured products. It is important in that it results in the final product reaching the customer. Selling skills are important in SMEs as they lead to the final transaction taking place. That is when the customer pays in exchange of the product received. It is important in SMEs as this will result in SMEs having ready demand for their products.

This result shows that customer care and knowledge of the market are important marketing management skills for the growth of SMEs based on the responses from the respondents.

➢ **Production management skills**

On production management skills the focus was on the following aspects, namely receiving stock on time, opening early, closing late and quality. The following conclusions can be drawn based on the responses from SMEs operating in the manufacturing sector of Harare, Zimbabwe.

- *Receiving stock on time*: SMEs should ensure that they always receive stock on time. This has been necessitated by the fact that seventy percent (70%) of the respondents indicated that receiving stock on time is important for the growth of their businesses. Therefore it becomes important to have stock on time so that the production process is not interrupted as this might result in the business failing to meet its targets and deadlines. Failure to meet targets affects the image and reputation of the business in a negative manner.

- *Quality control*: The emphasis of the production process must be quality. Seventy percent (70%) of the respondents concluded that quality control is important for the growth of their businesses. The ability to produce quality products will result in the

business having a sustainable competitive advantage over its rivals. Furthermore quality will give the SMEs a competitive urge in a globalised business environment which has intensive competition and similar products. By offering quality products SMEs will experience customer loyalty which will enhance their profitability.

- *Opening early*: It is important for SMEs to open their premises early in the morning for clients who might want to do business early to avoid queuing. The ability to open early will enhance the competitiveness of SMEs since the majority of customers do not prefer queuing. This is reinforced by the fact that fifty eight percent (58%) of the respondents felt that opening early is important for the growth of their businesses.

- *Closing late*: SMEs should ensure that they close their businesses late in the night (e.g. after 21:00) to cater for those customers that might be busy during normal business hours. In addition, SMEs must also attract those customers that are interested in convenience shopping. Convenience shopping, in this context, refers to customers that would support the SME since it is open late, thereby conveniently providing the customer with access to purchase a product at a time when other business have closed. Those SMEs who are able to open until late will increase their turnover and this will result in the positive performance of these SMEs. An increase in turnover is a growth indicator. This conclusion is based on the fact that fifty percent (50%) of the respondents concurred that closing late is important for the growth of their businesses.

Against the results above, it can be concluded that quality control and receiving stock on time are important production management skills for the growth of SMEs.

➢ **Financial management skills**

In terms of financial management skills, the focus was on the following aspects, namely bookkeeping skills, preparation of financial statements, debit and credit control, budgeting skills, and tax calculation. The following conclusions can be drawn based on

the responses from the SME sector operating in the manufacturing sector of Harare, Zimbabwe.

- *Bookkeeping skills*: Fifty five percent (55%) of the respondents viewed bookkeeping skills as important for the growth of their businesses. It therefore becomes important for SMEs to be well acquainted in bookkeeping in order for their business activities to be successful. SMEs should ensure that amongst their employees they have at least one staff member with bookkeeping knowledge as it important in their businesses. Failure to ensure this will be costly to the business as operating costs will rise due to the outsourcing of bookkeeping skills.

- *Preparing financial statements*: Seventy percent (70%) of the respondents felt that the ability to prepare financial statements is important for the growth of their businesses. Based on the results it is important for SMEs to ensure that they are in a position to prepare their financial statements to reduce the costs of outsourcing the service. Financial statement preparation is important for the growth of small businesses as it indicates the financial position of a business.

- *Debit and credit control*: A total of seventy percent (70%) of the respondents indicated that debit and credit control are important for the growth of their businesses. SMEs should be able to control the debts accrued through their business. The inability to manage debts will result in the business being liquidated. Furthermore, an inability to pay debts will have a negative effect on the image of the business which might result in the poor performance of the business. Failure to manage debts might also affect investment decisions as the SMEs might experience financial shortages.

- *Budgeting skills*: Sixty one percent (61%) of the respondents viewed budgeting skills as important for the growth of their businesses. For planning purposes SMEs should possess budgeting skills. The inability to budget has a negative effect on the performance of SMEs. This is due to the fact that the business might experience cash flow problems as a result of poor budgeting.

- *Tax calculation*: Fifty four percent (54%**)** indicated that tax calculation is important for the growth of their businesses. High tax rates affect the performance of SMEs hence they must be able to calculate tax on their own to avoid being over charged by the tax authorities. SMEs must be able to calculate their annual taxes owed to the government of Zimbabwe, thus the requirement for the skill. This will also lower costs since they would not have to outsource the service if they have the knowledge. An ability to calculate tax also aid SMEs in their budgeting process.

A closer analysis of the result shows that the preparation of financial statements and debit and credit control are the most important financial management skills for the growth of SMEs.

➢ **Human resources management skills**

The human resources skills required for SME development, as perceived by the manufacturing sector of Harare, Zimbabwe, are staff motivation, staff recognition and promotion, staff development and performance appraisal. A discussion of the required skills follows below.

- *Staff motivation*: Seventy six percent (76%) of the responses from the respondents shows that staff motivation is important for the growth of their businesses. It is important for SMEs to ensure that their staff is always motivated. A motivated staff will be productive and efficient which improves the performance of the business. Staff motivation is essential as it reduces absenteeism which affects productivity and high labour turnover which is costly to the business as they have to attract, recruit and train new employees.

- *Staff recognition and promotion*: Fifty nine percent (59%) of the respondents felt that staff recognition and promotion is essential for the growth and development of their businesses. Based on this result it can be concluded that SMEs must ensure that they have clear and easy to understand policies on staff promotion. They must also be

transparent in the manner in which staff is promoted. This implies that they must make their appraisal policies accessible to employees and they must be fair and equitable. Furthermore, it important for SMEs to fully recognise their staff's efforts for promotional purposes.

- *Staff development*: Sixty six percent (66%) of the respondents indicated that staff development is important for the growth of their businesses. The business environment is ever changing and the needs of customers are also changing continuously. In order for SMEs to meet these changes they must have staff development programmes in place to keep abreast with these changes. Staff development will result in a motivated staff which increases productivity. Therefore, more emphasis should be on developing their staff, especially in the areas of customer care, tax calculations, advertising, selling and planning.

- *Performance appraisal*: Sixty four percent (64%) felt that performance appraisal is important for the growth of their businesses. SMEs must ensure that they take note of their staff performance for appraisal purposes. Performance appraisal must be done in accordance with set guidelines and on a regular basis. A proper performance appraisal policy will result in the improved performance of the SMEs as their staff will be motivated and productive.

It can therefore be concluded based on the results above that staff motivation and staff development are the most important human resources management skills for the growth of SMEs.

❖ **Economic factors affecting the performance of SMEs as perceived by the manufacturing sector of Harare, Zimbabwe**

The economic factors which affect the performance of SMEs include the impact of inflation, currency, fuel shortages and power, interest rates, investment levels, and exchange rates. These economic variables are discussed in more detail below.

- *Interest rates*: Sixty six percent (66%) of the respondents indicated that interest rates have a direct influence on the performance of their businesses. Interest rates affect the performance of SMEs in that they make the cost of borrowing expensive. An increase in the cost of borrowing has a negative effect on SMEs as they rely on borrowing as a source of finance. Therefore, an increase in the rate of interest is not desirable in SMEs as this might lead to the poor performance of SMEs.

- *Currency*: Currency has a direct influence on the performance of SMEs according to sixty nine percent (69%) of the responses. This is the exchange value of the Zimbabwean dollar against major currencies such as the South Africa Rand, the US$ and the British Pound. SMEs are affected by the continual loss in value of the Zimbabwean dollar as this will result in an increase in the cost of raw materials with specific reference to imports. This will also result in a higher final price to the consumer, thus weakening the competitiveness of the SME and making the product less affordable to the consumer.

- *Investment level*: Fifty five percent (55%) of the respondents indicated that investment level has a direct influence on the performance of their businesses. Investment is both in their businesses and in the economy at large. SMEs are affected with investment levels in a country as they depend on larger businesses for specific inputs (raw materials) and services. This implies that a lack of investment in the Zimbabwean economy, and in the SME as well, will result in shortages of inputs and services from these larger businesses which are required by SMEs in the manufacturing sector. This is due to the fact low investment levels results in the shortage of inputs. The shortage of inputs (raw materials) negatively impacts the operations of SMEs since a shortage of inputs reduces the ability of the SME to increase its production levels, thus its sales. In this regard the low levels of investment in the Zimbabwe economy have a negative effect on the performance of SMEs.

- *Fuel and power*: Sixty eight percent (68%) of the respondents indicated that fuel shortages and power cuts have a direct influence on the performance of SMEs as most of their operating activities require fuel and energy. SMEs are being negatively affected by the shortage of fuel and power cuts in that the production process is usually interrupted as a result of power failures. Fuel shortages affect the transportation of raw materials and finished products. Raw materials are transported to the manufacturer (SMEs in the manufacturing sector of Harare, Zimbabwe) and finished products to wholesalers, retailers and final consumers. This, again, have an influence on profitability and the competitiveness of SMEs, since the longer it takes the SME to produce the final product, the slower their growth in turnover and profit levels are. The inability of the SME to supply products and services on time to consumers could also provide competitors (local and international) with the opportunity to gain market share by recruiting unsatisfied customers of SMEs in the manufacturing sector of Harare, Zimbabwe. Through this process, the competitiveness of SMEs in the manufacturing sector of Harare, Zimbabwe is reduced.

- *Exchange rate*: According to sixty eight percent (68%) of the respondents the exchange rate has a direct influence on the performance of SMEs as the Zimbabwean dollar is weaker versus other currencies. The weak currency is affecting the performance of SMEs as their products become less competitive in the world market. The SMEs' products become more affordable in the international market, but the weak currency results in SMEs paying more for imported inputs while they receive less for exports. This has a negative effect on the profitability of SMEs since they receive less income when exporting. This scenario therefore implies that SMEs have a negative balance of payment. What this means is that SMEs pay more for imported raw materials and receive less for exported goods. It can therefore be concluded that the exchange rate is having a direct influence on the performance of SMEs.

❖ **Economic initiatives of the Zimbabwean government to develop SMEs**

The Zimbabwean government has put the following economic initiatives in place for SME development in the manufacturing sector of Harare, namely investment promotion, access to finance, skills shortage address, targeted support, SME policy development, market penetration measures and infrastructure support measures. A conclusive discussion of these economic initiatives follows below.

- *Investment promotion*: Seventy six percent (76%) of the respondents concurred that the Zimbabwean government's investment support measures through tax relief are enough as this stimulates investment in the SME sector of the country. Tax relief measures entail that the government has a scheme whereby SMEs do not have to pay tax in the first five years of their operations. Furthermore, those SMEs that are engaged in social responsibility activities are exempted from paying tax. In addition, SMEs that are involved in value-addition are, at times, exempted from paying tax. Value-addition are activities such as manufacturing which results in the creation of employment. Their exemption occurs when these SMEs are engaged in manufacturing activities and the government exempts them from paying tax. This can be attributed to the fact that tax payments reduce the returns of a business. In the instance of value-addition or investment promotion SMEs are benefiting from tax relief which enhances the viability of their businesses.

- *Access to finance*: Sixty six percent (66%) of the respondents have benefited from the Zimbabwean government's measures to ensure SMEs' access to finance through credit finance, risk capital and credit guarantees. This result shows that the respondents appreciate government's effort to address financial issues affecting SMEs. This is an important area as most SMEs are severely affected by a shortage of financial resources. It can therefore be concluded that the government is making an effort to ease SMEs' financial challenges.

- *Skills shortages*: Seventy three percent (73%) of the respondents are satisfied with government's initiatives to address skills shortages in SMEs. This has been necessitated by the fact that in many cases the failure of SMEs was due to a lack of skills. The Zimbabwean government attempts to address the skill shortage in SMEs through initiatives such as Expand Your Business (EYB) training for SMEs. Through SEDCO there is Business Management and Entrepreneurship Training for addressing skills shortages. The Ministry of Higher and Tertiary Education has activities focusing on equipping students with entrepreneurial skills. They have the Micro Enterprise Management courses being offered from National Certificate to Higher Diploma. The Expand Your Business (EYB) programme of the Zimbabwean government is aimed at equipping SMEs with the necessary business skills for operating their enterprises. It can therefore be concluded that the Zimbabwean government is doing enough to address skills shortages in SMEs.

- *Targeted support*: Approximately sixty six percent (66%) of the respondents concur that the Zimbabwean government's targeted support aimed at encouraging the growth of SMEs amongst certain groups has achieved its goals. This result can be attributed to the fact that more women are now involved in SME businesses in Zimbabwe and the majority of the respondents were below 50 years of age where the government is mainly focusing. This result also shows that the Zimbabwean government has targeted the category of people who cannot secure white collar employment in large organisations.

- *SME development policies*: From the Zimbabwean government's SME development policies SMEs appreciate the Economic Reform Framework. This is reinforced by the fact that forty four percent (44%) of the respondents have found the Economic Reform Framework to be a helpful policy assisting SMEs in realising their growth potential. The government is investing money into the economy through the Economic Reform Framework. This development policy is important in that the government has put in place measures to boost the economy which will improve the performance of SMEs. The measures include the Distressed Companies Facility and

the RBZ Productive Sector Fund. The Distressed Companies Facility is a programme that is aimed at assisting those SMEs involved in manufacturing activities that do not have sufficient funds. These SMEs are assisted to purchase inputs and given money for any other activities that require money. The RBZ Productive Sector Fund is a fund set aside for SMEs in the manufacturing sector from the Reserve Bank of Zimbabwe. The money is used for the purchase of inputs and equipment required in the production process. These measures are aimed at boosting production in the SME sector as money for investment purposes is put into the economy.

- *Market penetration*: On ensuring that SMEs have access to the market the result shows the importance of business linkages and quality assurance in order for SMEs to penetrate the market. Business linkages are important as businesses depend on each other for survival. SMEs depend on large companies for raw materials and a business linkage for the supply of raw materials to SMEs from large companies has been created through negotiations involving large companies, SMEs and the government. This linkage involves large companies supplying SMEs with inputs. The reason for the establishment of such a linkage is to enable SMEs to easily access inputs required in the production process. In addition, to remain competitive an organisation also need to offer quality products or services, hence quality assurance becomes important for the growth of any business. Quality control by SMEs in the manufacturing sector of Harare is done through quality circles. Quality circles involve a group of employees who will taste the manufactured product to check if it meets the quality standard before it is distributed. Through this process, SMEs ensure that they manufacture products of high quality. Taking this into account, the Zimbabwean government must continue to assist SMEs in creating business linkages and ensuring that they adhere to quality standards in their production process.

- *Infrastructure support measures*: A total of (30%) of the respondents indicated that the provision of workspace played a pivotal role in their operations. This result shows the importance of land for operational activities in the manufacturing sector of Harare, Zimbabwe. Twenty two percent (22%) of the respondents have found

business incubators to be more important as it resulted in the positive performance of their enterprises. This can be attributed to the fact that these incubators help in training SMEs in order for them to be sustainable. Training is done in entrepreneurial skills such as bookkeeping, tax calculations and marketing skills. These skills empower the owners or managers of SMEs in the manufacturing sector of Harare, Zimbabwe with the knowledge to manage the cash flow in a manner that enhances the growth of their businesses. They are also educated in the use of marketing techniques to promote their products in a manner that will ensure market growth through the expansion of their customer base. This result therefore indicates that the support measures that have been put in place by the Zimbabwean government are having a positive impact on the performance of SMEs in the manufacturing sector of Harare.

- **The influence of a hyperinflation environment on the profitability of SME's in the manufacturing sector of Harare, Zimbabwe**

High rates of inflation lead to business failure. According to Tommasi (1999:221) entrepreneurial growth is affected by a high rate of inflation as prices will be high. It is further argued that high inflation affects the efficiency of the price system to guide transactions and allocate resources towards their most productive uses. High interest rates make the borrowing of capital expensive, resulting in low levels of investment and a weaker currency which makes the importation of raw materials difficult and expensive at the same time. Interest rates will be high as a result of a higher rate of inflation. Inflation is one of the critical factors that directly influence the financial stability of SMEs as their currency's purchasing power is weakened. High inflation levels leads to business insolvency and businesses will experience liquidity problems. According to the literature, a high inflation level can be described as an inflation rate above 9%. This is due to the fact that a sound economy should have a one (1) digit figure inflation level according to economists. Furthermore, a high inflation rate also causes a decline in real profits, the inability to replace equipment (due to insufficient funds and less purchasing power of the currency) and poor performance due to a lack of business growth. As a result of high

inflation, a business will therefore not expand its operations for the reasons stated above. All this will reduce the profitability and competitiveness of a business.

The above argument is supported by Temtime & Pansiri (2004:5) who found that inflation is a critical success factor for SMEs as high levels of inlation results in the failure of SMEs. This is further supported by Temtime & Pansiri (2004:5) who argued that economic forces (inflation, interest and exchange rates) are negatively influencing the performance of SMEs. These economic factors affect the levels of investment in a country. It can therefore be concluded that a hyperinflation environment does affect the profitability and competitiveness of a business. This is directly relevant to SMEs in the manufacturing sector of Harare, since Zimbabwe is characterised by an inflation rate of 7982%, as per September 2007 (Dzirutwe & Banya, 2007).

- **The most important factors influencing the development of SMEs in the manufacturing sector of Harare, Zimbabwe**

- **Factor 1: Inflation**

  Discussion:

  Inflation is influencing the development of SMEs in the manufacturing sector of Harare, Zimbabwe. The majority of SMEs are negatively affected by the hyperinflation environment in Zimbabwe since it erodes the profit margins of the SME, the cost of raw materials are higher, thus influencing the final price to the consumer (the final price is increased). Due to inflation the purchasing power of the currency is weakened and this results in higher prices being charged on products and services. This will result in the SME sector charging higher prices which reduces there competitiveness as their products becomes expensive to customers.

  Recommendation:

  In order for SMEs to deal with inflation they must diversify their operations. They can achieve this by offering their services to large companies through being

subcontracted and intensify their promotional activities. On promotion they can embark on road shows so that they can realise a fast stock turnover. This will assist them in applying the principle of time value of money. Time value of money is based on the notion that a specific currency (e.g. the Zimbabwean Dollar or South African Rand) today is worth more than it is tomorrow in other words what it can purchase today is more than what it can purchase tomorrow due to inflation.

- **Factor 2: Shortage of finance**

  Discussion:

  SME development is severely affected by a shortage of finance. For expansion purposes SMEs require adequate finance. In addition to this, the situation is made complex by banks and credit institutions which have stringent requirements when SMEs want to borrow from them, primarily in the form of collaterals. Furthermore, sources of finance which are available to SMEs such as bank loans and mortgage bonds are expensive which results in an increase in the cost of production.

  Recommendation:

  The Zimbabwean government must provide affordable alternative sources of finance for SMEs. To address the issue of borrowing constraints the government should act as a guarantee to banks and credit institutions for SMEs. That is by making an undertaking to pay the banks in the event of the SMEs failing to pay back. The government can also liaise with the banks and credit institutions to lessen their requirements. This should be done so that SMEs can get enough access to finance for their business activities. The banks will get the assurance that they can recover their money from the government and also receive interest on the funds they would have given the SMEs. SMEs should also form groups and make use of pooled negotiating power for borrowing purposes. They can use such negotiating power to purchase raw materials and receive discounts which might lead to a reduction in the cost of production. Through networking, SMEs in the manufacturing sector of Harare, Zimbabwe can be able to exchange services such as bookkeeping, tax calculations and advertising amongst themselves for free. This will enhance their competitiveness

through a reduction in the cost of production. The benefit of sharing such skills for the owners or managers of SMEs is that it will strengthen the future survival, and eventual growth, of SMEs in the manufacturing sector of Harare, Zimbabwe.

- **Factor 3: Skills shortages**

  Discussion:

  The economic performance of SMEs in the manufacturing sector of Harare, Zimbabwe is highly affected by skills shortages. Skill shortages are experienced in the fields of financial management (tax calculations, bookkeeping, investment decisions) and marketing management (advertising, selling, customer care). SMEs fail to attract qualified personnel since the majority of Zimbabweans view SMEs as offering insecure employment opportunities due to the high rate of failure. The skilled personnel involve those employees with the necessary skills required in the SME sector.

  Recommendation:

  SME owners in the manufacturing sector of Harare, Zimbabwe and the Zimbabwean government must form more direct partnerships to improve the skill levels in the sector. This can be done through increased funding for SME staff training by the government. Currently the Zimbabwean government does provide training through business incubators to increase the sustainability and growth of SMEs in Zimbabwe. However, such training is only mainly provided in the larger metropolitan areas such as Harare and Bulawayo and need to be extended to other cities, and eventually the rural areas of Zimbabwe. The Zimbabwean government, through the Ministry of Education, must also make use of Vocational Training Colleges and Polytechnic Colleges to develop programmes which could assist SMEs in developing their skills. They can initially start in the larger Metropolitan areas and then expand it to the rural areas and small towns. Furthermore there is need to establish SME consulting and training centres in certain areas or provinces to assist SMEs with their challenges. The number of centres will be determined by the number of SMEs in a specific city or rural area. SMEs can also be encouraged to make use of the Entrepreneurial

Development Programme (EDP) which is a programme aimed at improving the skills levels in the SME sector. The EDP involves training of potential entrepreneurs in entrepreneurial skills. EDP could assist SMEs by lessening the challenge of skills shortages.

7.3 RECOMMENDATIONS

- **Factors affecting the performance of SMEs in the manufacturing sector of Harare, Zimbabwe**

SMEs must ensure that they are well acquainted with all the managerial functions that have an effect on the performance of their businesses. These managerial functions are skilled personnel, financial management skills, planning skills, customer care, marketing knowledge and skills and knowledge of human resources practices. This can be done through training programmes, funded by the Zimbabwean government, and sending their employees on refresher courses regularly. Since SMEs are affected by finance shortages they should form partnerships with the government so that they can get funds for the proposed training programmes.

- **Required skills for SME development in the manufacturing sector of Harare, Zimbabwe**

On financial management skills SMEs must send their employees on training in bookkeeping and financial statement preparation. These are skills which must be possessed by SMEs to ensure its continued survival and growth. In addition, SMEs must limit debts in their enterprises. They can achieve this by ensuring that they purchase their inputs on **a** cash basis so that they can obtain discounts which will help them in minimising the cost of production. This will be passed to customers in the form of lower prices and will improve the competitiveness of SMEs.

On marketing management skills SMEs must regularly send their employees on customer care refresher courses which involve customer management and complaints handling. In

order to benefit from advertising and promotion, SMEs must form cooperatives for advertising whereby they run joint advertising initiatives to minimise costs. SMEs must also make use of special promotions in order to lure customers. SMEs must also carry out market research in order for them to have knowledge of the market. On selling their products SMEs must use persuasive selling whereby they encourage people to buy their products and outlining the benefits clearly of the products to the customers.

On human resources management skills the SMEs must have staff development programmes in place. These development programmes will include training on different skills required for the operations of SMEs. SMEs must take note of the employees who perform exceptionally well and have promotional measures in place. The promotional measures must clearly outline how the highly performing employees will be promoted. Since motivation is an important aspect in the performance of SMEs, entrepreneurs must ensure that they keep their staff motivated. This can be done through appraising employees who perform highly and creating a conducive working environment. This environment can be created by having flexible working hours, involving employees in decision making and having clear remuneration measures.

SMEs must have good relationships with suppliers so that they receive stock on time. This can be done through paying their suppliers on time. SMEs can also form quality circles so that they can test the quality of their manufactured products. Quality circles involve a group of people on the work place who regularly test products to ascertain if products conform to the required quality standards.

Therefore the researcher recommends that the owners of SMEs in the manufacturing sector of Harare, Zimbabwe be trained more in these areas. Furthermore, the Zimbabwean government needs to subside such training more comprehensively and also need to increase its funding to post school institutions such as technical colleges and universities to develop programmes which could educate the owners/managers of SMEs in these fields. Through these increased initiatives, the Zimbabwean government will

further contribute to increasing the success rate of SMEs in the manufacturing sector of Harare, Zimbabwe.

Planning and controlling are the management functions which are the most important for the growth of SMEs in the manufacturing sector of Harare, Zimbabwe. Planning skills incorporates short, medium –and long term planning. SMEs must ensure that they plan their activities in order to meet deadlines. Control is important in their operating activities so that they can meet the required quality standards and minimise wastages.

In addition, interpersonal and decisional roles are the two managerial roles which consume most of managers or owners time within SMEs in the manufacturing sector of Harare, Zimbabwe. Sixty two percent (62%) of the respondents indicated that most of their time is spent on interpersonal roles. Sixty percent (60%) indicated that they spent most time on decision making. The result shows that these two managerial roles are essential for the continued existence of SMEs. This is due to the fact that interpersonal roles results in the creation of positive relationships at the workplace which results in motivated employees. At the same time decision making is important in the operational activities of an enterprise. In order for owners/managers of SMEs to lessen time spent on these roles they can assign more responsibility to staff and empower their staff to make decisions which the owner/manager would have taken in the past through delegation. Therefore, the emphasis should be on these two roles and enough time must be allocated to them. In order for managers to be able to effectively perform these two roles effective planning must be in place.

- **The economic factors affecting the performance of SMEs as perceived by the manufacturing sector in Harare, Zimbabwe**

- *Fuel and power*

SMEs are negatively affected by the shortage of fuel and power cuts since the production process is usually interrupted as a result of power failure. Fuel shortages affect the transportation of raw materials and finished products. To address this problem SMEs

should form cooperatives and pull their resources together to purchase fuel and power from neighboring countries. This implies that they can be able to negotiate for discounts since they will be buying in bulk and they can easily get transport for the fuel. The Zimbabwean government can also come to the aid of SMEs through schemes where they have specific service stations that supply the manufacturing sector with fuel. In terms of power cuts, the government of Zimbabwe should ensure that the manufacturing sector is not deprived of power in their production process. The government must not have load shedding in the industrial site, it must only do it in residential areas. Load shedding is a programme whereby the government will be minimising the consumption of electricity through rationing.

- *Interest rates*

Interest rates affect the performance of SMEs since they make the cost of borrowing expensive. An increase in the cost of borrowing has a negative effect on the growth and development SMEs in the manufacturing sector of Harare, Zimbabwe, since they rely on borrowing as a source of finance. Therefore, an increase in the rate of interest is not desirable in SMEs as this might lead to the poor performance of SMEs. The government of Zimbabwe must, therefore, subsidise the interest which SMEs pay on borrowed funds. The government must pay 50% of the interest and then monitor the operational activities of the SMEs to ensure that they are productive.

In addition, SMEs should also search for alternative sources of finance which are less expensive than the financing offered by the banking sector of Zimbabwe to reduce their costs of production. Instead of making use of bank loans, SMEs must use family funds from savings, also they must form partnerships and cooperatives in order to pool their financial resources together.

- *Currency*

This is the exchange value of the Zimbabwean dollar against major currencies such as the South African Rand, the US dollar and the British Pound. SMEs are affected by the continual loss in value of the Zimbabwean dollar, which result in an increase in the cost

of raw materials with specific reference to imports. It is therefore recommended that the government must subsidise the SME sector when importing raw materials and inputs**.** This they can do by setting a special fund for SMEs in the manufacturing sector of Harare that relies on imported raw materials. By doing this the government will be helping SMEs to acquire the inputs required in the production process.

- *Investment level*

The Zimbabwean government should try to attract investors through incentives such as taxes. Tax incentives such as a scheme whereby a small and medium sized business will be required to only pay tax after a certain period of operation, for example five years. The government can further boost investment levels by encouraging the Reserve Bank of Zimbabwe to reduce interest rates on borrowed funds. This will ensure that SMEs have access to affordable financing options.

- *Exchange rate*

The weak currency is affecting the performance of SMEs as their products become less competitive in the world market. Currently exporters are paid a certain percentage for their exports in foreign currency and the remainder in the local currency**.** The Zimbabwean government should ensure that SMEs are paid for their exports in foreign currency after exporting. This will enable SMEs to purchase inputs and fuel since these are imported as they will be having the necessary foreign currency.

❖ **Economic initiatives of the Zimbabwean government to develop SMEs in the manufacturing sector of Harare, Zimbabwe**

The Zimbabwean government's economic initiatives must be made available and accessible to all SMEs in the manufacturing sector of Harare. The government must further involve these SMEs in policy formulation for the small and medium enterprise sector since they are key stakeholders who are affected by these policies. This can be done by involving SMEs in the manufacturing sector of Harare in workshops to discuss issues which affect their daily operations and the challenges which could influence their

future survival. The government of Zimbabwe must also establish an SME association which represents the sector in direct talks with the government**.** In aiding SMEs in the manufacturing sector of Harare, the Zimbabwean government should put measures in place that make these SMEs accountable when they get assistance from the government. They must ensure that SMEs in the manufacturing sector of Harare furnish them with financial statements annually**.** In order for these SMEs to furnish the government with the required financial statements, the government must ensure that all SMEs in the manufacturing sector of Harare are registered. Furthermore, they must have a data base of the SMEs in the manufacturing sector of Harare they would have assisted. This will lead to these SMEs being more efficient in their operations in order not to waste and misuse resources.

SMEs in the manufacturing sector of Harare, Zimbabwe should also be better informed of the available supporting institutions and their roles in the development of SMEs. Although they are aware of the existence of Empretec, SEDCO and ILO, these institutions should embark on community outreach programmes. This should be done in order to inform the SMEs in the manufacturing sector of Harare about the available services from these supporting institutions. This will result in the development of sustainable entrepreneurial ventures as they will be in a position to utilise the available services from the government and supporting institutions. The supporting institutions must play a leading role in addressing the skills shortages among SMEs in the manufacturing sector of Harare to enhance their survival in the long run.

- **The influence of a hyperinflation environment on the profitability of SMEs in manufacturing sector of Harare, Zimbabwe**

To curb the effects which inflation has on their operations, SMEs in the manufacturing sector of Harare, Zimbabwe must aim for mass production and efficiency in the production process so that they benefit from economies of scale. Economies of scale are when the cost per unit decreases due to better efficient methods of production and mass production. The aim of economies of scale is to utilize longer production runs that will

lower the unit costs per product (Du Plessis, Jooste & Strydom, 2005:490). This benefit can be passed on to customers in the form of lower prices. Lower prices will increase the rate of stock turnover, hence the business will be in a position to quickly recover its capital thereby lessening the effects of inflation on investment.

The other characteristic of an inflationary environment is the continuous rise in the prices of inputs and raw materials. This scenario affects SMEs in the manufacturing sector of Harare since their cost of production will be high with the result that customers are faced with high prices. To address the challenge of rising prices of inputs and raw materials, SMEs in the manufacturing sector of Harare need to form cooperatives for purchasing purposes. This will enable them to get discounts which might aid in reducing the costs of production which then can be passed on to customers in the form of lower prices. This will lead to an increase in the rate of stock turnover which is what is required in a hyperinflation environment to satisfy the principle of time value of money (refer to factor 1 inflation, p. 262).

7.4 AREAS FOR FURTHER RESEARCH

The research work suggests some lines of enquiry for further research. Firstly, further research could determine if the findings of this research are consistent across different sectors. In addition, there is the need to duplicate the research in other parts of Zimbabwe and in other sectors to confirm if the results of this research can be generalised across the whole country. Finally, this study can also be carried out in other parts of Africa for comparison purposes.

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ADDENDUM 1

University of Fort Hare
Together in Excellence

FACTORS AFFECTING THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN THE MANUFACTURING SECTOR OF HARARE, ZIMBABWE

Instructions

- For Likert scale type statements and multiple choice questions indicate your answers with an (X) in the appropriate block.
- For the open-ended questions express yourself freely.
- Please refer to the attached document for clarification of terms.
- Any terms not understood by respondents and not featuring in the attached document rigorously explained by the researcher.

Section A: Biographical details

The purpose of this section is to establish the general profile of the enterprise and the respondent.

Status	
Gender	
Age	
Educational qualifications	
Legal status of the business	
Product(s) manufactured	
Period of business operating	

Section B: Requirements of the Ministry of Small and Medium Enterprises Development

The following questions are to determine the status of your enterprise under the requirements of the Ministry of Small and Medium Enterprises Development

Question 1: How many employees did you start with? ----------

Full time	
Part time	

Question 2: What is your current total number of employees? ----------

Full time	
Part time	

Question 3: During the first year of operation what was your turnover? ----------

Question 4: What is the current annual turnover of your firm? ----------

Question 5: What was the net asset value of your firm when started? ----------

Question 6: What is the current net asset value of your firm? ----------

Question 7: Is your company managed by its owners?

Yes = 1 ☐ No = 2 ☐

Question 8: Is the company privately owned?

Yes = 1 ☐ No = 2 ☐

Question 9: Is your business formally registered?

Yes = 1 ☐ No = 2 ☐

Section C: Factors affecting the performance of SMEs

Answer the following questions by ranking the different options on a Likert scale of 1 – 5, where:

(1) = Most important
(2) = Important
(3) = Neutral
(4) = Less important
(5) = Least important

Question 10 **Which of the following managerial functions contribute to the performance of your business?**	**1**	**2**	**3**	**4**	**5**
Skilled personnel					
Financial Management skills					
Planning (forecasting) skills					
Customer care					
Marketing knowledge and skills					
Knowledge of human resources practices					
Question 11 **Which of the following factors have a direct influence on the performance of your business?**	**1**	**2**	**3**	**4**	**5**
Inflation					
Interest rates					
Currency					
Investment levels					
Fuel and energy					
Exchange rate					

Answer the following questions by marking an X in the correct block. Provide a motivation in the space provided.

Question 12	**Yes**	**No**
Does the shortage of finance affect the growth and development of your business?		
Motivation		
Question 13	**Yes**	**No**
A high tax rate reduces the potential financial rewards in a business.		
Motivation		
Question 14	**Yes**	**No**
Have the myths to entrepreneurship stifled your entrepreneurial aspirations?		
Motivation		

Answer the following questions by ranking the different options on a Likert scale of 1 – 5, where:

(1) = Most important
(2) = Important
(3) = Neutral
(4) = Less important
(5) = Least important

Question 15 **Which of the following factors have a direct influence on the performance of your business?**	**1**	**2**	**3**	**4**	**5**
Access to finance					
Cost of finance					
Access to land					
Entrepreneurial skills					
General management skills					
Government regulations					
Question 16 **Which of the following risks hampers your entrepreneurial ability?**					
Financial risk					
Career risk					
Family risk					
Social risk					
Emotional risk					
Question 17 **Which of the following aspects are important for the success of your business venture?**					
A business plan					
Business opportunities					
An entrepreneurial team					
Training in business skills					
Question 18 **Indicate the reason(s) why you started your own business.**					
Poverty eradication					
Create employment					
To become financially independent					

To earn a living					
Other					

Answer the following question in your own words.

Question 19

What is your view on the prevailing transaction costs in relation to the performance of your business? ----------

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Section D: Management questions

Answer the following questions by ranking the different options on a Likert scale of 1 – 5, where:

(1) = Most important
(2) = Important
(3) = Neutral
(4) = Less important

Question 20 **Which of the following management functions are important for the growth of your business?**	**1**	**2**	**3**	**4**	**5**
Planning					
Organising					
Leading					
Controlling					
Question 21 **Which of the following managerial roles consume**					

most of your time?					
Interpersonal roles					
Informational roles					
Decision roles					

(5) = Least important

Answer the following questions by making an X in the correct block.

Question 22 **Which leadership style do you apply in the daily operations of your business activities?**	
Task orientated	
Democratic (People orientated)	
Autocratic	

Answer the following questions by making an X in the correct block. Provide a motivation in the space provided.

Question 23 **Do you do formal planning in your business?**	**Yes**	**No**
Question 24 **Do you have any control mechanisms in your operational activities?**	**Yes**	**No**
Motivate		

Section E: Required skills for SME development

Answer the following questions by ranking the different options on a Likert scale of 1 – 5, where:

(1) = Most important
(2) = Important
(3) = Neutral
(4) = Less important
(5) = Least important

Question 25 **Which of the following financial management skills are important for the growth of your business?**	**1**	**2**	**3**	**4**	**5**
Book keeping skills					
Financial statements preparation					
Debit and credit control					
Budgeting skills					
Tax calculation					
Question 26 **Which of the following marketing management skills are important for the growth of your business?**	**1**	**2**	**3**	**4**	**5**
Advertising and promotion					
Selling					
Customer service					
Knowledge of the market					
Question 27 **Which of the following human resources management skills are important for the growth**	**1**	**2**	**3**	**4**	**5**

of your business?					
Staff motivation					
Staff recognition and promotion					
Staff development					
Performance appraisals					
Question 28 **Which of the following production management skills are important for the growth of your business?**	**1**	**2**	**3**	**4**	**5**
Receiving stock on time					
Opening the business early in the morning (before 06:00)					
Closing the business late at night (after 20:00)					
Quality control					

Section F: Questions on SME support by the Zimbabwean government and other institutions

Answer the following questions by making an X in the correct block. Provide a motivation in the space provided.

Question 29	**Yes**	**No**
Is the Zimbabwean government doing enough to promote investment through tax relief such as rebates and discounts?		
Motivate		

Question 30 **Have you benefited from the Zimbabwean government's measures to ensure SMEs' access to finance through credit finance, risk capital and credit guarantees?**	**Yes**	**No**
Motivate		
Question 31 **Has the Zimbabwean government done enough to address skills shortages in SMEs?**	**Yes**	**No**
Motivate		
Question 32 **Has the government's targeted support aimed at encouraging the growth of SMEs achieved its goals through the following aspects:**	**Yes**	**No**
Cluster based development		
Gender dimension		
Youth development		
Rural focus		
Motivate		
Question 33 **Empretec, ILO and SEDCO are playing a significant role in the survival, growth and development of SMEs.**	**Yes**	**No**

Answer the following questions by making an X in the correct block.

Question 34	
Which of the following Zimbabwean policies on the development of SMEs is most helpful?	
Economic Reform Framework	
Zimprest	
Economic Recovery programme	
Question 35	
Which of the following market penetration measures established by the Zimbabwean government is most helpful in your operations?	
Market intelligence	
Business linkages	
Marketing support	
Distribution support	
Trade facilitation	
Quality assurance	
Question 36	
Which of the following infrastructure support measures had a positive impact on the performance of your business?	
Technology information	
Provision of workspace	
Business incubators	
National productivity centre	
Electronic Commerce	

THANK YOU FOR YOUR COOPERATION

ADDENDUM 2

University of Fort Hare
Together in Excellence

The Owner/Manager
Small & Medium Enterprise
Harare
Zimbabwe

RE: Questionnaire for Research Study– MCom Thesis

No research has so far been done on the factors affecting the performance of Small and Medium Enterprises (SMEs) in the manufacturing sector of Harare, Zimbabwe. This research study is conducted under the auspices of the School of Business and Enterprise, Department of Business Management at the University of Fort Hare in South Africa. The research study intends to establish the most prevalent factors affecting the growth and development of the manufacturing sector in Harare.

Your assistance as the manager/owner of an SME in the manufacturing sector will be appreciated to ensure that accurate and relevant information are obtained to assist me to make the correct conclusions and recommendations. I request 30 minutes of your time for an interview to complete the questionnaire. Copies of the summarised results will be sent to you as well as the Ministry of Small and Medium Enterprises Development in Zimbabwe for perusal.

I would like to make use of this opportunity to thank you for your time and effort with the completion of the questionnaire.

Yours sincerely

Stanislous Zindiye

Department of Business Management

University of Fort Hare

Alice

South Africa

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ADDENDUM 3

EXPLANATION OF TERMS AND ABBREVIATIONS USED IN THE QUESTIONNAIRE

TERM/ ABBREVIATION	EXPLANATION
Inflation	It is the rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling. As inflation rises, every dollar will buy a smaller percentage of a good.
Currency	It is a generally accepted form of money, including coins and paper notes, which is issued by a government and circulated within an economy. Used as a medium of exchange for goods and services, currency is the basis for trade.
Investment levels	It pertains to the scale of investment in the economy.
Exchange rate	The price of one country's currency expressed in another country's currency. In other words, the rate at which one currency can be exchanged for another.
Myths	Myths are tales of unknown origin handed down by tradition, sometimes orally and sometimes by written word.
Entrepreneurial skills	These are skills needed to succeed in business.
Financial risk	It is the additional risk a shareholder bears when a company uses debt in addition to equity financing. Companies that issue more debt instruments would have higher financial risk than companies financed mostly or entirely by equity.
Social risk	The risk of losing family or friends when one ventures into entrepreneurship and is despised due to the myths to entrepreneurship.
Emotional risk	It is the chance a purchaser takes that the product will not

	function as expected or satisfy the felt want.
Transaction costs	Costs associated with buying and selling investments.
Interpersonal roles	The interpersonal roles this is when managers ensures that the whole organisation is provided with information through their interaction.
Informational roles	It is associated with the tasks needed to obtain and transmit information for management of the organization
Decision roles	This is when managers make significant use of the information.
Task oriented	This is leadership style in which the focus will be on the completion of the task on hand and not on employees.
Democratic oriented	This is a leadership style in which subordinates are involved in decision making and there is interaction between the employees and management.
Autocratic	This leadership style does not involve employees it is a top-to-bottom style of leadership where the leader will be giving orders to his or her subordinates.
Budgeting skills	Ability to allocate organisational funds for different uses
Staff motivation	It is when the employer makes an employee comfortable and encourage him or her to work at his best.
Staff development	Refers to the advancement of employees' skills and expertise.
Performance appraisals	It is a personnel evaluation method seeking the measurement of employee work effectiveness using objective criteria.
Cluster based development	It is a programme in which the government of Zimbabwe places high priority on export promotion which focuses on adding value at every level of the manufacturing value chain.
Gender dimension	This is a plan of action for encouraging women entrepreneurs and the establishment SMEs by women.
Youth development	This is a strategy to create an entrepreneurial culture and to

	prepare youth for self employment.
Rural focus	It is special attention being provided by the Zimbabwean government to small businesses in rural areas.
Empretec	EMPRETEC is an organisation which aims at empowering SMEs through training and the provision of support services.
ILO	The International Labour Organisation (ILO) support SME development in Zimbabwe.
SEDCO	The Small Enterprise Development Corporation (SEDCO) is leading the way in the development of small enterprise development as it reaches out to emerging businesses in Zimbabwe's small, but vibrant economic sector. It focuses on the promotion and facilitation of the development of SMEs in Zimbabwe.
Economic Reform Framework	It aims at enhancing the competitiveness of SMEs through measures such as trade and exchange rate liberalisation, domestic deregulation and financial sector reform and institutional reforms pertaining to fiscal reform.
ZIMPREST	Zimbabwe Programme for Economic and Social Transformation's (ZIMPREST) main objective is the creation of a stable macro-economic environment which allows increased savings and investment in order to achieve higher growth and improvement in the standard of living for all Zimbabwe.
Economic Recovery Programme	This is a programme aimed at resuscitating the Zimbabwean economy.
Market intelligence	This is information relevant to a company's markets, gathered and analyzed specifically for the purpose of accurate and confident decision making in determining market opportunity, market penetration strategy, and new market development metrics.
Business linkage	This is a negotiating policy of making agreement on one issue

	dependent on progress toward another objective.
Trade facilitation	It looks at how procedures and controls governing the movement of goods across national borders can be improved to reduce associated cost burdens and maximise efficiency while safeguarding legitimate regulatory objectives.
Quality assurance	A management method of guaranteeing high-quality product and service standards are established and achieved.
Technology information	Involves the scientific method and material used to achieve a commercial or industrial objective.
Business incubators	These are business assistance programs that provide entrepreneurs with an inexpensive start-up environment and a range of administrative, consulting, and networking services.
Electronic commerce	It is the buying and selling of goods and services on the Internet, especially the World Wide Web.

ADDENDUM 4

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TO WHOM IT MAY CONCERN

You are hereby kindly requested to provide access to Zindiye Stanislous, student number 200205099, who is currently registered as an M. Com student in the Department of Business Management.

Mr. Zindiye is currently busy with research for his masters degree. The title of his research project is as follows:
"An empirical investigation into the factors affecting the performance of Small and Medium Enterprises in the manufacturing sector of Harare, Zimbabwe"

Since it is imperative that Mr. Zindiye is provided with the necessary access to interview respondents, your assistance in this regard is much appreciated. It is furthermore the intention of the Department to make the research results available to you on request.

If you have any further queries, please do not hesitate to call.

Kind regards

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