

An investigation into the challenges faced by Small to Medium Enterprises in Zimbabwe: A case of Gazaland Market

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Abstract: *The main objective of the study was to assess and establish the challenges which are faced by the small and medium enterprises that hinder their performance and limit their growth. The study was relied upon Small to Medium Enterprises (SMEs) which are operating at Gazaland Market. Primary data were obtained mainly from semi-structure questionnaires. Observations, verbal interviews and face to face interviews were however also used to complement the data that was obtained from the use of questionnaire. Secondary data used was extracted from newspapers, journals, reports, textbooks, and articles presented by other authors on SMEs. The study revealed the major challenges hampering the growth of SMEs at Gazaland Market cut across lack of markets, lack of government support, unfair treatment from the local authority, stiff competition due to cheap imports, finance, and lack of training as well as technology. On the some minor challenges hampering them from transiting into formal business include poor infrastructure and lack of trust from the suppliers.*

Keywords: *Challenges, Growth, Hinder, Performance, SMEs*

I. Introduction

Zimbabwe has witnessed a high number of growths in the number of business start-ups during the past twenty years. According to (Gono 2005:8) SME sector in Zimbabwe contributes to the national economy in different ways which include employment creation, national economic development and adding value to the gross domestic product (GDP) of the country. The Reserve Bank of Zimbabwe (2013:28), postulate that the SMEs constitute 50% of the Zimbabwean GDP and 60% of the economy. Given the information base and productive resource endowment of Zimbabwe, the country is projected to be the leader in growth among the Sub-Saharan African countries towards 2020 (Zindiye et al. 2012:666). Ncube and Greenan (2004:6) estimated that there are about 609 SMEs in the manufacturing sector of Harare. Machipisa (2008:20) argued that there are 10 000 SMEs in Zimbabwe which controls 65% of the total corporate purchasing power. According to (Scholgl 2004:46) SMEs in Zimbabwe forms an important component of the economy.

Tsarwe (2014:54) ironed out that the future growth of the Zimbabwean economy has been anchored by policy makers on the establishment of growing SMEs in the face of business closures by the large companies due to the economic meltdown. In this regard the Government has been calling for support towards the SMEs, which is recognition of the potential benefits they can contribute to the economy. The Zimbabwe Agenda for Sustainable Social and Economic Development (ZIMASSET) was launched in 2013 with a view to drive economic development anchored to a larger extent on the growth of SMEs and beneficiation of local resources. However, Government support cannot do much in terms of the development of the SMEs but the bulk of the success of SMEs should be generated by the sector players.

The Government of Zimbabwe has put efforts to improve the SMEs but with limited success “Central Africa Building Society (CABS) and Old Mutual have agreed to avail a total of US\$10 million, i.e US\$5 million each, towards SMEs Funding. Discussions with other players in the financial sector to contribute another US\$10 million are underway,” Former minister of Finance, MrTendayiBiti’s written presentation (Zimbabwe Independent 23 November 2012). This is attributed to a number of challenges faced by SMES which call for an investigation so that they will be able to fulfil their strategic position in the mainstream economy. Players in this sector are made up of many different people who are in business to benefit or succeed in one way or another. The Government and other stakeholders such as the Non-Governmental Organizations (NGO) have invested resources and expertise to ensure success in SMEs. However the sector has not contributed meaningfully to the country’s GDP according to the findings done by the Asia-Pacific Economic Cooperation (APEC), World Bank and Inter-American Development in 2002. “It is, however, important to note that a strong institutional framework supporting the development of SMEs is already in place in Zimbabwe, as evidenced by such longstanding institutions as SEDCO, the United Nations Industrial Development Organisation (UNIDO), the International Labour Organization (ILO) arms, among several other institutions which are currently providing technical and financial assistance to the sector” (Gono 2006:8). As they benefit, the nation as a whole will also benefit if their efforts are successful endeavours (Goriwondo 2011:354).

This study aims to investigate the challenges which hinder the growth of SMEs in Zimbabwe using Gazaland Market as a case study. The research builds on the theoretical framework presented and investigates the variables identified in the literature. The research objectives of this study are as follows:

- To establish the major challenges or constraints which are being faced by the SMEs at Gazaland Market;
- To investigate the impact of the challenges on the operations of the SME's at Gazaland Market;
- To explore how the challenges faced by SMEs affect the Zimbabwean economy; and
- To make recommendation of what should be done to improve the operations of the SMEs at Gazaland Market.

II. Definition Of SME In Zimbabwe

Across all academic disciplines, there is no single universally agreed definition of SME as no single definition can capture all the dimensions of SME nor can be expected to reflect the difference between entities in different industrial sectors or countries at different levels of development. According to (Zindiya et al., 2012:666), most definitions are based on size, and they use fundamental bases such as number of employees, financial position or annual turnover. The constitution of a Small or Medium enterprise in relationship to the literature is a major concern according to (Abor and Quartey 2010:218), as different authors have used different definitions due to the concepts which have many components.

In Zimbabwe Small Enterprises Development Corporation (SEDCO) (2010:26) has defined a SME as a firm that employ's less than hundred employees and maximum annual sales turnover of US\$830 000. Government of Zimbabwe (GoZ) (2000:89) defines a small enterprise as one that employs not more than 50 people and acting as a registered entity, medium enterprises as firms employing between 75 and 100 people. The Zimbabwe Revenue Authority (ZIMRA) has its own definition for tax purposes and it defines SMEs in terms of employment, turnover and asset base.

Table 4: ZIMRA's Definition of SMES

Enterprise Category	Employees	Annual Turnover (USD)	Asset Turnover (USD)	Registration Status
Small	10 – 40	50000 – 500000	5.000-1000000	Formally registered
Medium	41 – 75	1000000-2000000	1000000-2000000	Formally registered

Source: ZIMRA (Finance Act ss2b: chapter 23:4)

It will be clear and more meaningful if the SMEs are defined by their behavioral and functional attributes than by qualifications of assets turnover and employees. For the purposes of this study a Small and Medium Enterprise (SME) refers to a registered or unregistered company which is operating and employs more than 5 employees.

III. Roles Of Smes

The importance of the SMEs sector is different throughout the world as it differs from country to country in accordance with the level of development, pattern and rate of change in economic development (Kennedy and Hobohm 2012:45). The importance of SMEs in economic development came to light following the success stories of some East Asian and Western European countries such as Singapore, Taiwan, North Korea, Germany and Italy (Hallberg 2011:181). A number of donor agencies and development analysts have called for intensive research in the role of SMEs in industrial and economic development (Havenga 2010:270). After the failure of large companies to generate meaningful employment and industrial development, most governments in Africa have turned to SMEs as a solution. The SME sector is now regarded as a solution to most developmental problems in developing countries (Sibanda 2012:1). According to (Goriwondo 2011:354), SMEs play an important role in the revitalisation process of the economy. It is accepted and acknowledged that SMEs serve as an instrument which is effective in employment creation as well as economic growth, which eventually leads to the reduction of poverty to the entrepreneurs and their employees. The SMEs contribution to the mainstream economic activities will help address the economic ills in the country and many citizens will improve their livelihood. SMEs play a very important role in the growth and development of any nation. Sharma (2011:48) argues that the low income generated in a large number of SMEs is dispersed more widely in the community than the large income generated in a few large companies as the income benefit is derived by a large population while large enterprises encourage more concentration of economic power. SMEs foster entrepreneurship and does not demand high capital or high technology but only require management skills and knowledge to mature the business to big giants in the nation. Battersby (2012:87) outlined the pivotal roles of SMEs in any country as:

- SMEs play a more personal service and are able to adapt to the whims of the customer easily. This culminates in the improvement of the quality of life of the nation.

- SMEs offer greater flexibility in the manufacture of products by allowing for subcontracting.
- Poverty is a serious malaise that afflicts almost all developing countries. Every SME creates employment opportunities.
- SMEs allow for innovation as individuals and their small business units provide major source for new ideas, concepts, and technical inventions.
- SMEs allow for competition to prevail as the participation of SMEs allows for the creation of a free market system and these allow players in the market.
- SMEs give birth to big entrepreneurs. As these continue to grow they will one day become the giants in the market.

Saravanan (2008:435) advised that SMEs are viewed as economic drivers employing a greater part of world employees but suffer from a myriad of operational problems compared with their counter parts in the larger formal organizations. In the current business environment SMEs are a bed rock for economic development. In Africa, 90% of the business operate as SMEs and offer more than 50% of employment as well as contributing 50% of the GDP. For example, the SMEs sector in South Africa comprises of 55% employment along with 22% of GDP, in Kenya SMEs contribute 18% of national GDP, while in Morocco the SMEs sector accounts for 93% of the industrial firms and 46% employment.

The SME sector is the sector of the economy that helps many countries of the world to reduce the economic decline. Ball et al, (2010:67) argue that almost every country that has achieved major economic growth had a concentrated drive to establish SMEs. China, South Korea and Malaysia are examples of economies which have used SMEs development as a catalyst for their economic development. Zimbabwe cannot be spared from this as it is struggling to deal with the massive economic decline that has been the principal characteristic of the last decade. What this means is that the SMEs in Zimbabwe remain the powerhouse of economic growth and improvement of the welfare of the general population. SMEs provide for the basis for growth. According to (Battersby 2003:87) the assumption is that when a country has SMEs it is a sign that there is development in that country. However the situation on the ground is that most of these SMEs are not maturing to become big organisations. SMEs are mostly found in developing countries but the assumption is that by now these countries should have improved in their economy but surprisingly in some there is actually a decrease in the economy for instance in Zimbabwe the economy is actually declining with the increase in the SMEs. Over the past few years, the SME sector has come out of its confines and has begun to raise and answer most of the major industrial development questions in many economies. The success of this sector can be improved by addressing sectorial/regional and macro-economic factors as there is need to consider the wider policy framework for the development of the SME sector among the economies.

IV. Importance Of Smes In Zimbabwe

Maseko et al, (2012:186) have realized that the Government of Zimbabwe (GoZ) has identified that it can develop the economy through SMEs which is shown by the prioritization of the sector in the government policies, such as the Industrial Development Policy 2011-2015, and the establishment of institutions that support and facilitate the development and growth of SMEs, such as the Small Enterprise Development Corporation (SEDCO). Through internationalization which is the process of increasing international markets involvement, SMEs in Zimbabwe can generate more income and create more job opportunities (Welch and Luoshariene 2008:286). According to (Dhanaraj and Beamish 2003:115) internationalization is referred to as conducting any transaction with a different country. As an effort to increase and promote international trade and enhancing Foreign Direct Investment (FDI), the GoZ through their partnership with private sector establishes institutions as ZimTrade, Zimbabwe Investment Authority and Trade Mission. According to Zim Trade 2013 report, the level of participation of SMEs in international trade remains very low despite all the initiatives so this study seeks to establish the challenges affecting the growth of SMEs in Zimbabwe particularly those which are operating at Gazaland Market. According to the Zimbabwe National Chamber of Commerce (ZNCC, 2011:16) the contributions of SMEs to GDP are decreasing. This is attributed to the shrieking of local market and the emerging of other goods and services from other countries. According to Reserve Bank of Zimbabwe (RBZ) report (2011:8), SMEs contribute about 70% of the country's GDP and are capable of uplifting the livelihoods of more than 70% of the population. SMEs in Zimbabwe occupy 75 – 80% of business space which includes the informal sector which provides 80 – 85% of employment across all sectors of the economy.

Table 1: Contribution of SMEs to the GDP of Zimbabwe

Year	2004	2006	2008	2010
GDP Growth %	-10.2	1.7	17.9	2.8
Contribution to GDP%	16	27	7	13
Contribution to exports %	37	3	27	27

Source: Zimbabwe Statistics (ZIMSTAT) (2011)

The above figures indicate that SMEs failed to create anticipated employment; contribute to poverty reduction and generating income from the local market. As the local market was not able to absorb the products the SMEs are supposed to go beyond borders and look for other markets within the region and across other regions, but this is becoming very difficult as there are numerous factors and challenges which are being faced by SMEs which need to be addressed.

Table 2: SMEs Characteristics in Zimbabwe

Criterion	Livelihood enterprises (Micro enterprises)	Growth oriented small enterprises (SMES)
Capitalization	Relatively low	Relatively higher, but initial capitalization is usually low.
Owner's Education	Usually basic formal education	Usually at least secondary schooling.
Skills and experience	Relatively low, except for skills acquired traditionally e.g handicrafts	Higher, more often acquired through vocational training and/or previous wage employment or technical colleges.
Gender disaggregation	High participation of women.	Lower participation of women.
Sectorial concentration	Higher proportion in basic activities like food processing and petty trading.	Mainly concentrated in manufacturing and services sectors requiring more skills.
Level of Competition	The market is usually perfectly competitive with low barriers to entry and little scope for cutting costs.	Often occupy "niche" markets with more scope for specialization and product differentiation.
Impact of changes in seasons	More often seasonal and tied to crop cycle, school year, major festivals.	They are less affected by seasonality and function throughout the year.
Contribution to household income	Usually a secondary source	Often primary source of income.
Number of outlets	Usually several "multiple" enterprises	Normally the one.
Primary labour source	Mostly use family labour.	Common use of hired labour, often relatives or children.
Reinvestment	Very limited surpluses that are spent for family upkeep	Income generated is often re-invested.
Use of credit	Trading activities often started on a consignment basis to meet a particular need.	Credit available from a wider range.
Potential for growth	Limited in terms of new employment generation	Have growth potential; number of workers higher, with more paid employees with

Source: Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU) Working Paper Series ZWPS 03/2011

V. Challenges Being Faced By Smes Operating At Gazaland

The respondents were asked to list the challenges which are being faced by their businesses and the following challenges prominently featured: Lack of markets, lack of government support, lack of capital for expansion, lack of knowledge on the latest technology, unfair treatment from the local authority, stiff competition from the established enterprises who imports from the neighboring countries, lack of managerial skills and training, poor markets, lack of financial assistance, access to raw materials and lack of proper infrastructure. The results show that there are various challenges which are faced by SMEs at Gazaland which needs to be addressed. According to Muhammad et al., (2012:165), various challenges facing SMEs in a globalized environment were identified through different studies which includes Samad (2007:56); AbuBakaret al.(2006:78); Aris (2006:281). Teoh et al (2008:64) argued that the major obstacles to the SMEs growth are lack of access to credit, lack of access to formal business and social networks, while (Hashim et al 2010:198) identified the main problems faced by SMEs as lack of knowledge regarding to branding, marketing techniques, customer loyalty and also lack of good contacts with others local and international enterprises.

VI. Impact Of Challenges On The Smes

The challenges which are being faced by the SMESs at Gazaland market are forcing some operators to venture in unscrupulous business methods such as buying stolen goods from the formal sector as this will be a way of reducing cost as they will get cheaper raw materials. The operators indicated that due to the buyer dominated market, where the buyer can negotiate prices down on the marked price so the operators have resorted to produce substandard products which will enable them to serve costs. This strategy will make customers to lose confidence in doing business with SMEs operating at the market and forces them to source alternatives which lead to reduced business and closure of some SMEs.

As the SMEs are the last resort of the employees who could not be absorbed into the formal sector the closure of the SMEs will increase the unemployment rate of the country and forces young employees into illegal businesses. The manufacturing of substandard products is a setback to country as these products will find their way into international markets which will result in the market condemning all products which are manufactured in Zimbabwe.

VII. Effects Of The Challenges To The Country Economy

The challenges which SMEs are facing hinder their growth resulting in the Government keeping sourcing more resources trying to boost their growth. This will affect the policies of the country such as ZIMASSEST as people will refer them as failures. The closure of business will reduce the living standards as more unemployed people will resort stealing as the closing of the small business will result in reduced employment. Those who can withstand the challenges will continue to operate and find ways of surviving by reducing the standards of the products in order to save costs which will result in substandard products in the country. Due to the low profits which are being made by the SMEs, they will avoid paying taxes which will result in reduced revenue for the Government.

VIII. Recommendations

In the light of the findings from this study, the following recommendations are put forward:

1. There is need to develop appropriate financial models for SMEs in Zimbabwe;
2. Provision of proper infrastructure to provide a conducive environment for production and trading by SMEs;
3. Subsidies in the prices of raw materials;
4. Tax reliefs;
5. Imports Control; and
6. Availability of continuous trainings and capacity building activities.

IX. Conclusion

The study sought to establish the major challenges which are being faced by SMEs which are operating at Gazaland Market which hinders their growth in an effort to reduce the damage on economic development caused by underdeveloped SME sector. From literature it has been established that SME growth is a key ingredient of economic development and growth especially in Least Developing Countries (LDCs) which are in their early stages of development. The results have shown that most SMEs at Gazaland Market fail because of lack of general business knowledge on how to run the business as indicated by a high significance level of the coefficient of education of the proprietor and the relationship with the owners. The results also show that unavailability of credit is another significant cause of SME failure and reduced growth. This is consistent with the theory of technological capabilities by (Lall 2003:197) which states that SMEs fail because of lack of finance to use both as working capital and for investment in technology which enables them to withstand competition from bigger firms. In addition high cost of raw materials and competition from imports emerged as other major causes of SME failure. The non-availability of proper structures which discourages the operators to invest more is the major setback of the SMEs growth at Gazaland market and the operators just operate to make profit for the day and they are uncertain whether they will be still operating in the future.

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