An Analysis of the Root Causes of Small and Medium Sized Enterprises (SMEs) Failure in Zimbabwe During the Period 1999-2011.

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ABSTRACT
The objective of the research was to identify and evaluate the root causes of Small to Medium Enterprises (SMEs) failure in Zimbabwe during the period 1999-20011 and develop recommendations to ensure that SMEs are sustained into the mainstream economy. The study was conducted through a survey of eighty five (85) SMEs in both Bulawayo and Hwange and the SMEs were scattered across all industries. The constraints shown in order of their descending intensity are; access to finance/capital, management problems, Government regulations, multiple taxes and levies, infrastructure, access to modern technology, non availability of raw materials locally, marketing problems, environmental factors and unfair competition. The importance of SMEs in economic development growth is mainly attributed to their contribution to Gross Domestic Product (GDP), employment creation, and socio economic development. Despite the wide international acceptance and acknowledgement of the key role of SMEs in economic growth, development and sustainability, SMEs continue to face a myriad of challenges, hence there is need for concerted efforts of all and sundry including the Government at all levels, SMEs promoters, agencies, Non Governmental organisations (NGOs), multilateral agencies, banks, financiers and investors to take corrective action and ensure that SMEs are turned into large enterprises of tomorrow.

Key Words: SMEs, Failure, Zimbabwe Economy. Gross domestic product

INTRODUCTION
SMEs are the backbone of economic development and growth and a building block for globalization, and for this to be realized fully, there is need to investigate reasons for their failure. If the reasons for their failure are established, lessons for survival can be put in place. Such failures and their causes can be turned into success stories as corrective measures are put in place to nurture the SMEs into large enterprises. SMEs are generally considered to be the engine for economic growth in developing countries and a hub of socio economic development, growth, dynamism and flexibility. Due to their private ownership, high entrepreneurial spirit and adaptability, SMEs contribute to sustainable growth and socio economic development in a significant manner.

BACKGROUND TO THE STUDY
During the period 1999-2008, there was a record breaking economic haemorrhage in Zimbabwe which resulted in big firms suffering huge declines with some even closing shop altogether, thousands of employees were thrown into the streets as a result of the massive company closures. The economy faced a myriad of challenges during the aforementioned period chief among them, foreign currency shortages, demoralised workforce, price controls, hyper inflation, power outages, soaring unemployment levels and rising costs which continued to deplete companies’ working capital base. It is suggested that SMEs, through their inherent advantage of size and flexibility, have the ability to engage in product, service and knowledge innovation, respond rapidly to new opportunities, diversify their operations and contribute significantly to net job creation (Gavan and O’Cinneide, 1994). Furthermore, SMEs are perceived to be key players in innovation, industrial restructuring, wealth
generation and economic growth (Storey, 1994). It is often argued that SMEs are more innovative than larger firms. In developed countries, SMEs often follow "niche strategies," using high product quality, flexibility, and responsiveness to customer needs as means of competing with large-scale mass producers (Snodgrass and Riggs, 1996). Many SMEs bring innovations to the marketplace, but the contribution of innovations to productivity often takes time, and larger firms may have more resources to adopt and implement them (Acs, et al, 1999).

According to a report from the Ministry of Small and Medium Enterprise and Cooperative Development (October 2010), 95% of the country’s economy is being sustained by the SMEs who also contribute 85% Gross Domestic Product (GDP). It is believed that 60% of the revenue collected by the Zimbabwe Revenue Authority (ZIMRA) at Beitbridge Border Post is realised from SMEs (Ministry Of Finance, 2010). The SME sector has the potential to grow to become the country’s biggest employer, particularly given the employment within the formal sector has shrunk to low levels during the past 10 years. SMEs require special attention because of their ability to generate employment, alleviate poverty and their ability to turn around the country’s economic performance that has been battered by several years of economic decline.

Despite the fiscal incentives, grants, bilateral and multilateral agencies support and aids as well as specialised institutions (e.g. SEDCO) all geared towards making the SME sub sector vibrant; the SMEs continue to fold; only for the sector to be sustained by new entrants. Therefore the research is intended to identify all the problems, challenges and constraints militating against the success of SMEs in Zimbabwe during the period 1999-2008 and eliminating them so that the SMEs can occupy their pride of place in the Zimbabwean economy hence play the vital role they are expected to play in the economic growth and development of Zimbabwe. If the reasons for the failure are established, lessons for survival can be put in place. Such failures and their causes can be turned into success stories as corrective measures can be put into place to nurture the SMEs and develop them into large enterprises.

The main objective of this research is to analyse the root causes of SMEs failure in Zimbabwe during the period 1999-2008.

LITERATURE REVIEW
Definition of an SME

In the European Economic Area, enterprises qualify as micro, small and medium sized enterprises (SMEs) if they fulfil the criteria laid down in the recommendations which are summarised in the table below. In addition to staff headcount ceiling, an enterprise qualifies as an SME if it meets either the turnover ceiling or the balance sheet ceiling, but not necessarily both. Table1 below shows the classification criteria.

Table 1: Classification of enterprises

<table>
<thead>
<tr>
<th>Enterprise category</th>
<th>Headcount</th>
<th>Turnover or Balance sheet total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium-sized</td>
<td>&lt; 250</td>
<td>≤ € 50 million ≤ € 43 million</td>
</tr>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>≤ € 10 million ≤ € 10 million</td>
</tr>
<tr>
<td>Micro</td>
<td>&lt; 10</td>
<td>≤ € 2 million ≤ € 2 million</td>
</tr>
</tbody>
</table>


In order to overcome the conflicting opinions of a small firm, the Department of Trade and Industry in the UK. (Culkin and Smith, 2000) provided the following definitions or classifications of small, micro, medium and large sized enterprises: micro-firm: 0 - 9 employees; small firm: 0 - 99 employees (includes micro); medium firm: 50 - 249 employees; and large firm: over 250 employees.

In Zimbabwe, there is generally no ‘agreed’ definition of an SME; the definition varies from institution to institution. For example, for the criteria of funding, the Government of Zimbabwe (GOZ) defines an SME as a business enterprise with 100 or less employees (Kapoor et al, 1997). Small business support institutions such as the Small Enterprise Development Corporation (SEDCO), define an SME as an enterprise with 50 or less employees. The criterion used for defining an SME, include among other things the number of employees, net asset value, sales value and capital size. The most common definition used, however, is employees due to easy access to this information. According to the
Ministry of Small and Medium Enterprise and Cooperative Development (MSMED). SMEs are classified in three categories; namely micro, small, and medium enterprises.

Micro-enterprises are the smallest unit of business, with less than 5 employees and they are usually family owned and home based. Small enterprises employ between 5 and 50 employees, they use advanced to sophisticated production techniques with several clear steps in each stage of operation and they have basic accounting, internal auditing and payroll systems in place. Medium enterprises employ between 51 and 75 workers. They have standardized accounting documentation, governance, products and marketing strategies and they export and/or compete in foreign markets. Medium enterprises are further divided into lower and upper medium categories. Lower medium sized firms employ between 51 and 64 employees and upper medium between 65 and 75 employees. For the purpose of this study, the term SME shall incorporate micro, small scale and medium sized enterprises and the Ministry of Small, Medium Enterprises and Cooperative Development definition will be adopted.

**Role and contribution of SMEs**

It is generally recognised that SMEs make a significant contribution to the socio economic and political infrastructure of both developed and developing countries as well as nations in transition from command to market economies (Matlay and West head, 2005). Furthermore, a healthy and growing SME sector is perceived to be crucial for sustainable competitive advantage and economic development at local, regional and national levels (Porter, 2006). In turn, Harper (1998,) notes that—“the relative and absolute importance of small enterprises has grown enormously over the last twenty years; this real growth has been matched by appreciation of their role. Table 2 depicts the contribution of SMEs in selected Asian economies

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution to total number of individual establishment</td>
<td>92.10</td>
<td>88</td>
<td>97.00</td>
<td>94</td>
</tr>
<tr>
<td>Contribution to total employment</td>
<td>49.40</td>
<td>40</td>
<td>63.50</td>
<td>31</td>
</tr>
<tr>
<td>Contribution to total production</td>
<td>46.70</td>
<td>26</td>
<td>44.50</td>
<td>40</td>
</tr>
<tr>
<td>Contribution to total individual value addition</td>
<td>30.00</td>
<td>23</td>
<td>45.80</td>
<td>35</td>
</tr>
</tbody>
</table>

Source: Confederation of Asia Pacific Chamber of Commerce and Industries- Journal of Commerce and Industries, volume 2(1994) (Pages 6-18)

The survey of the Gemini Technical Report No. 25 (1991) estimated that there were about 845 000 micro-enterprise in Zimbabwe in 1991, most operating in the informal sector and employing approximately 1.6 million, i.e. about 30% more than those employees by the formal sector. According to the study, only about 6% of the SME sector operated in the formal sector. Given the economic meltdown of the last decade, it is only logical to conclude that the number of SMEs have declined significantly over the years.

**Review of the Causes of SME failures**

**Finance**

Hattrick, Managing Director of a Public Limited Corporation with a billion pound turnover in the United Kingdom points out that “cash is the lifeblood of the business, not profit. Businesses must, of course, make a profit if they are to survive long term, but many profitable businesses have failed because of lack of cash”. UNCTAD identified access to finance as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Access to finance is rated as the major constraint by around 30% of SMEs world- wide (Beck, et al 2007). They further noted that evidence from across countries indicate that SMEs are more constrained in their operations and growth than large enterprises and access to and cost of finance is often ranked as one of the most outstanding feature by SMEs.
According to West head and Wright (2000), the absence of adequate funding represents a major obstacle to the entrepreneurial process in a firm—regardless of size, location or type of economic activity. Debatably, efficient capital markets could facilitate access to finance, promote entrepreneurship and enable growth oriented businesses to operate profitably and make a significant contribution towards employment and economic stability. Limited access to finance is a major obstacle to the development of SMEs in Africa. Their inherent perceived risk and lack of collateral make financial institutions reluctant to lend them (Reserve Bank of Zimbabwe, 2006).

**Poor management**

Research done in Zimbabwe revealed that entrepreneurs in the SME sector are not giving priority to training and are often unwilling to participate in programmes which require them to finance even a small portion of their training costs (Kapoor et al, 1997). While these entrepreneurs are extremely vocal about the lack of credit facilities and the high cost of capital, they are less aware of the importance of acquiring the skills necessary to run the business. In McPherson’s study conducted in 1990, poor management was cited as the main cause for failure for most SMEs in the period under review. According to the Reserve Bank of Zimbabwe, SME research paper in 2006, SMEs also lack the capacity to conduct research and development needed to commercialise ideas and grow businesses and they generally have weak business structures. According to William R. Park and Sue Chapin-Park (1998), less than 10% of business failures can be attributed to neglect, fraud and disaster. “Good management is what makes a business successful, bad management is what makes it fail”. Bad management becomes evident in many ways but still they all boil do inability of management to match the merchandise or service the market. The Jovanovich’s model (in Hall, 1995) suggests that failure would be less probable in the presence of levels of education and management experience.

**Policy and regulatory framework**

Until the introduction of the multiple currency system in early 2009, an extensive system of price controls prevented enterprises from charging prices in accordance with market conditions. Price increases required approval from Government which, sometimes, resulted in inordinate delays. The price controls were widespread especially in the year 2007. In many instances, the prices awarded were not adequate to meet increased production costs rendering numerous enterprises unviable. The prices were awarded by the National Incomes Pricing Commission (NIPC), and the NIPC based system lagged market dynamics in its response to the extent of seriously depleting the country’s working capital, as manufacturers were unable to replace the stocks. The resultant waning of their financial muscle saw companies unable to retain the skills necessary to maintain capacity utilisation, let alone grow them. Zoning regulations require that certain types of enterprise should operate in certain areas. Usually, the rents are very high and in addition to that, this limits the firm’s access to markets. The effect of these regulations on the SME is that they are forced to operate in these areas or close down. (Bango, 1991. The corporate tax is 30% and value added tax (VAT) is 15%. These rates of taxation are high for SMEs. While the corporate tax takes away working capital, value added tax increases the cost of inputs making the business less and less profitable (Bango, 1991). While the real value of the minimum wage was eroded during the country’s hyperinflationary period, this nonetheless often exceeded the paying capacity of SMEs resulting in them preferring to retain one man operations or relying only on family labour. (Kapoor et al, 1997). All businesses are required to be licensed in their specific areas of operations. To obtain a trading licence takes a long time and may need professional assistance as well as finance for improving health facilities and sanitation. All this, including the licence fees can be prohibitive for small businesses resulting in them operating without licences leading to “cat and mouse games” between the local authorities and SMEs. (World Bank Discussion Paper, No. 379). In McPherson’s study in 1990, the policy and regulatory framework was cited as one of the reasons for SME failure but was found not to be as crippling as finance and lack of experienced management.

**Stiff competition**

The segments of the market in which SMEs operate compete primarily on price and competition is generally fierce. The market will see the entrance of new firms and this put pressure on the existing firms to perform. Hall (1995) makes a very important point by stating that SMEs do not have the
luxury of economies of scale which in itself could act as a barrier to entry for potential new entrants. In a paper presented by Binders et al. in 2003 to the international trade conference on NEPAD priorities, a number of pertinent issues concerning SMEs were addressed. Through inference, many of the issues could be deemed to be challenges facing SMEs in Africa and indeed Zimbabwe. The following issues were raised: Firstly, the key challenge facing African countries is meeting global competition. Competitiveness in developing countries is hindered because of lack of human resources and development skills and access to adequate finance. Under such circumstances, in order for SMEs to maintain narrow profit margins, they are not able to introduce innovative improvements to products and processes which negatively impacts on their ability to take advantage of new market opportunities. In McPherson’s study in 1990, stiff competition never featured at any point in the development of the enterprise as an important constraint.

**Market access**

Marketing is the one and only functional area that links the products or services of a business to its customers. It is virtually important to ensure that this function is performed properly. Hall (1995) believes that firms are more likely to survive the highly vulnerable start up period the less uncertainty about the initial level of demand they would face. Hall (1995) goes further by stating that the means by which business was secured is vital for the SME. Hall (1995) goes further to state that a lack of knowledge on the market is also an important factor that contributes to failure. However, given sufficient time, knowledge can be acquired. The lack of market information and market curtails the development and growth of SMEs. Due to the flooding of the market, SMEs are invited to submit bids to supply some big firms and some Government departments through the business linkage programme. The benefits of the CZI driven linkage programme between SMEs and some big firms is now threatened as some of these large scale enterprises are reaping off SMEs by paying bills late, while using the money to finance their own operations (ZNCC business Update, October 2010). According to the RBZ research paper on SMEs, poor marketing channels remains one of the reasons for SMEs failure.

**Access to inputs**

Suppliers do not generally give credit facilities to SMEs. If they do, they require the size of the purchase to be substantial and usually this is beyond the requirements of SMEs. In his study of small scale metal working industries in Zimbabwe, Zwizwai found that out of 150 units studied, only 4 could buy steel in bulk from the manufacturer, all the other firms had to buy through merchants and middlemen where the price is a lot higher for their small size of purchase. (Zwizwai, 1991).

In McPherson’s study in 1990, this constraint was insignificant during growth but shot up to number one spot at the time of the study. This could have been so owing to some commodity shortages induced by lack of foreign currency.

**Information, technology and infrastructure**

A study by Deloitte and Touche for ZNCC found out that 29% of the SMEs did not apply for finance. They did not know where to get it, reports Siamonga (SSE News, November/December 1999), citing an example of a multimillion dollar World Bank facility that had been lying idle for some time. They were not aware of the procedures and documentation required when they apply for the funds or where to get the information. While this constraint partly reflects the complexity of the regulatory environment and the multiplicity of bureaucratic requirements, discussed earlier on, it is also a reflection of the poor managerial capacity that exists within the sector which prevents the SMEs from undertaking the research and analysis necessary for starting an enterprise. Outstanding Japanese SMEs have accumulated their technology potential and developed new business aggressively based on technological innovation utilising the external technology information, particularly information from large enterprises and Government (Tanabe Koji et al, 2003). Surveys of the SMEs often cite respondents complaining about not knowing where to go for procuring the most cost effective technology to enable them to service their clientele. (Kapoor et al, 1997). In this context, the study applauds the initiatives by SEDCO and local authorities in the construction of factory shells in various cities and towns. Under the ENDA project, a workshop was established adjacent to a cluster of SMEs on land and infrastructure provided by the City Of Mutare. Accessing
land and obtaining stands from the municipality, particularly commercial stands, can be very time consuming; a process which is aggregated by the local provision of water to business premises too long, while a wait of between three to five years is not uncommon.

**Diminishing profit margins due to high cost of inputs and operation costs**

Before the introduction of the multiple currency system, prices of inputs used to escalate on a daily if not hourly basis and this eroded the profit margins of SMEs. In some cases, the profit margins became so thin that it was no longer viable to continue trading. Likewise, increases in the costs of input and operating costs could not be passed on to the consumer in the form of high product prices without loss of markets. In the end, the businesses simply folded. In McPherson’s study, the high cost of inputs and high operating costs featured under “other constraints” hence it was not very significant constraint during that period.

**Poor planning and record keeping**

Volkner (1997) observes that for most SMEs; “bookkeeping is just routine exercise for the tax authorities”. And it is not meant to guide future decisions and plans. (Volkner, 1997). Many SMEs fail because of fundamental shortcomings in their business planning. It must be realistic and based on accurate, current information and educated projections for the future. Components may include: Description of the business, vision, goals, and keys to success, Work force needs, Potential problems and solutions, Financial: capital equipment and supply list, balance sheet, income statement and cash flow analysis, sales and expense forecast, Analysis of competition, Marketing, advertising and promotional activities, Budgeting and managing company growth. According to the RBZ research paper on SMEs in 2006, SMEs fail owing to poor planning, poor controls and poor record keeping.

**Over expansion**

A leading cause of business failure, overexpansion often happens when business owners confuse success with how fast they can expand their business. A focus on slow and steady growth is optimum. Many a bankruptcy has been caused by rapidly expanding companies. If expansion is warranted after careful review, research and analysis, the business should identify what and who it needs to add in order for the business to grow.

**EMPIRICAL REVIEW OF SMES FROM OTHER COUNTRIES**

**China**

China’s SMEs were faced by lack of financial support. Central Government was concerned about the imbalance in accessing finance and the Chinese officials noted that banks were too conservative to lend money to SMEs. China however, recognised that vibrant SMEs are an essential part of sustained economic development and worked on improving the operating environment. Recognising the limited financial opportunities available to SMEs, the Central Government created a network of credit guarantee agencies in the late 1990’s and tasked the SME bureau to oversee them. China’s growing credit guarantee system was a step in the right direction especially since the banking system’s lending decisions were strictly on a commercial basis. The most remarkable aspect of China’s SMEs is their rapid growth despite their inability to tap the official financial system. Today, Chinese and foreign experts estimate that SMEs are now responsible for about 60% of China’s industrial output and employ about 75% of the workforce in China’s cities and towns. (RBZ, 2006)

**United Kingdom**

It is now widely accepted that SMEs make a significant contribution to wealth creation and net employment growth in industrially developed countries (Birch et al, 1993). Furthermore, smaller firms are perceived to be key players in innovation industrial restructuring, wealth generation and economic growth (Storey, 1994). The important role attributed to SMEs has propelled the SME sector at the forefront of the UK Government agenda, resulting in a variety of relevant initiatives and support policies (Matlay, 2004). In recent years, policy makers in the UK have attempted to address the apparent market failure to supply adequate and specific finance for SMEs. In the main, their efforts were driven by continuous and radical restructuring of the domestic economy over a relatively long period of liberalization of trade practices, accelerated internationalisation and the emergence of leaner and global businesses. Industrial restructuring and growing unemployment, poverty and social
exclusion and the erosion of national competitiveness in international markets strengthened the case for sustained Government intervention in the SME sectors of the UK economy. The vast array of support policies and initiatives aimed at SMEs appear to have succeeded in mitigating some of the negative impacts of capital market failure, especially in the case of SME business start ups. In addition, support for more and better entrepreneurial activity in the UK has gained a central position in the Government’s strategy to alleviating poverty and minimise social exclusion. (Chami, 2001).

**Senegal**

Entrepreneurs complained about the complex administrative procedures for trade transactions and the lack of transparency in the processing of administration matters. However, the Government is trying to overcome these obstacles through the promotion of trade point Senegal where the Government set out to put the country on course towards the global trade arena by means of a telematic infrastructure which would promote external trade and help install an export push strategy. (Economic Commission for Africa, 2001)

**Kenya**

Kenya is a good example of a variable and regulation policy system that has been improved over the last few years. Kenya introduced a single business permit which has drastically reduced the financial and transaction costs of operating a business. Since its implementation, the number of companies being registered and allowed to do business in Kenya has gone up drastically. (Economic Commission for Africa, 2001). Kenya has also targeted the end of 2011 or 2012 to establish an SME bourse to alleviate financing challenges for SMEs.

**South Africa**

South Africa has been able to shape up regulatory policies not only for the benefit of local SMEs but also to attract foreign direct investment. The country has also reduced entry barriers, provided tax incentives to encourage start ups and expand existing businesses and reduced the complexity of formal procedures to register businesses. Khula Enterprise Finance Limited was established as the main financial support services for SMEs. Its mission is to ensure improved availability of working capital for SMEs by offering loans. (Bayene 2002) noted that it guarantees funds to provide initial capital via intermediaries (banks). South Africa has also alleviated SME financing challenges through establishing an alternative stock exchange (ALTEX) which is a division of the Johannesburg Stock Exchange (JSE). South Africa has a well endowed network of research institutions, Universities and technical institutions assisting SMEs in human skills formation and technological capacity building. The main player in this regard in NTSIKAS Enterprise Promotion, which helps companies with access to markets, training technology, counselling and infrastructure. (Economic Commission for Africa, 2001)

**RESEARCH METHODOLOGY**

The research was conducted in the form of a non descriptive research, a survey of SMEs in Bulawayo and Hwange was conducted. A cross sectional design was used in this study and involves measuring a phenomenon at a point in time. It is static just like a photograph that tells us a story at a particular time. The cross sectional design is most practical and cost effective in the collection of large quantities of data. Cross sectional design also deals with non observable data, which includes opinions and perceptions about several issues relating to the field of study. The SMEs were further divided into sub groups based on the industry sector and a random sample taken from each industry category. The selected SMEs are expected to be a true representative of all SMEs in Bulawayo and Hwange which can be extrapolated to the entire country. The database of SMEs across industries was obtained through the Zimbabwe National Association of Small and Medium-sized Enterprises (ZNASMEs), an association that represents SMEs throughout the country. The data collected from ZNASMEs in both Hwange and Bulawayo indicated that there are 340 SMEs across all industries, however the officials pointed out that the database is not static but will be updated from time to time.

The survey was done through a semi structured questionnaire that had more closed questions and a few open ended ones for further probing and soliciting. The questionnaire was distributed through the secretariat of the ZNASMEs in both Hwange and Bulawayo and others were distributed personally.
DATA ANALYSIS
The researcher used descriptive statistical analytic methods, tables and graphs to infer the meaning of data and come up with conclusions; more specifically the Statistical Package for Social Sciences (SPSS) was used in the analysis of data. The study was conducted through a survey of 85 SMEs in Hwange and Bulawayo, across all industries. The table below shows the distribution of SMEs per industry.

The greatest numbers of businesses were located in Hwange with the ratio being 66%/34% for Hwange and Bulawayo respectively. Although Bulawayo should have a large number of SMEs since it has a bigger population than Hwange, the study focussed on SMEs registered with the ZNASMEs and Hwange proved to have more SMEs registered under that Organisation.

Table 3: Distribution of SMEs per industry category

<table>
<thead>
<tr>
<th>Industry sector</th>
<th>Number of SMEs (Hwange)</th>
<th>Sample size</th>
<th>Number of SMEs (Bulawayo)</th>
<th>Sample size</th>
<th>Number of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>16</td>
<td>4</td>
<td>12</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Wholesaling</td>
<td>36</td>
<td>9</td>
<td>24</td>
<td>6</td>
<td>14</td>
</tr>
<tr>
<td>Construction</td>
<td>16</td>
<td>4</td>
<td>16</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Tourism</td>
<td>24</td>
<td>6</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Engineering</td>
<td>12</td>
<td>3</td>
<td>12</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Food/restaurants</td>
<td>24</td>
<td>6</td>
<td>28</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Clothing</td>
<td>8</td>
<td>2</td>
<td>12</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Agro-based</td>
<td>12</td>
<td>3</td>
<td>8</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Other (Specify)</td>
<td>52</td>
<td>13</td>
<td>24</td>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
<td>50</td>
<td>140</td>
<td>35</td>
<td>73</td>
</tr>
</tbody>
</table>

ANALYSIS OF RESEARCH FINDINGS
The bulk of the respondents are Private Limited Companies (30) while only 19 are sole proprietors. Private limited Companies account for 41%, family owned businesses account for 25% whilst sole proprietorships account for 26%. This seem to differ with a study carried out by the Business Extension Advisory Service (BESA) on the distribution of the small scale sector which revealed that in Zimbabwe, most SMEs are sole proprietorship representing about 68% of the sector and 25% of the establishments being Private Limited Companies. (World Bank Discussion Paper No. 399, 1995). The conclusion which can be derived is that over the years, the SMEs have made significant strides in registering their businesses into Private Limited Companies.

Number of employees: Generally, most SMEs in the sample were micro enterprises; that is, they employ less than five employees as shown in the pie chart above. The above distribution may suggest that the research findings may be more applicable to micro enterprises, though they can be extrapolated across all SME categories, however this may also suggest that micro enterprises comprise the bulk of the SMEs in the population under study. The table below shows classification by number of employees.

Table 4: Number of employees

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage</th>
<th>Valid Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 5</td>
<td>43</td>
<td>58.9</td>
<td>58.9</td>
</tr>
<tr>
<td>Between 5 and 50</td>
<td>29</td>
<td>39.7</td>
<td>98.6</td>
</tr>
<tr>
<td>Between 51 and 64</td>
<td>1</td>
<td>1.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>73</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

While it is true that the respondents were fairly spread across a wide range of sectors, the bulk of them came from other sectors (23%), wholesaling (19.2%), food/restaurants (17.8%) and construction (11%). The manufacturing sector has been in a steady decline owing to among other things, erratic power supplies, lack of long term credit as well as high cost of utility bills. The bulk of the businesses have
been in operation for between 3 and five years (33%) and quite a significant number (29%) have been in operation between 5 and 10, yet 11% have been in existence for between 10 and 20 years and these are the businesses which survived the economic meltdown that bedevilled the country during the last decade.

Monthly Turnover
The bulk of the respondents (71%) recorded monthly turnovers of below $10,000 and these are in the micro enterprise sectors whereas a significant number (19%) are between $10,000 and $20,000 and these are the small enterprises employing between 5 and 50. Only an insignificant number (1%) recorded an average turnover of over $100,000. The result seems to buttress the fact that the research findings may be applicable to micro enterprises though they can be extrapolated across SME categories.

MAIN ROOT CAUSES OF FAILURE IN ZIMBABWE
Managerial skills: It was found from the research that there is also a positive correlation between SMEs who hold meetings and turnovers with a greater proportion of the SMEs holding meetings occasionally recording turnovers of between $10,000 and $20,000 per month as opposed to below $10,000 for those who hold no meetings at all. Out of the 73 respondents, 34 have boards of directors whilst 39 do not have. To a large extent, SMEs do not have boards and this clearly shows that they do not attach high priority to corporate governance issues which are critical for day to day survival of the business. This seem to lend credence to the assertion that as the Zimbabwean economy recovers, a number of SMEs are folding up due to failure to adhere to corporate governance practices. (Nkala Doreen et al).

Access to bank loans: There is generally lack of trust between the SME sub sector and the financial institutions. Of the 73 respondents, 10 cited the reason as too high an interest rate, 29 cited lack of collateral and 16 did not answer the question. The main reason for failure to borrow was therefore cited as lack of collateral security. This conforms to the generally held view and belief that banks in Zimbabwe insist on lending against good collateral and an established track record in the same line of business. A starting firm would not have a track record and many small firms have no collateral. This finding also confirms the generally perceived belief and notion that access to funding represent the main problems of SMEs in Zimbabwe. This was in contrast to McPherson’s countrywide study in 1990 of constraints militating against the SME sub sector where non availability of stocks and raw materials was cited as the greatest problem militating against SME sub sector with lack of capital/funding coming a close second. The respondents were quite aware though, that the livelihood of the enterprise revolves around cash and staying afloat.

The study found out that Infrastructure and government were cited as the other worst challenges to SMEs in Zimbabwe. This calls for the Government to build more factory shells and vendor marts for the benefit of the SME sector and to review all regulations militating against the SME sub sector in Zimbabwe to ensure the establishment and growth of the SMEs. Government regulations featured prominently during McPherson’s study of 1990 and was also ranked 3rd in the current study hence there is need for the Government

Environmental factors and other challenges: 20% of the 73 respondents ranking environmental factors as the 10th worst problem whilst about 18% show the same constraint as the 8th worst. It would appear though that that bribery and corruption have taken root in all facets of economic life in Zimbabwe hence the ranking of environmental factors as 9th worst problem facing SMEs in Zimbabwe under the current study. Multiple taxes and levies, access to modern technology, marketing problems and unfair competition were cited by SMEs as some of the challenges affecting their operations. Lack of access to modern technology featured during Macpherson’s countrywide study of 1990 but was not found to be as crippling as it was under the current study where it was ranked fifth. On marketing problems, the results of the study are in sharp contrast to McPherson’s countrywide study (1990) of the constraints facing the SME sector where marketing problems were ranked third
meaning that there were many players in the sector then hence the stiff competition as opposed to the period covered by the current study. This also seems to lend credence to the fact that SMEs have continued to fold over the years only for the sector to be sustained by new entrants.

### Statistical testing

The research tested for 5 prominent reasons identified for SMEs failure. The t-values for (1), (3) and (4) are negative which shows that they are the three major reasons for SME failure. In order to check on whether their means are significantly different from 5 (test value), we then use the p-values (Sig. 2 tailed) and we note that only the p-value of (3), (5), (7), (8), (9) and (10) are less than 0.05. That with the p-value greater than 0.05, it shows that their means are not significantly different from 5.

#### Table 5 One-Sample Test

<table>
<thead>
<tr>
<th>Reason</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
<th>Mean Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management problems</td>
<td>-1.498</td>
<td>72</td>
<td>.138</td>
<td>-.438</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>1.863</td>
<td>72</td>
<td>.066</td>
<td>.521</td>
</tr>
<tr>
<td>Access to finance/capital</td>
<td>-16.289</td>
<td>72</td>
<td>.000</td>
<td>-3.233</td>
</tr>
<tr>
<td>Government regulations</td>
<td>-.380</td>
<td>72</td>
<td>.705</td>
<td>-.110</td>
</tr>
<tr>
<td>Environmental factors</td>
<td>6.577</td>
<td>72</td>
<td>.000</td>
<td>1.945</td>
</tr>
<tr>
<td>Multiple taxes and levies</td>
<td>.078</td>
<td>72</td>
<td>.938</td>
<td>.027</td>
</tr>
<tr>
<td>Access to modern technology</td>
<td>4.384</td>
<td>72</td>
<td>.000</td>
<td>1.014</td>
</tr>
<tr>
<td>Unfair competition</td>
<td>6.760</td>
<td>72</td>
<td>.000</td>
<td>2.000</td>
</tr>
<tr>
<td>Marketing problems</td>
<td>5.695</td>
<td>72</td>
<td>.000</td>
<td>1.329</td>
</tr>
<tr>
<td>Non availability of raw materials locally</td>
<td>5.166</td>
<td>72</td>
<td>.000</td>
<td>1.932</td>
</tr>
</tbody>
</table>

The research was also able to rank the reasons for failure of SMEs according to importance based on the above table and these are listed below in their decreasing order of intensity:

Access to finance or capital, Management problems, Government regulations, Multiple taxes and levies, Infrastructure, Access to modern technology, Non availability of raw materials locally, Marketing problems, Environmental factors and Unfair competition

### CONCLUSION

The study revealed that, SMEs face a number of constraints in their day to day operations. The constraints in their descending order of intensity are access to finance/capital, management problems, Government regulations, multiple taxes and levies, infrastructure, access to modern technology, non availability of raw materials locally, marketing problems, environmental factors and unfair competition. SMEs in Zimbabwe have not performed very well and hence have not played the expected vital and vibrant role in economic growth and development. This has been of great concern to the Government, citizenry, operators, practitioners and the organised private sector groups. Despite the fiscal incentives, grants, bilateral and multilateral agencies support and aids as well as specialised institutions (e.g. SEDCO) all geared towards making the SME sub sector vibrant; the SMEs continue to fold; only for the sector to be sustained by new entrants. There is also need for the Government to spearhead the establishment of an SME stock exchange which is less stringent than the current Zimbabwe Stock Exchange which will increase the integration of the informal sector in the economy, attract foreign investments to the SME sector as well as support the promising sectors in the economy which suffer from finance obstacles. Owner-managers must attend management development courses to enhance their knowledge and skills in terms of managing their businesses and also invest in staff development to ensure that their staff are acquainted to and are abreast with the developments in the economic environment. Government should provide loans at concessionary interest rates and relaxed collateral security conditions through development finance institutions as SEDCO.
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