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Synergy between Small to Medium Enterprises and Financial Performance: A Case Study of Bulawayo the Former Industrial Hub of Zimbabwe

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Abstract:

The synergy between SMEs and Economic performance has for long been acknowledged by governments but not sufficiently researched on how they contribute to economic growth. The decision to conduct this research was prompted by the desire to fill in knowledge gap manifesting among policy makers, entrepreneurs and academics on the extent to which the symbiotic relationship between SMEs financial performance predicate economic performance. Questions such as what is finance for SMEs and what is being used to secure finance by Small Ventures were elucidated. Mixed approach as well as primary source of information was used which was the major highlight on how finance influence venture operation when collecting data. Descriptive statistics were used to determine distribution of economic-performance variables and test for independence of association of variables that were assessed. Results indicated that development and survival of most SMEs hinges on funding. Furthermore, SMEs performance in terms of investment and returns rely heavily on finance. There was an interrelationship on how economic performance stimulates development and productivity of Small Ventures and vice versa. It was recommended that decision makers and relevant ministries introduce necessary policy that understand, collaborate, and link SMEs and financial performance to promote economic growth. Further the research encouraged the need for a standalone financial policy be designed towards SMEs growth needs and address market imperfections.

Keywords: Economic performance, small venture, SMEs

1. Introduction

Small and Medium Enterprises (SMEs) are non-subsidiary, independent firms which employ fewer than a given number of employees and this number varies across countries (OECD, 2005). By financial performance this study refers to SMEs profit, asset base, returns, turnover and number of employees. SMEs are a crucial player in the growth of almost all economies in the world, and are key drivers of ailing economies as they play a vitally integral part in catapulting developing countries' Gross Domestic Product (Orobia, 2013; Mugumisi, 2014). Close examples of such economies are Malawi, Zambia and Zimbabwe. However, what has evaded policy and scholarly attention is the link between SMEs and financial performance, the central gap which this study sought to explore. The relationship between Small Venture and economic performance has been studied outside weak economies and a positive relationship was documented between small-business development and economic growth in developed countries such as United Kingdom (Francis, 2014). These studies show the positive relationship and European government support given to SMEs to grow, innovate and sustain the industry. Conversely, little attention has been paid on the relationship between SMEs and financial performance as crucial ingredients to development in less performing economies such as Zimbabwe. According to (Sikomwe, Mhonde, Mbetu, Mavhiki & Mapetere, 2012), Zimbabwe does not have strong and supportive SMEs policies that encourage trade and growth. Zindiye, Chilya & Masocha (2012), further lamented that, despite SMEs being innovative, flexible and requiring low start-up capital, the government has paid little attention to improve their operation and contribution to the economy through policies such as Indigenisation and Economic Empowerment Act of 2007, Statutory Instrument 64 of 2016 (GoZ, 2016). Despite the differences between SMEs and financial performance, this research is premised on the assumption that SME performance in a weak economy such as Zimbabwe hinges on financial performance, yet this intricate link is less understood, neither is it sufficiently covered in theoretical framework nor has it attracted academic debate. The predominant idea among scholars is that SMEs are small in nature, have shorter and limited lifecycle while that of financial performance are determined by production, economic growth and industry performance (Shumba, 2014). Here, they appear as if they are opposites, yet the complexity of correlation can aid our understanding on how SMEs promulgate development. The research problem this study sought to address relates to existing research gap on the intersections and nexus of SMEs, entrepreneurship, collaboration and finance policy as crucial ingredients to development and growth for states such as Zimbabwe

If SMEs and Finance are inseparable, given the truism that 'there is No SMEs without Finance and there is No Finance without SMEs', and questions remain about the precise relationship of Small Ventures and investments. More so, the truism downplays the contestation around lack of access to capital from financial institutions. The truism further ignores how financial resources are organized, distributed, by whom for whom and for what purpose and which groups benefits, which still remain heavily contested in the context of Zimbabwe's weak economy. Little is known on ways in which financial policy accommodates SMEs growth needs and nurture its operations in a fragile economy like Zimbabwe, particularly Bulawayo. Bulawayo is the second largest city in Zimbabwe and was once revered as the industrial heart and economic link of Zimbabwe and of Southern Africa (Madonko, 2016). The city was once the center for mining, agriculture, and manufacturing characterised by production, steel processing and heavy textile industries. However, all this changed after the country achieved its independence in 1980, as a result of different endogenous and exogenous factors which led to drastic decline of industry in Bulawayo and Zimbabwe as a whole. Industry in Bulawayo today is practically non-existent, as a result of formal company closure and a sharp rise in informal and SMEs activities. The research therefore sought to investigate the synergy between SMEs and financial performance in an ailing economy like Zimbabwe in order to establish how the two are a crucial ingredient to economic development. As steps, the research attempted to i) Identify factors that determine the link between SMEs and financial performance in the context of ailing economy ii) Identify policies that support SMEs activities iii) Establish the extent to which these policies support SMEs and iv) suggest how policy can strengthen SMEs and financial performance. Questions such as, i) how, and in what way is the link between SMEs performance and finance performance invaluable for industry growth in Zimbabwe ii) relationship between SMEs and financial performance iii) policies that support SMEs activities iv) extent do these policies support SMEs and v) recommendations to consider strengthening policy.

2. Literature Review

2.1. Relationship between SMEs and Financial Performance

Chidoko, Makuyana, Matungamire & Bemani (2011) explains that, the reason why SMEs are not successful and performing significantly in Zimbabwe is because they lack financial resources and the ability to carry out research for their activities. However, authors above in their argument have ignored the intricate link or systemic connections between SMEs and economic performance. While the authors assume a one directional influence, they ignore the mutually reinforcing relationship, and inversely how both can undermine each other. According to Muranda (2003), Small Ventures in Zimbabwe are largely constrained by size, experience and risk aversion as these are accounted for by lack of financial performance and the connections of SMEs development to finance by policy makers. It is in this regard that failure to acknowledge the contribution of financial performance signposts to a heavy theoretical and knowledge gaps in literature. The economic and financial performance silence also points out to methodology gaps in research by Muranda(2003) which was used as indicators and measurement tools to arrive at those elements. The above elements also act as indicators that less is known on the influence of SMEs to financial performance in the context of ailing economy like Zimbabwe. Therefore, SMEs cannot be understood in isolation to financial performance. They rise and fall together.

2.2. Policies That Support SMEs Activities

Literature that investigates the influence of SMEs to financial performance, and iteratively, financial performance to SMEs is still at embryonic stage. Dominant literature on SMEs growth from scholars such as Choguya (2015) has dwarfed effort by researchers to examine the potential link of SMEs and economic performance. Failure to understand the iterative interaction, collaboration has also sired SMEs theories that skew towards mismanagement such as Systems Management Theory by Chalton&Andras (2003). According to Kraja,Osmani&Molla (2014), policies have been crafted that ignore and show the interdependent association between Small Ventures and economic performance. Nyamwanza, Paketh, Mhaka&Moyo (2015), further laments on lack of evaluation of policies that support, promote survival and growth of SMEs in Zimbabwe. Instancing this are SMEs policies such as Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIMASSET) an economic blue print for 2013-2018. According to Choguya (2015), ZIMASSET was crafted to achieve sustainable development, growing economy and social equity anchored on indigenisation through food security and nutrition, social services and poverty eradication, infrastructure and utilities and value addition&beneficiation clusters. Indigenisation and Economic Empowerment Act, Chapter 14:33 of2008), was developed as a tool to redress the skewed ownership of productive assets while creating an environment which enhances the performance of the economic activities. What account for such gaps in theory and policy could be lack of understanding on how one supports the other or how one can play off against the other? This research, therefore, endeavours to examine the relationship and flag out the importance of understanding potential connections.

2.3. How Policies Support SMEs

According to Kraja, Osmani&Molla (2014), SMEs policies help in growth, create facilities for business, and make them improve productivity. The authors further explain how policies improve competitiveness in the market and constitute the main source of the national income in Italy. Despite this, what has evaded policy makers and scholars to ascertain and get relevant development information on SMEs relationship to finance remains unknown. Little is known on the interrelationship and influence of SMEs performance to finance and financial performance to SMEs growth progress and policy. Mugumisi (2014) and Chadamoyo&Dumbu (2012), assume that support of these SMEs establishments might be a catalyst and a seedbed in driving creativity and innovative entrepreneurship to resuscitate the economy. They ignore the

view that SMEs survival rely on the financial aid, without which we cannot fully appreciate the positive impact of small ventures in resuscitating the weak industry and economy of Zimbabwe.

2.4. How Other Countries Supports SMES

SMEs in their respective countries have patterns, methods and challenges which influence the way they conduct their businesses. It is for the most part acknowledged that SMEs are turning out to be progressively vital as far as livelihood, riches creation, and the improvement of advancement (Francis, 2014; Mugumisi, 2014). In developed economies, SMEs are the cornerstone of vibrant and strong industry as they seek to invent, modify and tap into new technologies aspects as asserted by Chidoko (2012). In Italy, according to Kraja, Osmani & Molla (2014), the government has changed improved and protected SMEs conditions with their policies. Baluku, Kikoona&Kibanja(2014) showed how it is known and accepted in Kenya that there is a high mortality rate of start-ups, within the first two years as a result of lack of financial support. Furthermore, Wachiuri (2017), reiterate that the Government of Kenya and East African Communities at large do have policies that favour and support SMEs growth and operations, while a number of challenges maybe attributable to diseconomies of scale in processing hard information (Gombarume, 2014).Chadamoyo et al (2012) and Muranda (2003) emphasised lack of finance and external ready markets to sell their produce as some of the challenges faced by SMEs. The predominant idea among scholars is that SMEs and financial performance are mutually exclusive and do not entirely influence growth and contribution of each other to the economy. In countries such as Zimbabwe, SMEs are not given much of attention, support, and exploration; hence they find themselves vulnerable to stiff competition and lack of finance (Gombarume&Mavhundutse,2014). According to Mugumisi (2014), SMEs are important to both individuals and nation as there provide employment, improve standard of living and provide source of revenue to the government. This view has not been dismissed by any other scholars who may assert that SMEs have deepened poverty and derailed growth in weak economies. The counterargument is premised on the view that SMEs lack capital injection.

3. Methodology

The study used mixed method to address the why, how questions and to understand realities of how SMEs performance is intertwined with Financial Performance in Bulawayo. A total of thirty (30) questionnaires were distributed to both female and male SMEs owners. SMEs were chosen based on legal registration with the Ministry of Small to Medium Enterprise (SMEs) established in 2002.The qualitative approach has the merit of depending on human experience, skills and perceptions for in-depth understanding making it more compelling and powerful. Statistical data analysis was conducted using Statistical Packages for Social Sciences (SPSS) version 21.The quantitative approach had the advantage of employing mathematical models and descriptive analysis to determine variables understudy on SMEs financial phenomena and economic performance. The use of these two approaches is because qualitative approach is not always good in tapping the subjective dimension of behaviour or makes sense of social action, while quantitative approach might miss out on phenomena occurring because of the focus on hypothesis testing rather than on theory.

4. Results and Discussion

The study revealed that combined finance is quite poor among SMEs in Bulawayo, as indicated by 52.4% owners relying on personal savings, 19.0% have used personal savings and loan while 9.5% used personal savings + donations from friends as start-up capital (Table 1).This implies that owners of small businesses intuitively plan, monitor their working capital based on personal savings, with little financial support from the government and relevant ministries, yet finance is the fluid needed by SMEs to stay away from stunted growth and shrunk income generation. Baluku, Kikoona & Kibanja (2016) explains why there are several reasons why SMEs owner might elect to use their personal savings instead of applying for a business loan which include, avoiding paying interest on loan and poor financial credit history. However, Chadamoyo & Dumbu (2012) argues that rather than using personal savings in business, SMEs owners should exercise all options before to avoid more harm than good such as over stretching, suffocating personal funds and bankruptcy should business fails.

Source of Income	Frequency	Percent	Valid	Cumulative Percentage
Personal Savings	11	52.4	64.7	64.7
Personal Savings + Loan	4	19.0	23.5	88.2
Personal Savings + donations from friends	2	9.5	11.8	100.0
Total	17	81.0	100.0	
Missing System	4	19.0		
Total	21	100.0		

Table 1: Relation between Source of Capital and Funding in Select SME Respondents in Bulawayo

A total of 38.1% SMEs businesses had Statement and Certificate of Incorporation, Tax Clearance Certificate, Company By-laws and Shareholder Certificates in place with relevant ministry. While 61.9% owners' respondents did not have their business registered with the ministry and maintained incomplete records for their business transactions. Merit of having vital registration documents in place makes it easier for SMEs to access finance and also to get trade credit facilities from reputable institutions. According to Strokes & Wilson (2015),advantages of operating a registered company include enjoying limited liabilities, easy to raise more capital from financial institutions and eligibility to apply for government tenders and bigger business opportunities.

The results of 55.6% SMEs responses shows they have not benefited since registration for any financial assistance, 22.2% respectively point towards not always getting financial assistance; and 22.2% to have financially benefited (Figure 1). From this study, majority of SMEs have never received any financial assistance in the form of loans, funding capacitating and trade credit facilities to boost their operations. Muriithi (2017) reinforces this study on how SMEs in Africa play a critical and positive role but still face numerous challenges ranging from lack of capital, power shortage, poor management skills and competencies and inadequate information.

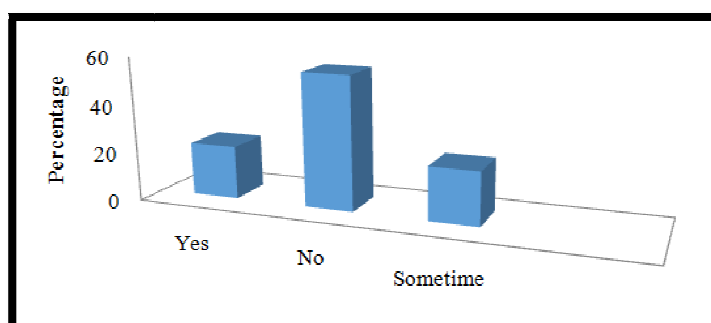


Figure 1: Relation between Registration of Smes and Financial Assistance from Institutions

The study shows that 47.1% of SMEs faced mostly financial challenges when initiating and running business. 23.5% struggled with ready market, 5.9% lacked skills as well as 23.5% lacking government support to improve their performance (Figure 2). Understanding on link between SMEs and financial performance in terms of sales, production output, profit, returns and financial turnover as contributing factors to the economic growth remain unknown, yet it is invaluable for industry resuscitation and SMEs performance in Bulawayo. This also implies that most SMEs continue to rely on personal savings; friends and relatives as major source to start-up to operate their business ventures, while a smaller percentage have received financial assistance. Factors that influence SMEs finance and economic performance such as production capacity, readily available markets and access, affordable raw material, and capital, are depleted and non-existing to provide entrepreneurial innovation and creativity as further emphasised by (Strokes & Wilson, 2015; Raty, 2010).

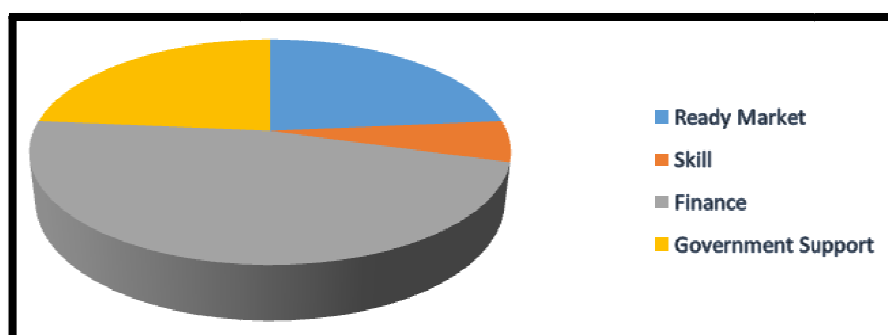


Figure 2: Challenges Faced By SMEs When Starting Business in Relation to Finance

Understanding how policies assist SMEs activities shows from the study that 56.3% of owners benefited through empowerment, 12.5% financial borrowing, 18.8% monitoring & evaluation and 12.5% were getting funding opportunity for their business (Figure 3). From the responses, current policies are silent on funding opportunities and financial borrowing capacity at any level of SMEs activities and performance. Respondents are aware of policies such as ZIMASSET, Indigenisation Empowerment and Economic Act and other policies meant to enhance SMEs performance, while a few do not know nor understand existence and support of such policies and institutional reforms to their business operations as highlighted in Zimbabwe Vulnerability Assessment Committee Report (ZimVAC, 2019).

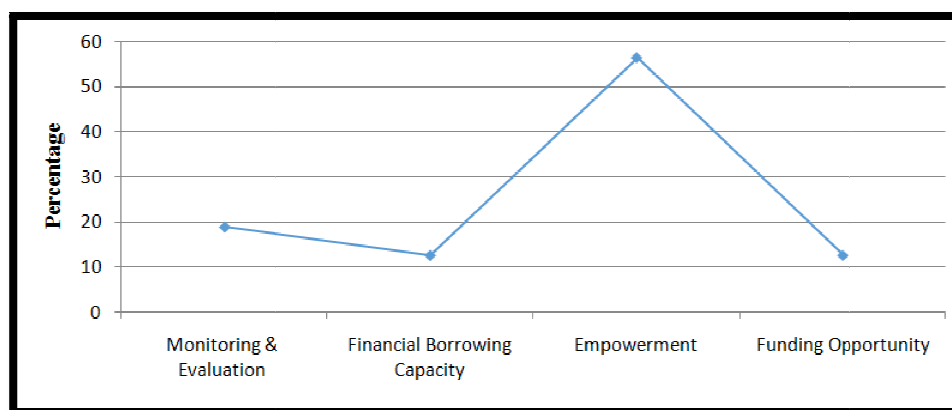


Figure 3: How Policies Assist SMEs Activities in Relation to Funding

Majority of Zimbabwean population relies on SMEs for employment, survival and income generation. Public questions and general understanding around SMEs finances, how it influences the nature of small businesses, and their contribution to growth and development of fragile Zimbabwean economy is still perceived complicated. The current economic conditions of Zimbabwe is characterised by non-vibrant industry, company closure, negative per capita GDP as sighted by Marcucci (2016), high unemployment rate (Rusvingo, 2014) and huge arrears of which are some of the attributes that have hindered SMEs growth opportunities.

5. Conclusion

Despite several policies meant to anchor SMEs performance at national level, small venture and economic activities are still less understood yet critical relationship exist particularly in Bulawayo. This suggests that SMEs and financial performance hinges on each other and is intertwined. The Government of Zimbabwe has made significant strides towards supporting and promoting SMEs conditions for growth by formulating relevant policies. However, such policies often neglect market imperfections, SMEs financial needs, they also do not emphasise the link between finance and SMEs performance and this is why there are assumed not performing well.

6. Recommendation and Future Perspectives

To promote SMEs performance and productivity there is need for policy makers to understand and link SMEs and financial performance as they rise and fall together. These two were found to be crucial ingredients in boosting SMEs performance and economic growth. Though there are policies meant to spearhead SMEs performance, currently there is no specific financial policy meant to address SMEs financial fundamentals, their contribution to Gross Domestic Product and monitoring and evaluation of their performance. Introducing relevant financial policy programs will assist policy makers to strategise on how they can generate, distribute and inject funds to SMEs in order to resuscitate the once vibrant Bulawayo industry. Implication of financial help and strengthening of SMEs performance will consequently result in improved production capacity, macroeconomic and financial development conditions for Zimbabwe. Future studies may consider researching on comprehensive financial contribution of SMEs to economy.

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