

# Small businesses in zimbabwe essay sample

[Economics](#)



In this study we are going to explore possible causes leading to failure of Small to Medium businesses. In today's economic environment Small to Medium enterprises is viewed as a driving for the growth of economies (Wenneckersa and Thurick, 1990. Small firms are defined on the grounds of measure such as the size of the business, amount of turnover and the number of employees, other various basis depending on the context and relative industry have been used.

However it is imperative to note that it is rather difficult to define what really a small business is as this has led to rather conflicting views (ACCA2010). These small to medium businesses consist a larger proportion of the total employment in most economies in the world, especially in developing countries. In Zimbabwe, small to medium enterprise faced many challenges in 2008 because of the rise in inflation which caused to the fall of these businesses. Without access to capital these SME's may collapse.

According to (Rostow, 1960) promotion of infant industries is one of the major drivers behind the success of industrialization in Europe. . Thus with this notion in mind the giant economies which we are familiar with in today's business environment have evolved over the years aiding small firms and nurturing those which have just been established. SME's find it difficult to obtain bank loans as compared to larger firms; instead, all their funds are obtained from internal funds, or borrow cash from family and friends so as to run their business effectively and efficiently.

Small firms have less collateral security and hence they find it difficult to obtain formal credit from financial institution and other money lenders. One

of the major causes of corporate failure is lack of sufficient funds. Other internal causes include lack of managerial experience, lack of functional skills, lack of capital, poor customer relations, poor location and poor staff training. More over there are some external factors which include competition, poor economies of scale, unfavorable government policies and high cost of production.

In Zimbabwe many small to medium firms operate in the informal sector and hence the management does not have that know how on how to manage their resources, for example managing their cash flows. Many profitability businesses find notice that they are insolvent due to uneven cash flow because not all businesses in that sector keep proper accounting records as they find it expensive to employ and accountant to do proper accounting and book keeping.

1. 2 BACKGROUND OF THE STUDY This research will look at the causes of failure in small businesses in Zimbabwe. Small to medium businesses are a backbone many economies in the world. Small businesses are still having a major challenge to overcome the failure rate among the small businesses as illustrated by Buckley (1998: 87); Kinunda-Rutashobya & Olomi (1999). In Zimbabwe small businesses constitute more than 60% of the country's labor force and the GDP contributed is 50%. During the 1060s, 70s and 80s there was a growing awareness of the important social and economic rules played by small business sector in Zimbabwe.

Most small businesses that were started in the early 1990s no longer exist because they failed to go beyond the survival stage. Failure rate of small to

medium enterprises is partially attributed to lack of financial that these businesses experience. In the past, the Zimbabwean government did not give financial support to the small business sector in the economy. However the government gave big companies financial support than SMEs. Many SMEs failed due to extreme high levels of inflation in Zimbabwe in the 2008 to 2010 period. Inflation rate was uncontrollable.

However the government of Zimbabwe overcame the problem at hand by launching the Zim-Asset Blueprint which aims at empowering local businesses and prevents the country's economy to depend upon foreign businesses. It is evident that from the time the government gained independence the government has been trying to address the inequalities within the economic system through various policies such as the Economic Structural Adjustment Program (ESAP) and also the Indigenisation policy just to mention a few . All these reforms have been implemented for the following reasons noted below:

- To improve the country's economic diversity by empowering indigenous Zimbabweans with equal opportunities, be it social, economical and financial.
- Creation of a self sustaining economic structure without much foreign dependence
- Improve chances and opportunities of indigenous participation in investment and business ownership

All the above measures were taken by government in order to encourage entrepreneurship among indigenous Zimbabweans with an aim to ensure

more and more individuals are encouraged to venture into business and self employment.

All these measures however, taken by the Zimbabwean government clearly endured various degrees of success on the contrary. The Zimbabwean government's ultimate recognition of the key importance of small firms came in the formation of a government agency Small Enterprise Development Corporation (SEDCO). This agency was formed in 1984 and its sole purpose is to ensure that emerging and operational small enterprises are supported in each and every manner possible. In simple terms the agency is tasked with the purpose of nurturing these small and also infant industries.

SEDCO's duties involve providing small firms with loans with flexible terms, provision of consulting services to prospective entrepreneurs and small business owners and also provision of lease agreements. SEDCO was established to promote establishment and growth of small firms in both rural and urban areas through the provision of financial and technical assistance for a reasonable fee that's affordable. The agency continues its operations to this day and has been working with small firms and prospective entrepreneurs for the past 30 years and looks set to continue its operations into the foreseeable future.

The economy however has undergone serious regression in terms of its performance, and it is safe to say that the economy has slumped into a quagmire in terms of performance over the past three decades. Such a scenario has led to declining formal sector employment which has meant

that the small firms have an increased role to play in terms of employment creation. The emphasis of the Zimbabwean economic panacea has shifted from individuals and common citizens being employment seekers to being mandated employment creators.

. Zimbabweans have been eager to start their own businesses as economic conditions continue to decline in order to alleviate themselves from unemployment and poverty as the case may be. According to a comprehensive survey carried out by the World Bank in 2012 5, 7 million people were said to be working in the small and medium enterprises sector in a desperate move to alleviate themselves from poverty. The survey established further that there were 2, 8 million owners of small and medium enterprises and 2, 9 million employees.

According to the Zimbabwe Independent (2014) most small to medium enterprises had been in operation for a period of not more than five years at that time the survey was carried out, with sustainability and upward mobility being influenced by a number of factors such as government policies, and economic variables, and also individual characteristics such as risk tolerance and education. However it is vital to note that the growth and progression of SMEs in Zimbabwe is generally restricted by a numerous number of obstacles resulting in a high rate of failure of such businesses (SEDCO, 2004).

According to SEDCO (2004), about 60% of SMEs in Zimbabwe fail in the first year of establishment, 25% fail within the first three years and the remaining 15% are likely to survive It is against this background that this study seeks

to examine the major causes of SMEs. Most small businesses in the informal sector, even the formal ones, are not expanding in Zimbabwe and do not survive for a longer reasonable period of time. The overall contribution of these SME to the country's GDP is very low. There are various factors affecting the growth of small business operations in Zimbabwe.

This has there prompted the undertaking of this current study to explore and analyse the nature of problem affecting the funding of small businesses when launching their business in Harare Township. 1. 3 PROBLEM

STATEMENT The problem under focus relates to the examination of the factors leading to failure of small businesses in Zimbabwe. These problems leading to business failure are diverse depending on a number of circumstances. However the researcher will focus on how a business funds itself when wishing to start up operations.

According to the Herald (2013) small businesses are major job creators and they tend to be efficient and innovative and therefore prod large businesses to improve their own operation, making the economy work better overall. Thus this clearly shows that not only does the wellbeing of the economy depend on the continued existence and incidence of these small businesses, but also the overall strength and future prospects of the economy. This is why it is of great importance to perform an examination as to why small businesses have failed in the past instances within the Zimbabwean economic context.

#### 1. 4 RESEARCH QUESTIONS

The following question will drive the study in light of the issues discussed above

- What are the factors that have led to failure of small and medium businesses in Zimbabwe?
- What are the major sources of finance to SMEs operations in Harare CBD?

#### 1. 5 RESEARCH ASSUMPTIONS

- To identify the possible factors that contributes to the failure of SMEs in Zimbabwe.
- Identify challenges being faced by SMEs in raising funds to start up their business

#### 1. 6 SIGNIFICANT OF THE STUDY

The study will be of key importance to discuss the factors that lead to the failure of small businesses in Zimbabwe. It will highlight the contribution of funds to set-up a business and how the funds are attainable in different sectors of the economy. Most importantly the research will also focus on areas that need the special attention of management to attain funds to run their day to day operations in the organization. But this discussion must illustrate some the measures to be implemented that will help the management and employees on how to solve problems associated failure of small firms.

The study will provide theoretical basis of failures of small to medium businesses that will help managers to solve the problems at hand. it will also provide practical guidance on how policies to solve corporate failure are implemented in small to medium business. It will also provide empirical and <https://assignbuster.com/small-businesses-in-zimbabwe-essay-sample/>



practical contributions in effectively applying those policies in the economy to increase efficiency, effectiveness and transparency in their operations.

The researcher has confidence that the study will have a positive impact to SMEs in Zimbabwe. The problems being faced by small to medium businesses may be solved after this study.

But this requires the assistance from the government of Zimbabwe in implementing policies that will solve the problems being faced i. e. shortage of funds, poor management skills, and poor location e. t. c.

#### 1. 7 SCOPE OF THE STUDY

In terms of the scope the research was based on an empirical study of the small businesses within the CBD of Harare, most notably retail small business enterprises. The research is to be conducted in the Harare Township and is solely focused on unearthing of the factors leading to failure of small enterprises in Zimbabwe as well as coming up with solutions.

#### 1. 8 JUSTIFICATION OF THE STUDY 1. 9 LIMITATIONS OF THE STUDY

The researcher will face time constraints because the time of the study is limited. This in turn indicates that it maybe be difficult for the researcher to explore all the possible factors that lead to the failure of SMEs. It will be difficult to collect data and analyse the data because Harare is a big city and some of the businesses are widely dispersed and hence it may be costly to the researcher. Also there are some limitations to this study.

All literature reviews in chapter 2 do not help in the Zimbabwean context specifically. In practice economies face different problems which cause  
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failure of small businesses as a result studies which were done for other countries and the solutions put forward may not help Zimbabwe in overcoming the problems which cause failure in SMEs. But however some of the solutions may require professional analyses so as to apply to Zimbabwe context.

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