

# MIDLANDS STATE UNIVERSITY



**FACULTY OF ARTS**

**DEPARTMENT OF DEVELOPMENT STUDIES**

---

**DISSERTATION TOPIC**

**EFFECTs OF SMEs IN EXPANDING SUSTAINABLE LIVELIHOODS IN  
BINDURA URBAN**

**BY**

**SOLLOW MAFUTA**

**R143801H**

**SUPERVISOR PROFFESSOR J MATUNHU**

**MAY 2018**

**THE DISSERTATION IS IN PARTIAL FULFILMENT OF THE  
REQUIREMENTS OF THE BACHELOR OF ARTS (HONOURS) DEGREE  
IN DEVELOPMENT STUDIES WITH MIDLANDS STATE UNIVERSITY**

## **ABSTRACT**

*The purpose of the study was to explore the effects of SMEs on improving sustainable livelihoods in Zimbabwe and also to establish the challenges faced by the entrepreneurs that inhibit the growth of the sector. SMEs are the major economic drivers of Zimbabwe due to the outstanding impacts that include employment creation, wealth generation amongst others. A survey was carried out on a sample of 80 SMEs from the provincial town of Mashonaland Central that is Bindura Urban. The impacts of SMEs were measured in terms of empowerment, income generation as well as employment. The SMEs varied from retailing to services. Statistical data analysis was carried out to bring about the effects of these SMEs as well as the challenges they are facing. Findings show that indeed SMEs contributed significantly to employment creation and revenue accumulation. Major challenges hampering their growth included lack of access to finance, regulatory environment, competition and technology. Based on findings, the study provides some suggestions and recommendations that sought to enhance the growth of the SMEs. Policy makers are urged to smoothen the regulatory system so as to ease the way of doing business. Capacity building should also be vitalized so as to encourage entrepreneurship skills amongst owners and managers of SMEs to ensure growth and above all financial inclusivity to dovetail accelerated growth of small businesses.*

## APPROVAL FORM

The undersigned certify that they have supervised, read and recommend to the Midlands State University for acceptance a dissertation entitled:

“The effect of SMEs on expanding sustainable livelihoods. A case of Bindura Urban”

Submitted by Sollow Mafuta (R143801H) in partial fulfilment of the requirements of the Bachelor of Arts in Development Studies (Honours) Degree at Midlands State University.

.....

SUPERVISOR

.....

DATE

.....

CHAIRPERSON

.....

DATE

.....

EXTERNAL EXAMINER

.....

DATE

## RELEASE FORM

**NAME OF STUDENT:** Sollow Mafuta

**DISSERTATION TITLE:** The effects of SMEs on expanding sustainable livelihoods.  
A case of Bindura Urban.

**DEGREE TITLE:** Bachelor of Arts in Development Studies Honours Degree

**YEAR THE DEGREE IS GRANTED:** 2018

Permission is hereby granted to the Midlands State University Library to produce single copies of this dissertation and to lend or sell such copies for private, scholarly or scientific research purpose only. The author reserves other publication rights and neither the dissertation nor extensive extracts from it may be printed or otherwise reproduced without the author's written permission.

**SIGNED:** -----

**DATE** -----

**PERMANENT ADDRESS:** 1122 Rujeko  
Glendale  
Mazowe

## **DEDICATIONS**

This study is dedicated to my family who are my source of inspiration and motivation to achieve greater endeavors.

## **ACKNOWLEDGEMENTS**

I would like to extend my utmost gratitude to the Lord Almighty without whom I wouldn't have been this successful. Exceedingly, I want to thank my parents Mr. and Mrs. Mafuta for the unwavering love and support through the course of my studies.

Big shout out goes to Knowledge and Nick Mafuta for the motivation and my friends who have been inspiring during the four years. Finally, I would like to thank Professor J Matunhu my supervisor for the guidance in this research project. Your efforts are greatly appreciated.

## **LIST OF ABBREVIATIONS**

SME	Small and Medium Enterprises
RBZ	Reserve Bank of Zimbabwe
SEDCO	Small Enterprises development Corporation
MoSMED	Ministry of Small and Medium Enterprises Development
GDP	Gross Domestic Product
GNP	Gross National Produce
HDI	Human Development Index
SPSS	Statistical Package for Social Science
ADB	African Development Bank

## **LIST OF APPENDICES**

Appendix A introduction letter

Appendix B questionnaire

Appendix C List of figures

Appendix D List of tables



## Table of contents

<b>Chapter One</b> .....	
Introduction .....	
Background of study.....	
Statement of the problem.....	
Theoretical framework.....	
Conceptual framework.....	
Research aims and objectives.....	
Research questions.....	
Significance of the study.....	
Limitations of the study.....	
Ethical considerations.....	
Scope of study.....	
Dissertation outline.....	
Summary.....	
<b>CHAPTER TWO</b> .....	
Literature review.....	
Introduction .....	
Characteristics.....	
SMEs Global overview.....	
Importance to the government.....	
Importance to the local community.....	
SMEs in the informal sector.....	
Contributions to the Zimbabwean economy.....	

Employment creation.....	
Poverty alleviation.....	
Contribution to economic growth.....	
Barriers to SME growth.....	
Access to finance.....	
Regulatory environment.....	
Poor infrastructure.....	
Managerial skills.....	
<b>CHAPTER THREE.....</b>	
Introduction.....	
Research design.....	
Descriptive research design.....	
Justification of descriptive design.....	
Population.....	
Sample.....	
Sampling.....	
Probability sampling.....	
Non probability sampling.....	
Sampling method used.....	
Sources of data.....	
Primary sources advantages and disadvantages.....	
Secondary sources advantages and disadvantages.....	
Research instruments.....	
Questionnaires.....	
Advantages of closed questionnaire.....	
Administering the questionnaire.....	
Pretesting.....	

Types of questions.....

Advantages and disadvantages.....

Data validity.....

Data reliability.....

**CHAPTER FOUR**

**RESEARCH FINDINGS AND DISCUSSIONS.....**

Introduction.....

Response rate.....

Demographic profile of respondents.....

Respondents age profile.....

Respondents level of education.....

Gender of respondents.....

Position of respondents.....

Demographic profile of business.....

Business description.....

Source of capital.....

Location of business.....

Number of employees.....

Annual turnover.....

Length of business experience.....

Legal status of business.....

Challenges faced by SMEs.....

Government support towards SMEs.....

Living standards in relation to SMEs.....

Summary.....

**CHAPTER FIVE.....**

Introduction.....

Executive summary.....

Conclusions.....

Recommendations.....

Chapter summary.....

## **Chapter One**

### **Problem and its setting**

#### **1.1 Introduction**

The role played by SMEs in the contemporary world has become important due to entrepreneurship and firm creation which is now mostly related to small and micro enterprises which has drawn attention to policy makers to look at them as a pertinent development agency. Small and medium enterprises have become a powerful force in the provision of new products and services and creating needed employment in both developing and developed countries Jenkins (2004). World over, SMEs are seen by policy makers as an ideal way to boost economic growth and overall sustainable development. Sharma (2008) is of the view that the rapid development of Asian countries such as Malaysia, Hong Kong, Thailand, China and Indonesia can be explained in respect of the growth of SMEs. SMEs also play a crucial role in poverty alleviation, income generation and expansion of livelihoods as they are an effective instrument.

Abor and Quartey subscribe to the view and they describe SMEs as an efficient and prolific employment creator and the seeds for future large business corporations and engines for economic prosperity. Henceforth the vibrancy for SME sector is imperative for development of any economy particularly Zimbabwe. The RBZ (2014) acknowledges that the deindustrialization of the economy gave rise to the influx of SMEs particularly manufacturing sector. The sector however faces some challenges which vary from access to finance, technology amongst others. As the SMEs are inextricably linked to development it is important that the government and other multilateral institutions come up with a number of initiatives to enable sustainable growth.

## **1.2 Background of the study**

Notably, during the nineties, business development slowed down and economy weakened as a result of low investment, adverse microeconomic environment and downscaling of industrial production. From 2000 to 2008 the formal sector shrunk dramatically on account of company closures and retrenchments subsequently leading to high levels of unemployment. Since then SMEs have been dominating the country's economy and the government has prioritized the SME sector growth as a vehicle for addressing the national problems of unemployment, economic growth and equitable wealth distribution among Zimbabweans Goriwondo (2009). This mainly due to the fact that the contribution made during this period was undisputed. Gangata (2013) added that the sector became a safety net where the majority of Zimbabweans found their means of survival. According to Finscope 2012 60% of GDP came from SME sector. SMEs employ approximately 5.7 million people (2.8 million owners and 2.9 million employees) representing 73% of the total workforce of 7.8 million. It is however paradoxical that SMEs play a key role in economic growth yet there is no clear framework to support them. Financial exclusion and other challenges dominate the sector and it has not experienced anticipated growth as a few survive up to five years showing a lack of sustainability.

## **1.3 Statement of the problem**

The study has been influenced mainly by the prevailing economic climate in the present day Zimbabwe. Poverty and unemployment have been rampant in the country associated with high income disparities. Arguably, SMEs prosper in economies that have low production levels and industrial cutback. In such a case SMEs tend to fill in the gap left by the large enterprises. It is also important to note that the people in Mashonaland Central particularly Bindura depend on agriculture as a livelihood. Due to the climatic conditions rain fed agriculture has not been the

producing the best of results and as such, people have been idle due to joblessness. Moreover, annually a number of students are graduating from their respective learning institutions and have not been able to be formally employed in the formal sector thus they have remained jobless at home. In the face of these adverse constraints to livelihood, venturing in the small business sector presents an ideal way for income generation and poverty alleviation. The formation of the ministry of Small and Medium Enterprises shows the importance of these small scale businesses in the economy. It is against this background that the research sought to evaluate the effects of these SMEs on the livelihoods of the people.

#### **1.4 Theoretical Framework**

Conceptualization of the development of SMEs sector has been associated with many theories that have been propounded in relation to their growth. The main theory has been the labor surplus theory which was postulated by Lewis (1955). He argued that the driving force behind the SME development is premised on excess labor supply which cannot be absorbed in the formal sector or large private enterprises and is forced into SME despite poor pay and low productivity. Therefore, SME sector grows or develops in response to unemployment and acting as a place of last resort for people who have been denied access to formal employment. This can be explained by the models that describe the growth of SMEs that is the passive model and the Stochastic and Determinist models.

The passive learning model is whereby a firm enters a market without knowing its potential growth. Only after entry does the firm start to learn about distribution of its profitability based on information from realized profits. By continually updating such learning, the firm can then decide to expand or to exit which is directly related to most SMEs operating in Zimbabwe and as such many SMEs are short-lived. The Stochastic and Determinist models however argues that

size and age does not affect firm growth. According to Giovanni et al (2002) deterministic approach assumes on contrary, that differences in the growth across firms depend on a set of observable industry and firm characteristics.

## **1.5 Definitions**

**Livelihoods** refers to the availability of suitable stocks and enough cash and food flows to meet the basic need of a family. According to chambers and Conway (1991) are ways used to attain a living. They can also be affected by gender since it is a social construct thus one could be specialized or apprenticed to take a livelihood strategy. Desperation and education can also affect a pool of livelihood strategies from which to choose from.

**Sustainability** refers to the ability of one to cope with shocks and stress according to Chambers and Conway (1991). People have to maintain livelihood strategies for them to be sustainable. A household can be considered sustainable when they have asserts and in possession of stable employment that pays adequately to meet the basic requirements.

**Empowerment** economic social and political and varies across different people but is defined as self-reliance, self-power, choice, control, independence, ability to negotiate and achieve your cause. SMEs can empower people particularly women and the youth in terms of social elevation and community decisions.

## **SMEs**

There is no single or universal accepted definition of SMEs. There are many indicators that are used to define SMEs. Helmsing (1993) agrees to the fact that there is no global agreed definition for an SME and noted that even in single jurisdiction, SMEs can have several definitions which they operate in. some of the criteria used to define SME in literature include capital asserts,



number of employees, type of industry, ownership of enterprise and turnover levels. Definition also varies from country to country and between reporting entities (Nyanga et al 2013). In Egypt are defined as having more than 5 and fewer than 50, Vietnam considers between 30 and 300 employees. The World Bank define SMEs as enterprises with a maximum of 300 employees, \$15 million in asserts, \$15 million annual revenue. European Union (EU) defines based on the number of employees which employ less than 500.it distinguishes between micro (less than 9), small (between 10 and 99) and medium (between 100 and 499). Storey (1994) argues that European Union definition is more convincing as it acknowledges that SMEs are heterogeneous. Table 1 below shows some definitions by multilateral institutions.

<b>Institution</b>	<b>Maximum number of employees</b>	<b>Maximum revenue turnover \$</b>	<b>Maximum asserts \$</b>
World bank	300	15,000,000	15,000,000
MIF-IADB	100	3,000,000	None
African Development Bank	50	None	None
Asian Development Bank	No official definition but uses definitions of individuals national	No official definition but uses definitions of individuals national	No official definition but uses definitions of individuals national

*Source:* Bookings Global Economy and Development 2008

#### SME Definitions by Multilateral Institutions

From table 1, it becomes evident how definitions of SMEs can be. It can be noted that the World Bank definition encompasses enterprises that are three times larger by employees and five times larger by turnover or asserts than SMEs under the Multilateral Investment Fund. However, in South Africa under the National Business Act of 1996 makes use of number of employees per company criterion combined with gross asserts and annual turnover.

Table 2 Definitions of SMEs according to the South African Small Business Act

<b>Enterprise Size</b>	<b>Number of Employees</b>	<b>Annual Turnover (In SA Rands)</b>	<b>Gross Asserts (excluding Fixed Property)</b>
Medium	Fewer than 100 to 200 depending on industry	Less than R4 million to R25 million depending on industry	Less than R2 million to R18 million depending on industry
small	Fewer than 50	Less than R2 million to R25 million depending on industry	Less than R2 million to R4.5 million depending on industry
micro	Fewer than five	Less than R150 000	Less than R100 000

Source: Abor and Quartey (2010)

In Zimbabwe there are three commonly definitions of SMEs based on the number of employees, assert base and legal status. According to SEDCO 2010, a small and medium enterprise has no more than 100 employees and annual assert turnover of \$830000. They also differentiate informal enterprises from SMEs based on their legal status. Informal enterprises are those operations that are not registered in terms of Companies Act (Chapter 190). The Ministry of Small and Medium Enterprises and Cooperative Development (MoSME&CD) defines SMEs as legal business with attributes that include a turnover of less than \$800000, maximum full time permanent number of 100 and the fact that it is not an associate, subsidiary or branch of a large organization.

Table 3: Zimbabwean Government Definition by number of employees

Sector/sub-sector	Size	Maximum number of full time employees
Agriculture, manufacturing and mining	Micro	5
	Small	50
	Medium	100
Construction, transport, retail, tourism, catering, arts and crafts ,wholesale and fisheries	micro	5
	small	30
	medium	50

Source: MoSMED

## Policy Document

From the above definitions, one can depict that the commonly used variable to define SMEs is employment or the number of employees. Others prefer using the sales threshold to distinguish small businesses from large corporative. Storey (1994) however criticizes the use of sales figures to determine the size of business as it tends to generalize every item resulting in firms in the same sectors all being classified as small in other sectors while other sectors can be classified as large. It is also crucial to note that in spite of different definitions of SMEs, there are three generic elements of SMEs that encompass the number of employees, level of capital and legal status. In both local and international definitions, the maximum number of employees for a small business is 50 and the minimum number for the medium enterprise is 50 and the maximum number is 500 depending on industry or sector. Maximum capital base is \$830000 and legal registration is used to distinguish them from enterprises operating in the informal sector.

### **1.6 Research Aims and Objectives**

- Assess the impact of SMEs on the socio-economic status of people in Bindura.
- Identify impediments hampering the growth of SMEs.
- Suggest recommendations for effective growth so as to foster sustainable livelihoods.

### **1.7 Research Questions**

- How has the SME sector contributed to improved livelihoods of the people in Bindura?
- Has the SMES sector contributed meaningfully to economic growth?
- What are the challenges being faced by the SME operators in Bindura?
- Have the SMEs received any form of support from the government or local authorities?
- What can be done by the government to promote the growth of SMEs?

## **1.8 Significance of the study**

In Bindura urban, small scale enterprise dominated and play a center stage role contributing extensively to the growth and development of the community. To this end, studies based on impacts and growth of SMEs does present some significance. Recommendations made in this study aim to assist SME owners to promote business performance, the Zimbabwean government, financiers and development agencies to get insights on ways to improve the sector and generate policies that address challenges faced by entrepreneurs. To the researcher, a deeper understanding would go a long way in bolstering career as a development practitioner. To the Midlands State University, research is poised at expanding general knowledge base in the research area.

## **1.9 Limitations of the Study**

**Time:** this was the researcher's major constrain as the research required more time than was initially used to conduct it so as to cover more ground. Other commitments also resulted in failure to dedicate all his work to the study. However, researcher tried to dedicate as much time as possible to make the study a success.

**Costs:** financial injections was also a major challenge that was faced by the researcher. These included transport costs and the money required to print questionnaires.

## **1.10 Ethical considerations**

The researcher made sure that he had the participant's permission before conducting the study. The researcher also informed the respondents of their rights before taking part which includes the right to discontinue at any stage within the study as well as the right to undisclosed information they wouldn't want to. The researcher used strict privacy and confidentiality of respondents.

### **1.11 Scope of the Study**

The study evaluates the effect of SMEs on development particularly expansion of livelihoods and also the factors hampering their performance. Research was carried out in Bindura Urban.

### **1.12 Dissertation outline**

Dissertation is arranged into five chapters

**Chapter 1(Introduction)** sets the dissertation into motion and it is the foundation for the study.

It includes background, statement of problem, research objectives, significance of study, scope of study and dissertation structure

**Chapter 2(Literature Review)** the chapter gives empirical data and literature on the subject in question and provides basis on which the findings are discussed.

**Chapter 3(Research Methodology)** covers the research method used in the study. It explores data collection method and their justification and also how data is processed and outlined.

**Chapter 4(Research Findings and Analysis)** it outlines the research findings while

**Chapter 5** presents conclusions, recommendations and suggestions about areas of further studies.

### **1.13 Chapter Summary**

This chapter kick starts with the problem on which research is centered upon. Contextual background of the study is stated, highlighted research objectives, limitations, theoretical and definition of terms.

## **Chapter two: Literature Review**

### **2.1 Introduction**

This chapter outlines the global overview and explores the literature on the subject in question. The theme of the research study is the effect on SMEs on expanding livelihoods and sustainable development. The chapter also interrogates other related issues that include the factors that are an impediment to SME growth and their importance in Zimbabwe.

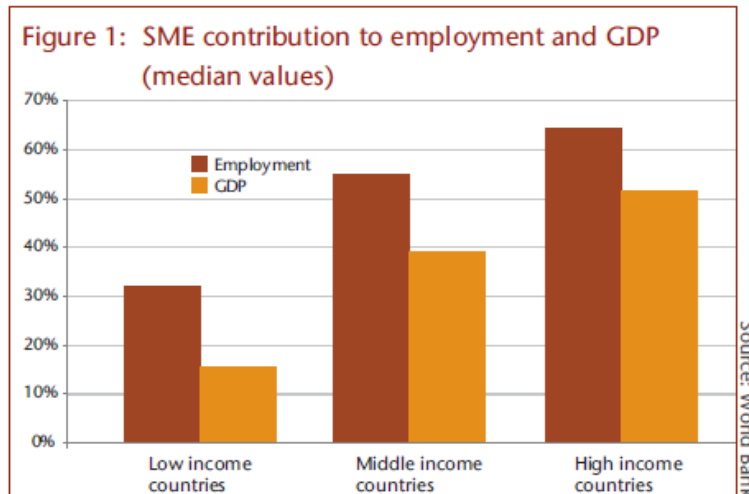
### **2.2 Characteristics of SMEs**

According to Kayangula and Quartey (2000), SMEs can be categorized into organized and unorganized businesses with the former having registered offices and salaried workers. The unorganized comprise of artisans who employ a few unsalaried workers most of whom are family members or apprentices and usually operate from open spaces or at home. They also argue that most SMEs are one person business with the family of the owner participating without receiving a salary. They also postulate that an estimate of hired workers and trainees constitute a quarter of the SMEs' workforce. Cronje et al, (2001) alludes to the fact that SMEs in Africa are labor intensive and have lower start-up capital costs associated with employment creation. In terms of business activities SMEs in developing countries are commonly involved in manufacturing, trading and retailing (Kayangula et al 2000). The proportion of SMEs involvement in manufacturing has been observed to depend on the availability of raw materials. According to Philip (2005) SMEs are highly heterogeneous and traditionally dominant in food, light industry, textiles and transport. In terms of labor productivity, it varies within and across industry and is related to technology adaptation and management skills. SMEs are more flexible

to changing environment and bring innovation too market place. Their small size, flexibility and simplicity allows them to adapt to local markets wings and fluctuations.

### **2.3 SMEs Globally**

The SMEs have taken a center stage in the growth of many developed and developing economies. There is now growing consensus globally among practitioners that SMEs are important contributors to sustainable development in both high and low-income countries (World Bank 2008). In OECD economies SMEs constitute for over 95% of firms, 60-70% employment, 55% of GDP and a larger share of new jobs. In developing countries 90% of firms outside the agriculture sector are SMEs and micro enterprises an example is Morocco whereby 93% of industrial firms are SMEs and account for 38% production, 33% investment, 46% employment and 30% exports. In Bangladesh 99% of SNEs comprise of firms with less than 100 employees. Similarly 99% of all private companies in Ecuador have less than 50 employees and account for 55% of employment (OECD 2009). It is important to note that not all of these SMEs are operating in the formal sector as some operate in the official market which varies from 4-6% in developed countries and over 50% in developing economies. Fig below shows SME contribution to GDP and employment globally.



Source World Bank (2012)

## 2.4 The Importance of SMEs for Governments

The importance of SMEs in economic and social development is undisputed. SMEs if managed properly are a source of employment generation and contribute significantly to income generation. Social stability is also enhanced by generation of tax revenues. The World Bank (2008) highlighted that a healthy SME sector corresponds with a reduced level of informal activities thus leading to loss of government revenue. The International Finance Corporation (IFC) postulate that there is a positive relationship between a country's overall level of income and a number of SMEs per 1000 people. According to Nyanga et al (2013) SMEs effectuate economic growth which is a process of economic transition involving transformation of the economy through industrialization, rising GDP and per capita income. GDP expansion is enhanced by the manufacturing products and providing services to consumer markets and also providing inputs to the larger corporation. SMEs are major contributors to sustainable economic growth without which growth objective of low income countries can be achieved (Worku 2013). This is in line with increased exports and a reduced dependence on importing primary commodities. Therefore, the realization of SME growth is critical for sustainable development.



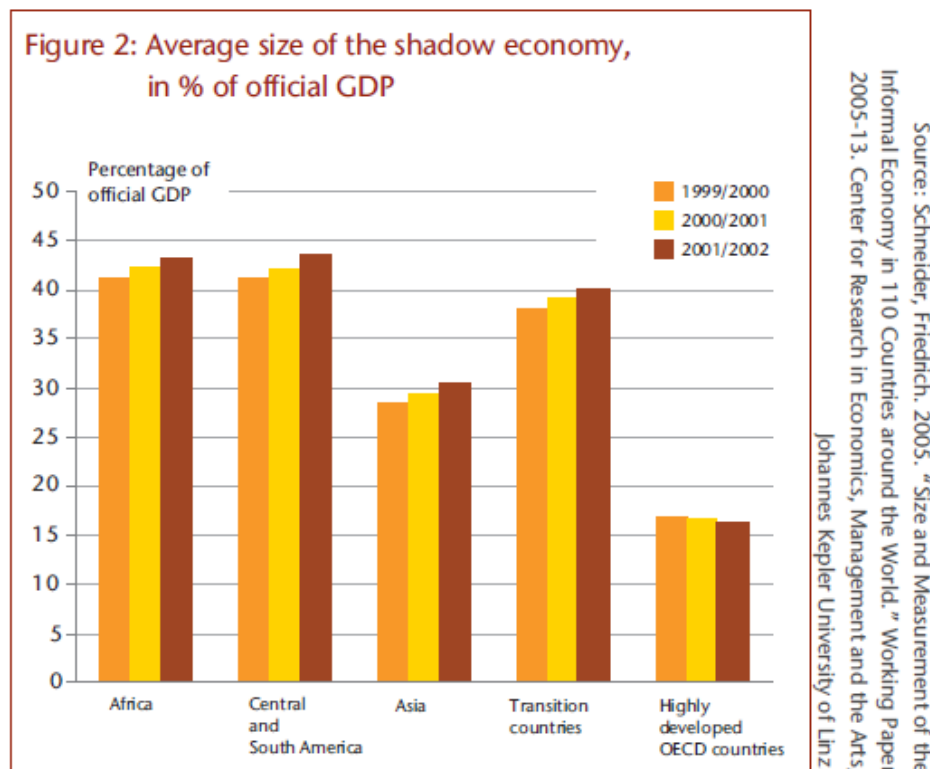
#### **2.4.1 SME Importance to Local Communities**

SMEs often have a vested interest in community development. Being local, they rely on community for workforce and draw upon it to do business. Usually, they provide goods and services that are tailor made to local needs and costs affordable to local people. Worku (2013) added that the contribution of SMEs to the local communities is based on their ability to generate employment opportunities, utilize available resources, expand local output, develop local technologies, produce immediate goods, aggravate sustainable and balanced development and lowering income disparities. They are also a primary source of employment particularly for low skilled workers, as well as women and the youth who often make up the largest portion of the unemployed in developing economies. Their flat management structures mean that their personnel must fulfill multiple roles, which renders them less vulnerable to unemployment during times of economic meltdown.

#### **2.5 SMEs in the Informal sector**

Usually, countries with poor business environments that include heavy bureaucracy, costly regulations, poor credit and banking systems tend to have a large informal sector. According to the World Bank (2012), Bolivia has a population of 8.8 million and only 400 000 workers have formal jobs. In the development economies, informal economy account for a significant but hidden GDP between 30%-70% for example in Burkina Faso a country with a population of 12 million with only 50 000 workers employed in the formal sector while the country has a thriving informal sector that accounts for 38,4% Gross National Product (GNP). Informal sector indeed makes large contributions large contributions to local economies but their invisibility means that they are out of reach of government agencies thus revenue loss and they cannot receive

improvement schemes thus fail to compete with large corporations. Figure 2 below shows informal contributions of informal sector to the GDP.



## 2.6 Contribution of SMEs to Zimbabwean Economy

In Zimbabwe SMEs have taken a center stage in social and economic development of the country. Mudavanhu et al (2011) alludes that SMEs are engines of economic empowerment and growth in Zimbabwe in both informal and formal sectors. They are viewed as the drivers of economic growth due to their significant contributions to employment, wealth creation, income generation and strategic linkages with large companies across economic clusters as stated by the RBZ (2014). It is also imperative to note that the development of SMEs sector is crucial for the country's broad development goals which include spreading of employment opportunities,

poverty alleviation and indigenous ownership of national resources. Below are broad and specific contributions to the Zimbabwean economy.

### **2.6.1 Employment creation**

The economy of Zimbabwe over ages has been characterized by company closures and retrenchments subsequently resulting in the depletion of formal employment opportunities. Nyoni (2002) claims that the production levels in the economy have not been sufficient to generate employment for over 300 000 graduates annually from different training institutions. The rise of the SME sector has however become the primary source of employment and livelihood for millions of people. This was outlined in the Finscope survey of 2012 which estimate the SME sector to employ 2.9 million people in the country RBZ (2014). The most striking part is the absolute size of the sector which has around 2.8 million owners. This availability of employment results in disposable income for the citizens of Zimbabwe and increases local demand for goods and services eventually leading to development. Maseko (2011) agrees that it stimulates vast potential for business entrepreneurship, wealth creation and widening capacity of local economy.

### **2.6.2 Contribution to Economic Growth**

SMEs have been identified as key contributors to the economic recovery process of Zimbabwe. The contributions of SMEs are centered on their capacity to create employment, income generation, utilization of inputs, production of intermediate goods, increase in national output and an increase in government revenues (Worku 2013). Their competition also reduces the monopoly by large corporations resulting in a free market economy. From the Finscope survey of 2012, the RBZ (2014), outlines the contribution of SMEs to the nation's GDP is estimated to

be at about 60%. Henceforth, the SME sector has had a direct effect on the GDP due to increased output and profits. It has also improved national economy through diversification, innovation and productivity that enhance microeconomic resilience thus reducing county's vulnerability to periodic shocks. SMEs highly rely on locally produced raw materials which reduce foreign currency payment and promote exploitation of raw materials leading to sustainable development (Maseko 2011).

### **2.6.3 Poverty Alleviation**

SMEs have become increasingly important as a source of livelihood for many Zimbabweans. Nyoni (2002) argues that the income generation and employment creation together with empowerment have been stimulated by SMEs that utilize the country's human resources hence leading to an economic structure that is self-sustaining. SMEs provide worker and entrepreneurs with disposable income which improves standards of living and reducing poverty levels through employment and other business opportunities. The Human Development Index HDI basic needs approach postulates that employment is the fundamental sources of income which depicts that indeed SMEs play a key role in development.

### **2.7.1 Barriers to Growth of SMEs**

Although SMEs play a pertinent role in the accelerated economic growth and overall development, their growth has been continuously hampered by a number of impediments that prevent the realization of their full potential (Abor et al 2010). Literature on SMEs is saturated with a host of common challenges affecting their growth despite any environment where they operate. Fatoki (2006) stresses inadequate finance, bureaucratic government regulations, quality

of infrastructure, acquisition of skills and managerial expertise as the major constraints to SME development. Some of the above factors are discussed in detail below

### **2.7.2 Access to Finance**

SMEs play a critical role in advancing growth, innovation and economic prosperity. However, they require financial support to fund operating and expansion needs according to Bouri et al (2011), easy access to finance for SMEs improves economic performance of low income countries by fostering GDP growth, advancing innovation and microeconomic resilience. Masuko and Marufu (2003) acknowledge the importance of bank and non-bank credit as being central to the performance of business ventures through provision of start-up and working capital. However many SMEs in Zimbabwe are unable to access funding which results in their stunted growth. This is mainly because of unfavorable lending requirements by formal institutions thus SMEs are mainly financed by own funds or from friends and family (Olawale and Garwe 2010). It is clear that access to finance is key in promoting economic growth.

### **2.7.3 Regulatory environment**

Notably, the regulatory system has not been so friendly with the unavailability of red tape in the application process of SMEs. The registration process is cumbersome and bureaucratic resulting in many SMEs failing to register. Beck (2007) is of the view that these are systematic factors which are beyond the control of SMEs. In Zimbabwe, the regulatory climate is so complex that procedural requirements further inhibit the growth of the SMEs as it can take years to accomplish every step. Thus the cost of compliance with regulatory policies is very high and poses a threat to performance and graduation of SMEs into large firms.

### **2.7.4 Poor infrastructure**

This has been one of the major constraints of SMEs operating in most developing economies particularly Zimbabwe. In most low income countries, working space and poor infrastructure characterizes the working environments of the SMEs. A lot of buildings and premises are substandard and some are dilapidated thus inhibiting the sense of progress particularly working space which is limited which also hampers SMEs from expansion. Nyoni (2002) argues that in low income countries, negative attitudes towards entrepreneurship are undoubtedly manifesting through poor infrastructure.

### **2.7.5 Managerial skills**

The importance of managerial skills is beyond any reasonable doubt undisputed to the growth of new business. Management of skills are a set of knowledge skills, behaviors, and attitude that contribute to personal effectiveness (Hellriegel et al 2008). The lack of managerial skills is a huge challenge in the literature of SMEs. This is mainly because most SMEs rely on owner managers who are reluctant to engage knowledgeable and experienced managers and there is a huge skills gap in the SME sector which staggers the growth of SMEs.

### **2.8 Government Support towards SMEs**

Efforts have been made to address the lack of managerial skills which has been tied with a deficient in this respect. This has been done through the Ministry of Micro, Small and Medium Enterprises and Corporate Development and multilateral institutions such as the World Bank. They offer training on business planning, financial management, strategic marketing and technology. According to Zindiye et al (2012), this has not been successful because most SMEs do not take part in training programs. Financial inclusion has been a major area of focus by the government of Zimbabwe as they set aside a SME bank which is SEDCO to fund small business

operations. Marketing has also been at the heart of the MoSMECD as they are given a free stand at the ZITF to showcase businesses. Most SMEs have also been exempted from tax which has given them an advantage as well as business areas that have been constructed for SME operation an example which is the rank area but however many SMEs do not comply as there is low business.

### **Chapter summary**

The chapter has interrogated literature on the empirical orientations of the research subject. The characteristics of SMEs in developing countries have been examined and they vary due to dynamism. The importance of SMEs in the development of low income countries is undisputed. They play an important role in employment creation, economic growth, poverty alleviation, production of exports and provision of goods and services. In Zimbabwe, SME sector employs a large proportion of workers and is at the center of the economic recovery process in the country. The chapter also examines barriers to the growth of SMEs in developing countries and in Zimbabwe. The challenges faced by SMEs include lack of entrepreneurial skills, poor managerial skills, access to finance, unfavorable regulatory environment, access to modern technology and markets and poor infrastructure. Access to financial assistance is cited as the most important ingredient in the development and growth of the SME sector.

## **Chapter three: Research Methodology**

### **3.1 Introduction**

The chapter is dedicated to the description of methods and procedures used in order to obtain data, how they will be analyzed, interpreted and how conclusions are reached. The authenticity of the findings entirely depend on the quality of the research design, data collection, and data analysis. These help in the processing of data and formulation of conclusions.

### **3.2 Research Design**

Kerlinger (2000) defines a research design as a strategy and structure for investigation developed to ensure that the researcher get answers to the research question at hand. It outlines techniques and procedures for collecting data relevant to the research study and serves to provide accurate answers to the research questions (Zikmund 1997). There are various types of research design and some are examined below.

#### **3.2.1 Descriptive research design**

According to Zikmund (1995), descriptive studies are aimed at describing a subject by profiling a group of people, problems or events by collecting data and tabulating the research variables' frequencies or their interaction. This type of research design describes the event or phenomena being studied as they exist without manipulation. The data collection methods associated with descriptive design are case studies, observations, and surveys. They are quantitative and conclusive in nature.

#### **3.2.2 Justification of Description Research Design**



From different research designs, a quantitative descriptive approach has been chosen. This mainly because of the structured nature of the problem under study which has existing claims. Moreover, this approach matches methodologies used in similar studies carried out in this area. The research is also not to investigate which would have required the use of exploratory or qualitative approach. The design uses questionnaires that are cheap and an easier method of survey.

### **3.3 Population**

Study population is perceived as a target field of respondents in any given particular research. Saunders et al (2009) defines study population as the sum of total elements which interferences are to be made. Henceforth, the group made up of all possible observations of characteristics of interests in the population.

#### **3.3.1 Sample**

A sample is a list of all elements drawn from the population (Saunders et al 2009). A collection of observations presenting only a portion of that population is a sample.

#### **3.3.2 Sampling**

Sampling is a procedure in which elements in a population are selected to represent the whole population (Cooper and Schindler 2003). The purpose for sampling is to assist the researcher to draw interferences about attitude, characteristic or behavior of the entire population. It is a small part of the whole population designed to represent nature and quality. It also addresses the key research questions of whom to survey, how many to survey and how to select sample elements.

#### **3.3.3 Probability Sampling**

Probability sampling also known as representative sampling, involves the selection of sample elements through a random process. The random process gives every element in the population an equal and independent probability of selection. Saunders et al (2009) describes probability sampling random sampling as the method that that gives each element a mathematical chance of being selected and mostly associated with survey based research strategies. Wegner (1995) argues that strength of probability sampling eliminates bias.

### **3.3.4 Non Probability Sampling**

It is a sampling method where elements in the sample are gathered in a way that does not give each element an equal chance of being selected. This technique select samples select samples based on researcher's subjective judgment. Saunders et al (2009) recommends the use of such methods in exploratory stages of a research study in pilot survey. The types include quota, convenience, judgmental and snow balling.

### **3.3.5 Population and Sampling Method Used**

Stratified random sampling was used because the population is relatively large and contains a series of almost the same cadre of respondents. Population was divided into different strata of types of business varying from retailing to manufacturing to give each element in the study an equal chance of selection.it ensures that a sum of groups receives proper representation.The target population for this study for this study consisted of 390 SMEs who appear to be operating in Bindura urban with information obtained from database of membership to SEDCO. Since it was not able to measure the whole population and a sample size of 80 was obtained from a published table.

Published tables provide a sample size for a given set of criteria it is necessary for a given combinations of precision, confidence and variability.

Table 4 Published table of obtaining sample size

Size of Population	Sample Size (n) for Precision (e) of:		
	±5%	±7%	±10%
100	81	67	51
125	96	78	56
150	110	86	61
175	122	94	64
200	134	101	67
225	144	107	70
250	154	112	72
275	163	117	74
300	172	121	76
325	180	125	77
350	187	129	78
375	194	132	80
400	201	135	81
425	207	138	82
450	212	140	82

The sample size was statistically significant as it met the minimum recommended size of thirty for quantitative surveys (Wegner 1995).

### 3.4 Sources of Data

This section outlines the data sources used in this research study. According to Wegner (1995) data can be classified into primary and secondary data or internal and external data. Both of the data sources were used as they are complimentary and also to meet objectives of the study.

### **3.4.1 Primary Sources of Data**

Primary data is defined as data collected directly from target respondents (Wegner 1995). The researcher used the survey approach through the use of questionnaires.

### **3.4.2 Advantages and Disadvantages of Primary Sources**

According to Phellas et al (2011) primary data are original and relevant to topic of research so that the degree of accuracy becomes high. It is collected through a number of ways that include questionnaire, interviews among others. It is more reliable and realistic. The disadvantages include respondents who fail to give timely responses and might give fake information and it is also expensive

### **3.4.3 Secondary Sources of Data**

It is defined as data that has been gathered and published according to Wegner (1995). The researcher used this type of data collected from published textbooks, business journals and newspapers.

### **3.4.4 Advantages and disadvantages**

According to Saunders et al (2009), it is cheap and easy to access. It also gives direction to the researcher in which he or she should go for specific research and thus saves time. It may not be as reliable as it can raise issues of authenticity and copy rights.

## **3.5 Research Instruments**

### **3.5.1 Questionnaires**

A structured questionnaire was used in this research. It was highly structured standard questions such that the respondents were given an option to choose their options were employed. These

type of questionnaires tend to dovetail with type of research design. Questionnaires were administered to business owners and managers. All questionnaires were in form of hand delivery.

### **3.5.2 Advantages and disadvantages of using a questionnaire**

The use of a questionnaire provides greater anonymity for the respondent when the issue is sensitive thus encouraging reliable results. It is easy to administer and reduces bias error caused by characteristics of the respondent through the use of self-completion. However, Phellas et al (2011) argues that questionnaires do not clarify a misunderstanding. Response rate tends to be low as the majority of the people operating SMEs see no incentive for filling in the questionnaire.

### **3.5.3 Administering the Research Instrument**

The research instrument (questionnaire) was administered to owners and managers of 80 SMEs selected as the sample size. The questionnaires were administered through hand delivery to make sure that there was enough coverage and for easy collection of the questionnaires.

### **3.5.4 Pre-testing**

The questionnaire was subject to pilot test before final administration to the respondents. The results were used to check for reliability and validity of the instruments that were used. According to Wegner (1995), self-administered questionnaires should be checked so as to avoid loss of information. The choice of respondents was out of need for convenience. This resulted in the amendment of the questionnaire.

### **3.5.5 Types of Questions**

Questions can either be open or closed whereby closed questions are pre-coded with response options and are most suitable where results are known and open questions are used where responses are not known. The researcher used the closed questions.

### **3.5.6 Advantages and Disadvantages of Closed Questions**

Closed questions are appropriate for finite answers and factual in nature. It requires minimal effort on the part of the respondent. They also provide uniformity and are easier to evaluate according to Miller (2007). It is less time consuming and this highly motivates the respondents. However closed questions if poorly designed can be misleading and could frustrate the respondents.

### **3.6 Data Validity**

Validity refers to the extent of importance information to the topic (Phellas 2011). As such, the researcher ensured data validity by basing questions to be asked in questionnaires on the research's sub-research questions. The researcher also went on to cross-check if the data was similar to the study area.

### **3.7 Data Reliability**

Reliability explains the degree of consistency to be echoed by the course of action to be used in the research solely for the purpose of producing dependable results. According to Cooper and Schindler (2011), in essence reliability can be established when two independent parties researching on a related study area within similar environments produce matching outcomes. The researcher thus had to resort to piloting and questionnaire amendments so as to fulfil positive and reliable functions.

### **3.12 Chapter Summary**

This chapter has discussed the research design used in the study and the justification for choosing the latter. The literature and underlying concepts for the selection of study population, sampling techniques, research methods and research instruments are also discussed. The chapter also outlines the measures used to ensure validity and reliability of the results. The chapter concludes by examining the way the research data was analyzed and presented.

## **CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS**

### **4.1 Introduction**

This chapter discusses the analysis and interpretation of the research findings and linking them to the relevant literature discussed in Chapter Two. The analysis of results was conducted using a statistical package known as SPSS (Version 21). The chapter begins with the demographic characteristics of the respondents such as age, gender, educational level and experience and that of the business enterprise such as nature of business, size of business and registration status. Charts and tables are then employed to present information that show expansion of livelihoods and challenges faced.

### **4.2 Response Rate**

A total of 80 questionnaires were distributed to owners and managers of SMEs selected from the membership of the ministry of Micro, Small and Medium Enterprises. Seventy three questionnaires were completed and collected and returned to the researcher. This represented a response rate of 91.25 % which is high enough to ensure validity and reliability of the research findings. According to Saunders *et al.* (2009), this response rate is adequate for data analysis. They argue that a response rate of between 50% and 92% is an acceptable response rate for quantitative research studies.

### **4.3 Demography of respondents and business**

Charts and tables were used for the presentation of the class of respondents, gender, their age groups, level of education of the owners or managers of SMEs, their business description, period of business's existence, the number of employees and annual turnover.



### 4.3.1 Age profile

#### Statistics

SMEs age profile

N	Valid	73
	Missing	0
Mean		2.48
Std. Deviation		1.002

**Table 5 SMEs age profile**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-25	10	13.7	13.7	13.7
	26-35	33	45.2	45.2	58.9
	36-45	17	23.3	23.3	82.2
	45-56	11	15.1	15.1	97.3
	Over 57	2	2.7	2.7	100.0
Total		73	100.0	100.0	

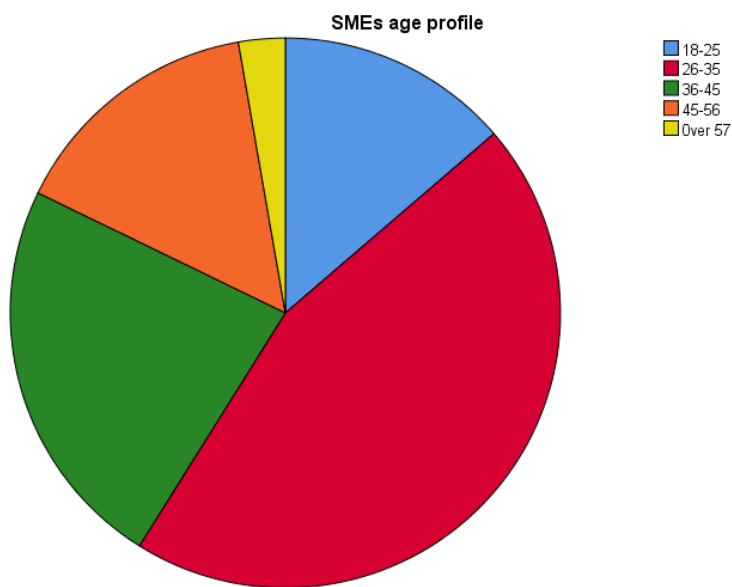


Figure 3

The age group distribution results indicate that the SME owners and managers were predominately within the 26-35 (45.2%) and 36-45 (23.3%) age groups. The 57 and above age group had the lowest number of participants (2.7%). More than half of the respondents are in the youth category, implying that young people in Zimbabwe are being empowered through venturing into small and medium businesses unlike in the past when they would seek employment in large scale businesses.

### 4.3.2 Level of education

#### Statistics

level of education

N	Valid	73
	Missing	0
Mean		3.2055
Std. Deviation		.81580

**Table 6 level of education**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	secondary	12	16.4	16.4	16.4
	diploma	40	54.8	54.8	71.2
	bachelor's degree	15	20.5	20.5	91.8
	masters	6	8.2	8.2	100.0
	Total	73	100.0	100.0	

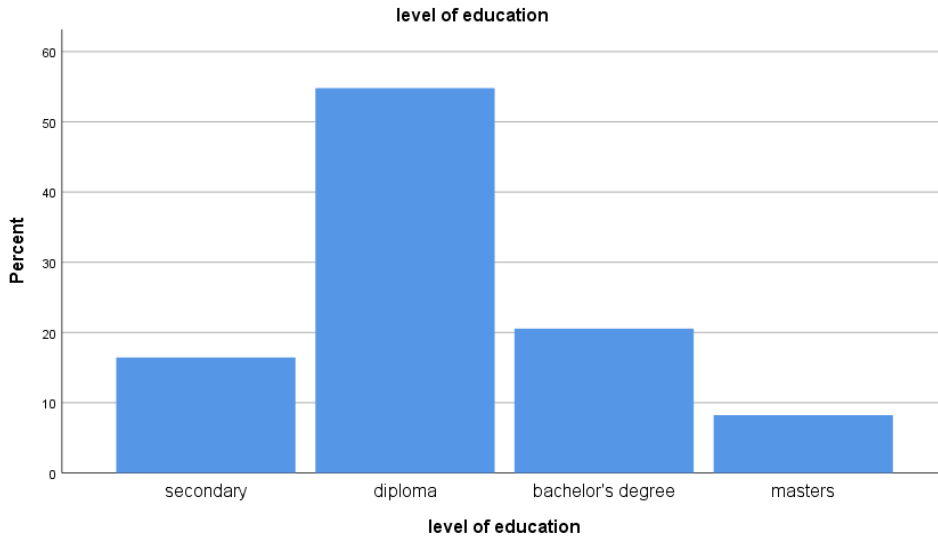


Figure 4

The results also indicate that 16.4% of the respondents attained secondary education, 54.8% had Diplomas, 20.5% had degrees, 8.2% have postgraduate qualifications. This indicates high education levels among SME operators in the country. This is mainly as a result of lack of formal employment.

### 4.3.3 Gender of respondents

#### Statistics

sex

N	Valid	73
	Missing	0
Mean		1.3973
Std. Deviation		.49272

Table 7 Sex of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent

Valid	male	44	60.3	60.3	60.3
	female	29	39.7	39.7	100.0
	Total	73	100.0	100.0	

Chart above demonstrates that 60.3 % of the respondents were males while 39.7% were females. The distribution was slightly dominated by males but the implication of the results is that females are also participating in business enterprises. This is testimony of gender empowerment policies instituted by the Zimbabwean government.

#### 4.3.4 Position of respondents

##### Statistics

position

N	Valid	73
	Missing	0
Mean		1.4658
Std. Deviation		.50228

**Table 8 Position of Respondents**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	owner	39	53.4	53.4	53.4
	manager	34	46.6	46.6	100.0
	Total	73	100.0	100.0	

Chart above postulates that 53.4% of the respondents were owners of SMEs while 46.6% were managers. The results indicate that SMEs are owner managed. This implies that most SMEs in Zimbabwe are owner managed. This is in line with past research by Bowen et al (2009).

### 4.3.5 Business description

#### Statistics

business description

N	Valid	73
	Missing	0
Mean		1.82
Std. Deviation		.918

**Table 8 business description**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	sole proprietor	38	52.1	52.1	52.1
	partnership	10	13.7	13.7	65.8
	private company	25	34.2	34.2	100.0
Total		73	100.0	100.0	

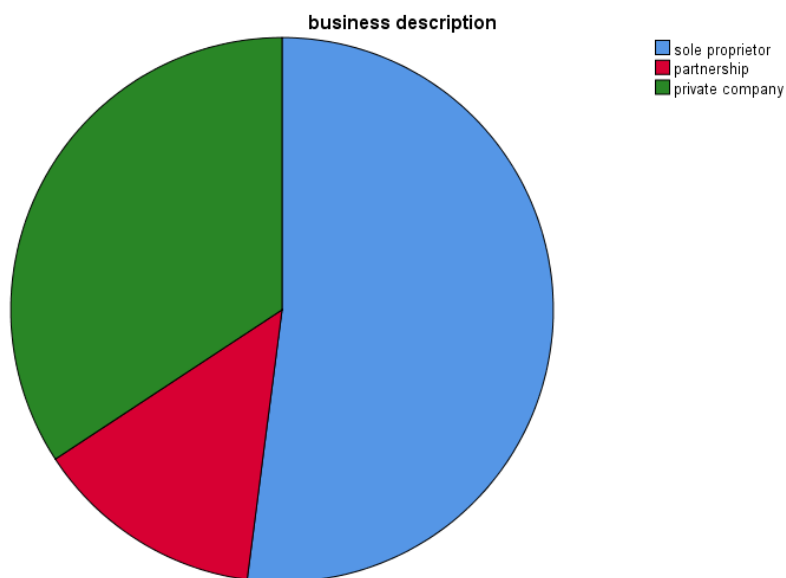


Figure 5

In respect with type of business, sole proprietorship dominates the type of business with mainly because they are easy to form. Cronje et al subscribes to the fact that sole proprietorship is the most popular form of business.

#### 4.3.6 Source of capital

##### Statistics

source of finance

N	Valid	73
	Missing	0
Mean		1.6164
Std. Deviation		.71938

**Table 9 Source of finance**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	personal savings	38	52.1	52.1	52.1
	family and friends	25	34.2	34.2	86.3
	financial institutions	10	13.7	13.7	100.0
	Total	73	100.0	100.0	

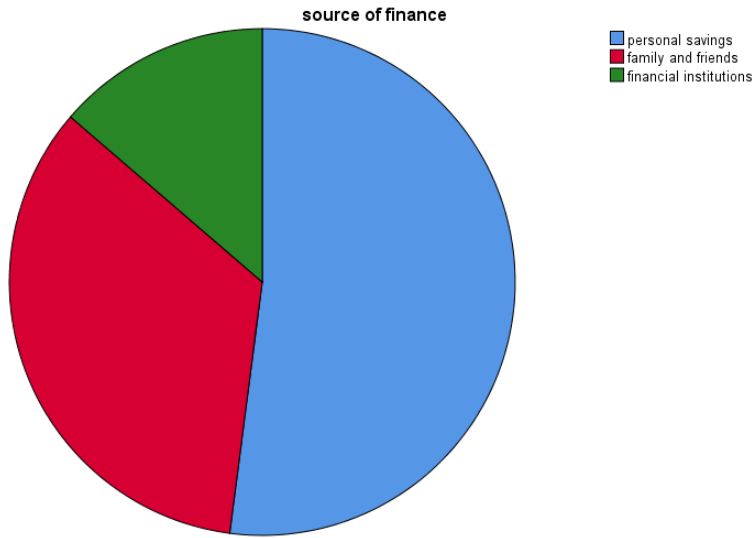


Figure 6

Fig 6 results agree with the notion cited by Bowen et al (2009) that when there is a possibility of high information and incentive problems mostly characterizing start-up firms, financiers are unwilling to avail funding to such SMEs. This explains why the majority of the SMEs had to resort to personal savings and from family and friends for start-up.

#### 4.4.1 Type of business

##### Statistics

type of business

N	Valid	73
	Missing	0
Mean		3.32
Std. Deviation		2.309

Table 10 type of business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	wholesale and retailing	24	32.9	32.9	32.9
	manufacturing	15	20.5	20.5	53.4
	mining	3	4.1	4.1	57.5
	services	7	9.6	9.6	67.1
	art and craft	4	5.5	5.5	72.6

food and beverages	9	12.3	12.3	84.9
transport	11	15.1	15.1	100.0
Total	73	100.0	100.0	

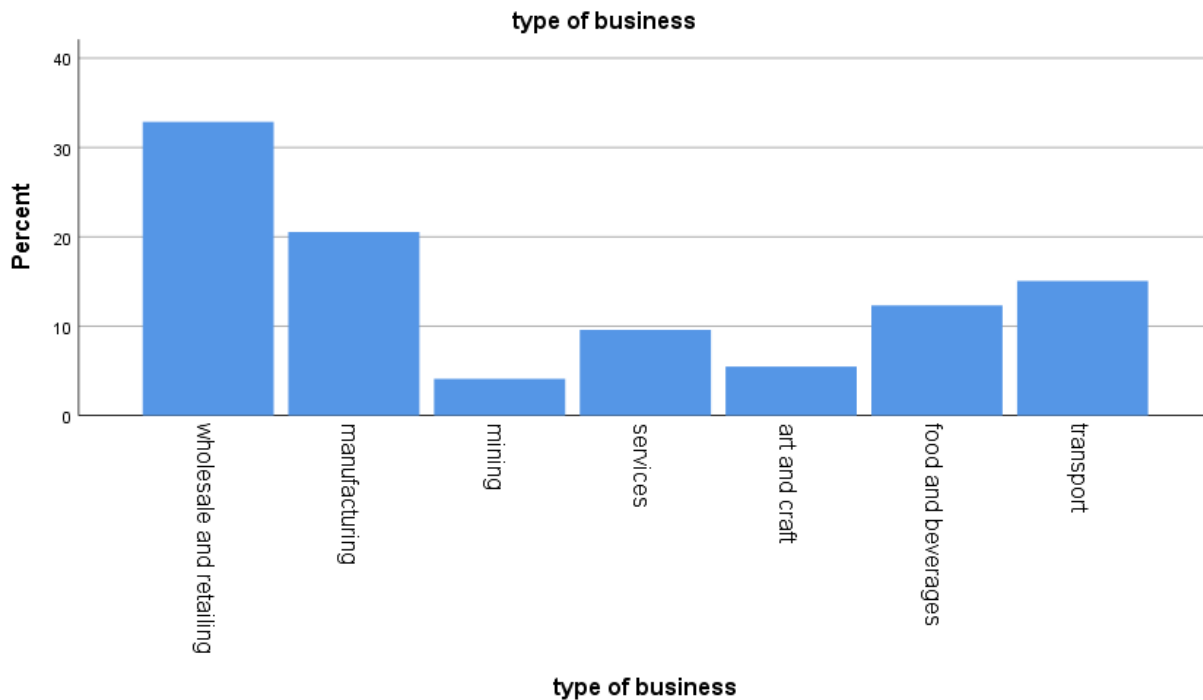


Figure 7

According to the above figure, out of the SMEs that were surveyed 32.9% were in the retailing sector, 20.5% were in the manufacturing and the transport sector had 15.1%. The results depict that most the respondents were in the retailing and the least in the arts and mining. Retailing dominates because it is easy to start up and is easy to market.

#### 4.4.2 Demographic location of business

##### Statistics

location of business

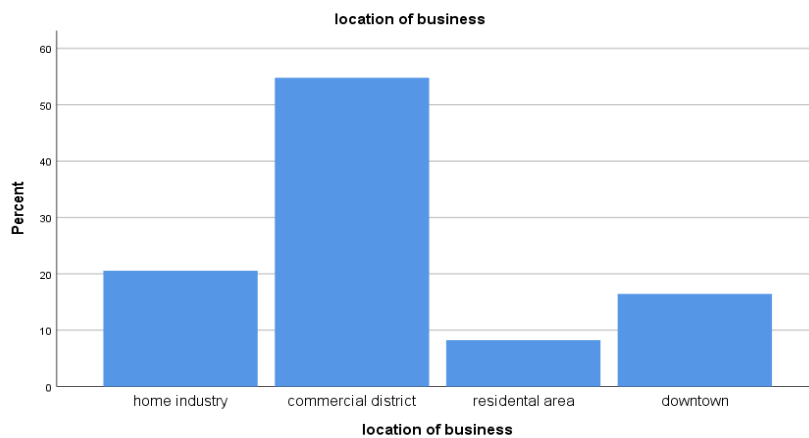
N	Valid	73
---	-------	----



Missing	0
Mean	3.2055
Std. Deviation	.95683

**Table 11 location of business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	home industry	15	20.5	20.5	20.5
	commercial district	40	54.8	54.8	75.3
	residential area	6	8.2	8.2	83.6
	downtown	12	16.4	16.4	100.0
	Total	73	100.0	100.0	



**Figure 8**

The above results show that 54.8% of the surveyed SMEs operate from the Commercial Districts, 20.5% from the home Industry Area, 8.2 % from the Residential Area and 16.4% are located downtown. The results show a balanced distribution in the location of businesses. It implies that SMEs operators are locating their businesses mostly in commercial district and at their homes in an effort to be close to the market and much more viable infrastructure.

#### 4.4.3 Number of employees

##### Statistics

number of employees

N	Valid	73
	Missing	0
Mean		1.66
Std. Deviation		.749

**Table 12 Number of Employees**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0-5	37	50.7	50.7	50.7
	6-20	24	32.9	32.9	83.6
	20-75	12	16.4	16.4	100.0
	Total	73	100.0	100.0	

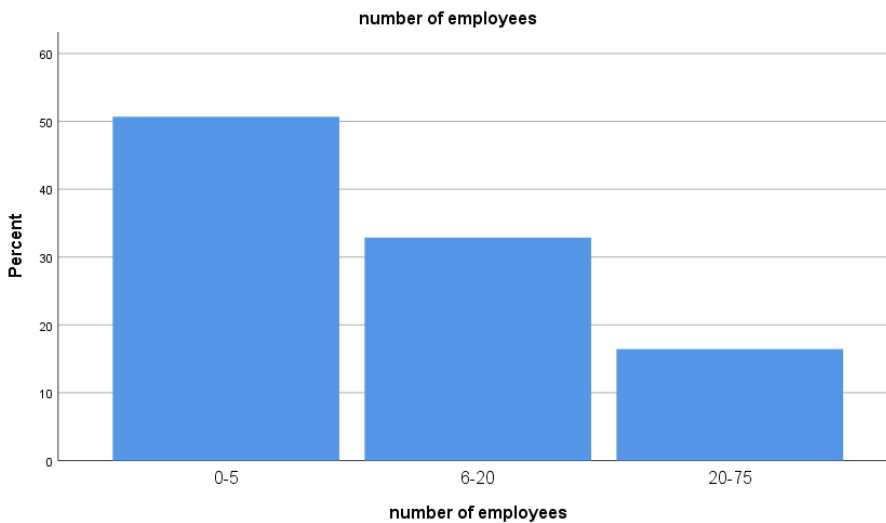


Figure 9

fig demonstrates that 50.7% of the SMEs had less than 5 employees, 32,9% had 10 to 19 employees and 16.4% had above 20 but less than 75 employees. According to the Ministry of Small and Medium Enterprise Development classification of businesses criteria, 83.6% of those surveyed operated small businesses while only 16.4% were medium enterprises. This confirms the notion that most SMEs in Zimbabwe are in the small business category.

#### 4.4.4 Annual turnover

##### Statistics

annual turnover		
N	Valid	73
	Missing	0
Mean		1.53
Std. Deviation		.625

**Table 13 Annual Turnover**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	below 50 000	39	53.4	53.4	53.4
	50 000 - 250 000	29	39.7	39.7	93.2
	above250 000	5	6.8	6.8	100.0
	Total	73	100.0	100.0	

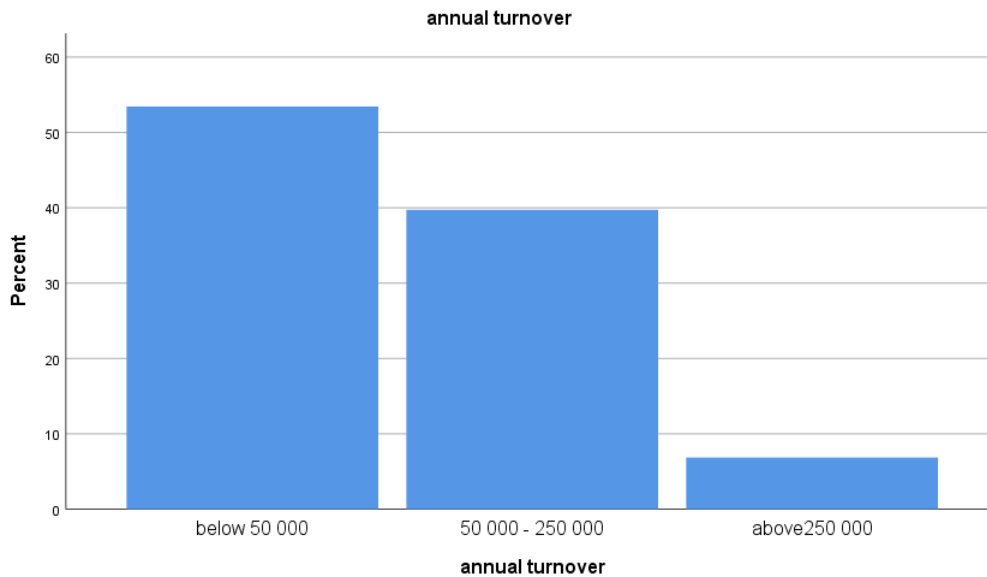


Figure 10

The above information shows that most SMEs have a turnover of less than \$250,000 (42.5%) while \$250,000 (37.0%) and the least of above \$500,000 (20.5%). The annual turnover tends to affect the registration of most of the SMEs.

#### 4.4.5 Demographic length of existence of business

##### Statistics

length of business existence

N	Valid	73
	Missing	0
Mean		1.82
Std. Deviation		.770

Table 13 Length of Business Existence

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	below 5	29	39.7	39.7	39.7
	5-9	28	38.4	38.4	78.1
	over 10 years	16	21.9	21.9	100.0

Total	73	100.0	100.0	
-------	----	-------	-------	--

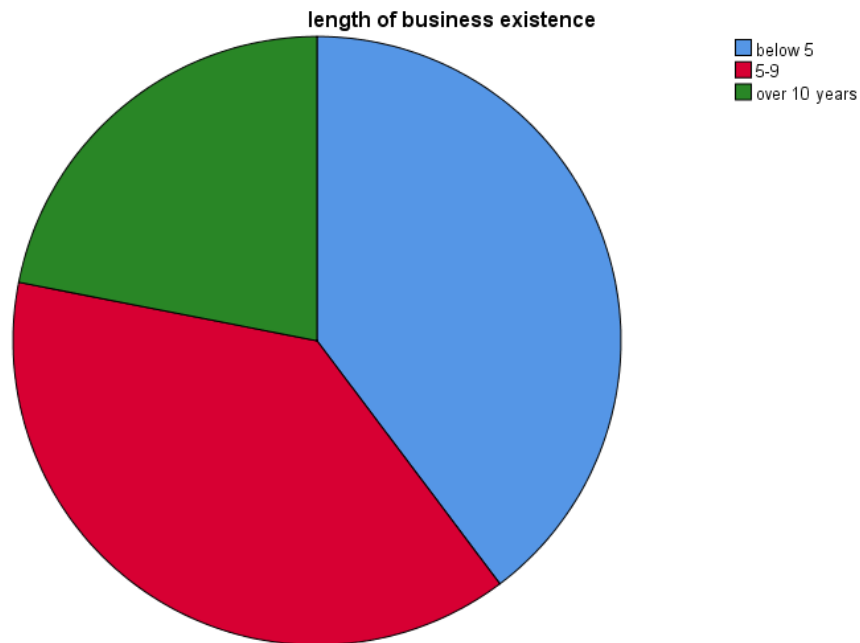


Figure 11

Figure 11 shows that very few SMEs have survived a period of over 10 years 21.9%. 39.7% of SMEs have existed for 5 years or less while 38.4% have existed for over 5 but less than 10. This indicate that many SMEs do not survive for a long time due to the various factors that affect them particularly finance. Myles (2010) cited in Nyanga *et al.* (2013) estimates that more than 50% of SMEs collapse within the first five years of their operations as a result of numerous challenges.

#### 4.4.6 Demographic legal status of business

##### Statistics

legal status of business

N	Valid	73
	Missing	0
Mean		1.7808

Std. Deviation	.41655
----------------	--------

**Table 14 legal status of business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	registered	16	21.9	21.9	21.9
	not registered	57	78.1	78.1	100.0
	Total	73	100.0	100.0	

According to above, the majority (78.1%) of SMEs surveyed were not registered while 21.9% indicated that they were registered. Registration of businesses is of great importance because it facilitates access to resources from financial institutions and assistance from government and donor agencies. This also helps to show why many SMEs fail to access credit facilities from formal financial institutions.

#### 4.4.7 Challenges Faced

##### Statistics

challenges faced

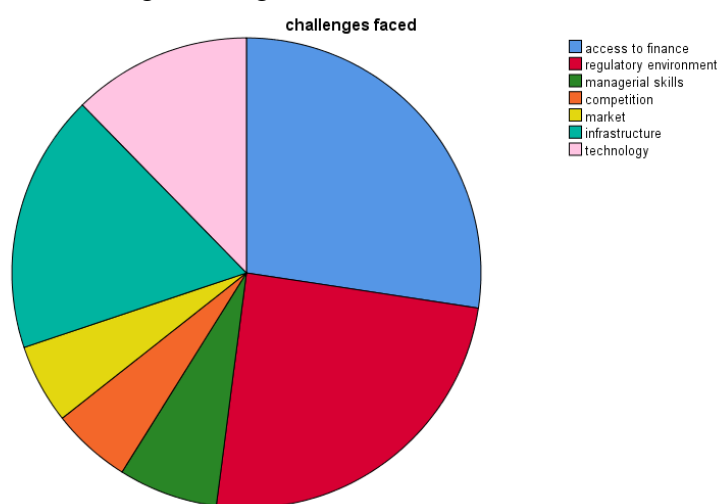
N	Valid	73
	Missing	0
Mean		3.40
Std. Deviation		2.259

**Table 14 challenges faced by SMEs**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	access to finance	20	27.4	27.4	27.4

regulatory environment	18	24.7	24.7	52.1
managerial skills	5	6.8	6.8	58.9
competition	4	5.5	5.5	64.4
market	4	5.5	5.5	69.9
infrastructure	13	17.8	17.8	87.7
technology	9	12.3	12.3	100.0
Total	73	100.0	100.0	

Figure 12 challenges facing SMEs



Access to finance 27.4%, regulatory environment 24.7% and competition 17.8% have been the major impediments to the growth of SMEs while competition and market have been the list with 5.5%. It is imperative to note that these challenges have hampered the growth of many businesses.

#### 4.4.8 Government support towards SMEs

##### Statistics

support from the government

N	Valid	73
	Missing	0
Mean		1.6986

Std. Deviation	.46203
----------------	--------

**Table 15 Support from the Government**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	22	30.1	30.1	30.1
	no	51	69.9	69.9	100.0
	Total	73	100.0	100.0	

Most respondents 69.9% all disagreed that financial they were receiving support from the government while 30.1% think otherwise. This is mainly because of ignorance of polices implemented and also the reluctance of the government to implement tailor made schemes to ensure their growth.

#### 4.4.9 Effect of SMEs on living standards

##### Statistics

improved living standards

N	Valid	73
	Missing	0
Mean	1.2466	

**Table 16 effects of SMEs on living standards**



		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	55	75.3	75.3	75.3
	no	18	24.7	24.7	100.0
	Total	73	100.0	100.0	

The above results indicate that most of the people 75.3% agree to the fact that venturing into SME sector improves the standard of living as there is income generation, employment thus enhancing sustainable livelihoods. This serves to show that SMEs have indeed played a very crucial contributory role to the creation of livelihood strategies.

#### **4.5 CHAPTER SUMMARY**

This chapter presented the findings of the impacts of SMEs on sustainable livelihoods and also the obstacles that are a stumbling block to SME growth. The results revealed that SMEs contribute greatly to employment creation and empowerment and major challenges include financial constraints and regulatory environment. Tables and pictorial diagrams have been used to aid the analysis and understanding of the research results.

## **Chapter 5: summary, conclusions and recommendations**

### **5.1 Introduction**

The main aim of the research was to evaluate the effect of SMEs in enhancing sustainable livelihoods for the people of Bindura Urban. It was perceived that undoubtedly SMEs have a notable endowment contribution to beget sustainable livelihoods but however a number of impediments were identified that hamper the growth and operations of these SMEs. This chapter focuses on outlining the summary and conclusions of the research and recommendations that can go a long way in evening out and aggrandizing the sustainability of the SMEs in Zimbabwe particularly Bindura Urban

### **5.2 Summary**

The research was carried out in Bindura in the commercial district, downtown, home industry and the residential area. It was observed that SME activities varied from retailing to services. Retailing dominates the SMEs that were surveyed followed by the manufacturing with 28.8% and 20.5% respectively. Twenty nine SMEs (39.7% of 80 SMEs were owned by female entrepreneurs) were surveyed for the assessment of impact or contribution of SMEs in effecting livelihoods and they proved to be women empowerment. It was observed from the survey that indeed SMEs play a pertinent role in improving the livelihoods of people in Bindura as they are some notable employment and income generation which four within the framework of

sustainable livelihood as indicated by people who sorely depend on SMEs as a sustainable livelihood pathway.

It was brought to light that SMEs had quite a number of stumbling blocks in their operations and these staggered their growth and sustainability. Among the identified militating factors werewere inaccessibility of financial capital to better operations and improve productivity, poor infrastructure, competition and poor infrastructure at operating premises, unaffordability of operating licenses leading to illegal operations hence minimal production and above all a general lack of support from the local authority.

### **5.3 Conclusions**

Conclusively, SMEs beyond any reasonable doubt contribute extensively to the expansion of sustainable livelihoods for the people of Bindura Urban. This is mainly because of the merits and benefits that come along with the involvement of people into SME activities. From the questionnaires, most entrepreneurs appreciate that they were having improved standards of living due to venturing into small scale business. People have managed to acquire the basic needs of their lives that include employment, wealth accumulation, and monthly income just to mention a few. This in support of the key research area and in agreement with the definition of sustainable livelihoods by Chambers and Conway (1992) who have described livelihoods as the capabilities and activities needed to sustain life.

There are various factors such as financial capital, technology, and managerial skills that are necessary for the development of SMEs. Some of these are however inadequate for the SMEs in Bindura. There is great need for the provision of such necessities to ensure the growth and

sustainable operations of the SMEs. Finally they are a number of factors identified that inhibit the growth of these SMEs.

## **5.4 Recommendations**

The successful operation of SMEs in Bindura requires a number of strategies to guarantee that success. This chapter pays attention to the possible recommendations that can be implemented to overcome the challenges head on and ensure an ease operation of SMEs and growth. The recommendations could go a long way in mainstreaming SMEs into the national economy to ensure sustainable development.

### **5.4.1 Access to Finance**

Lack of access to finance has been observed to be the major impediment to growth of SMEs since it limits creativity, innovation and opportunity grabbing for expansion purposes. The government can help address the dire need for start-up funds for SMEs by providing incentives for SME financing. To encourage SMEs to join the formal sector, government need to provide tax incentives and subsidies similar to those available to large corporations. Capital is an essential sector of production without which production cannot take place.

### **5.4.2 Encourage Friendly Regulatory Environments**

Economic policies of a country have a direct impact on growth of SMEs and the Zimbabwean policies have been outlined as unfavorable and these include lack of government support, high taxes and bureaucratic registration process of companies. Therefore, government needs to create a necessary framework and relax the burden of regulatory measures to promote growth of SMEs. They must simplify business registration procedures and make it cheaper simpler and speedier which in turn attracts investment. According to the World Bank (2008), the greater a country's

ease of doing business, the greater the number of jobs in the formal sector as the easy access to credit and utility services often lead to growth and expansion of SMEs.

### **5.4.3 Access to land**

Shortage of land has been cited as an obstacle to SME growth. This is mainly because of lack of industrial lands. Moreover, rental prices in most parts of the country are quite high and expensive beyond affordability of SMEs. Thus, a scheme that facilitates entrepreneurs to own their business stands can enhance growth as it lowers constraints of rentals. The schemes that deliberately assist SMEs can go a long way in enhancing their growth which is a viable avenue of reducing economic disparities.

### **5.4.4 Encourage businesses Involvement in Identify Reforms**

It is imperative to note that the involvement of the businesses in decision making and formulation of other reforms often result in better suited changes that can create a conducive environment which stimulates SME growth. This is mainly because the problems faces by SMEs ought to have solutions which would have been raised by them. SMEs can form associations, lending clubs or borrow groups to ease financial strains and to discuss and resolve other challenges collectively.

## **5.5 Chapter Summary**

The chapter summarized the research findings and presented the conclusion referring back to the aims and objectives of the research study. Possible recommendations were put forward which can be implemented and can effectuate the development of SMEs not only in Bindura urban but in Zimbabwe and other low income countries at large.

## REFERENCE LIST

Abor. J. (2010). Determinants of the Capital Structure of Ghanaian firms. *Small Business Economics*.

Abor J. and N. Biekpe 2010. "Small Business Reliance on Bank Financing in Ghana" *Emerging Market Finance & Trade*, 43(4), pp. 93 – 102.

Abor, J. and P. Quartey (2010). *Issues in SME Development in Ghana and South Africa*.

*International Research Journal of Finance and Economics*. Issue 39 available at

[http://www.eurojournals.com/irjfe\\_39\\_15.pdf](http://www.eurojournals.com/irjfe_39_15.pdf)

Bowen M.K., M. Makarius, S. Mureithi (2009) Management of Business Challenges among Small and Micro-Enterprises in Kenya, *KCA Journal of Business Management*, Vol. 2, No. 1.

Chambers, R. and Conway, G., (1992), 'Sustainable rural livelihoods: practical concepts for the 21st century', IDS Discussion Paper 296, Brighton: IDS

Chadamoyo Patrick, Dumbu Emmanuel (2012). Competitive strategy and business environment influencing performance of Small and Medium Enterprises in the Manufacturing sector: The case study of manufacturing firms in Mucheke light industry. *European Journal of Business and Management* [www.iiste.org](http://www.iiste.org) ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online) Vol 4, No.10, 2012.

Cooper, D.R and Schindler, P.S. (2003), *Business research methods*. Irwin: McGraw-Hill.

Cronje, G. J. Du Toit, G. S. and Motlatla, M. D. C. (2003), Introduction to Business Management. Cape Town: Oxford University Press, Southern Africa.

Fatoki, O. (2012). *An investigation into the financial management practices of micro-enterprises in South Africa*. Journal of Social Sciences, Vol 33 (2) pp179-188

Finscope, (2012), Micro Small and Medium Enterprises, Survey. Zimbabwe.

Gangata, K. 2013, Challenges Facing SMEs in Accessing Finance from Financial Institutions: The Case of Bulawayo, International Journal of Applied Research Studies, Volume 2:2013

Giovanni, R. (et al) (2002). *Gibrat's law and the firm size/ firm growth relationship in Italian services*. Tinbergen Institute Discussion Paper-080/3. The Netherlands, Amsterdam.

Goriwondo, W. 2009, Small and Medium Enterprises (SMEs) A Critical role in the Economy, Nust, Bulawayo, Zimbabwe.

Helmsing, A.H.J and Kolstee, T (1993) "Small Enterprise Promotion in a Changing Policy Environment in Africa: Raising Issues and Attempting Answers" in Helmsing, A.H.J and Kolstee, T (eds) Small Enterprises and Changing Policies: Structural Adjustment, Financial Policy and assistance Programs in Africa.

Hellriegel, D., Jackson, S.E., Slocum, J., Staude, G., Klopper, H.P., Louw, L., Oosthuizen, T. (2008), Management, 2<sup>nd</sup> South African Edition, Oxford University Press, Oxford.

IFC. (2011). SMEs Small and Medium Enterprises: Telling our story. Vol 5/ Issue 1

Jenkins, H. 2004, A critique of conventional CSR theory: An SME perspective, journal of General Management, Vol 29 no. 4 pp. 37-57

Kayanula D. and Quartey, P (2000). The Policy Environment for Promoting Small and Medium Enterprise in Ghana and Malawi. Finance and Development Research Programme, Working Paper Series no. 15, University of Manchester.

Kerlinger, F.N. (2000). *Foundations of behavioral research*. New Delhi, Surjeet Publications

Maseko, N. Manyani, O. Chiriseri, L. Tsekea, S. Mugogo, P.C. Chazuza, T and Mutengezanwa, M. (2012) An analysis of the impact of targeted government support on SMEs growth and development in Zimbabwe: A survey of Mashonaland Central Province. *Journal of Research in International Business Management*, Vol 2, No. 2, pp 51-59.

McPherson, M. A. (1996), “Growth of micro and small enterprises in Southern Africa”, *Journal of Development Economics*, Vol. 48 No. 1, pp. 253-77.

Ministry of Small and Medium Enterprises Development in Zimbabwe. Small, Micro and Medium Enterprises (SMMEs) .The engine for growth. Zimbabwe.

Miller, J.M. (2007).University of York Edited by David Newlands, University of Aberdeen.

Nyoni, S. 2003. Small, Micro and Medium Enterprises (SMMEs). Policy & Strategy Framework. Republic of Zimbabwe.

OECD (2008) Small and Medium Enterprise Outlook, Paris.

Olawale, F. and Garwe, D (2010), Obstacles in the Growth of SMEs in South Africa: A Principal Component Analysis Approach, *African Journal of Business* Vol. 4(5)

Phellas C, Bloch A, Seale C (2011) *Structured Methods: Interviews, Questionnaires and Observation 5<sup>th</sup> Edition* Publisher Fair Child Books

Quartey. P, 2010. “Financing Small and Medium-Sized Enterprises in Ghana”, *Journal of African Business*, 4, pp. 37-56.

Reserve Bank of Zimbabwe, Monetary Policy Statements 2009-2013.



Saunders, M., Lewis, P. and Thornhill, A. (2009), *Research Methods for Business Students*, 5th ed., Prentice-Hall, London.

Small Enterprises Development Corporation (SEDCO) of Zimbabwe, (2011).[www.sedco.co.zw](http://www.sedco.co.zw),

Storey, D.J. (1994). *Understanding the small business sector*. London: International Thomson Business Press.

Wegner, T. (1995), *Applied Business Statistics*, University of Cape town.

World Bank (2012) *Doing business in a more transparent world*. WB, Washington.

Zikmund, W. G (2000) *Exploring Marketing Research*, 7<sup>th</sup> Edition, Dryden College Publishers

Zindiye, S. (2008). *An Empirical Investigation into the Factors Affecting the Performance of Small and Medium Enterprises in the Manufacturing Sector of Harare, Zimbabwe*, University of Fort Hare, MCom Dissertation Manuscript. South Africa.

## **APPENDIX A**

### **LETTER OF INTRODUCTION**



**Midlands State University**

**Faculty of Arts**

**Department Of Development Studies**

**P Bag 9055**

**Gweru**

17-04-2018

Dear Sir/Madam

**RE: RESEARCH ASSISTANCE**

My name is **Sollow Mafuta**, Registration number **R102779A**, a fourth year student at the **Midlands State University**, studying for a **Bachelor of Arts in Development Studies Honours Degree**. I am carrying out a research on **“the effect of SMEs on expanding livelihoods: A case of Bindura Urban”** in partial fulfilment of the requirements of my degree programme. The research project calls for the extraction of information by way of interviews and questionnaires.

Your assistance will be greatly appreciated, if I could have your opinion regarding my research. All information will be treated with the strictest confidentiality as the study is purely for academic purposes.

Yours faithfully

Sollow Mafuta

**MIDLANDS STATE UNIVERSITY**



**FACULTY OF ARTS**

## Questionnaire Guide

I am Sollow Mafuta. I am a student at Midlands State University doing Bachelor of Arts in Development Studies Honors degree carrying out a research on the following topic

“The effect of SMEs in expanding livelihoods. A case of Bindura Urban”

You are taking part in the survey and the information you provide will be treated with strict confidence. I would appreciate your honest and sincere responses.

Please respond by ticking on the blank spaces  provided.

### Section A

#### Characteristics of entrepreneur

##### Age of respondent

18-28  29-38  38-48  49-58  69+

##### Sex

Male  Female

##### Position of respondent

Owner  manager

##### Level of education

Primary  secondary  diploma  degree  masters

### Section B

**Characteristics of SME**

**In which category is your business?**

Retailing  Manufacturing  services  transport  arts   
Food and beverages  mining

**What is your type of business?**

Sole proprietorship  partnership  limited

**What is the number of your employees?**

0-5  6-20  over 20

**What is your annual turn-over?**

Below \$50 000  \$50 000 – \$250 000  above \$250 000

**How long has your business been operating?**

Below 5 years  5-9years  over 10 years

**What is the legal status of your business?**

Registered  not registered

**What is the major challenge faced over period of operation?**

Finance  technology  marketing  infrastructure  managerial  
skills  regulatory environment  competition  location

**Where is the business located?**

Commercial district  down town  industrial site

Residential area  home industry

**Section C**

**What is your source of income?**

Personal savings  family and friends  financial institutions

**Have you ever received government support?**

Yes  No

**Has venturing into SMEs improved your living standards?**

Yes  No

## **LIST OF FIGURES**

- Figure 1 SME contribution to GDP
- Figure 2 Average size of shadow economy
- Figure 3 SME respondents age profile
- Figure 4 respondents level of education
- Figure 5 Business description
- Figure 6 Source of capital
- Figure 7 Location of business
- Figure 8 Number of employees
- Figure 9 Annual turnover
- Figure 10 Challenges faced by SMEs

## **LIST OF TABLES**

Table 1 Definition of SMEs by Multilateral institutions

Table 2 Definition according to South Africa Business Act

Table 3 Definition according to the government of Zimbabwe

Table 4 Sample size according to published tables

Table 5 SME respondents age profile

Table 6 Respondents level of education

Table 7 Gender of respondents

Table 8 Position of respondents

Table 9 Business description

Table 10 Source of capital

Table 11 Location of business

Table 12 Number of employees

Table 13 Annual turnover

Table 14 Length of business experience

Table 15 Legal status of business

Table 16 Challenges faced by SMEs

Table 17 Government support towards SMEs

Table 18 Living standards in relation to SMEs