MIDLANDS STATE UNIVERSITY

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

RESEARCH TOPIC

ANALYSING THE IMPACT OF FUNDING GAP ON FINANCIAL PERFOMANCE OF SMEs: A CASE STUDY OF BEST BAKE FOODS (Pvt) Ltd.

BY

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THIS DISSERTATION IS SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF THE BACHELOR OF COMMERCE ACCOUNTING HONOURS DEGREE AT MIDLANDS STATE UNIVERSITY.

JUNE 2016

RELEASE FORM

NAME OF STUDENT:	INNOCENT SHUMBA
DISSERTATION TITLE:	ANALSING THE IMPACT OF FUNDING GAP ON FINANCIAL PERFOMANCE OF SMEs: A CASE STUDY OF BEST BAKE FOODS (Pvt) Ltd (*2013-2015)*
DEGREE PROGRAMME:	BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING
YEAR GRANTED:	2016

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The undersigned certify that they have supervised the student Innocent Shumba's dissertation entitled-Analysing the impact of funding gap on financial performance of SMEs: Case study Best Bake Foods (Pvt) Ltd *(2013-2015)* and has approved its submission for marking after confirming that it conforms to the requirements for the Bachelor of Commerce Accounting Honours Degree.

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DEDICATION

This document is dedicated to my Lord, Jesus Christ. All the glory unto you.

ACKNOWLEDGEMENTS

First and foremost I would like to thank God, the Almighty for everything. His love and mercies endures forever. Would like also to acknowledge my supervisor, Ms Mhaka, your untiring professional support, advice and criticism was all I need and has seen me through the preparation and completion of this successful project. Thank you very much, God will reward you. Not forgetting the accounting department your support was of utmost importance. Would like also to extend my gratitude to Best Bake Foods Pvt Ltd, thanks for the permission, support and provision of all necessary and essential information which made this research a success. Special thanks goes to my parents, Mr and Mrs Shumba and my sister Faith Shumba, you are amazing, your input in this research deserves a special mention, neither will I forget it, you did a lot. Last but not least would like to appreciate the effort from all my friends, including everyone who positively contributed, for their assistance and encouragement during the preparation of this project. Your effort will never go in vein.

ABSTRACT

The objective of this study was to analyse the impact of funding gap on financial performance of SMEs in Zimbabwe focusing on Best Bake Foods (Pvt) Ltd as a case study within a period 2013-2015. The study was motivated by the deterioration of service provision, failure to pay outstanding bills and failing to maximise potential capacity which was caused by the funding gap. This has negatively impacted on the financial performance of the entity as shown in its financial statements.

The research went on to review the previously related literature so as to identify views and opinions of other authors and the areas which lacks literature in relation to this subject. A combination of descriptive, correlation and explanatory research design with a mixed approach method and a sample of 65 respondents was used to collect both primary and secondary data using closed ended questionnaires and interviews. The research used charts, graphs and tables to present and analyse the data.

From the research it was concluded that poor working capital management and limited access to normal credit facilities are the main causes of funding gap in SMEs and this gap has a negative impact on financial performance of SMEs. The recommendations include investing in working capital management, adopting financial bootstrapping methods, arrange business seminars and keeping of proper business records.

ACRONYMS

BBFs:	Best Bake Foods (Pvt) Ltd.
CBZ	Commercial Bank of Zimbabwe
GDP	Gross Domestic Product
MD	Managing Director
RBZ	Reserve Bank of Zimbabwe
SMEs:	Small to Medium Enterprises.
ZB	Zimbabwe Bank.

List of tables

List of figures

CONTENTS LIST

CHAPTER 1: INTRODUCTION

1.0 Introduction

The post multicurrency period (2009-2015) has been characterised by emerging of SMEs. However the premature exit of SMEs have remained a source of concern (SMEAZ, 2016). According to (Nyanga, 2013) (RBZ, 2014) (Adedican, 2012), the poor performance by SMEs is caused by lack of funds to finance operations since they are able to fulfill value addition and replace imports. They also state that, the existence of a funding gap in SMEs proves costly and brings profitable operations to halt. Challenges that are faced by SMEs are caused by lacking of funds, without funds SMEs cannot acquire skills, new technology, expand to new markets and improve products. However (Gombarume and Mavhundutse, 2014) (Zindiye et al, 2012) (RBZ, 2014) and (Nyamwanza, 2014) argue that though there are many other challenges that disrupt operations of SMEs such as competition and unfavourable economic conditions, the main obstacle hindering the performance of SMEs is the lack of managerial skills. The performance of SMEs is linked to skills of the entrepreneur and 88.7% of SMEs failure in developing countries is attributed to poor managerial skills regardless of the availability of resources. Though some previous research on SME's have been done on constrains on the growth of SME's, the impact of funding gap, in particular, was not clearly put forward and that has been the motivation for the current research to analyse its impact on the financial performance of SME's.

1.1 Background of the study.

The MD of BBFs, (Musabayana, 2014) instructed that branches had to reduce expenditure for the festive season by 25% from the budgeted figures despite the expected 50% rise in demand since the entity was facing challenges in raising funds. The total budgeted working capital to fund branches for the festive season was $100 000 but the company had $75 000 resulting in a gap of $25 000 as shown in the table below. In a budget review statement at the end of the festive season, it was stated that the entity had lost its targeted profit by 27.5% due to limited resources.

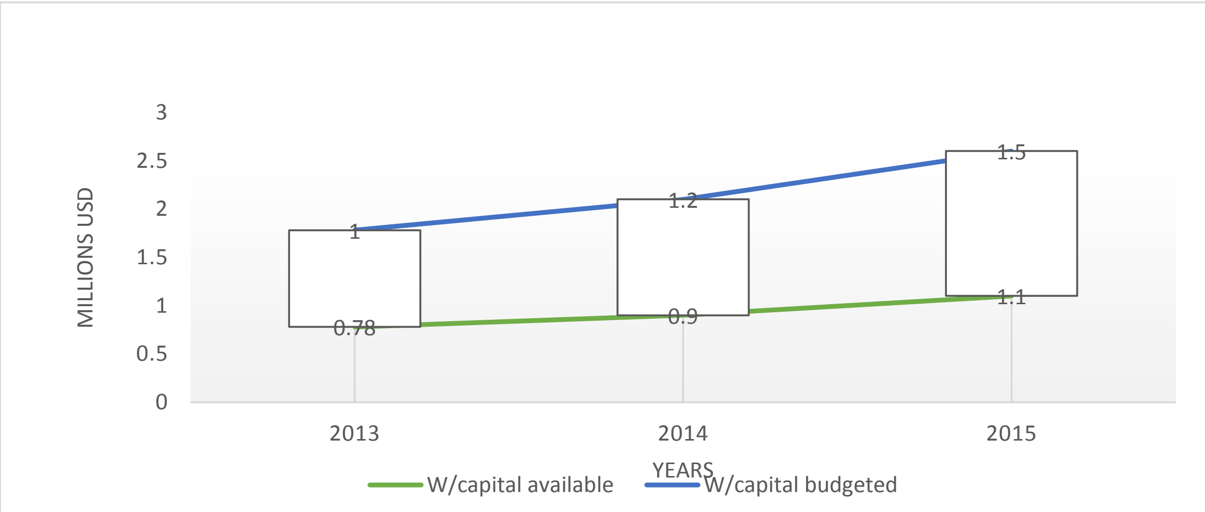
Table 1.1a: Impact of funding gap on Financial Performance of BBF Pvt Ltd

Budgeted		**Available/Actual**		**Funding gap**	**Profit Difference**
Capital	**Profit**	**Capital**	**Profit**		
$100 000	$20 000	$75 000	$14 500	($25 000)	($5 500)

Source: Capital Budget review statement 2015.

Since its opening BBFs was struggling to raise capital needed to fund its operations as shown by the graph below.

Figure 1.1b: Projected Needs, Funding and Funding Gap (million $, 2013-2015)



Source: Working capital budgets review statements.

BBFs' budgeted working capital needs for the past 3 years was compared against the actual working capital raised to highlight the funding gap. As the graph above shows, available revenues in 2013 was $780 000 which was insufficient to meet budgeted working capital of $1 million which results in a deficit of $220 000 and a 22% drop in profit from budget. In 2014 the gap rose to $300 000 affecting the actual profit by 25% and further widens to $400 000 in 2015 when the projected working capital was $1, 5m and the available working capital was $1,1m reducing the actual profit by 26.6%. Heymans (2014) said that the company cannot maximise its profits because the company is lacking the required working capital to utilise its potential capacity.

Table 1.1c: Statement of Financial position extracts for BBF Pvt Ltd as at the end of 2014 and 2015

	2014	**2015**
Current Liabilities	**$16500-00**	**$20 000-00**
Rent Payable ($3000/month)	$9000 -00	$18 000-00
15% loan Interest (IDBZ)	$7500-00	$15 000-00
10% loan interest (CBZ)	-	$5 000-00

Source: Financial Statements (2014 & 2015)

At the end of 2014 the entity deferred the payment for 3 months' rent and interest expense due to Infrastructural Development Bank of Zimbabwe. In 2015 the entity acquired another loan from the Commercial Bank of Zimbabwe which it defaulted to pay the interest at the end of 2015. In 2015 rent expense deferred increase to 6 months and the interest for IDBZ for 2014 and 2015 not yet settled.

1.2 Problem statement

Best Bake Foods (Pvt) ltd is was failing to secure enough funds to finance its ongoing operations. The company was failing to pay its outstanding bills and also failing to maximize its potential capacity. Therefore this study investigate the effects of this funding gap on the financial performance of the entity.

1.3 Research Objectives.

- To establish the causes of a funding gap and why SMEs find it difficult to eliminate it.
- To analyse the effects of the funding gap on financial performance of SMEs.
- To establish ways which can be used to eliminate or reduce the funding gap in SMEs.
- To investigate the going concern of Best Bake Foods Pvt Ltd.
- To establish the relationship between funding gap and other challenges that affect SMEs.

1.4 Research Questions

1.4.1Main Research Question

- What is the effect of funding gap on the financial performance of SMEs?

1.4.2 Supporting research questions

- What causes funding gap and why SMEs find it difficult to eliminate it?
- What ways can be used to eliminate or reduce funding gap in SMEs?
- What are the implication of funding gap on the going concern of BBFs Pvt Ltd?
- What is the relationship between funding gap and other challenges that affect SMEs?

1.5 Justification of the study

Entrepreneurial skills and management practices will not in isolation produce vibrant SMEs for stimulation of the Zimbabwean economy as desired without adequate funding. The current study will produce further understanding of the funding gap issues that will reduce the failure of SMEs in Zimbabwe and draw the attention of financing institutions and government to look on how to unlock funding gates for SMEs having in mind that they are the back born of the Zimbabwean economy. This study will also contribute to a knowledge base at Midlands State University on SMEs in Zimbabwe and will be important to the students. This will also help the researcher to obtain a deep understanding of the subject area and obtain a higher level of qualification in accounting.

1.6 Assumptions

The researcher assumes that:

- Data and information gathered from the selected SME would be reliable and representative of all SMEs in Zimbabwe.
- Research participants will provide accurate and truthful information.
- All respondents targeted will be cooperative

1.7 Delimitations.

- The research focused on the impact of funding gap on financial performance of best bake foods.
- The study was done in Harare.
- The study was done for the period between 2013 and 2015.

- The study was limited to 65 respondents selected from the population of 90 employees.

1.8 Limitations of the study

- Respondents might not give accurate information since much of their information was not properly documented, however the researcher used more than one method so that they complemented each other intensified the administration process for better information.
- Respondents can be biased and provide wrong information, however the researcher gave an assurance to the respondents that the data will be used for academic purpose only.
- The study was carried out at a single organization operating in Harare. The statistics and figures may not be totally representative of other SMEs and towns in Zimbabwe. However, the underlying issues and solutions are more universal.
- Time and resources were limited. However the researcher tried to reduce the population to a sample size which allow the striking of balance between cost and benefit.

1.9 Definition of terms

1.9.1 SME

For the purpose of this study, it is of paramount importance to give a definition of small to medium enterprises in Zimbabwe. According to (Dumbu 2014) and (Nyamwanza 2014) it is difficult to universally classify business scale into small and large since the classification and identification of an SME is subjective, hence it varies across geographical location, sectors and researchers (Gombarume and Mavhundutse 2014). According to the empirical literature review from many nations, any business with 250 employees or less is classified as medium and below 100 employees being classified as small (Nyangara 2013).

1.9.2 Funding gap

Funding gap exist where there is a high demand for finance on one side yet the supply on the other side being limited creating a gap waiting to be filled (Wing 2011).

1.10 Summary

This chapter dealt with the research background, problem statement, and main focus of the study which is the objectives. It also highlighted the justification of the study to selected dimensions, delimitations of the study as well as assumptions for enabling the study results and conclusions drawn to be valid.

CHAPTER 2: LITERATURE REVIEW

2.0 Introduction.

This chapter reviews, breaks down and analyzed the academic materials from previous research about funding gap in SMEs and then identified the gap which lacks literature which was the justification for the current study. The first section which is item 2.1 identified the causes of funding gap on SMEs and why it is difficult to eliminate it, then item 2.2 talked about the effects of funding gap on financial performance on SMEs. From there is item 2.3 which analysed the ways which can be used to eliminate or reduce funding gap on SMEs, then item 2.4 which is the investigation of the going concern effect of SMEs with funding gap and lastly item 2.5 which analysed the relationship between funding gap and other challenges that affects SMEs. This helped to achieve the desired intention which was the identification of best ways to manage or completely eliminate the funding gap.

2.1 Causes of a funding gap on SMEs and why it is difficult to eliminate it.

(RBZ 2014), (Mills and McCarthy 2014), (Gombarume and Mavhundutse 2014), and (BIS 2012) are of the opinion that the existence of a funding gap is caused by the lack of access to external funding due to lack of collateral security, lack of track record, lack of SME knowledge, high cost associated with loan processing for SME, banks becoming more risk averse and the fact that SMEs are being considered less profitable than large firms. They went on further to say, financial access by SMEs especially innovative ones continues to face significant challenges for the growth of business mainly because of tightened credit terms by banks. The lacking of lender information to financial institutions in developing nations hinders their efforts to support SMEs despite the efforts by government to narrow funding gaps (Wing 2010). According to Rowlands Review estimates, in a single year about 3,000 SMEs suitable for growth fail to raise funds that are needed for their growth (BIS 2012). However some researchers contend that there are other factors such as poor financial management, too much withdraws by the owner and lack of information by SMEs which causes funding gap in SMEs (Amuzu 2010), (Uwonda 2013) and (Bukaliya and Hama 2012). Findings by (Hutton and Nightingale, 2011) and (Fouad 2013) stays unbiased which are in conflict with other researchers who only focused on the supply-side, neglecting the role of demand for funds, he says it is important to investigate both the supply and demand side issues when investigating the true nature of the factors affecting SMEs from accessing funds.

Even though many authors have done research on the causes of funding gap, there was no consensus on whether the demand factors, supply factors or both causes the funding gap. Does funding gap originate from supply factors or demand factors? The question remains unanswered. Therefore the need for the current research was to investigate the causes of funding gap in SMEs and fill-in the gap in the present literature.

2.1.1 Banks demands collateral security

Collateral security is a security that is provided by the person who is given the loan to the entity which provided the loan act as a guarantee in case the borrower fails to pay, the creditor's loss is reduced by the collateral security (Law dictionary). Since SMEs are considered high risk area, banks and micro finance demand a collateral security which is not afforded by SMEs especially start-ups which leaves SMEs with no other option but to rely on informal sources like family, friends, supplier credit and customer advances which are not enough to meet the required cash needs (RBZ 2014). (Mills and McCarthy 2014) stipulates that collateral security owned by SMEs collapsed during the global financial crisis, leaving SME borrowers less creditworthy in the present day. They explained further that SMEs credit rating declined after the Recession. This was substantiated by Wing (2010) who says usually banks demands more collateral than what SMEs are able to pledge. However banks and other creditors are in the business of making money and they do not really need the collateral security of SMEs but it will be costly for them to take such collateral in case the business default on payments (Abuzayed 2012). (Quaye at al 2014) and (Nyangara 2013) Argues that although SMEs may have the required collateral security, they are not always granted access to loans because of long delays and high cost in using judicial enforcement mechanisms and political reasons, which means that SMEs are already disadvantaged than large firms therefore need proportionately more security than large firms.

Although the issue of collateral security have been researched upon extensively, previous authors did not achieve a mutual understanding on whether the issue of collateral security really matters for SMEs to access loans or it is just a discretionary way to avoid SMEs. The issues which begs an answer still remains, does the lack of collateral security causes funding gap? This research therefore sought to investigate from the respondents at BBFs whether the lack of collateral security contribute to the existence of funding gap.

2.1.2 Banks demands track record

SMEs fail to access credit from banks since they lack track records such as balance sheet, tax returns and income statement which is the only measuring tools for creditworthiness of SMEs by banks (Mills and McCarthy 2014). On the same note RBZ (2014) says majority of SMEs are family or owner operated and they do not keep proper financial records due to trust within the family, also the members do not possess the skills that are adequately enough to compile financial records due to lack of investment in training and Information technology. As a result SMEs lack track record of their business to convince banks when applying for loans. On the same note findings from a research done by Nyangara (2013) and (Quaye at al 2014) dismissed the assertion that SMEs fail to access funds due to lack of track records, His findings states that due to the growth in relationship banking in Zimbabwe, bank managers are also working as consultants to SMEs, giving advice on importance of records and besides, most respondents cited the lack of collateral security and financial information as the reason why they failed to access funds not track record.

However since track records does not tell anything concerning the competence of the present staff to properly service the loan, it is not relevant for banks to check the past performance of SMEs because the performance of an SME rest within the management and can turn upside down instantly especially with the changing of manager (Zindiye et al 2014). (Rahamon and Adejare 2014) also argued on the issue of track records saying banks are mainly interested on the assets placed by SMEs as collateral security. This is supported by (Bukaliya and Hama 2012) who says bookkeeping is not a magic tool to keep the entity right by itself hence no need for 100% reliance as a guarantee for continued operations and seems that micro finance institutions consider collateral security than other factors. On the same note (Rahamon and Adejare 2014) remains neutral saying that, the issue of track records is just a tool used to verify the legal existence of assets used as collateral and to check the going concern of an SME which means it has to be used together with collateral security.

Past studies have contradicting opinions coming up which was the evidence of the existence of an informational gap and the issue remains, is the lack of tracks records responsible for SMEs funding gap? The study was therefore investigating the effect of track records on financial access by SMEs.

2.1.3 Banks Lack knowledge over SMEs

According to RBZ (2014) Inadequate understanding of the operations and nature of SMEs impede the ability of banks to assess the performance of SMEs and their financial needs which results in banks failing to give suitable banking product to SMEs. (Wing 2010) supports this saying financial institutions lacks knowledge and expertise that is needed to understand business practices of SMEs. Furthermore, banks lacks the required skill set for SME financing and resources needed to monitor the assets and therefore does not know how to modify the product of an SME to perform profitably to SMEs (USAID 2010).

(IFC 2010) and (Growth cap 2014) agree on this but say, even though banks lack the knowledge on operations of SMES it is difficult to comprehend operations, features and needs of SMEs as they have different needs which are also dynamic. They went on further to say, due to high turnover and promotions in banks, SMEs have to keep on educating the new staff about their needs over and again.

On the same point, the findings from Nyangara (2013) denies the assertion that banks do not have information about SMEs since relationship banking is growing in Zimbabwe with managers working as consultants for SMEs which means they will be up to date with the information regarding SMEs.

There was a gap in the present literature due to diversified opinions regarding the knowledge for SMEs by banks, and the issue which need to be addressed was, does banks avoid lending to SMEs because they do not have their operational information? This justified the need for this case study to investigate whether the lack of knowledge about BBF by banks contribute to the existence of a funding gap.

2.1.4 SMEs considered less profitable than large business.

Due to high failure rates and lacking of collateral security, the costs associated with the processing of loans for small amounts to SMEs is generally higher as compared to large therefore less profits (Mills and McCarthy 2014). Consequently, financial institutions have excluded loans below certain levels from consideration in order to reduce applications from small businesses with very little amounts. This affects many business as they apply for loans under $100 000 (Mills and McCarthy 2014). RBZ (2014) supports this saying cumbersome administration procedures that are involved in processing small amount loans to SMEs makes it relatively expensive to administer for banks.

Whilst findings from some research shows that SMEs are less profitable, it faces disagreement from a report by World Bank which state that SMEs in aggregate contribute 20.5% of net banking income which is a significant contribution towards the bank's profitability (Growth cap 2014). This is supported by (WEF 2015) which says SMEs significantly contribute to the profitability of banks in USA, accounting for about 20%-30% of the total credit revenues.

There was an informational gap concerning the profitability of banks from lending to SMEs which resulted from different findings by authors. Though the previous research focused on whether SMEs are profitable the issue still remained for this research to seek and draw conclusion whether non profitability of lending to SMEs affects their access to credit.

2.1.5 Perceived High Risks

SMEs are considered more risky to give loans as compared to large business as they can easily be affected by mild swings of the economy (Mills and McCarthy 2014). During the economic and recovery period, the measures to reduce risk have been tightened. Banks are now loosening the measures but the loosening is being done on a slower and tentative rate as compared to large firms (Mills and McCarthy 2014). The belief is that banks in Zimbabwe prefer to do their business with big companies that are regarded as risk free, with properly established legal entities and professionally-run. (Nyangara 2014). Banks avoid the risk of lending to SMEs considering that there is no robust credit reference bureaus for tracking defaulters, a tendency of diverting funds for other purposes, have poor debt repayment record, no corporate governance system and lacking of skilled personnel which makes them more riskier that large firms who are committed to business (RBZ 2014).

On the same issue other researchers contend that it is not that all SMEs are high risk but they are perceived high risk businesses by financiers only because they lack proper business ethics and this negative perception by banks and lenders is negatively affecting the growth of SMEs (Bukaliya and Hama 2012), (Quaye at al 2014) and (Gombarume and Mavhundutse 2012). This was also supported by Nyoni (2004) who observed that bad publicity of the Zimbabwean entities negatively affects the growth of SMEs.

However (Nyangara 2014) postulated that SMEs are denied access to banks not because they are very risk as compared to their counter parts but it’s just a sabotage by foreign and large banks to reverse the efforts of the black empowering policies in Zimbabwe.

Most previous studies on SMEs were focusing on the reasons why SMEs fail to access credit from banks but they still have different results therefore the issue remained unclear, This research focused on the effects of funding gap but there was still a need to investigate whether perceived risk is the cause for lack of funding to close the above informational gap.

2.1.6 High costs and long process associated with borrowing.

High costs associated with lending money to SMEs makes it difficult to qualified SMEs to obtain willing lenders, and vice verse. For an SME to apply for a loan, it has to spend almost 25 hours doing paper work of which in most cases someone is paid for that task and after that has to approach many banks. After successfully qualified for the loan, the applicant has to wait for a period long as a month for the approval and availability of funds (Mills and McCarthy 2014). This is supported by Wing (2010) who says most investors require a well drafted business plan before investing but the assessment criteria is not in line with the business plan submitted. Holiday (2014) and Huang et al (2014) also says banks charge a risk premium to SMEs since they are regarded as high risk customers and because of information search cost and this results in high borrowing cost to SMEs which is not conducive for SMEs especially those in development phase. (RBZ 2014) and (Wing 2010) argue that SMEs fail to access credits from banks and other institutions because of low noncurrent asset base, most of their investments is in current assets and they fail to secure their credits. Most SMEs are prepared to take credits even at high cost but they do not have access.

Muza (2013) also argued that SMEs are not being charged high borrowing cost when he states that banks in Zimbabwe such as CBZ and ZB bank are doing much effort to help SMEs at low or no cost for example informal accounts with no charges and cash plus accounts. In support of this (Bukaliya and Hama 2012) argues that SMEs are the ones who delays the loan application process by not providing the required information in time and in most instances giving misleading information.

Although many previous studies have expressed various views, the question to be answered remained whether high loan borrowing cost and the long process causes SMEs not to access funds. This study sought to answer if high cost and long processing channels restrict SMEs from accessing funds.

2.1.7 SMEs are reluctant to borrow.

(Hutton and Nightingale 2011) and (Nyangara 2013) says most SMEs are reluctant borrowers who are just unwilling to borrow, due to misleading information and believes, they feel discouraged from applying external funds since they believe that they will obviously be turned down. Many times good borrowers do not apply to a bank because of many factors some of which are the feeling of being rejected and the fear to lose control to banks and creditors over their business, such as the ability to change or re-negotiate terms of lending. The findings by Nyangara (ibid) supports this view by saying 20% of the respondents who did not get access to funding cited the lack of financial information as the major reason. On the same line Brown and Lee (2014) says some SMEs due to weak economic growth become risk averse and limit their desire to seek external funds.

However Nyangara (2013) and BIS (2012) turned down the fact that SMEs are reluctant borrowers, they postulated that many SMEs approaches different banks with everything needed to acquire a loan but their applications are turned down because of political reasons. From their research they stated that almost half of SMEs have more than once approached banks but turned down.

There was a wide gap of information from the findings of the above literature, others saying SMEs are reluctant to borrow while others disagree and the issue remained to investigate whether SMEs are making an effort to borrow or not.

2.1.8 Lack of financial management skills

(Gama 2015; Padachi 2016; Bukaliya and Hama 2012; & Abuzayed 2012) Point out that funding gap is the result of poor financial management which include starting up business with enough cash and use it without care, overtrading and unplanned borrowing. They went on further to say working capital management is particularly of great significance to SMEs in raising financial resources since their main assets are in the form of short term liabilities and assets. They also argue that a business can access external funds or start with enough funds but can have a funding gap due to poor financial management such as misappropriation of funds, embezzlement and poor management of creditors and debtors. Cash-flow management is a continual deficient causing financial gap as managers hardly place attention on it and not identifying the impact of cash deficit on capital turnover and operation of the business until it is too late. Amuzu, (2010) and (Uwonda et al 2013). A research by Bay City Financial Solutions (2012) add on this saying SMEs experience financial problems because of low inventory turnover, generous credit terms, unnecessary expenditures such as paying for houses and luxury cars and investing cash on less profitable projects. (Banos-Caballero et al 2010) did a research on SMEs and the results from his study shows that working capital management is important to SMEs as compared to larger firms since SMEs tend to rely on short-term debts. He went on to say that, usually SMEs have most working capital problems although working capital problems can be faced by any businesses whether big or small.

Most previous researches had concentrated on the effect of working capital management mainly in large organizations neglecting its impact on SMEs, therefore the need for this study which aimed to investigate and answer the question, whether poor working capital management can be blamed for the existence of a funding gap in SMEs.

2.2 Effects of the funding gap on financial performance of SMEs.

Many authors agree that funding gap has a negative effect on financial performance of SMEs. (Dumbu 2014; Nyanga 2013; Mongau and Bandara 2014 & Mudavanhu et al 2011) say, the financing gap negatively impact the performance as no entity can survive when it constantly struggle to remunerate its personnel, pay suppliers, or lacking funds to service credit lines or opening new market opportunities. In their research they noticed that almost half of the SMEs in developing countries have poor financial performance on which they cited funding gap as being the major constraint restricting improvement.

However, some authors are of the opinion that funding gap has nothing to do with the performance of SMEs as long as the right people are in right position. (Moorth at al 2012; Maseko at al 2012 & Mudavanhu 2011) argue that the dismal financial performance by SMEs is not linked to the existence of a funding gap but rather to high production cost, poor management practices, insufficient knowledge of the market, limited demand for their products, shortage of raw material and high unit prices, inadequate information technology support, inadequate procedures and discipline and external factors. (Maseko et al 2012) says, SMEs have remained small and some of them failed despite the financial support they get from government to support their operations. Large number of SMEs fail in their early years due to non-financial factors for example the lack of forecasting techniques, inadequate skilled personnel and lack of management practises suitable for SMEs. According to (Zindiye et al 2012), the financial performance of SMEs is linked to management performance not the availability of funds. SMEs with skilled managers have a higher chance to succeed by 30% than those with bad mangers. Zindiye (ibid) further states that almost 88.7 % of failed SMEs in developing countries is attribute to poor management.

On the other hand (Fouad 2013), (McCabe 2014) and (Rothberg 2012) are indifferent, they believe that both financial and non-financial factors affects the financial performance of SMEs, in fact they work hand in hand to further the operations of the entity. The existence of a funding gap results in SMEs not able to: pay workers, purchase inventory, pay creditors and sometimes to continue operations. This is supported by (Chipangura and Kaseke 2012) who say the lack of finance to fund ongoing operations restrict SMEs from acquiring raw materials and expertise that is needed to compete in this international market which results in loss of skilled personnel and market share.

Researches have been done on the effects of funding gap on financial performance but little has been said on how it impacts the financial performance. It also shows that there is no consensus on whether funding gap has an effect to financial performance hence the justification for this study which aimed to answer the question whether funding has got any impact on financial performance.

2.2.1 Growth may be stunted.

According to (Brown and Lee 2014) and (RBZ 2014) the existence of a funding gap in SMEs results in deferred profitable projects due to lack of working capital to buy raw materials, hiring skilled personnel and servicing of loans. This result in profitable investment decisions being postponed, training of workforce reduced, capital expenditure delayed and holding new processes and products innovation. This is substantiated by Monyau and Bandara (2014) who noted that the real GDP in Zimbabwe dropped for the year 2013 which reflects a continued slowdown of production due to lack of funding especially in SMEs. On the other hand Maseko et al (2012) contend that most SMEs remain small because they avoid responsibilities that are undertaken as a result of growth such as taxation, VAT registration and exclusion from government grants. These entrepreneurs will choose to remain small even with adequate funding. Some SMEs are afraid of losing control of their business as it grows and therefore choose to remain small.

There was no consensus from the above researchers on why growth for SMEs is stunted hence the need to answer the following question at the end of the current research, does funding challenges impede growth at Best Bake Foods?

2.2.2 Profit goals may not be archived

(Nyanga 2013) and (Mudavanhu 2011) says the Lack of adequate funds is the result why many SMEs in developing countries fail to realise their targeted profit since it is difficult to implement operating plans and invest in new technology which reduces costs. They went on further to say that the formation of new firms and management of existing firms for high returns is an entrepreneurial skill but require a society which provide for high opportunity to financial capital access otherwise the business will not be able to attain the desired financial performance. This is supported by one of the Resource Based Entrepreneurship Theory called the Liquidity Theory of Entrepreneurship which is formed on the understanding that adequate financial resources are a pre requisite for the operation of any firm to achieve the target result which is profitability. This theory of entrepreneurship states that SMEs that does not have a funding gap can develop, perform financially better and manage to excel in the competitive business environment (Dumbu 2014). On the other hand (Padachi 2012; Zindiye et al 2012 & Maseko et al 2012) says there is need for good managers who knows best how to strike the balance between profitability and liquidity, otherwise an entity can make loss out of well-funded projects.

Although the above authors have different opinions on the effects of funding gap on profit levels, The current research sought to address the question on the relationship between liquidity and profitability since various authors do not agree on this issue.

2.2.3 Underutilization of assets

Nyanga (2013) and Afeef (2011) says if an SME fails to access funds to cover the funding gap, the operations will slow down and sometimes production stops which affects the results of the income statement at the end of the year. He went on further to say non availability of working capital is the reason why most SMEs are not able to fully utilize their capacity of fixed assets and sometimes temporarily shut down operations. This will result in losses at the end of the day since fixed expenses such as rent, royalties and salaries will be due at month end no matter production was done or not.

However (Zindiye et al 2012) says most pitfalls for SMEs are as a result of poor management by owners. Since the owners are the managers in most cases, SMEs lack the planning functions which results in underutilization of assets and human resources because they are run by crisis. This is supported by (Maseko et al 2012) who says, even though SMEs have received financial support from government, due to lack of management skills and accounting practices they fail to fully utilize their capacity and they remains small.

Previous authors who wrote on underutilization of assets did not agree on the causes of capacity underutilization whether it results from funding gap or poor management skill. This current research sought to address the question, whether lack of funding in SMEs causes production capacity sometimes to be reduced.

2.2.4 Stock run-out and reputational damage

SMEs lose their previously gained market share due to the lack of working capital resulting in them failing to honour their commitment and affecting their credibility and usually result in closure of business operations. Usually SMEs are characterised by stock run-out and production stoppage which results from non-availability of funds. (Dong 2010 and Brown & Lee 2014). However (Gombarume and Mavhundutse 2014 & Zindiye et al 2012) contend that poor managerial skills in SMEs are the source of reputational damage and stock run out. They explained further that due to lack of forecasting techniques SMEs can be caught unaware by high demand resulting in stock out and customer inconvenience.

The current research sought to cover the informational gap on whether funding gap or poor managerial skills causes' reputational damage and stock out which affects profitability of SMEs. At the end of the research, the following question from the literature gap, whether funding gap affects SMES to always have at any time enough stock for their customers?, was answered.

2.2.5 SMEs does not enjoy discounts.

Lack of funding results in business forced to purchase raw materials on credit even if there are big discounts resulting in high cost of production at the same time selling those goods on big discounts in order to attract many cash customers to raise funds but adversely affecting profitability (Fouad 2013). (Banos-Caballero et al 2012) argue that the best way to manage cash is to do all purchases on credit basis whilst selling on cash basis. Rothberg (2012) supports this saying, business should negotiate for late payments whilst giving discounts to its customers to buy on cash basis. On the same note (Gill et al 2010) argues that the effect is the same taking the time value of money into consideration.

Since above authors did not reach an agreement on whether SMEs should buy on credit or not, the question, whether BBF sometimes lacks funds to buy raw materials on cash? need to be addressed in a way to investigate the effect of discounts on financial performance of SMEs.

2.3 How to eliminate or reduce the funding gap in SMEs.

Research from previous literature has several ways which can be used to reduce or eliminate funding gap in SMEs. The current research focused on analysing available literature in relation to Asset Based Finance, Financial bootstrapping, Business Angels, Crowd funding, Government assistance and investment in financial management.

2.3.1 Asset based finance.

According to (OECD 2015) and (Nuccio & Loewy 2013) the best method for raising finance for SMEs is the asset based finance which is a way of borrowing which involves the use of company assets to secure funds and includes purchase-order finance, asset-based lending, warehouse receipts, leasing and debt factoring. The entity is allowed to borrow up to appraised value of its assets without considering its overall creditworthiness. This spares the SMEs as they can afford to access funds as little as their assets and there is no need for previous record of business. Operational funds are secured faster by company assets such as inventory, equipment, machinery and trade accounts receivables. The method is supported by Nyamwanza and Mavhiki (2014) from their survey in Bulawayo, Gweru and Harare which states that a significant number of SMSs depend on financing their business using fixed assets. However (Quaye at al 2014) and (Smith & Howard, 2013) argue that the costs incurred is higher as compared to traditional borrowing due to asset appraisal fees, auditing fees, legal fees and monitoring costs making it not suitable for SMEs especially in the early stages. On the same note (Soufani, 2011) argues that these costs are significant in case where all debtors have been submitted as they help the factoring company to gather credit information and perform calculations on the credit risk associated with many buyers hence becoming more advantageous for an SME that faces challenges in accessing bank loans but servicing big clients with better creditworthiness than itself.

Even though there was no consensus regarding the use of Asset based financing, the aim of this current study still stands to find whether Asset based financing is being used to reduce or eliminate funding gap in SMEs.

2.3.2 Financial bootstrapping

According to (Wing 2010) and (Freeman 2013) Financial bootstrapping is a properly planned ongoing process of using the available resources to reduce or avoid the need for extra funds, it is the use of wits and hustling in addressing the need for funds without relying on outside loans. Bootstrapping is the use of one’s own effort to raise necessary response to financial challenges that affects an entrepreneur to actively address the funding gap. They explained further that financial bootstrapping is a social process that involves the enactment of environment by individuals to improve their financial positions and it is in consistent with the previous studies results which states that this method is used in the broader sense of accessing necessary business resources through the reduction of the need of capital or through the provision of alternative sources of capital which makes them suitable for the reduction of funding gap in SMEs. Financial bootstrapping is in two forms which can either be creating ways of acquiring finance without financial institutions or minimising the funding need by mobilising resources at little or no cost. This can be done through informal club savings, family and friends financing, business owner savings, trade payables and the choice of industry.

However (Uwonda et al 2013; Adedican 2012 & Fouad 2013) argues on this notion as being traditional and not suitable for the present day environment which is characterised by continuous environmental changes. It is becoming difficult for entrepreneurs to enact an environment due to change but rather react to the change in environment hence the need to access financial institutions for extra funding. Many SMEs have been caught by environmental changes un away trying to operate business with little funds and later realise the effect to performance when it is too late to save the business from collapse.

On the same note (Lahm and Little 2010) are of the opinion that financial bootstrapping can be used by entrepreneurs but there is need to be flexible and turn to external financial assistant when the need arise. Total dependents on external funds has resulted in many SMEs bringing their profitable operations into halt due to denied access and high interest rates. At the same time financial bootstrapping is accused of discarding profitable operations into halt after a number of SMEs have used unhelpful methods to avoid cost and borrowing.

Although a scratch from previous work of researchers failed to yield a consensus on using bootstrapping as a way to reduce funding on SMEs, the current research still aimed to find if this method is suitable and adequate enough for addressing the funding gap in SMEs.

2.3.4 Crowd funding

According to (Helmer 2011), (Crowdfunding for Europe 2012) and (OECD 2015), the most suitable way of funding SMEs is crowd funding which is the modern way of raising funds within the online communities for the funding of projects and operations. The platform consist of organised donors with a specific financial background who wish to track their funds up to a well-defined SME. This has proved to be more reliable and the only solution to fund more SMEs projects, ranging from seed financing to growth funding. (Crowdfunding for Europe 2012) supports the use of crowd funding and states that the Obama administration has endorsed the use of crowd funding to raise funds for financing SMEs. This is supported by (Metzler, 2011) who says crowd funding is the best for SMEs as it also provides a significant platform to share business information with the public, projects awareness and obtaining feedback on queries and also gaining wide recognition necessary for future business.

However (Collins and Pierrakis 2012) and (Belleflamme et. al, 2011) argue that even though internet has reached all parts of the world, the use of crowd funding is still not applicable in most developing countries. They went on further to argue that the lack of a clear regulatory framework discredit the appropriateness of crowd funding by SMEs as they are concerned about to what extend will they be protected against possible fraud and the public disclosure of sensitive information. Just like traditional bank finance, the platform is vulnerable to cyber-attacks risks, money laundering and identity and payment data theft which makes it detrimental to SMEs.

Although the above authors who researched on ways to improve SME liquidity provide contradictory views the issue still remained to investigate whether crowd funding is suitable for raising finance for SMEs to narrow their funding gap.

2.3.5 Business angels

Business angels are often formal previous successful entrepreneurs with expertise and experience interested in helping SMEs with finance and entrepreneurship for start-up or growth in return for stock in the business. They invest locally and also take long and short term expertise as well as connections to key business players which is lacking in most SMEs in developing countries (OECD 2015; Quaye at al 2014; Mason and Botelho 2014 & BIS 2012). Business angels involve themselves and contribute to the missing gap of expertise but always remain the minority shareholder and prefer the owner remaining in control of his/her project despite of all the effort. (OECD, 2011) Business angels are the best block which can clearly fit into financing gap of SMEs in developing countries (OECD, 2011)

However (Gadha et al., 2010 and Maseko et al 2012) argues that business angels cannot be the best way for SMEs since most entrepreneurs choose to remain small since they want 100% control of their business of which financing through this route will mean that an SME will have to lose some of its equity though a small portion and also disclosing basic financial situation information and activities. This supported by a study which was done in Harare, Gweru and Bulawayo by Nyamwanza and Mavhiki (2014) which concluded that most SME owners are not willing to borrow from outside but rather use their own internal resources such as profits and selling of fixed assets because they want to build their business organically and avoiding control from creditors.

From the above literature there was no consensus from different authors on whether business angels can be the best route for SMEs towards adequate finance. However the above arguments were done outside Zimbabwe and it still remains a question whether this method can be accepted in by local SMEs. The aim of this research was to find the applicability of business angel financing method to local SMEs.

2.3.6 Government assistance

(Nyangara 2013) and (Chipangura and kaseke 2012) believe that government assistance is the only way out for SMEs in Zimbabwe. It is acknowledged that even though efforts have been directed towards helping the SMEs sector, much still need to be done to provide an integrated and coherent policy and strategy which assist SMEs in accessing funds (Nyoni, 2010). The respondents from a research carried in Zimbabwe by (Zindiye et al 2012) on the issue of government assistance pointed out that nothing yet enough has been done by government to promote investment. This is supported by the research in South African which was done by (Chimucheka and Mandipaka 2015) whose findings highlighted that 23% of the respondents never accessed government support and the rest had accessed the assistance once of which it was not adequate.

On the other side (Maseko at al 2012) contend that even though the state has been taking part in assisting SMEs through targeted support in finance, most of the assisted SMEs have remained small and some of them have collapsed.

The above researches did not agree on the effectiveness of government assistance on SMEs and the issue still remained to find whether government assistance can help out SMEs from cash challenges hence the need for this research to investigate the effectiveness of government assistance on reducing funding gap.

2.3.7 Investing in financial management training.

Entities experiencing funding gap must adopt cash flow management best practices if they are to survive, grow and prosper (Rothberg 2012). SMEs should invest in financial management practices as they are paramount for effective financial performance and overall performance of the firm yet most if not all SMEs lack this skill Uwonda et al (2013), Quaye et al (2014) and Mudavanhu et al (2011). From their researches Fatoki (2012) and Girald (2011) observed that most SMEs do not engage themselves in financial planning and control, investment appraisal and financial analysis. Inadequate management skill and expertise is a major challenge affecting the performance of local SMEs yet many research observation noticed that SMEs do not prioritise the financial training programs and are unwilling to join themselves in financial literacy programs even if they are require to pay an insignificant part of the costs (Zindiye at al 2012). On the other hand Maseko et al. (2012) being the exception in his study highlighted that investing in financial management training for SMEs in not important as it is not a major factor affecting their operations.

After a closer look in literature and analysis of the above possible ways of funding gap elimination. There seems to be a tentative and inconclusive evidence of the best way which is suitable for SMEs in Zimbabwe, there was no consensus from the literature on the best method to eliminate the funding gap in SMEs, therefore the attempt by this study to reduce this knowledge gap.

2.4 Going concern of entities with a funding gap.

According to the financial reporting framework (Conceptual Framework for Financial Reporting, 2010), Going concern assumption is a fundamental accounting principle used in preparation of financial statement which implies that a company shall continue in business for a foreseeable future and will continue in operation and there is neither the intention nor the necessity to liquidate it or to cease trading. There is need for review of the going concern status of the business though the extent of the review for small companies is much simple. According to ISA-570 the following financial events and conditions indicates the going concern problems, net liability or net current liability position, adverse key financial ratios, Indications of withdrawal of financial support by creditors, negative operating cash flows, fixed term borrowings approaching maturity without realistic prospects of renewal, inability to pay creditors when due, change from credit to cash on delivery transactions with suppliers and too much reliance on short term borrowing to finance long term projects and assets. This is supported by (Rothberg 2012) who says good cash flow management is vital for sustainability and survival of a business.

However IAS-570 acknowledges that there can be no exhaustive list of these events for the entity to be declared not a going concern but the materiality issues should be paid attention on of which materiality is a subjective matter. The important areas to consider when assessing going concern for small entities include the risk that banks, government and other creditors may pull out to assist the entity financially. (Securities and Exchange Commission of Pakistan)

Although the assessment of going concern is not conclusive from the guidelines from literature, the aim still remained to investigate the going concern for the SME (Best Bake Foods (Pvt) Ltd) using going concern indicators.

2.5 Relationship between funding gap and other challenges that affects SMEs.

(Dumbu 2014), (Zindiye et al 2012) and (Quartey and Abor 2010), identifies a direct relationship between funding gap and other challenges that affects SMEs. In their researches they observed that all SMEs that have a funding challenges are also being haunted by other challenges. They explained further that the relationship between funding gap and other challenges is a cause and effect relationship in which the funding gap is the independent variable and other challenges being the dependent variable. They noticed that all SMEs need funding to develop their activities, higher skilled management, remain competitive, procure quality raw materials, achieving new technologies and survive.

On the other point (Harris 1995) and (Yan 2010) remains unbiased saying the two issues of availability of suitable support with other resources and the availability of adequate finance are interlinked and cannot be separated such that institutions which are supporting SMEs are now doing it so with provision of a range of other resources and skills which are as important as funding. Their argument is, rather than addressing the funding gap and assume all to be well, institutions should go an extra mile, such that any attempt to improve financial performance of SMES by merely looking on funding will fail to yield viable SMEs with potential to grow but directing of hardly mobilised resources into SMEs confiscated to fail.

Bukaliya and Hama (2012) and Nyoni (2007) states that poor management skills and funding gap has no relationship, they say, some SMEs fail due to poor skills of management even with a sound working capital base and vice versa. Makori and Jagongo (2013) says the best resource in an organization is management, they explained further that good managers can create liquidity and profitability for the business and vice versa.

Although a lot has been researched on the effect of challenges faced by SMEs on financial performance, researchers have been focusing on a challenge at a time without looking on the relationship between the two. The aim of this research was to investigate the impact of funding gap on financial performance and analysing the behavior of other challenges as funding gap is addressed.

2.6 Summary

This chapter focused on previous authors work on funding gap in SMEs, looking on the causes of funding gap, effects of funding gap, ways to eliminate funding gap, going concern of SMEs with funding gap and the relationship between funding gap and other challenges affecting SMEs. The next chapter will focus on methodology.

CHAPTER 3: RESEARCH METHODIOLOGY

3.0 Introduction

This section gives an understanding of the methodological framework that was used to gather and analyses data on the effects of funding gap on financial performance of SMEs. The whole chapter is divided into subsections which are item research design, research population, research sampling, data collection procedures, data collection techniques and the conclusion.

3.1 Research design

Dumbu and Chabaya (2012) defined a research design as a blue print that guides the researcher in coming up with solutions to phenomena in the various stages of the study. This can either be descriptive, correlation, explanatory, exploratory or a combination of two or more Kumar (2011). A descriptive study attempts to describe a situation/attitudes and provides information about conditions. A correlational study emphasizes on the establishment of the existence of relationships/association/interdependence between or among aspects of a situation. That is to say, what is the impact/effect and what is the relationship between. An explanatory research clarifies why and how the relation exist between or among aspects of phenomena (Kumar 2011). Since this study was done to; **a)** provide information about conditions on the ground in relation to funding gap, **b)** establish the existence of relationships and interdependence among funding gap, financial performance and other factors that affects SMEs and **c)** to clarify why and how the relationships existed, a combination of descriptive, correlation and explanatory designs was adopted. A case study is an intensive study of a particular situation rather than an extensive statistical survey which is used to narrow down the area of research into a research-able field, Kumar (2011). The research area which is SMEs in Zimbabwe was narrowed down into a research-able area which is Best Bake Foods (Pvt) Ltd to allow for an intensive study.

3.2 Research approach

Research approach is an arrangement and research techniques which evidences the movement from many assumptions to a detailed data collection method, investigation and understanding which can either be qualitative, quantitative or mixed (Creswell 2012). This study is carried to address the relationship objective which requires quantitative approach (for relationship testing) as well as the rest of the objectives which requires qualitative approach which leaves the mixed method as the only suitable method. Therefore mixed method is adopted for this study. It also enables triangulation of data which ensures reliability and validity of collected data. This is supported by Kumar (2011) who said data which is collected in numerical form requires quantitative approach whilst the data which is obtained by replying to open-ended questions is qualitative. Creswell (2012) supports the use of mixed method since it depends on the idea of pragmatism.

3.3 Research Population

According to Dumbu and Matanda (2010) research population is as a whole set of people, cases or objects with some common observable features which can be investigated by studying a small group. The researcher had a population of 90 individuals (20 from admin and accounts, 10 from sales and 60 from production departments). Due to reasons mentioned below, this study did not use the whole population but instead a sampling approach was adopted.

3.4 Sampling

Marsh (2010) and Creswell (2012) explain sampling as a mechanism of selecting number of people out of the research population such that their views represent the whole population.

Sampling was suitable in this research population because the population had individuals with almost homogeneous features. This is supported by Kumar (2011) who state that drawing a sample in a population with uniform characteristics can provide a reasonably good estimate. Sampling is preferred to census in an environment where budget and time constrain prevail Burgess (2001). Sampling helps to control and manage the questionnaires by reducing the number of respondents (Akkermans 2013). Since I carried the research by myself in a specified time, the population of 90 was reduced to a sample of 65 to allow for maximum administration to ensure quality of data. Since the greater part of the research is depending on qualitative information, sampling is also justified because the researcher was considering the quality of information collected not the quantity of information (Kumar 2011).

3.4.1 Sample design

Stratified sampling technique was used for the study to ensure that all departments were represented (Kumar 2011). The individuals were first grouped as admin and accounts, production and sales departments and a simple random sample was drawn from each group.

3.4.2 Sample size

This is the number of individuals or cases that is used to estimate the characteristics of the whole population given. The greater the number the more accurate and reliable the findings are (Kumar 2011). (Kelly & Maxiwell 2003) and (Kumar 2011) support the use of sample above 50% to collect information, considering the cost benefit analysis.

Population and sample size for Best Bake Foods.

Table 3.4a: Population and sample size

Department of respondents	Population	Sample	% of sample to population
Admin & Accounts department	*20*	*15*	*75%*
Production department	*60*	*45*	*75%*
Sales department	*10*	*5*	*50%*
Total	***90***	***65***	***73%***

Source: primary data.

3.5 Data sources

Primary data is data that has been gathered specifically for the situation on hand whereas secondary data is the data which was primarily gathered for other purposes not the one on hand (Jewel 2010). The study uses both secondary and primary data. The case study approach which is being used in this research advocates for the use of multiple sources to collection data, Kumar (2011). The existence of funding gap, its quantitative effect on profitability and other indicators of going concern can be extracted from secondary sources as well (financial statements and working capital budgets reviews), in supporting of the primary data to allow for triangulation of data making the findings as robust as possible.

3.6 Data collection instruments

Research instruments are techniques such as questionnaires, interviews and observations that are used to gather relevant data and information needed for informed recommendations and solutions to the problems investigated (Bid & Cassell 2011). This current research uses both interviews and questionnaires.

3.6.1 Interviews

An interview is any interaction between or among persons which can either be face to face or otherwise having a specific goal in mind, (Kumar 2011). Interviews were mostly used to triangulate the data which was obtained from Questionnaires. This study used the face to face type of interview in order to get rid of the views, attitudes and feelings of the respondents concerning the issues of funding gap. It also allowed the respondents room to ask clarification on some questions and unfamiliar words and also allows them to clarify their answers as well (Kumar 2011). The research questions and objectives were used to formulate the interview guides.

3.6.2 Questionnaires

Questionnaires are carefully structured questions to collect facts or opinions about something that is given to the respondents and they are answered by the respondents themselves (Brown 2001). Since the researcher had to carry out the survey at Best Bake Foods by himself, questionnaires were considered the best because they can be used simultaneously for many individuals. Some of the information which was necessary for this study was a bit sensitive and most employees would not be comfortable in giving that information, for example giving an outsider information about the internal problems, therefore the need for questionnaires. Questionnaires were suitable for this study because the research sample constituted of highly and average literacy individuals. However since the sample involved employees who were in the production department who did not have access to emails and telephones during working hours, the questionnaires were distributed personally. This research uses closed ended questions.

3.6.2.1 Closed ended questions

These are questions which do not permit respondents to freely give their opinions, to clarify or exposit their views and opinions (Kumar 2011). This research uses closed ended questions because it allows for the collection of only the much needed information and makes it easier to analyse and saves time (Kumar 2011). It also saves the respondent's time and encourages the respondents to complete the whole sheet (Jackson 2011). The questionnaires are facilitated by the use of the likert scale which have five items with scores distributed as follows:

Strongly Agree=5, Agree=4, Uncertain=3, Disagree=2, Strongly Disagree=1.

(Source: Brayman 2012).

3.6.2.2 Administration of the Instruments

The instruments were self-administered to ensure maximum cooperation and flexibility. The questionnaires and a pencil were personally given to the respondents by the researcher to allow for clarifications to the respondents and the interview was notified one week before. The respondents who were busy during the time of responding to questionnaire were being asked to fill in the questionnaires during their own free time and their responses were gathered later. The researcher had to capture all areas of interest for the research by intensifying the level of interview questions where possible and also asking the interviewee to add some more views which they think necessary but not asked during the interview.

3.6.4 Reliability

Data reliability refers to the extent to which the interviews and questionnaire used to collect data being able to consistently produce the same findings on more than one repeated trials (Miller 2010 and Francis 2011). The instruments which were used were tested for reliability using the parallel form test which was adopted from Kumar (2011) and they proved to be reliable. Reliability was archived through the use of consistent wording of the questions and consistent interviewer's mood. This is supported by Kumar (2011) who says, instruments can produce same findings if the researcher maintains consistent in wording and mood.

3.6.5 Validity

Validity is the extent to which the interviews and questionnaires used to gather data measure what they purport to measure (Armstrong and Taylor 2014). The Instruments were valid because the questions which were asked had a link with the objectives of the study. This is supported by Kumar (2011) who states that validity can be tested by testing the link between questions asked and the objectives of the study. Also the instruments passed the validity test which was done through the assessment of one instrument by another instrument. This is also supported by Kumar (2011) who says validity of an instrument can be determined by testing it against another instrument.

3.7 Data presentation and analysis

Data analysis is the systematically application of statistical techniques to describe, illustrate and assess the data gathered from the target population (Armstrong and Taylor 2014). The first step was to check all the questionnaires for completeness and relevance and all the data which was relevant was combined and irrelevant data was removed. This was done to reduce the volume with unnecessary data at the same time making analysis and judgments from every piece of relevant data gathered. Analysis was done through the use of statistical analysis. For easy understanding, tables, pie charts and graphs were used to present data being facilitated by the use of the Microsoft excel to save time and for accuracy. The study had an objective to establish a correlation between funding gap (Independent variable) and other challenges (Dependent variable) hence the SPSS (Statistical Package for Social Sciences) was also used.

The use of the package prevents false data entries, since data ranges are set, it is user friendly and also saves time (Kumar 2011).

3.8 Summary

This chapter focused on the method that was followed to carry out the research. It includes, the design, approach, instruments and data sources. The next chapter will focus on presentation of data as well as an analysis using tables, line and bar graphs, and charts.

CHAPTER 4: DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This section presents and analyses collected data from the research field using pie charts, graphs and tables. The data was presented and analysed in line with the research's objectives.

4.1 Response rate

The response rate is the ratio between the participants who responded to the questionnaires and the total number of respondents who were supposed to respond. The response rate determines the chances of response bias, the higher the rate the lower the bias. It also tells the trustworthiness of the responses and to what extent can confidence be attached to the results.

4.1.1 Questionnaire response rate.

Table 4.1a: Questionnaire response rate

Department of respondents	**Distributed**	**Collected**	**Response rate (%)**
Admin and accounts	15	15	100
Production	45	35	78
Sales	5	5	100
Total	**65**	**55**	**85**

Source: Primary data

Questionnaire was the main instrument that was used for gathering data. 65 questionnaires were distributed and the researcher managed to collect 55 well completed questionnaires which represents a response rate of 85% as shown in figure 4.1a. This was supported by (Spring 2011) who says that a reliable response rate is that one which is above 60%. The data was also valid since there was a link between the data collected and the objectives of the study as supported by Kumar (2011).

4.2 Questionnaire responses

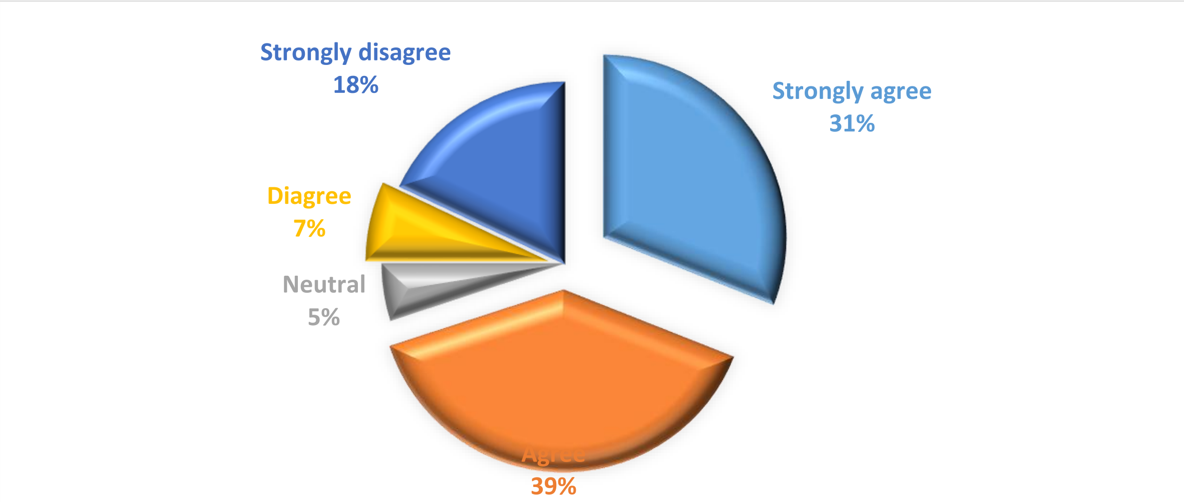
4.2.1 Respondents opinions on causes of funding gap.

4.2.1.1 Lacking of credit access as a cause for funding gap.

Table 4.2b: Showing responses rate on Lacking of credit access as a cause for funding gap.

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Respondents	17	21	3	4	10

Figure 4.2b: Showing responses percentage on Lacking of credit access as a cause for funding gap.



Source: Primary data.

Figure 4.2b shows that 17 out of 55 (30.91%) strongly agreed, 21 out of 55 (38.81%) agreed, 3 out of 55 (5.45%) were neutral, 4 out of 55 (7.27%) disagreed and 10 out of 55 (18.18%) strongly disagreed that lacking of access to external credit facilities is the cause for the funding gap. This shows that 69.09% agreed which means that funding gap is caused by lack of access to external funding which is also supported by (RBZ 2014) who stipulated that SMEs have got funding gap because they are limited to access external funds due to the lack of collateral security and track records. 5.45% were neutral which means that both internal and external factors contribute to funding gap which is in line with Fouad (2013) who postulated that it is important to investigate both the external and internal sides when investing the causes of funding gap in SMEs. 25.45% disagreed that funding gap is caused by the lack of access to credit facilities which is supported by (Zindiye et al 2014) who contend that funding gap is not caused by lack of credit facilities but rather being caused by poor management practices.

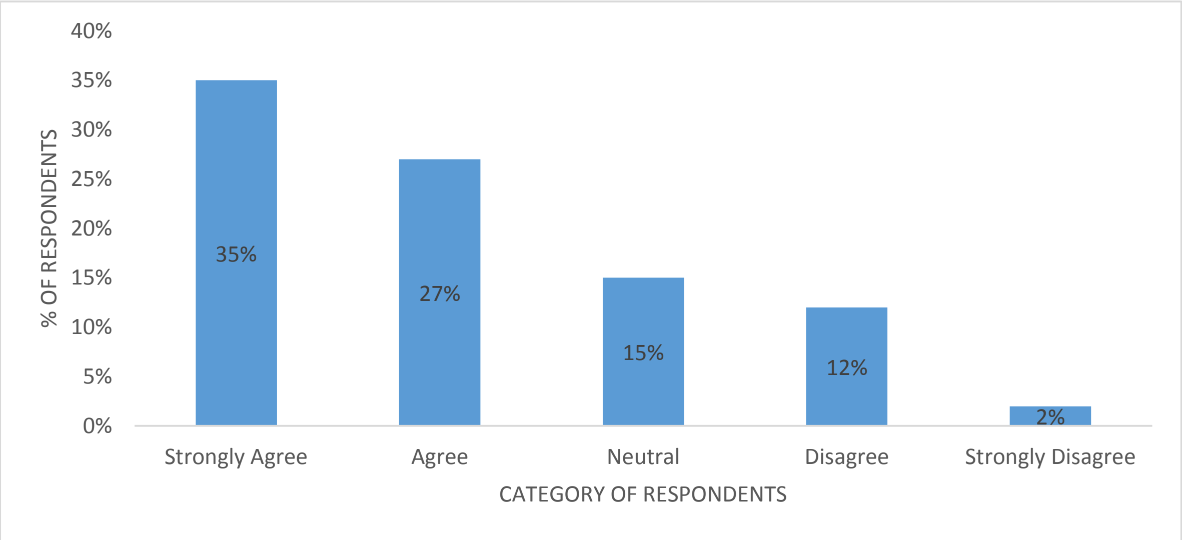
Overall, the mode of the data is 69.09%, which means that lack of access to funding causes funding gap and is supported by (RBZ 2014) who substantiated that the lack of credit access causes funding gap in SMEs.

4.2.1.2 Lacking of working capital management as a cause for funding gap.

Table 4.2c: Showing responses rate on lack of capital management as a cause of funding gap

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Respondents	19	15	8	7	1

Figure 4.2c:Showing responses percentage on lack of capital management.



Source: Primary data.

The above graph shows that 19 out of 55 (34.55%) strongly agreed, 15 out of 55 (27.27%) agreed, 8 out of 55 (14.55%) were neutral, 7 out of 55 (12.73%) disagreed and 1 out of 55 (1.82%) strongly disagreed that poor working capital management causes funding gap. This shows that 61.82% agreed, which means that funding gap is caused by poor working capital management which is also supported by (Gama 2015) who says that SMEs start up with enough funds but fails to properly manage their funds. 14.55% were uncertain which means that they were not sure whether working capital management causes funding gap or not which is in line with Bay City Financial solutions (2012) who did a discussion on all other factors that causes funding gap in SMEs neglecting the discussion on whether working capital management has effect on funding gap. 14.55% disagreed that funding gap is caused by poor working capital management which is also supported by (Quaye et al 2014) who contend that funding gap is only attributable to the lack of funding from external sources.

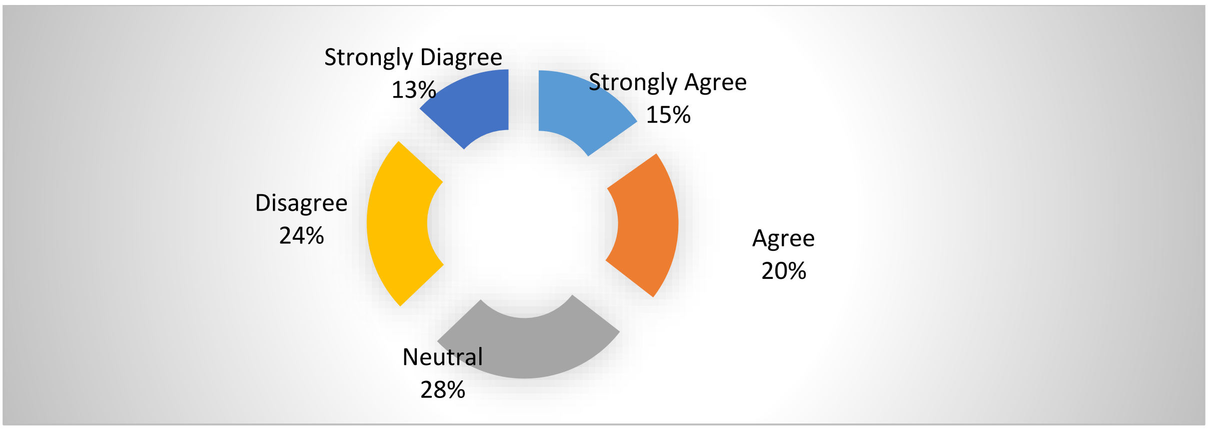
Overall, the mode of the data is 61.82% which means that poor working capital management causes funding gap which is supported by (Gama 2015) who concluded that funding gap is a result of poor working capital management.

4.2.1.3 Reluctant to borrow as a cause for funding gap.

Table 4.2d: showing responses rate on reluctant to borrow as a cause for funding gap.

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Respondents	8	11	15	13	7

Figure 4.2d: showing responses percentage on reluctant to borrow as a cause for funding gap.



Source: Primary data

The above graph shows that 8 out of 55 (14.54%) strongly agreed, 11 out of 55 (20%) agreed, 15 out of 55 (27.27%) were neutral, 13 out of 55 (23.63%) disagreed and 7 out of 55 (12.73%)

strongly disagreed that SMEs are reluctant to borrow funds from external sources which is the cause for funding gap. This shows that 34.55% agreed, which means that funding gap exist because SMEs are reluctant to borrow funds from external parties which is supported by (Nyamwanza and Mavhiki 2014) who states that SMEs are reluctant to borrow funds from outside due to fear of losing control to other stakeholders. 27.27% were uncertain which means that they were not sure whether funding gap exist because the entity is reluctant to borrow funds from external sources or not. 36.36% disagreed that funding gap exist because the entity is reluctant to borrow from external sources and this is supported by (Nyangara 2014) who contend that most eligible SMEs have approached many banks more than once but every time their applications being turned down for other reasons such as political basis.

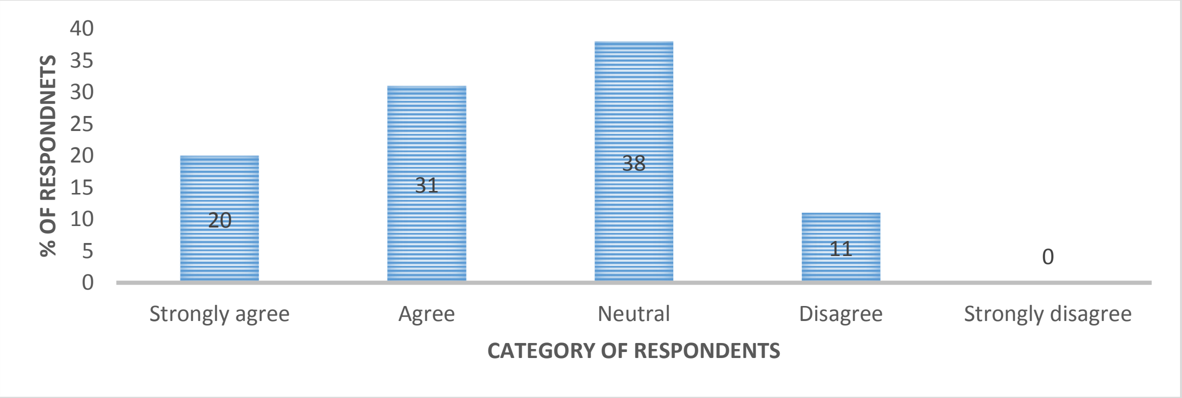
Overall, the mode of the data is 36.36% which means that most respondents disagree that Best Bake Foods have funding gap because they are reluctant to borrow which is supported by (Nyangara 2014) who said due to political reasons, most eligible SMEs have approached many banks more than once but every time their applications being turned down.

4.2.1.4 Cost of loans and long application process as a cause of funding gap.

Table 4.2e: Showing response rate on borrowing cost and application process

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Respondents	11	17	21	6	0

Figure 4.2e: Graph showing response percentage on borrowing cost and application process



Source: Primary data

Figure 4.2e shows that 11 out of 55 (20%) strongly agreed, 17 out of 55 (30.91%) agreed, 21 out of 55 (38.18%) were neutral, 6 out of 55 (10.91%) disagreed and 0 out of 55 (0%) strongly disagreed that high borrowing cost and long application process causes funding gap. This shows that 50.91% agreed that funding gap exist because SMEs do not borrow because they are charged with high borrowing cost and long application processes which is also supported by (Mills and McCarthy 2014) who stipulated that SMEs are charged with high borrowing cost and long application process because they considered to be high risky. 38.18% were neutral which means that they were not sure whether Best Bake Foods is discouraged to borrow by high borrowing cost and long application process which contributes to the existence of funding gap. This is in line with Wing (2010) from his study on funding gap, who failed to reach a consensus on this matter. 10.90% disagreed that high borrowing cost and long application process causes funding gap which is supported by (Muza 2013) who postulated that most banks in Zimbabwe are putting enough effort to extent banking facilities to SMEs even at no cost and SMEs are the ones who delays the loan application process due to lack of required information.

Overall, the mode of the data is 50.91%, which means that high borrowing cost and long loan application process contribute to the existence of funding gap and is supported by (Mills and

McCarthy 2014) who says high borrowing cost and long application process of loans causes funding gap in SMEs.

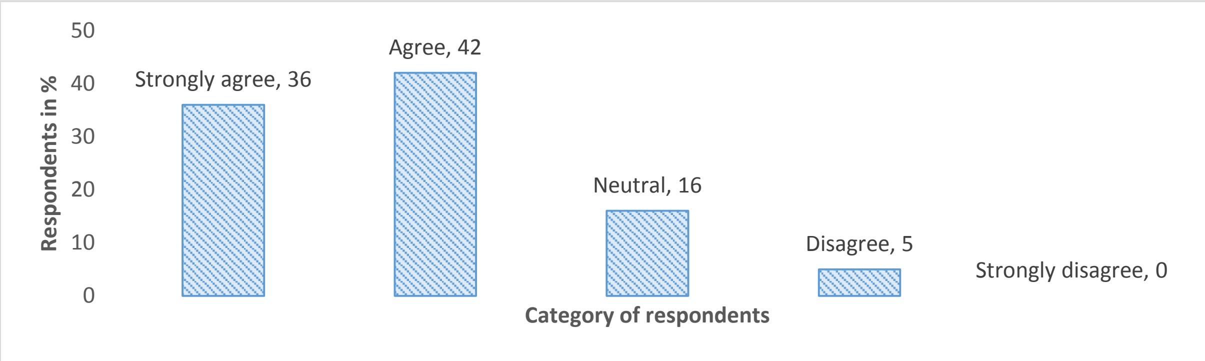
4.2.2 Respondents opinions on effects of funding gap.

4.2.2.1 Stunted growth as a result of funding gap

Table 4.2f: showing response rate on stagnant growth at Best Bake Foods

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Respondents	20	23	9	3	0

Table 4.2f: showing response percentage on stagnant growth at Best Bake Foods



From the table and graph above 20 out of 55 (36.36%) strongly agreed, 23 out of 55 (41.82%) agreed, 9 out of 55 (16.36%) were neutral, 3 out of 55 (5.45%) disagreed and 0 out of 55 (0%) strongly disagreed that funding gap affects the growth of Best Bake Foods. This shows that 78.18% agreed, which means that stunted growth in SMEs is attributable to lack of funding which is in line with what was postulated by Brown and Lee (2014) who pinpointed that due to limited funding facilities at the exposure of SMEs, profitable projects and expenditure necessary for growth end up being deferred which restricts growth of SMEs. 16.36% remained neutral which means they were not sure whether funding gap is responsible for stunted growth in SMEs. 5.45% disagreed, which means that limited growth in SMEs is attributable to funding gap. This concurs with the opinion by Maseko et al (2014) who argued that despite the availability of funds to SMEs, they choose to remain small because they avoid the responsibilities.

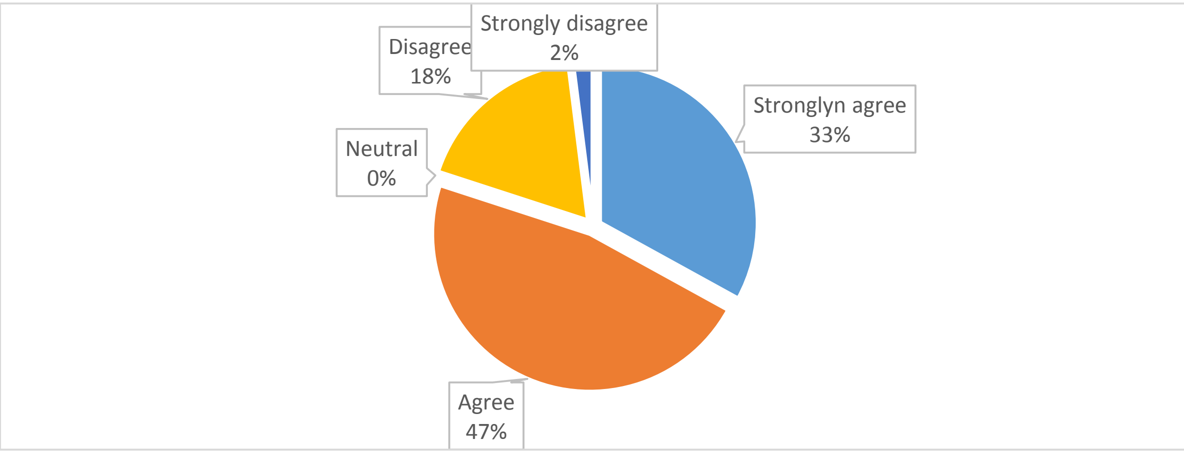
Overall, the mode of the data is 78.18% which means funding gap affects the growth of SMEs as supported by Brown and (2014) who says that SMEs do not grow due to lack of funding.

4.2.2.2 Missing of profit targets as an effect of funding gap.

Table 4.2g: Showing response rate on missing of profit targets

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Respondents	18	26	0	10	1

Figure 4.2g: Chart showing response percentage on missing of profit targets



Source: Primary data

Figure 4.2g shows that 18 out of 55 (32.73%) strongly agreed, 26 out of 55 (47.27%) agreed, 0 out of 55 (0%) were not certain, 10 out of 55 (18.18%) disagreed whilst 1 out of 55 (1.82%) strongly disagreed that funding gap is the reason why SMEs fail to meet their targeted profit levels. This means that 80% agreed, which means that the lack of funding affects the profitability of SMEs and which is in line with the views of Nyanga (2013) who postulates that SMEs fail to realise their target profits due to lack of funds. 20% disagreed, which means that funding gap does not cause the entity to meet its targeted profit levels and is supported by the opinion from Padachi (2012) who says without skilled personnel who knows how to turn available resources into profits, SMEs will continue to make losses out of well-funded projects.

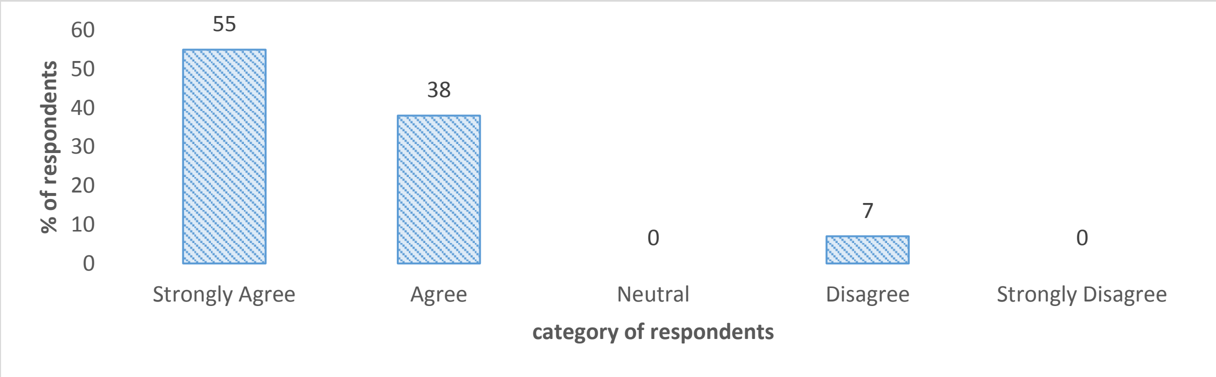
Overall, the mode of the data agreed that funding gap affects profitability of SMEs and is supported by (Nyanga 2013) who pinpointed that SMEs cannot realise their profits levels when they have no adequate funds.

4.2.2.3 Bottlenecks in production as an effect of funding gap

Table 4.2h: Showing response rate on production bottlenecks

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Respondents	30	21	0	4	0

Figure 4.2h: Chart showing response percentage on production bottlenecks.



Source Primary data

Figure 4.2h shows that 30 out 55 (54.55%) strongly agreed, 21 out of 55 (38.18%) agreed, 0 out of 55 (0%) were neutral, 4 out of 55 (7.27%) disagreed and 0 out of 55 (0%) strongly disagreed that production bottlenecks are caused by funding gap. This reveals that 92.73% agreed that funding gap affects the flow of production which is in line with the idea from Afeef (2011) who points out that non availability of funds results in stock outs and production slow down. 7.27% disagreed which means that production bottlenecks can be caused by other factors other than funding gap which is supported by Zindiye et al (2012) who argues that SMEs always fall in the same ditches due to poor planning by the owners who are usually the managers.

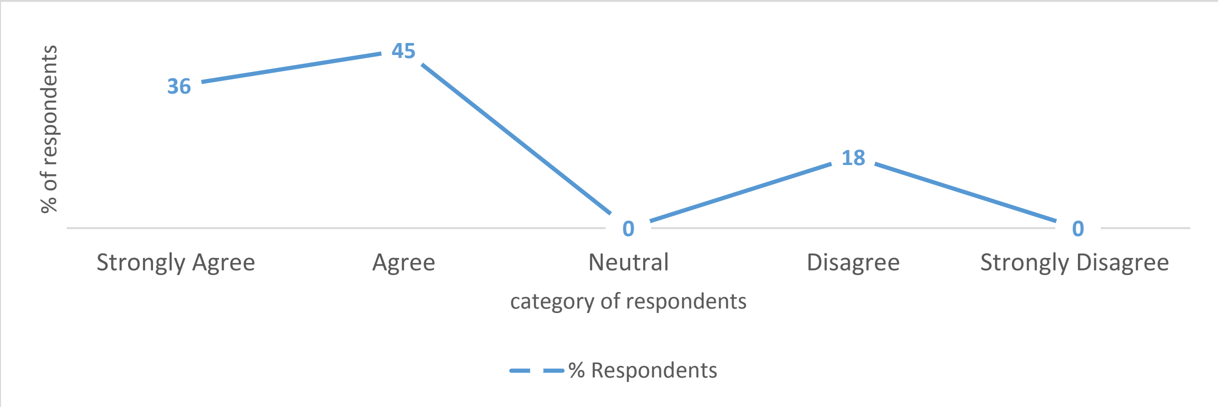
Taking it as a whole, the mode of the data is 92.73% which means that funding gap is affecting production which is also supported by Afeef (2011) who says that stock outs and production slow down are caused by lack of funding.

4.2.2.4 Failing to honour commitments to external parties as an effect of funding gap.

Table 4.2i: Showing response rate on failure to honour commitments

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Respondents	20	25	0	10	0

Figure 4.2i: Graph showing response percentage on failure to honour commitments.



Sauce: Primary data

The graph above shows that 20 out of 55 (36.36%) strong agreed, 25 out of 55 (45.45%) agreed 0 out of 55 (0%), 10 out of 55 (18.18%) disagreed and 0 out of 55 (0%) strongly disagreed that funding gap is the reason why SMEs fail to honour their commitments. In summary it means that 81.81% agreed that failure to hour commitments is the result of funding, which is supported by Dong (2010) who says SMEs lose previously gained market share because they fail to honour their commitments due to lack of working capital. 18.19% disagreed which means that other factors besides funding gap can cause the entity not to honour its commitments to stakeholders which concurs with the findings from Bay City Financial solution (2012) who says even if SMEs have to access funds they always give the first preference to personal needs and wants at the expense of the business.

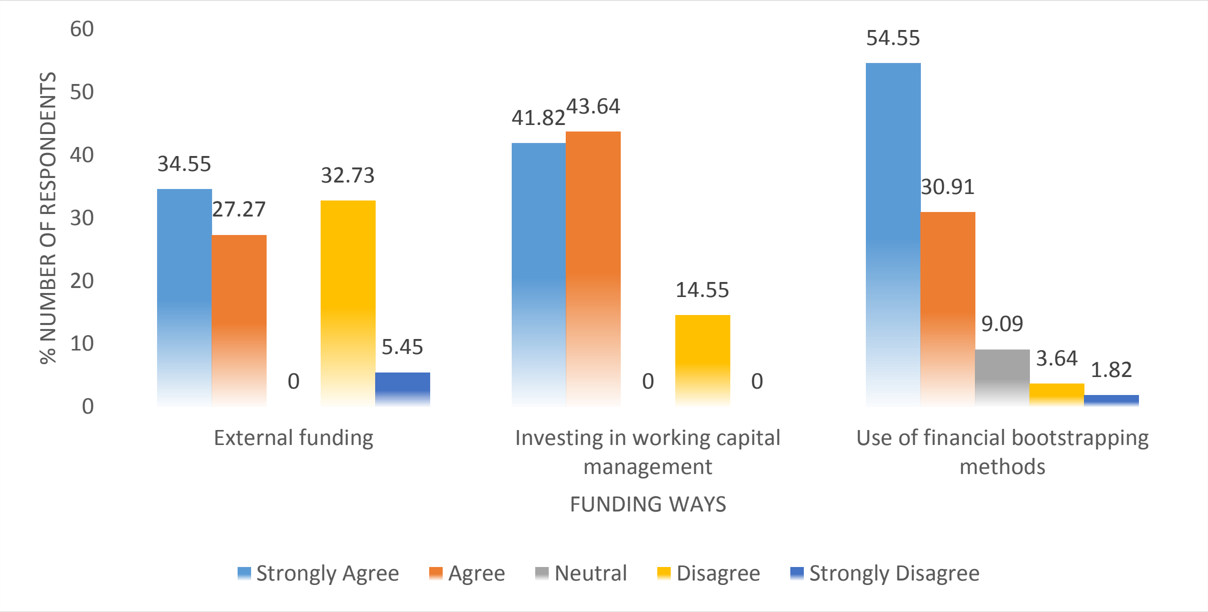
Overall, the mode of the data is 81.81% which means that funding gap is responsible for the failure of Best Bake Foods to meet its commitments to its stakeholder which is in line with (Dong 2010) who states that failure to honour commitments by SMEs is because they lack enough working capital.

4.2.3 Respondents opinions on ways to eliminate or reduce funding gap.

Table 4.2j: Showing response rates on ways to eliminate funding gap

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Respondents: external funding	19	15	0	18	3
Working capital management	23	24	0	8	0
Financial bootstrapping methods	30	17	5	2	1

Figure 4.2j: Graph showing response percentage on ways to eliminate funding gap



Sauce: Primary data

4.2.3.1 Sourcing external funds as a way to eliminate funding gap

As highlighted from *figure 4.2j*, 19 out of 55 (34.55%) strongly agreed, 15 out of 55 (27.27%) agreed, 0 out of 55 (0%) were neutral, 18 out of 55 (32.73%) disagreed and 3 out of 55 (5.45%) strongly disagreed. This therefore means that 61.82% agreed, which means that external funding can be used as a way for Best Bake Food to eliminate funding gap. This coincides with the views from OECD (2011) and Metzler (2011) who states that SMEs can be financed from external funds and investors. 38.18% disagreed, which means that external funding is not the best solution for eliminating funding gap at Best Bake Foods. This is in line with the findings from a research by Nyamwanza and Mavhiki (2014) who concluded that SMEs are not willing to access external funding, they prefer to use internal sources of funds.

Overall, the mode of the data is 61.82% which means that external sources of finance can be used to eliminate funding gap at Best Bake Foods which is in line with OECD (2011) who stated that SMEs can use external sources of finance to eliminate funding gap.

4.2.3.2 Working capital management to eliminate funding gap.

As shown by *figure 4.2j*, 23 out of 55 (41.82%) strongly agreed, 24 out of 55 (43.64%) agreed, 0 out of 55 (0%) were neutral, 8 out of 55 (14.55%) disagreed and 0 out of 55 (0%) strongly disagreed. This means that 85.46% agreed that investing in working capital management is the best solution for eliminating funding gap for Best Bake Food. This is in line with the opinion from Uwonda et al (2013) who postulates that SMEs should invest in financial management practises as they are paramount for effective financial performance. 14.54% disagreed that working capital management can resuscitate SMEs from the funding gap doldrums. This is the same with the view given by Maseko et al (2012) who points that there are many ways suitable for eliminating funding gap in SMEs rather than investing in financial management training.

Overall, the mode of the data is 85.46% which means that investing in financial management is the best way for eliminating the funding gap for Best Bake Foods. This is supported by Uwonda et al (2013) who says SMEs should invest in working capital management because it is paramount for effective financial performance.

4.2.3.3 Financial bootstrapping methods to eliminate funding gap.

Figure 4.2j shows that 30 out of 55 (54.55%) strongly agreed, 17 out of 55 (30.91%) agreed, 5 out of 55 (9.09%) were neutral, 2 out of 55 (3.64%) disagreed and 1 out of 55 (1.82%) strongly disagreed. This means that 47 out of 55 (85.45%) agreed that the best way to finance SMEs is through financial bootstrapping methods. This supports the findings from Nyamwanza and

Mavhiki (2014) who states that most local SMEs are reluctant to get funds from outside but prefer to use available resources to reduce, avoid or eliminate the need for extra funds. 5 out of 55 (9.09%) were neutral which suggest that they were not familiar about the financial bootstrapping method. 3 out of 55 (5.45%) disagreed which means that financial bootstrapping method cannot be used as a best way to eliminate funding gap which is in support of Fouad (2013) and Adedican (2012) who content that due to technological change, it's now difficult for entrepreneurs to enact an environment but rather react to the change in environment. This have seen most SMEs realising the need to look for external funds at a time when it's too late to save the business.

Overall, the mode of the data is 81.45% which means that financial bootstrapping methods is a good way to use to eliminate funding gap and is supported by Nyamwanza and Mavhiki (2014) who stipulated that most SMEs prefer to use internally available sources of funds rather than external sources.

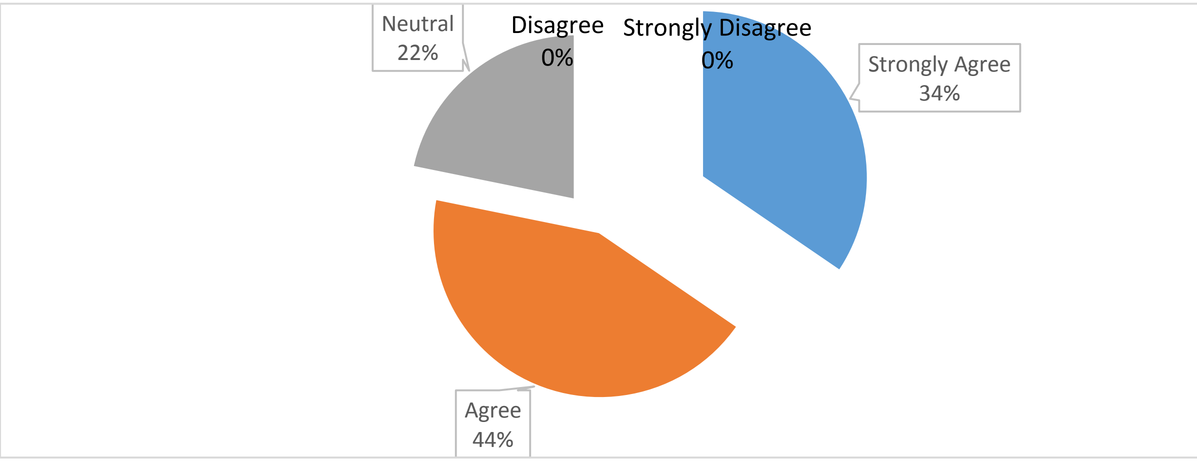
4.2.4 Respondents opinions on indicators of going concern.

4.2.4.1 Emerging of successful competitor as an indicator of going concern problems

Table 4.2k: Showing response rate on competition as a going concern indicator at BBFs

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Respondents	19	24	12	0	0

Figure 4.2k: Graph showing response percentage competition as a going concern indicator.



Sauce: Primary data

From figure 4.2k, 19 out of 55 (34.54%) strongly agreed, 24 out of 55 (43.64%) agreed, 12 out of 55 (21.81%) were neutral, 0 out of 55 (0%) disagreed and 0 out of 55 (0%) strongly disagreed that the emerging competitors would be successful. This means that 78.18% of the respondents agreed that the emerging competitors are likely to be successful and affects the going concern of the entity which is in line with (ISA-570) which states that the emerging of highly successful competitors, is an indication of going concern problems 21.81% were uncertain which means they were not able to judge whether the emerging competitors would be successful and affects the going concern of the entity which is also stated in (ISA-570) that human judgemental has to be applied as the indications are not conclusive and materiality has to be considered.

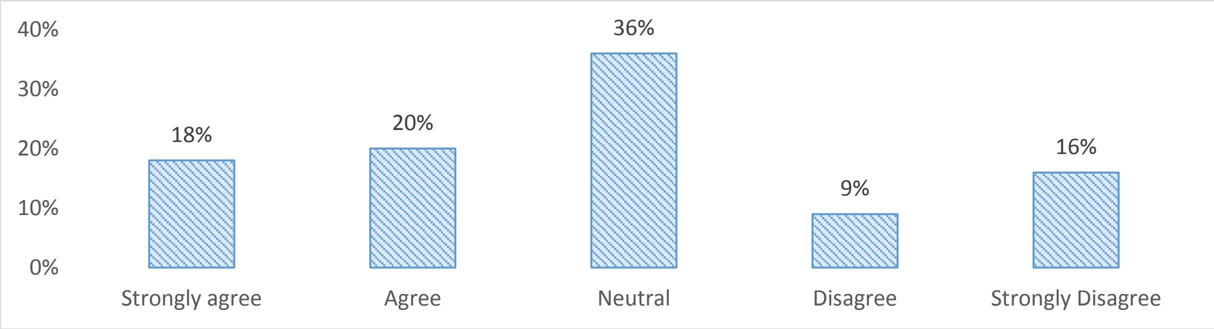
Overall, the mode of the data is 78.18% which means that the going concern concept of Best Bake Foods is under threat which is supported by ISA-570 which states that the emerging of highly successful competitors, is an indication of going concern problems

4.2.4.2 Exit of key stakeholders as an indicator of going concern problems

Table 4.2l: Showing response rate on exiting of stakeholders as a going concern indicator

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Respondents	10	11	20	5	9

Figure 4.2l: Graph showing response percentage on exiting of stakeholders as a going concern indicator



Source: primary data

In figure 4.2l, 10 out of 55 (18.18%) strongly agreed, 11 out of 55 (20%) agreed, 20 out of 55 (36.36%) were neutral, 5 out of 55 (9.09%) disagreed and 9 out of 55 (16.36%) strongly disagreed that the entity is losing key stakeholders. This means that 38.18% agreed that the entity is losing key stakeholders because of funding gap which is in line with (security and exchange commission of Pakistan) which says that the key area to consider when assessing the going concern for small entities include the risk that banks, government and other creditors may pull out to assist the entity financially. 36.36% were neutral which means they were not familiar with the pulling out of stakeholders probably because they were not working hand in hand with major stakeholders. 25.45% disagreed which means that the entity is not losing major key stakeholders and still considered as a going concern which is stated in (ISA-570) that stability of major stakeholder is an indication that the entity have no going concern problems.

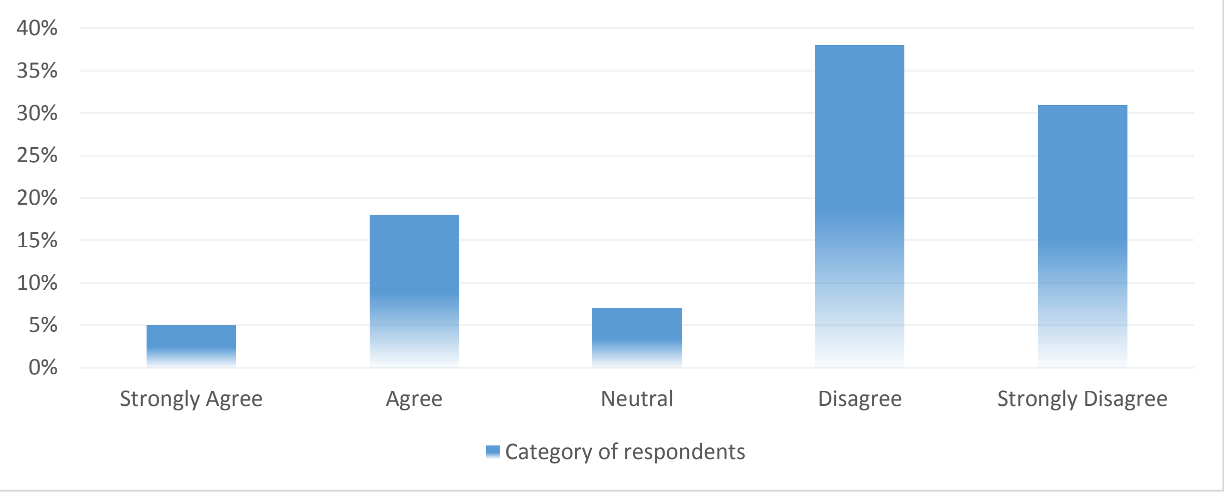
Overall, the mode of the data is 38.18% which means that the going concern concept of Best Bake Foods is under threat which is supported by ISA-570 which states that entities with going concern problems are indicated by pulling out of major stakeholders.

4.2.4.3 Exit of key management personnel without replacement.

Table 4.2m: Showing response rate on exiting of management as a going concern indicator

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Respondents	3	10	4	21	17

Figure 4.2m: Showing response percentage on exiting of management as a going concern indicator



Source: Primary data

The graph shows that 3 out of 55 (5.45%) strongly agreed, 10 out of 55 (18.18%) agreed, 4 out of 55 (7.25%) were not sure, 21 out of 55 (38.18%) disagreed and 17 out of 55 (30.91%) strongly disagreed that the entity is losing key personnel without replacement. This shows that 22.63% agreed which means that the entity has going concern problems as stated by (ISA-570) which stake that the going concern problems are indicated by lose of key personnel without replacement. 7.27% were not familiar about the question. 69.09% disagreed that the entity is losing key personnel without replacement which means that the entity has no going concern problems which is supported by ISA-570 which states that entities with no going concern problems retains the key personnel.

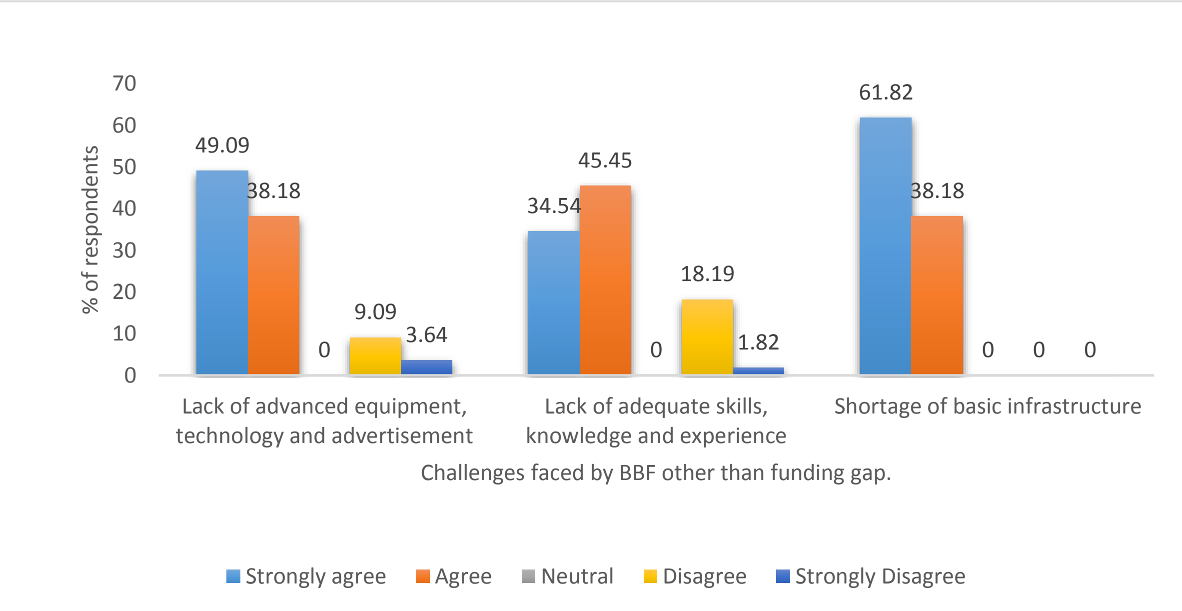
Overall, the mode of the data is 69.09% which means that the going concern concept of Best Bake Foods is still viable which is supported by ISA-570 which states that entities with no going concern problems are indicated by stability of major stakeholders such as creditors, suppliers and customers.

4.2.7 Respondents opinions on other challenges other than funding gap faced by BBF.

Table 4.2n: Showing response rate on exiting of management as a going concern indicator

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Respondents: Equip and Technology	27	21	0	5	2
Skills, knowledge and experience	19	25	0	10	1
Basic Infrastructure	34	21	0	0	0

Figure 4.2n: Showing response percentage on exiting of management as a going concern indicator



Sauce: Primary data.

4.2.5.1 Lack of equipment and technology.

From *figure 4.2n* above 27 out of 55 (49.09%) strongly agree, 21 out of 55 (38.18%) disagreed, 0 out 0f 55 (0%) were neutral, 5 out of 55 (9.09%) disagreed and 2 out of 55 (3.64%) strongly disagreed that the entity if lacking equipment and technology. It means that 87.27% agreed that Best Bake Foods is lacking equipment and technology which is being caused by lack of funds. This is in line with Dumbu (2014) who supports that entities without funds will have challenges in acquiring new technology and equipment. 12.73% disagreed which means that the entity is not lacking technology and equipment which is caused by lack of funds and concurs with the view by Yan (2010) who says availability of cash and the existence of other problems are two different things which need to be addressed simultaneously.

Overall, the mode of the data is 87.27% which means that Best Bake Foods is lacking equipment and new technology which is supported by (Dumbu 2014) who postulates that lack of funding results in lack of adequate equipment and technology.

4.2.5.2 Lack skills and experience.

From *figure 4.2n* above 19 out of 55 (34.54%) strongly agreed, 25 out of 55 (45.45%) disagreed, 0 out 0f 55 (0%) were neutral, 10 out of 55 (18.19%) disagreed and 1 out of 55 (1.82%) strongly disagreed that the entity lacks adequate experience, skills and technology. This shows that 79.99% agreed which means Best Bake Foods is lacking skills and experience which is being caused by lack of funds. This coincides with (Quartey and Abor 2010) who postulates that SMEs that struggles to raise funds to finance operations are by no means out of other challenges that affects SMEs, they will always be having these problems. 20.01% disagreed which means that the entity is not lacking necessary skills and experience which is caused by lack of funds which also is in line with the view by Yan (2010) who says availability of cash and the existence of other problems are two different things which need to be addressed simultaneously.

Overall, the mode of the data is 79.99% which means that Best Bake Foods is lacking necessary skills and experience due to lack of funding which is supported by (Quartey and Abor 2010) who postulates that entities fails to address other challenges due to lack of funds.

4.2.5.3 Lack of basic infrastructure.

From *figure 4.2n* above 34 out of 55 (61.82%) strongly agree, 21 out of 55 (38.18%) disagreed, 0 out 0f 55 (0%) were neutral, 0 out of 55 (0%) disagreed and 0 out of 55 (0%) strongly disagreed that the entity if lacking basic infrastructure. It means that 100% agreed, which means that Best Bake Foods is lacking basic infrastructure which is being caused by lack of funds. This is in line with (Quartey and Abor 2010) who stipulated that it is difficulty to address other challenges that affects SMEs if the entity have got cash challenges.

Overall, the mode of the data is 100% which means that Best Bake Foods is lacking basic infrastructure which is in line with (Dumbu 2014) who postulates that lack of funding results in lack of basic infrastructure.

4.3 Interviews

4.3.1 Interview response rate

Table 4.3a: Interviews response rate

Respondents	Interviews arranged	Interviews conducted	Response rate (%)
Accounting manager	1	1	100
Sales manager	1	1	100
Production manager	1	1	100
Total	3	3	100

Source: Primary data

As shown by the table above, a total of 3 interviews was arranged to be contacted and all of them were successfully done, representing a 100% response rate. This rate is considered reliable as supported by (Spring 2011) who state that a reliable response rate is above 60% and the data was also valid as it addressed the questions at hand (Kumar 2011).

4.3.2 Interview responses

4.3.2.1 Causes of funding gap

Q1: In your own opinion what do you think may be the cause of funding gap at BBFs?

The reason behind this interview question was to find from the respondent's opinions what they think would be the causes of funding gap at Best Bake Foods.

The accountant manager pointed out that the funding gap exist because the entity has limited access to external funding due to stringent requirements, too much paper work and the borrowing costs are not bearable for SMEs. This responses concurs with 69.09% of the questionnaire respondents who agreed that lack of access to external funding causes funding gap. This is also supported by (RBZ 2014) who points out that the existence of funding gap in SMEs is caused by lack of access to funding.

The sales production manager said the lack of proper working capital management and too much drawings for personnel use contributes to the funding gap. This concurs with 61.82% of the respondents from questionnaires who agrees that funding gap is caused by poor working capital management which is also in line with Gama (2015) who said funding gap is a result of poor financial management skills.

The sales manager says that owner interference in the cash management brings the cash cycle into halt. This also backs up the results of 61.82% from questionnaires and coincides with Gama (2015) who said misappropriation of funds and poor financial management causes funding gap.

However, in overall, the above response shows that poor working capital management highly contribute to the existence of funding gap which is supported by (Rothberg 2012) who said entities should invest in cash flow management practices if they are to survive and grow.

4.3.2.2 Hindrances to capital market.

Q2: what may be the hindrances to BBFs from borrowing funds on the capital market?

The purpose for posing this question was to get an understanding from the respondents on the main factors which affects SMEs in accessing funds from financial institutions.

The accountant manager explained that the main challenge in accessing funds is the lack of collateral security since the assets of the entity are mainly current assets. This is in line with the view from (Mills and McCarthy 2014) who states that the collateral security owned by SMEs was hit by the financial crisis thus leaving SMEs with less borrowing muscles.

The production manager said political reasons are the main challenge that is affecting the entity in accessing funds since the requirements that are required by banks are too high such that they are merely to discriminate small business from accessing funds. This coincides with the view of Nyangara (2013) who postulated that banks denies the accessing of funds by SMEs in order to reverse the Indigenisation process in Zimbabwe.

The sales manager pointed towards the lack of clarity on business operations of Best Bake Foods due to poor business records and management. They explained that many micro finance institutions are prepared to help SMEs so long they are convinced that the business is profitable and its operations are sustainable of which SMEs fails to convince due to lack of business records. This is in line with the view by RBZ (2014) who says SMEs are run by the owner or close family members, and do not keep proper records due to trust within the family, however this affects them when applying for loans.

The results obtained by the researcher indicates that the main factor effecting SMEs in accessing funds is the lack of clarity on business operations.

4.3.2.3 Effects of funding gap

Q3: What do you think are the results of funding gap which are effecting the financial performance of BBFs?

The purpose for asking this question was to get an understanding from the respondents on the results of funding gap that are affecting the financial performance of the entity.

The production manager highlighted that the main effect of funding gap is being experienced in the production where production levels are not being matched to demand from customers due to lack of funds to purchase raw materials and maintain and repairing equipment. The entity is also failing to get quality raw materials from big customers. He explained further that when equipment is down, it takes almost a week for it to be repaired due to lack of funds to acquire spares. He also highlighted the fact during days of load shading, the company had no consistent source of power to continue production. Transport issue for taking finished products into the market was also mentioned. This is in line with 92.73% responses from questionnaires who agreed that funding gap causes bottlenecks in production which is also supported by Afeef (2011) who says if SMEs fails to get funds, operations will slow down and sometimes production stops.

The sales manager explained that many customers places big orders but the entity fails to deliver the orders in time or sometimes even fails to deliver at all which results in loss of many customers to competitors which is in line with 81.18% questionnaire respondents who agreed that Best Bake Foods fails to honour commitments due to lack of funds. This is also supported by Dong (2010) who stipulated that due to shortage of working capital, SMEs fails to honour some of their commitments

The accountant manager said that the profits of the entity are reduced by interest and penalties due to the failure to meet deadlines for payments. This is also supported by 81.18% results from questionnaire question who agreed that due to lack of funding, Best Bake Foods fails to honour commitments and also in line with Brown and Lee (2014) who supports that non availability of funds affects the credibility of SMEs.

The findings from interviews indicated that funding gap has a negative impact on financial performance of SMEs as shown by (Gama 2015) that funding gap negatively effects profitability.

4.3.2.4 Ways to reduce funding gap

Q4 In your own opinion what do you think can be the best way to reduce or eliminate funding gap at this organization?

The reason for asking this question was to find out the best way which can be used to eliminate funding gap at Best Bake Foods.

The sales manager proposed the outsourcing of contracts, leasing assets, temporary empoyment and acquiring equipment from auction as the best way for dealing with funding gap considering the fact that the entity do not have the requirements for accessing external loans. This is in support of 85.46% of the questionnaire respondents who agreed that financial bootstrapping is the best for SMEs. This is also in line with the findings from a research by Nyamwanza and Mavhiki (2014) who noted that SMEs prefer to use available resources to finance business than approaching banks.

The production manager suggested that if the entity engage in debt, credit, cash and inventory management practises, funding gap will be completely eliminated. This agrees to the 85.46% of the questionnaire respondents who agreed that investing in financial management training will reduce funding gap. Rothberg (2012) supports this view saying that if SMEs are to eliminate funding gap, the best way is to invest in financial management activities.

The accountant manager suggest the engagement of banks and government based financial assistance programs to secure funds. This is in line with 61.82% of the respondents who agreed that external funding is a solution to eliminate funding gap in SMEs. (OECD 2011 & 2015) also support the use of external investors and banks to eliminate funding gap in SMEs.

However the above results shows that the major ways which can be used to eliminate funding gap in SMEs is the use of financial bootstrapping methods and working capital management.

4.3.2.5 Creditworthiness and reputation.

Q5: Considering the cash challenges that is facing BBFs, to what extent has it affected the creditworthiness and reputation of the entity?

This question was meant to assess the going concern principle for Best Bake Foods.

The sales manager said the cash challenge is affecting the reputation and creditworthiness of the entity to the great extent such that it is losing many customers. He explained that the entity is depending on contract with new customers each time whilst the entity loses the old ones which is fast bringing the reputation of the business into shambles. This is in line with 38.18% from questionnaire respondents who agreed that Best Bake is losing key stakeholders which is also supported by Dong (2010) who says SMEs loses their previously gained market share due to lack of funding.

The production manager explained that the entity is failing to get cheaper raw materials of high quality from reputable suppliers because the suppliers are now avoiding the entity due to its poor payment terms. This is supported by (security and exchange commission of Pakistan) which said that the key area to consider when assessing the going concern for small entities include the risk that banks, government and other creditors may pull out to assist the entity financially. This is in line with 38.18% from questionnaire respondents who agreed that SMEs lose key stakeholders due to lack of commitments which are caused by lack of funding.

The accountant manager agreed that the cash challenge is affecting the reputation of the company, but it is only to a lesser extent since at the end of the day the company is managing to pay its creditors and salaries even though it fails to meet the agreed due dates, as compared to other companies that are going for more than a year without paying even salaries. This is backed up by an average of 31.51% of the questionnaire respondents who disagreed that the entity is losing major stakeholders which is also in line with Zindiye et al (2012) who says lack of funding will not scare away stakeholders if the entity have got best managers who plans ahead.

4.3.2.6 Other challenges facing BBFs

Q6: According to your own view, to what extent do you think that other challenges that are facing BBFs may be attributed to funding gap?

This question was asked to find out whether the challenges that are being faced by Best Bake Foods are caused by funding gap or not.

The production manager was of the opinion that funding gap is the reason why Best Bake Foods is failing to maintain and acquire new equipment and adapt to new technology. This is in line with 87.27% of the questionnaire respondents who agreed that Best Bake Foods is also lacking equipment and technology. This is also supported by Quartey and Abor (2010) who noted that SMEs need finance to acquire equipment and new technologies.

The sales manager says the entity is failing to advertise and make promotions to customers because of the lack of funds in the entity. This is in line with 87.27% of the research sample who agreed that due to funding gap, entities fail to advertise their products which is also supported by Quartey and Abor (2010) who says entities requires finance to advertise and remain competitive in the market.

The accountant manager was of the opinion that the challenges that are faced by Best Bake Foods are not as a result of funding gap. He explained that these challenges are only rising at a time when there is a funding gap but they are better attributed to the poor planning by some of our managers as well as to stiff competition being faced by the entity. 9.7% of the respondents on average of the questionnaire respondents supports this. This also concurs with the views of Yan (2010) who says institutions which try to assist SMEs by merely addressing the funding gap will fail to yield results.

These findings suggest that there is a direct relationship between funding gap and other challenges that affects SMEs.

4.4 Secondary data analysis.

The researcher was given authority to analyse the financial statements of the entity and working capital budgets for the period under study. The researcher observed that the entity had a funding gap which existed in its working capital budget since 2013 and up to 2015 it was still open. It was also observed that the gap continued to exist even after the entity had managed to get two consecutive loans in 2014 and 2015. This support the view by Gama (2015) who says that SMEs can still have the funding gap even after accessing funds due to poor working capital management and misappropriation of funds. It was also noticed that the entity had outstanding debts which were due by the end of 2014 financial year. This helps to support the findings from the interview which highlighted that the profits of the entity are reduced by penalties and interest due to failure to meet deadlines.

Table 4.4a: Trends for other challenges and funding gap (in % 2013-2015).

	2013	2014	2015
Funding gap % increase	28	33	36
Other challenges% increase	45	50	75

Figure 4.4a: Trends for other challenges and funding gap (in % 2013-2015).

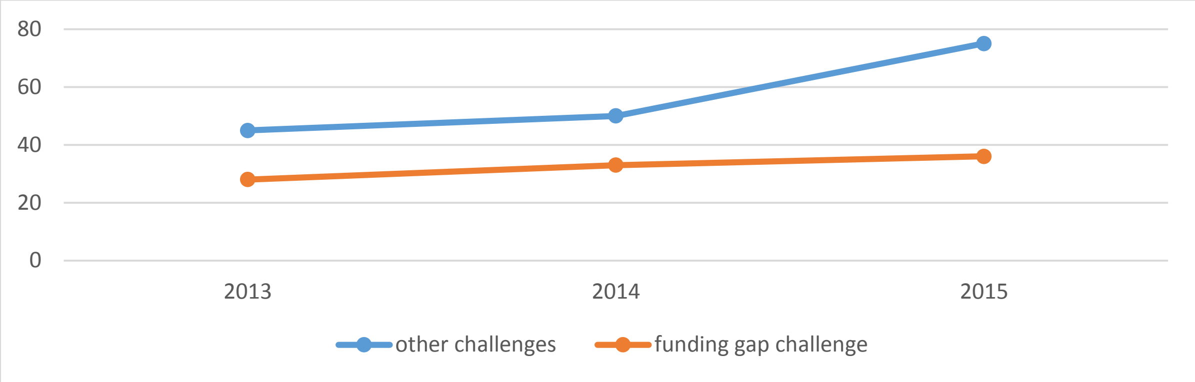


Figure 4.4a Funding gap and other challenges that effects Best Bake (self-generated).

The data in the graph above was fed in the SPSS application to establish the relation between the two variables using linear regression. The data for funding gap was extracted from secondary sources whilst the percentage for other challenges was obtained from management through the way of judgemental estimates. The following was obtain as an output.

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Funding gap [b]	.	Enter

a. Dependent Variable: other SMEs challenges

b. All requested variables entered.

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-50.343	62.323		-.808	.567
	Funding gap	3.286	1.903	.865	1.727	.334

a. Dependent Variable: other challenges

***r* = +0.865**

The above results shows a strong positive relationship between Funding gap and other challenges that affects Best Bake Foods. This is supported by 66.66% and 89.09% of the interview and questionnaires respondents respectively who agreed that the existence of other challenges is caused by the existence of funding gap. This is also in line with the opinion of Quartey and Abor (2010) who pinpointed that funding gap is usually evidenced by the existence of these other challenges such as lack of infrastructure and equipment.

4.5 Summary

This chapter focused on the presentation and analysis of data obtained from the field that is crucial for making informed recommendations. The following chapter concentrate on recommendations and conclusion for the whole research.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter reviews and gives a summary of all chapters. The major findings about the impact of funding gap on financial performance of SMEs which were obtained from data analysis was discussed in this chapter which led to the drawing of conclusion for the whole study. Basing on the conclusion the researcher suggest the recommendations for eliminating funding gap at the end of the chapter.

5.1 Chapter summaries

5.1.1 Chapter 1

Chapter 1 introduced the research topic which is, "Analysing the impact of funding gap on financial performance of SMEs, Case study Best Bake Foods Pvt Ltd". It focused on highlighting the existence of funding gap which contributed to the rise of many areas of concern for the survival of the entity. It explained further that the shortage of funds has delayed the payment of credit supplies, the payment of loans interest, payment of salaries, delivery of profitable orders, maintenance of equipment to name just a few. The chapter also introduced the objectives, limitation, research questions, assumptions and delimitations of the study.

5.1.2 Chapter 2

This chapter involves a detailed analysis of previously researched literature on the impact of funding gap on financial performance of SMEs being guided by the research objectives. The main authors were Mills and MacCarthy (2014), (RBZ 2014), Nyamwanza and Mavhiki (2014), Rothberg (2012) and Quartey and Abor (2010). Mills and McCarthy (2014) postulated that SMEs fail to access banks due to lack of collateral security which was hit hard during the financial crises period. RBZ (2014) says existence of funding gap results in profitable tenders and projects being postponed or forfeited. Nyamwanza and Mavhiki (2014) state that SMEs are not willing to approach financial institutions but rather prefer to grow their businesses organically due to the fear to lose control. Rothberg (2012) says good cash flow management is vital for sustainability and survival of a business. Quartey and Abor (2010) stipulated that SMEs need funding in order to develop their activities, higher skilled labour, remain competitive and acquire new technology and equipment.

5.1.3 Chapter 3

The research methodology which was used to gather data was discussed in chapter 3. A combination of correlation, explanatory and descriptive case study design was used in this study to allow for the provision of information on the ground, establishment of relationships and explanation of why and how the relations exist. Mixed method approach was used for the study because the study had both qualitative and quantitative objectives and also for its main advantage of data triangulation. A sample of 65 out of 95 was used which was selected using stratified random sampling. Both primary and secondary data was gathered for triangulation of data. Closed ended questionnaires and face to face interview were also used simultaneously to support the data obtained from one another. An over view of data validity, reliability, data presentation and summary concluded the chapter.

5.1.4 Chapter 4

The data which was obtained through questionnaires, interviews and company records was presented in form of tables, charts and graphs and a further analyses was done in this chapter. The data that was obtained from one instrument was compared with the data from another instrument as well as secondary data and previous authors' opinions.

5.2 Major Research findings.

5.2.1 Main causes of funding gap.

The researcher observed that 34 out of 55 (61.81%) support that poor working capital management causes funding gap which is also in line with the response from the sales manager. 38 out of 55 (69.09%) respondents agreed that lack of access to funding causes funding gap and was also supported by the accountant manager who says the entity has limited access to moderately good funding facilities due to stringent requirements, too much paper work and high borrowing costs. 19 out of 55 (34.55%) support that SMEs have a funding gap because they are reluctant to borrow. 28 out of 55 (50.91%) support that high borrowing costs and long application process contribute to the existence of funding gap. This was also mentioned by the accountant manager.

5.2.2 Immediate effects of funding gap.

43 out of 55 (78.18%) supported that stunted growth results from funding gap. 44 out of 55 (80%) agreed that SMEs fail to meet their targeted profits due to lack of funding. 51 out of 55 (92.73%) supports that funding gap affects the flow of production which is in line with the response from the production manager who stipulated that they lacks news equipment, power, new technologies, skilled personnel and quality raw materials due to funding gap. 45 out of 55 (81.18%) agreed that SMEs fail to honour commitments due to lack of funding which is in line with the response from the sales manager and accountant manager who say many customers places big orders but the entity delays or fail to deliver the order and also due to penalties and interest, the profits of the entity are reduced.

5.2.3 Ways of eliminating Funding gap in SMEs.

34 out of 55 (61.82%) suggest the use of external funding which is in support of the opinion from the accountant manager who says the entity should approach banks and other government

based financial assistance programs to immediately eliminate funding gap. 47 out of 55 (85.45%) suggest that working capital management can eliminate funding gap which is in line with the view of the sales manager who said that engagement in debtors, creditors, cash and inventory management practise can eliminate funding gap. 47 out of 55 (85.45%) supports the use of financial bootstrapping methods to eliminate funding gap which was also suggested by the sales manager who said that due to the lack of loan acquisition requirements, the entity should adopt the use of internally available resources and reduce the need for funding..

5.2.4 Assessment of going concern concept of the entity.

43 out of 55 (78.18%) agreed that the entity might face strong completion from the competitors that are emerging which was explained by the sales manager that the company is currently losing many customers to its rivals. 21 out of 55 (38.18%) agreed that the entity is losing key stakeholders due to the effects of funding gap and was supported by the production manager who says the entity is failing to get quality raw materials from big customers due to its bad reputation. 38 out of 55 (69.09%) disagreed that the entity is losing key personnel without replacement. This is supported by the accountant manager who says even though the entity is having cash challenges, at the end of the day salaries are paid though delayed but the entity cannot be compared to other entities which are failing at all.

5.2.5 Relationship between funding gap and other challenges affecting SMEs.

48 out of 55 (87.27%) agreed that the entity lacks equipment and technology because of funding gap which was supported by the production manager who said they are lacking new equipment and technologies. 44 out of 55 (79.99%) agreed that the entity is lacking necessary skills and experience due to the funding gap. 55 out of 55 (100%) agreed that the entity lacks basic infrastructure because of funding gap. The sales manager explained that the entity is failing to

advertise and make promotions due to the funding gap. A correlation coefficient of +0.865 was obtained between funding gap and other challenges that affects SMEs.

5.3 Research conclusions

Best Bake Foods Pvt Ltd was facing cash challenges to service ongoing operations and financing new standing tenders. This was negatively affecting the financial performance and threatening the going concern concept of the entity. However the research was done successfully and working capital management and financial bootstrapping methods were considered to be the best methods to eliminate the funding gap.

5.4 Recommendations

Basing on the above findings from this research, the researcher was encouraged to give the following recommendations.

- There is need to invest in cash flow management. This is to say there is need to improve the debt management section, credit management section, cash and inventory movement. This can be done by recruiting new personnel with relevant skills or engaging in training services to the existing staff.
- There is also a need to adopt financial bootstrapping methods-

    a) Refrain from and deferring avoidable expenditure and personal drawings

    b) Avoiding permanent workers where possible, using temporary and outsourcing method.

    c) Leasing machines and buying used ones than brand new.

    d) Carefully negotiating with customers and suppliers where possible collecting cash before delivery.

    d) Engage in cost reduction accounting

- Best Bake Foods can also arrange business seminars with other businesses in the same industry and discuss on how other entities' are going around the causes and effects of funding gap.
- Best Bake Foods should also maintain proper business records in case the need to source funds from external sources arise, the business operations will be clearly defined and become easy to convince financial institutions.

5.5 Area of further study

The researcher suggest that a closer look on the *'impact of funding gap on service delivery of SMEs in Zimbabwe: case study of a retail entity in Bulawayo'* would be fruitful. This will allow the researcher to compare the results of this study and those obtained.

5.6 Summary

A summary of all chapters was discussed in this chapter. The chapter focused on the discussion of the main findings from data analysis which enabled the researcher to draw a conclusion from which the recommendations of the study comes from. The researcher suggested an area of further study at the end of the chapter.

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APPENDIX: A PERMISSION REQUEST LETTER

Midlands State University

P Bag 9055

Gweru

/04/2016

Best Bake Foods Pvt Ltd

16963 Sande Crescent road

Graniteside

Harare

Dear Sir/Madam

RE: Application for permission to carry out research at your organization

My name is Innocent Shumba Reg No R124234X, currently doing my bachelor of Commerce Honors Degree in Accounting at Midlands State University. I am kindly asking for a permission to carry out a research on the topic *"the impact of funding gap on financial performance of SMEs"*.The research is a requirement for the fulfillment of the degree program. I assure you that the information to be gathered from this research is for academic purposes only and will be kept confidential.

Yours Faithfully

Innocent Shumba.

Midlands State University

P Bag 9055

Gweru

/04/2016

Best Bake Foods Pvt Ltd

16963 Sande Crescent road

Graniteside

Harare

Dear respondent

My name is Innocent Shumba, student at the Midlands State University, Reg No – R124234X, currently studying Bachelor of Commerce Accounting Honours Degree. I'm carrying out a research on "*the impact of funding gap on financial performance of SMEs***"** which is a requirement for the fulfillment of my Bachelor of Commerce accounting Honours degree, Am kindly asking for your assistance in filling in this questionnaire? The information will be treated with confidentiality and will be used for academic purposes only.

Thank you very much for your cooperation

Yours

Innocent Shumba.

APPENDIX B: QUESTIONAIRE GUIDE

INSTRUCTIONS

1. ***Do not put your name on the questionnaire***
2. ***Show your answer by just ticking in the respective answer box***
3. ***Where applicable give your opinion on the blank space provided***
4. ***Ratings [strongly disagree-1, disagree-2, uncertain-3, agree-4 and strongly agree-5]***

QUESTIONNAIRE FOR BBF (Pvt) Ltd RESPONDENTS

SECTION A: PERSONAL INFORMATION

NB: Tick the appropriate box.

1. QUALIFICATION

Certificate	Diploma	Degree	Masters	Other (specify)

2. SEX

Male	**Female**

3.AGE

-25	25-34	35-45	45+

SECTION B:

4.The following are the challenges to BBFs in acquiring funds on the capital market to eliminate funding gap:

Cause	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Lack of access to external credit facilities					
Lack of working capital management					
Not approaching banks since they know they will be rejected					
High cost and long application process to apply for loans.					

5.The following are factors caused by funding gap that affects performance. How far do you agree that these conditions exist at BBFs:

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Stagnant growth					
Missing of profits targets					
Bottlenecks in production					
Failing to honour commitments to external parties.					

6.The following are ways which can be used to eliminate funding gap at BBFs, how far do you agree:

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Get funds from external parties					
Invest in working capital management					
Use Financial bootstrapping methods					

7.The following can result from funding gap, Does BBFs experience the following:

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Emerging of highly successful competitors					
Pulling off of key stakeholders(e.g customers, creditors & suppliers)					
Loss without replacement of key management personnel					

8.BBFs is facing the following:

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Lacking advanced equipment, advertisement & technology.					
Lack of adequate experience, knowledge and skills.					
Shortage of basic infrastructure(transport, power & buildings)					

Thank you for your time.

APPENDIX C: INTERVIEW GUIDE-FOR BBFs OFFICIALS.

1. In your own opinion what do you think may be the cause of funding gap at BBFs?

2. What may be the hindrances to BBFs from borrowing funds on the capital market?

3. What do you think are the results of funding gap which are effecting the financial performance of BBFs?

4. In your own opinion what do you think can be the best way to reduce or eliminate funding gap at this organization?

5. Considering the cash challenges that is facing BBFs, to what extent has it affected the creditworthiness and reputation of the entity?

6. According to your own view, to what extent do you think that other challenges that are facing BBFs may be attributed to funding gap?

Thank you for your contribution.