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An analysis of the impact of targeted government support on SMEs growth and development in Zimbabwe: a survey of Mashonaland Central Province

Nelson Maseko1*, Onias Manyani1, Lloyd Chiriseri1, Steven Tsekea2, Paison C. Mugogo3, Tendai Chazuza3 Margaret Mutengezanwa4

1Department of Accountancy, Faculty of Commerce, Bindura University of Science Education, P Bag 1020, Bindura, Zimbabwe.
2Department of Library, 3Department of Human Resources, 4Department of Banking and Finance

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This paper sought to analyze the impact of targeted government support on SMEs growth and development in Zimbabwe. The research focused on SMEs operating in the Province of Mashonaland Central and governmental institutions that are involved in advancing targeted government support to SMEs in the province. The survey research design was used. A target population of 200 SMEs was used as a sample in this study. A structured questionnaire was used to gather data from owner-managers in SMEs. Interviews with officials from the governmental institutions were used to gather qualitative data. The study concluded that government targeted support advanced to SMEs is effective in bringing about growth and development in this sector. The study also concluded that the forms of targeted support to SMEs are not complete enough to transform SMEs operations into viable businesses that can compete in the global marketplace. The study recommended that SMEs do not only need financial support from government but also need support in research, quality assurance, marketing, financial management and technology. Further, the study recommended the decentralization of operations of support institutions in order to reach SMEs operating in remote areas of the country.

Keywords: SMEs growth and development; small business management, targeted government support; entrepreneurship

INTRODUCTION

There has been stunted growth and sluggish development in the small and medium enterprises (SMEs) regardless of increasing targeted government assistance streamlined to benefit firms operating in this sector. The Mid Term Plan (MTP) of 29 July 2011, presented by the Minister of Finance, contained 10 national priorities of which entrepreneurship development came fourth on the list, indicating the thrust in government policy in support of SMEs. The government of Zimbabwe (GoZ) identified entrepreneurship development as a major thrust to achieve economic development through SMEs growth and development. Further, the prioritization of the SMEs sector by GoZ is echoed in almost every policy document.

For example in the Industrial Development (ID) Policy (2011-2015) the GoZ aims to promote and support SMEs as they are viewed as an important engine for employment creation and economic growth. In the ID Policy (2011-2015) the GoZ also intends to develop and strengthen existing parastatals like the Small Enterprises Development Corporation (SEDCO) to be able to offer more support to SMEs in addition to infrastructural support, technology upgrade, quality control and improvement, research and development, market access and financing facilities, among other forms of targeted government support to the SMEs sector. Although the government of Zimbabwe has been advancing targeted support in marketing, management and finance to the SMEs sector, some have remained small and worse still, others collapsed. Beck et al (2005) rated Zimbabwe as having the lowest SME sector’s share of employment in the world, when ‘250 employees’ was considered the
yard stick in the definition of an SME. Targeted government assistance has been observed to play a pivotal role in starting, growing and expanding business operations of SMEs. (Beck et al., 2005; Zindiye et al., 2008; Herbert, 2008 and Atieno, 2001). Although some entrepreneurs in SMEs have received both financial and non-financial assistance, many are still small or are facing viability problems. In Zimbabwe, the SMEs sector is failing to contribute meaningfully to the national economy as was experienced elsewhere when governments advanced targeted support. Targeted government support to SMEs was found to translate into economic advanced targeted support. Targeted government perspectives by different disciplines, (Siripolis, 1997; and growth and development of SMEs. Assessment of firm growth and development after certain forms cause of concern, it is necessary to trek behind and inadequate capitalization has been singled out as a Zimbabwe occur within the first three years. Although although some 48-60% of SMEs closures in the SMEs sector with 40%. The Gemini Report of 1993 revealed that the retail and commerce sector dominates Zimbabwe. However this industry only accounts for 20% of SMEs according to a 1995 survey by the Business Extension Advisory Service (BESA). The same survey revealed that the retail and commerce sector dominates the SMEs sector with 40%. The Gemini Report of 1993 also found out that 48-60% of SMEs closures in Zimbabwe occur within the first three years. Although inadequate capitalization has been singled out as a cause of concern, it is necessary to trek behind and assess firm growth and development after certain forms of government targeted support have been received. The researchers believe that there is a positive relationship between the correct mix of targeted government support and growth and development of SMEs.

Firm growth can be measured from different perspectives by different disciplines, (Siriopolis, 1997; Nieman & Pretorius, 2004; Ghafoor & Iqbal, 2007; Moore et al., 2008). Some of the fundamental measures of growth and development have been identified by researchers as:

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

However, Ghafoor & Iqbal (2007) argued that there is no general agreement on how firm size should be measured and therefore there is a wide variation in the growth variables used by researchers. A firm’s size may be measured according to its revenue or profit or by the amount of human and physical capital it employs, (Barkham et al, 1996).

For the purpose of this study, a firm is considered to have grown if it experienced increases in annual turnover and human resources. Firm development, which feeds into SMEs sector development, has been measured by market penetration, market development and diversification. The thrust in the GoZ’s policy on SMEs has been to create employment and hence the researchers considered the increase in human resources as a central variable in this research.

Objectives of the study

1. To investigate the forms of targeted government support rendered to SMEs in Zimbabwe.
2. To analyse the efficacy of targeted government support to different industrial sectors within which SMEs operate in Zimbabwe.
3. To evaluate the sufficiency of targeted government support to SMEs in Zimbabwe and recommend possible policy adjustments.

Definition of small and medium enterprise

Many authors and organisations have sought to define what actually a small and medium enterprise is. Various definitions have been put forward and are based on measures like number of employees, turnover levels, total net assets, capital base, legal structure and degree of formalization, (Hisrich et al, 2004; Kapoor et al, 1997). Some of the authors (Kaulgud, 2004; Siropolis, 1997, Stokes, 1995) and organisations in Zimbabwe such as SEDCO and Ministry of SMEs have similarly endeavored to define small and medium enterprises. SEDCO (2010) has defined a small and medium enterprise as a firm that has not more than hundred employees and maximum annual sales turnover of US$830 000. GoZ (2000) defines a small enterprise as one that employs not more than 50 people and acting as a registered entity. Medium enterprises are firms employing up to 75 and 100 people.

Different academic disciplines also have different features, variables or characteristics they use in defining SMEs.
Accountancy and finance

The International Accounting Standards Committee Foundation (IASCF) (2007, p.15) defines an SME as an entity that does not have public accountability and thus publishes general purpose financial statements for external users. In financial accounting SMEs are entities which do not have the onerous requirement of filing their financial statements with any regulatory body for the purpose of issuing financial instruments. These entities do not hold assets in any fiduciary capacity for a group of outside investors (banks, insurance entities, security brokers, funds, etc) but for the owners, who usually are also managers. Sian and Roberts (2008) went further to differentiate, in financial accounting, a micro-entity from an SME. They defined micro-entities as the smallest entities within the SME spectrum and that these entities have less than 10 employees (including those that do not have any employees).

Corporate governance

SMEs are usually operated by owner-managers. There is no separation of ownership and control as the firm usually has no outside equity owners; any outside ‘owners’ are lenders and or vendors. Ritchie and Richardson (2000), in Olson et al (2004) discuss SMEs from a corporate governance perspective, and they argue that accountability may give and develop knowledge about the borders, or margins, of the enterprise.

Entrepreneurship

There is a difference between an entrepreneur and a manager or owner of a small business. According to Zimmerer and Scarborough (2008), small business is one that employs fewer than 100 people. They asserted that small businesses strive in virtually every industry, although the majority are concentrated in the service and retail industry. The terms entrepreneur and owner-manager are often used to describe someone who engages in the running of a small business. The terms are sometimes inter-changed as though they have the same meaning; a person who starts up a business is labeled an entrepreneur and entrepreneurship is inextricably linked to small business management, (Stokes, 2003). Not all small businesses are run or owned by professional entrepreneurs, according to Niemann et al (2008), as most small businesses are born to die or stagnate.

The issue of size

The European Community’s definition of a ‘small company’ is based on size. A company below limits ‘set in terms of sales revenue, total assets and average number of employees’ is termed a small company. However, the researchers are of the view that it is not size alone that makes a small company different from a large company. A company may have a large number of employees but still qualifying to be an SME in terms of scope of business and its market share. Wynarczyk et al (2002) identified three aspects in which small and large firms differ: small and large firms differ in uncertainty (risk), innovation and evolution.

It can be seen from the above definitions that there is no one universally agreed definition of an SME. However for the purpose of this research, an SME was taken as a firm that employs less than 100 people, generating less than US$800 000 in annual turnover and holding assets only for the owner-managers.

Growth of SMEs in the developing world

Vibrant economies have SME-driven industries because the SME sector is the hub of creativity and innovation. Employment opportunities, reduction in poverty levels and subsequent improved standards of living are some of the major contributions of the SME sector. In most Organization for Economic Corporation and Development (OECD) countries, SMEs represent over 95% of enterprises and generate over 50% of private sector employment, (RBZ, 2009:4). However, this sector has many challenges which hamper its growth thereby negatively influencing its contribution to economic development.

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

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

Taxation in industrial countries discourages SMEs from expanding their operations more than larger companies unless special relief is given. First, founding a business is very risky and taxation (income or company tax) reduces the potential reward that compensates for the risk. Shortages of raw materials or the excessive price of inputs are the primary problems which SMEs are confronted with in developing countries (Little, Mazumdar and Page, 1987:18-21).

Although SMEs offer employment and income to the majority of people in developing countries, their growth and development have been characterised by low contributions to national output, low growth rates and the inability to graduate into larger companies (Berry et al., 2001 & Liedholm, 2002). Compared to large firms, the poor performance of SMEs has been connected to limited demand for their products and their inability to access technology (Kimura, 2003). Other factors which are also connected to the slow development of SMEs in the developing world is a shortage of working capital, institutional and infrastructural obstacles and their inaccessibility to formal market supporting institutions and government incentives (Liedholm, 2002; Peel & Wilson, 1996; Kappel & Ishengoma, 2004). Beck et al (2005) argued that direct government support of SMEs can boost economic growth and development as this will help countries exploit the social benefits from greater competition and entrepreneurship.

Barriers to SME development

In Zimbabwe, the SME sector has faced a variety of constraints that hinder its growth and development. The principal areas of concern affecting the development of the SME sector, identified in various studies as highlighted by Nyoni (2002), include limited access and cost of finance, lack of marketing skills and market knowledge, inadequate management and entrepreneurial skills, lack of access to infrastructure, lack of access to land, lack of information and a hostile regulatory environment.

In addition to the above mentioned constraints SMEs have difficulties in securing adequate finance which is mainly due to a lack of collateral and the banks’ reluctance to finance their operations. The cost of financing SME operations is very high in terms of the interest rates that they pay at credit institutions. Lack of marketing skills and inadequate knowledge of the market adversely affects the operations of SMEs as they fail to attract and retain customers. The insufficient knowledge of the market also results in them failing to satisfy the needs of customers. Furthermore, lack of managerial and entrepreneurial skills hampers the growth of SMEs in Zimbabwe (Nyoni, 2002). Since the SME sector has limited access to finance they do not have enough infrastructures such as land, buildings, machinery and equipment to effectively carry out their operations. Lack of information in the market and changing customer trends negatively affect SMEs, whilst a hostile regulatory environment also contributes to the poor performance of SMEs in Zimbabwe. This is due to the continuous changes in government policies which make it difficult for SMEs to function properly (Ngwenya & Ndlovu, 2003:5). All of these make it difficult for SMEs to establish themselves and compete in a free market (Nyoni, 2002).

Why the growth and development of SMEs in Zimbabwe should be supported

The major advantages of SMEs include their potential for innovation, flexibility, low start-up costs, rapid development and the distribution of risk. SMEs provide a solution to the employment problems facing Zimbabwe since the majority of the people are employed in this sector, (RBZ, 2009). This is due to the fact that large companies are closing down and others are downsizing their operations, (Zindiye et al, 2008). The SMEs sector, if supported, will help resuscitate the economy by creating jobs, new products and services and new technology. The increasing numbers of school leavers and university graduates will be absorbed by the growing firms. This will also help to nurture the entrepreneurial spirit in the society.

Forms of government assistance to SMEs in Zimbabwe

It is however important to note that a strong institutional framework supporting the development of SMEs is already in place in Zimbabwe. With the advent of the economic reforms in 1991, there has been a significant change in the GoZ’s attitude towards the private sector and the small enterprise sector is increasingly viewed as an important engine for employment creation and economic growth almost in every economic policy
framework, (Zindiye et al, 2008). There are long-standing institutions such as SEDCO, VCCZ, ZIC and other several institutions currently providing technical and financial support to the SMEs sector. However, RBZ (2009:13) recommends that these institutions must be reconfigured into tangible activities in support of the SMEs. Hallberg (2001) agreed that SME competitiveness is most importantly a function of the overall business environment and further argues that a conducive business environment is a necessary condition for the success of government targeted support. The researchers believe that the primary role of government should be to provide an enabling business environment that opens access to markets and reduces policy-induced biases against SMEs.

RESEARCH METHODOLOGY

This study utilized the survey research design. As widely accepted, the survey method is a fact-finding study that involves adequate and accurate interpretation of findings, (Cooper & Schindler, 2003). The study used survey data on government targeted support to SMEs in Zimbabwe. Data was gathered from SMEs and government institutions dealing with SMEs through questionnaires and in-depth interviews. The study focused on 200 SMEs in Mashonaland Central Province and officials who were selected because of their involvement in providing targeted government support to SMEs. The survey questionnaires were targeted at proprietors and managers of the SMEs and in-depth interviews were aimed at officials from SEDCO and the Ministry of SMEs. Of the 200 questionnaires distributed, 183 were returned giving a response rate of 91.5 %.

RESULTS AND DISCUSSION

This section presents the data collected from SME operators, officials from SEDCO and the Ministry of SMEs through questionnaires and interviews.

Figure 1 shows that the majority of SMEs are operated by sole traders (33%) and most (32%) by partnerships/cooperatives. A significant number (25%) of SMEs are operated as family businesses while there are few (10%) that are limited companies. About 42% of the firms generated annual turnover of below $500 000, 37% of the firms generated revenue of between $500 000 and $800 000 and 21% had annual turnover of above $800 000, (Figure 2).

Figure 3 shows that most of the SMEs surveyed (37%) are in the manufacturing sector followed by retail (31%) and farming with 12%. Very few SMEs are into construction (7%) and mining (4%) sectors.

Responses on forms of government targeted support received

Table 1 shows that financial support ranked the highest form of targeted support received by SMEs from the government with 73%. Infrastructure support ranked second with 55% of the SMEs having received it and technological ranked third with 37% of the SMEs accessing this form of support. Research and Development support ranked lowest with 3% of SMEs followed by Quality Assurance (10%), Market Development (12%) and Technical training with 21% of the SMEs responding to have received this form of support.
Figure 2. Source: Survey data

Figure 3. Source: Survey data

Table 1. Forms of targeted government support received by SMEs

<table>
<thead>
<tr>
<th>Form of support</th>
<th>Responses</th>
<th>Frequency</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>134</td>
<td>73%</td>
<td>1</td>
</tr>
<tr>
<td>Technical training</td>
<td>38</td>
<td>21%</td>
<td>4</td>
</tr>
<tr>
<td>Infrastructural development</td>
<td>101</td>
<td>55%</td>
<td>2</td>
</tr>
<tr>
<td>Market development</td>
<td>22</td>
<td>12%</td>
<td>5</td>
</tr>
<tr>
<td>Quality assurance</td>
<td>18</td>
<td>10%</td>
<td>6</td>
</tr>
<tr>
<td>Research and development</td>
<td>6</td>
<td>3%</td>
<td>8</td>
</tr>
<tr>
<td>Technological</td>
<td>67</td>
<td>37%</td>
<td>3</td>
</tr>
<tr>
<td>Other assistance</td>
<td>13</td>
<td>7%</td>
<td>7</td>
</tr>
</tbody>
</table>

Source. Survey data
Table 2. Changes in human resources after receiving targeted government support

<table>
<thead>
<tr>
<th>Percentage Increase</th>
<th>Responses</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nil</td>
<td>84</td>
<td>46%</td>
</tr>
<tr>
<td>10-20</td>
<td>31</td>
<td>17%</td>
</tr>
<tr>
<td>21-30</td>
<td>16</td>
<td>9%</td>
</tr>
<tr>
<td>31-40</td>
<td>13</td>
<td>7%</td>
</tr>
<tr>
<td>41-50</td>
<td>20</td>
<td>11%</td>
</tr>
<tr>
<td>Above 50</td>
<td>29</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source. Survey data

Table 3. Changes in annual turnover after receiving targeted government support

<table>
<thead>
<tr>
<th>Change (US$)</th>
<th>Responses</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>No change</td>
<td>69</td>
<td>38%</td>
</tr>
<tr>
<td>Change</td>
<td></td>
<td></td>
</tr>
<tr>
<td>From</td>
<td>To</td>
<td></td>
</tr>
<tr>
<td>Below 500 000</td>
<td>500 000-800 000</td>
<td>101 55%</td>
</tr>
<tr>
<td>500 000-800 000</td>
<td>Above 800 000</td>
<td>13 7%</td>
</tr>
<tr>
<td>Total</td>
<td>183</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source. Survey data

Responses to changes in human resources after receiving targeted government support

Table 2 shows that about 46% of the respondents witnessed any changes in their human resources base after receiving government support while there was a slight percentage increase in the 10-20 bracket in about 17% of the SMEs. About 11% of the SMEs experienced increases in the region 41-50 and 10% of the respondents experienced above 50 percentage increases in human resources. Very low increases in the ranges of 21-30 and 31-40 were experienced by about 9% and 7% of the SMEs respectively.

Responses to changes in turnover after receiving government targeted support

Table 3 indicates that 55% of the firms were able to move from generating annual turnover of below $500 000 into the $500 000-800 000 range. Only 7% of the firms managed to move from the $500 000 - $800 000 range to generate above $800 000 in annual turnover and hence moved into the spectrum of large companies. However, 38% witnessed no changes at all in their annual turnover after receiving targeted government support.

Responses on other forms of growth experienced after receiving government targeted support

Table 4 shows other forms of growth experienced by SMEs after receiving government targeted support. It can be seen from the table that the majority of SMEs (73%) bought new assets after receiving targeted government support while about 51% increased their local market share. Thirty six percent of SMEs introduced new products and 15% entered markets in other town or city after receiving targeted government support. However there were no SMEs that managed to enter foreign markets after receiving targeted government support.

Discussion

The study revealed that most of the SMEs operate as either businesses of sole traders or partnerships or cooperatives. The majority of the SMEs generate annual turnover of below $500 000 and this can be attributed to the scope of their business operations which is mainly a form of survivalist entrepreneurship as supported by Nieman et al (2008). The study also revealed that most of the SMEs which participated in the study were in the manufacturing sector, confirming the bias in targeted government support towards this sector and supporting the findings of Zindiye et al (2008). SMEs dominate the manufacturing sector as most survivalist entrepreneurs operate in cottage industry working wood and metal thus standing to usher innovation and creativity for economic development. The study also revealed that government targeted support to SMEs mainly comes in the form of finance and infrastructural support. This study supports the argument by Atieno (2001) who views finance as a critical component in SMEs growth and development. There is however very low targeted support from the government in form of research and development and quality assurance. This position could be a contributing factor to SMEs failing to enter foreign markets as their
product offerings cannot compete on quality and innovativeness with foreign products. From the study, only 7% of the surveyed SMEs managed to graduate into the spectrum of large companies after receiving targeted government support thus showing insufficiency of government support.

The study also revealed that there is a notable increase in annual turnover and human resources in SMEs after they received targeted support from government. Government targeted support to SMEs is therefore critical in SMEs growth and development.

CONCLUSIONS AND RECOMMENDATIONS

The study concludes that government targeted support advanced to SMEs is effective in bringing about growth and development in this sector. However, the study also concludes that the forms of targeted support to SMEs from the government are not complete enough to transform SMEs operations into viable businesses that can compete in the global marketplace. The study then recommends that SMEs do not only need financial support from government but also need support in research, quality assurance, marketing, financial management and technology use. Further, the study recommends that those institutions advancing targeted government support like SEDCO and VCCZ should decentralize their operations to cover small towns and cities to reach SMEs operating in remote areas of the country.

ACKNOWLEDGEMENTS

The researchers would like to thank staff from the Ministry of SMEs and SEDCO in Bindura and all owner-mangers who participated in this study.

Abbreviations and acronyms

SME - Small and Medium Enterprise
SEDCO- Small Enterprise Development Corporation
MoSME- Ministry of Small and Medium Enterprises
STERP – Short Term Emergency Recovery Programme
VCCZ– Venture Capital Company of Zimbabwe
RBZ – Reserve Bank of Zimbabwe
GoZ – Government of Zimbabwe
IDP – Industrial Development Policy

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