

## Chapter

# The Factors Influencing SMEs Growth in Africa: A Case of SMEs in Zimbabwe

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## Abstract

Today Africa reports high levels of unemployment among other social issues causing governments' instability and low economic growth. Brain drain, low gross domestic product (GDP) per capita and growth reported across the continent requires an initiative on driving entrepreneurship development. The study seeks to investigate the determinants of small to medium enterprises (SMEs) growth in developing countries with a special focus on Zimbabwe. Informed by literature, the Zimbabwe Finscope Business Consumer Survey (2012) data was used to run a linear programming model regression analysis on the factors influencing SMEs profitability in that country. The study found that number of business units, education level, business type, family run businesses, expertise, licenced, advertising and bank account were significant in influencing SMEs profitability. The results will assist policymakers, development partners, entrepreneurs and other stakeholders. The insight can also be useful to venture capitalists, investment banks, investors and other financiers. There is need to support the millions of SMEs and future entrepreneurs in improving the regulatory and business environment, improving institutional support systems, promoting technology transfers, innovations and improving productivity.

**Keywords:** entrepreneurial development, Zimbabwe, business, employment

## 1. Introduction

Micro, small and medium enterprises have faced different challenges on the African continent. The challenges faced by small businesses has caused them not to grow, that is, low profitability and depressed growth. The definition of small to medium enterprises (SMEs) differs from country by country. In some countries the criteria for the classification is capital and in others is based on the number of employees. In other countries such as Japan a mixed criteria is used. For the purpose of the current study, small to medium enterprises have been defined as those business entities employing 75 or less people. With other enterprises not operating for long, the sector employs a large percentage of adults on the continent. Though the sector has managed to create many job opportunities the majority of the players operate under capacity. In comparison with other developed countries, enterprises on the continent have the capacity to contribute more to the gross domestic product (GDP) as well as creating more job opportunities. The policymakers and other

players need to craft policies and strategies that enhance the growth of the sector. What then should be done? There is need to understand the factors influencing the performance of SMEs in Africa. Though factors may differ from one country to another the gap remains to be filled. Small to medium enterprises (SMEs) has been defined as a venture with less than 75 employees. The chapter investigates the determinants of small to medium enterprises in Africa using Zimbabwe as a case study.

## **2. Background**

It is crucial for the economically active population segment to realise their aspirations in achieving economic independence as well as discovering their place in society. There is a global job crisis that has worsened the vulnerability of many in relation to lower job quality, high unemployment, higher job market inequalities, increased time to secure employment and high levels of uncertainty. Many African countries among other developing nations have been affected by this situation leading to many leaving their country of birth in search of greener pastures in neighbouring countries and other countries. There is urgent need to address the employment crisis using a multi-faceted approach towards business growth and job creation. One way is to improve or support the SMEs sector that employs a huge population and has potential to employ more. The SMEs sector faces a myriad of challenges across the continent and fails to live up to expectations. Zimbabwe has not been spared in this crisis as there are high business failures and unemployment levels. Several studies have been done on SMEs in different countries including Zimbabwe but the sector remains depressed or incapacitated. There are a number of areas that need attention for creation of value through the SME sectors that have not been addressed in the extant literature. This study contributes to literature by investigating the determinants of SMEs profitability in Zimbabwe.

In spite of the fact that 99% of business enterprises in developing countries are SMEs the sector is yet to exploit its potential in terms of growth and contribution to the economy. Despite of so much having been written on the importance of SMEs in developing economies the sector is still entangled in a myriad of challenges. SMEs are found in all sectors of the economy and represent a wide variety of information and communication technology (ICT) use, formality and firm sizes. SMEs contribute in different ways to economies in Africa. The SMEs differ from one country to another on the continent in terms of number (World Bank, 2016) and factors affecting growth or operations. It is also important to note that there are many things in common in the same sector and a policy implemented in one country or region may possibly work in others. However as variation between countries across the continent may be huge data uncertainty is high.

The number of SMEs in a country is not essentially correlated with the level of economic development. On the African continent activity is dispersed across the large number of more or less formal SMEs. For example in more developed economies economic activity is a large extent structured in larger entities, in the agriculture, manufacturing and services sector. Therefore the number of SMEs in developing economies is mainly determined by supply side (institutional) factors. The number of SMEs does not necessarily reflect their contribution to the overall economy. In a study on SMEs, Beck and Demirgüç-Kunt [1] state that the sectors impact on GDP and employment shows a strong positive relationship with GDP per capita. As a result the more developed a country is the greater is its importance to the entire economy. The study also revealed that there exists a significant negative correlation between employment and GDP contributed by the informal economy and GDP per capita. A large informal sector in Sub-Saharan Africa results in a

big number of SMEs but with low levels of GDP per capita. This may help explain the situation in many countries in Africa with people leaving for greener pastures though the number of SMEs recorded is high.

With a systematic development approach, SMEs play a role in driving the economy from an underdeveloped stage towards high growth and industrialisation. Studies have shown that SMEs start to play a crucial role at an early growth stage. The informal sector in African economies is still great, comprised of the majority of SMEs. The services sector is developed in two different ways [2]. Economic growth gives rise to both business and household sector demand for services such as utilities, transportation, trade, business and personal services. On the other hand, the growing economy also gives rise to incentives for business entities to graduate from the informal sector as local market growth potential improves. When the service sector grows substantially in proportion to overall production in society it is an indication of economies becoming more formalised and developed (Lake et al. 2010). This finding supports the view that SMEs play a pivotal role in service sector growth. Therefore industrial development can be attributed to improved investment, business environment and favourable raw material prices. Agriculture producers and other raw material providers have to hunt for improved production for increased competitiveness. Assisting African SMEs to develop is important for Africa for the global economy, following the creation of a growing middle class with disposable income, in line with market opportunities for new investors. The SMEs have created about 80% of the continent's employment, forming a new middle class that fuels demand for more goods and services.

SMEs have become a force to reckon in the development Zimbabwe's economy. For the past two decades the Zimbabwe's economy has struggled to perform in comparison to other economies [3]. The period has continued to be characterised with firm closures and many people losing jobs through retrenchments (Nyathi et al. 2018). As more workers lost their jobs the number of SMEs was on the rise with many becoming entrepreneurs by default. The majority of the economically active citizens have survived through operation of small businesses (Nyathi et al. 2018). The high levels of unemployment in the country have ushered many in the area of business as the economic conditions of continue to deteriorate [4]. Though many enterprises are started, few have survived and grown phenomenally due to self-employment desire and a myriad of challenges. In a study of SMEs survival Abduli (2013) argues that starting an enterprise is one thing and survival or sustainability is another. Profitability and sustainability have to be enhanced if more job opportunities are to be created and business growth experienced.

The country of Zimbabwe has been hit by massive brain drain as many migrate to other countries for greener pastures. It is estimated that 3–4 million Zimbabweans live in the diaspora [5]. Running a profitable venture is critical and also considering the risks in business and understanding what influences the stability and health of the economy is crucial [6, 7]. Developing country governments, private sector and other development institutions, must ponder on SMEs and create opportunities for Africa's young people for economic growth and stability. All regional blocks, governments, banks and other development partners have to develop all-inclusive programmes and policies to consolidate SMEs if the region is to realise economic growth. This has motivated this study to investigate the determinants of SMEs growth in Africa with a special focus on Zimbabwe. The government of Zimbabwe has to take an aggressive approach to drive an inclusive and balanced growth through the SMEs because of the huge potential for industrialisation if entrepreneurial mode is fostered. There is need to research on factors influencing SMEs business operations for insight to policymakers and other development players.

The rest of the chapter is arranged as follows: Section 3 presents Literature Review; Section 4 describes the data used; Section 5 outlines the research methods used; Section 6 reports, analyses and discusses the results; and Section 7 concludes.

### **3. Literature review**

There are many studies that have been done on entrepreneurship and SMEs on various issues concerning this sector. The following are some of the topics addressed in literature: security, technology use, employees, productivity, expertise, strategies and funding among others. Review of literature provides the foundation of knowledge on entrepreneurship and growth of business. There is also need for Identification of gaps in research in understanding the area better.

In a study focusing on the growth challenges and opportunities of SMEs in South Africa's food processing sector Mather [8] argues that the challenges faced must be viewed from a viewpoint of restructuring South Africa's agrifood system. Using a sample of 30 companies Mather [8] found that procurement practices are the most significant obstacles to the operations of these small firms. However this finding contradicts with Hanks et al. (2008), as supply chain management (SCM) used in the country operates within a regulatory framework set by the national government may be appropriate for bigger companies. However, the study did not address other factors affecting small to medium business operations.

Focusing on Small, Micro and Medium Enterprises (SMMEs) Ngcobo and Sukdeo [9] identified this sector as appropriate for job creation opportunities in SA. The study stresses the point that not many of these businesses succeed. The findings showed that challenges faced included the following: funding, regulations, inaccessible markets lack of confidence and labour costs.

Oyelana and Smith [10] focused on SMEs in South Africa to have a greater insight on their operations. The study used data collected through questionnaires. The study identified lack of finance, lack of managerial skills and training as important areas to consider in SMEs operation. Oyelana and Smith argue that these concerns must be addressed properly if the SMEs sector is to succeed in South Africa.

Yoshino and Taghizadeh-Hesary [11] revealed that SMEs made up more than 98% of Asian businesses providing two out of three private sector jobs. The authors also emphasised that functional support is vital for the sector. The study showed that SMEs face challenges such as insufficient use of information technology, limited access to finance, low research and development expenditures, lack of databases, low levels of financial inclusion and undeveloped sales channels. These were blamed for slow growth of SME businesses. However there are many other factors affecting SMEs that could have been included in the study.

Nkua et al. [12] focused on the effect of accessibility to credit on SMEs growth and operations. Nkua et al. [12] argue that credit availability is important for the survival and growth of SMEs. It is also argued that policy makers should pursue financial sector policies to boost financial intermediaries to design appropriate products and services for SMEs. In Ghana lack of adequate access to credit is a major limitation of small businesses growth. The argument is based on the premise that funds are required for investment in innovation and restructuring among other needs. This results of the study showed that a significant positive relationship between access to credit and certain attributes of a firm. Results also revealed that the following factors also affect SMEs access to bank credit: recording, business registration, asset ownership, documentation and business planning.

Abeh [13] focused on the evaluation of different paradigms, prospects, challenges and policies towards SMEs in Delta State, Nigeria. A survey was used to collect data. The results of the study showed that the following affected the growth of SMEs; government efforts and prospects of SMEs. It was found that age and gender were not significant.

Ocioo et al. [14] analysed the extent to which the SMEs were affected by competition and globalisation in Ghana. The study found that globalisation ushered in technological changes and greater competition levels. The study conducted a Kendall's Co-efficient of Concordance to assess the extent various challenges influenced businesses in competitiveness and globalisation. Ocioo recommended that SMEs must properly strategize to embrace the changes in the market place and culture around the globe. The study did not analyse other many other factors that have the potential to affect small business operations and growth in Ghana.

Gombarume and Mavhundutse [15] assessed the challenges affecting SMEs in Chitungwiza, Zimbabwe. They also looked at SMEs accessibility to loans from formal financial institutions and the impact of government policy on their growth and operations. The study found that SMEs were getting inadequate financial support from financial institutions. However an unstable macroeconomic environment was also found to be limiting the sector's growth. Gombarume and Mavhundutse advocated loan guarantee schemes and formalisation of SMEs.

Khalique et al. [16] considered the competitiveness of SMEs in a knowledge-based economy and explored the challenges that they face in Malaysia. The study also focused on intellectual capital and argued that it has become a lubricant of modern organisations in becoming competitive in knowledge-based economies.

Decker et al. [17] acknowledged that currently the operation and development of a service that uses wireless and mobile terminals is yet to be accepted by many SMEs in developing countries. This is mainly due to market structure and technical reasons that have become obstacles mobile business. This makes it imperative to also investigate the influence of mobile phones on SMEs operations and growth.

Kazimoto [18] found that SMEs often experience challenges on meeting the standards of their products for the international market and in securing micro-loans at initial stages of their life. This mainly applied to unemployed starting the business. The study assessed challenges that SMEs face in meeting international marketing standards. The results showed that SMEs experience the following on the international market: ignorance of standards and regulations; inadequate financial support; lack of government support; lack of consumer knowledge; lack of vital entrepreneurial and poor networking structures. Kazimoto recommended the need for more information availability to SME owners and the government to avail funds at concessionary rates. The study also use of more adverts, latest technology, attending networking events, seminars and trainings by entrepreneurs.

Turyahikayo [19] researched on challenges experienced by SMEs in raising funds in Uganda. The study used the social capital theory to show that SMEs in Uganda experience challenges in raising finance. Other challenges investigated include inadequate collateral, information opaqueness, low technical skills, poor managerial knowledge, competition, lack of professionalism and unavailability of suitable credit schemes.

Tinarwo [20] studied the challenges faced by the SMEs influencing their business operations, performance and growth in Gazaland industrial area in Harare, Zimbabwe. The findings showed that lack of government support, local authority unfair treatment, stiff competition, lack of markets, lack of finance, unfair treatment from the local authority, stiff competition, lack of training and low levels of technology use. Suppliers mistrust and poor infrastructure were also highlighted as hampering SMEs from formalising their business.

On a study focusing on business start-ups in Zimbabwe, Nyoni and Bonga [3] found that majority of SMEs in Zimbabwe were prompted by unprecedented a shrinking job market as many workers were laid off. Nyoni and Bonga argue that SMEs have a great potential to play a crucial position in addressing socio economic challenges such as poverty and unemployment in Zimbabwe. It is also argued that many developed economies trace their development from SMEs growth and development. The results of the study show that enterprises in Zimbabwe are mainly influenced by the following factors technology, start-up funding, marketing, management skills, education level, social networks, age of owner, government, gender and financial support.

In sum extant literature reveals that factors influencing SMEs operation and growth include: technology, start-up funding, marketing, management skills, education level, social networks, age of owner, government, gender, financial support, lack of government support, local authority unfair treatment, stiff competition and research and development. There is no study that has considered or analysed the effect of these factors in a single study, The current study seeks to consider 26 variables in investigating the determinants of SMEs profitability with special reference to Zimbabwe.

#### **4. Methodology**

The current study used Finscope MSME Survey Zimbabwe (2012) that used random selection of eligible small to medium enterprises. It was a comprehensive survey focusing on individual entrepreneurs and owners of micro, small and medium enterprises (MSMEs) and their general needs. This survey carried out 3222 face to face interviews with business owners across all provinces in Zimbabwe. Those interviewed were above 18 years, business owners or generating income through business activities and employing 75 people or less. The survey provided critical information allowing one to analyse determinants of SMEs operation and growth focusing on a number of characteristics. The survey generated information about the characteristics and statistics of informal and formal SMEs operations. The survey gives valuable information permitting different elements of business that have not been studied before, owing to lack of appropriate information at the national level.

To address the research objective that seeks to investigate the determinants of SMEs business growth and operations in Zimbabwe an econometric model was created. The study estimated linear probability model (LPM) to investigate the determinants of SMEs growth, operations and profitability. The dependent variable is profitability, the level of profit obtained in the last 12 months.

In this analysis the LPM take as the dependent variable, profitability, the level of profits obtained in the past year. The 25 independent variables are as below.

profitability = f (number of business units, travelling distance, education level, age, ownerrun, business type, family business, ownership, use ICT, motivation of starting business, financial problem, business regulation problem, business planning problem, employee motivation, advertising, licenced, bank account, business insurance, business records, business advisory, education, corruption, tax, marital)

##### **4.1. Descriptive statistics**

Twenty six variables considered have their frequency, percentage, mean and standard deviation displayed in **Table 1** below.

Characteristics of SMEs	Frequency	%	Mean	Std. Dev.
Total number of respondents	3222			
Businessnum			1.262259	0.5354235
1	2508	77.84		
2	598	18.56		
3	104	3.23		
4	10	0.31		
5	1	0.03		
6	1	0.03		
Travel time			7.053974	19.75407
Less than 10 mins	494	29.30		
11–20	366	21.71		
21–30	278	16.49		
31–60	214	12.69		
60–120	116	6.88		
120–180	59	3.50		
>180	159	9.43		
Education level			4.22874	1.512077
No schooling	134	4.16		
Some primary education	347	10.77		
Grade 7 complete	442	13.72		
Some secondary incomplete	715	22.19		
Secondary school compete	1246	38.67		
A level	52	1.61		
College	219	6.80		
University degree	67	2.08		
Age			3.336127	1.389518
18–24 years	279	8.66		
25–30 years	647	20.08		
31–40 years	990	30.73		
41–50 years	608	18.87		
51–60 years	414	12.85		
60 years and above	284	8.81		
Ownerun			0.996586	0.0583389
Yes	3211	99.66		
No	11	0.34		
Bustype			0.0145872	0.119912
Formal	3175	98.54		
Informal	47	1.46		
fambus			0.4484792	0.4974157
Yes	1445	44.85		
No	1777	55.15		

Characteristics of SMEs	Frequency	%	Mean	Std. Dev.
Ownership			0.7846058	0.4111593
Yes	2528	78.46		
No	694	21.54		
Use ICT			0.0391061	0.1938776
Yes	126	3.91		
No	3096	96.09		
Motivations			0.3311608	0.4707038
Self-motivated	1067	33.12		
Default	2155	66.88		
Financial problem			0.3792675	0.4852801
Yes	1222	37.93		
No	2000	62.07		
Business regulation problem			0.0260708	0.1593705
Yes	84	2.61		
No	3138	97.39		
Business planning problem			0.0021726	0.0465673
Yes	7	0.22		
No	3215	99.78		
Employee motivation			0.1610801	0.3676619
Yes	519	16.11		
No	2703	83.89		
Advertising			0.1387337	0.3457221
Yes	447	13.87		
No	2775	86.13		
Licenced			0.1511484	0.358249
Yes	487	15.11		
No	2735	84.89		
Bank account			0.1021105	0.3028406
Yes	329	10.21		
No	2893	89.79		
Business insurance			0.016139	0.1260298
Yes	52	1.61		
No	3170	98.39		
Business record			0.0121043	0.1093686
Yes	39	1.21		
No	3183	98.79		
Business advisory			0.0912477	0.2880057
Yes	294	9.12		
No	2928	90.88		
Expertise			0.2597765	0.43858
Yes	837	25.98		



Characteristics of SMEs	Frequency	%	Mean	Std. Dev.
No	2385	74.02		
Corruption			0.005897	0.0765768
Yes	19	0.59		
No	3203	99.41		
Tax			0.0204842	0.1416714
Yes	66	2.05		
No	3156	97.95		
Marital status			0.7579143	0.4284124
Yes	2442	75.79		
No	780	24.21		
Profitability			41.84699	44.96179
Refused	55	1.71		
Less than USD\$100	334	10.37		
USD\$100–USD\$199	181	5.62		
USD\$200–USD\$299	201	6.24		
USD\$300–USD\$399	197	6.11		
USD\$400–USD\$699	297	9.22		
USD\$700–USD\$999	207	6.42		
USD\$1000–USD\$1399	237	7.36		
USD\$1400–USD\$2499	1230	38.17		
USD\$2500–USD\$4999	152	4.72		
USD\$5000–USD\$7999	53	1.64		
USD\$8000–USD\$10999	28	0.87		
USD\$11000–USD\$15999	22	0.68		
USD\$16000–USD\$29999	12	0.37		
USD\$30000–USD\$39999	5	0.16		
USD\$40000–USD\$49999	2	0.06		
USD\$50000–USD\$59999	5	0.16		
USD\$70000–USD\$99999	3	0.09		
USD\$100000+	1	0.03		

*Source: Finscope MSME Survey Zimbabwe (2012).*

**Table 1.**  
*Descriptive statistics.*

## 4.2. Variables included in the model

Variables considered in this study are those in accordance with the literature and availability of Finscope MSME Survey data may influence profitability of small to medium enterprise. Below is a brief description of the variables included in the Linear Probability Models (LPM) and the reasons for using them.

### 4.2.1 Number of businesses

One with two or more businesses is likely to report better profits than relying on one. Two business units are likely to produce more profits. There are higher chances

for one to become better off (a billionaire) with multiple streams of income. There has to be a strategy to diversify the income streams to boost the bottom line and if one project goes down, the other one(s) could succeed.

#### *4.2.2 Owner run*

The owner of the business running an enterprise may not have expertise of the business. The owner may not be having the zeal for entrepreneurship and it may be difficult for such a business to grow or report outstanding profits. On the other hand with expertise and professionalism, some owners run business that succeeds and ends up employing more with different qualifications. The success may differ from one company to another but vision, professionalism and entrepreneurship skills will separate them. Thousands of ambitious entrepreneurs start businesses and many of them fail. There is need to find how this factor determine profitability of businesses in Zimbabwe.

#### *4.2.3 Business type*

Formal businesses often perform better than informally run enterprises. The absence of entrepreneurial skills in small informal businesses explains the non-growth and failure of businesses across the African continent. The informal sector has not been viewed as a springboard of prosperous and prolific business development, profitability and growth. Banerjee and Duflo [21] argue that majority of the enterprises of the poor do not exhibit the entrepreneurial spirit and are often revealing disappointments in the economies they operate. Naude [22] also argues that constructive policies work better in the formal economy than the informal. However, the informal sector acts as a buffer from slipping into deeper poverty. There is need to investigate how informal or formal business type influences profitability.

#### *4.2.4 Family business*

Family businesses are run according to the vision, culture, expertise and ability of the members thereof. In such businesses profit can be much more if business is run professionally. Because it is a family business, expertise from outside may be blocked for fear of diluting power. There are some examples of businesses that were started by families that have grown into large corporations or household names in different sectors. However many others have failed along the way as disagreements ensue. In a family business, profits or success may be viewed as dynamic combination of business performance, family business culture and stakeholder personality.

#### *4.2.5 Business premises*

Operating premises may be a determining factor of profitability made by small businesses. Fixed costs such as rentals may hinder SMEs from reporting high levels of profit. The premises one is operating from give the businesses value and image. If one owns the premise s/he is likely to build attractive permanent structures that may attract more and better business as the market views it as organised and professional.

#### *4.2.6 Distance travelled*

Some entrepreneurs have to travel to their business premises and the times taken vary with distance and mode of transport. Distance may influence time spent

on business, opening of business and costs of travelling. In such cases operations, professionalism or reliability and profit levels are affected by these factors. There is need to investigate the effect of distance or time taken to work on profitability.

#### *4.2.7 Ownership*

In SMEs the most crucial or important stakeholders are the owners, customers and staff. The owners of the business take important decisions in everyday activity and determine the success or profitability of business [12]. Their vision, expertise, philosophy and other resources influence greatly the success of the venture. How does ownership structure affect profitability levels of SMEs in Zimbabwe?

#### *4.2.8 Use ICT*

Information and communications technology (ICT) has developed rapidly and changed how business is done across the globe. There are reports of businesses that have succeeded by use of mobile phones, smartphones, tablets, computers in doing business. In addition to that business is also being done online through internet and other social media platforms [23]. Today's consumer has become more inclined to online searching, internet sales and purchasing of goods and services. Many SMEs are unable to exploit opportunities arising in this form preferring to use the traditional methods of doing business [11].

#### *4.2.9 Motivation*

The lack of entrepreneurial skills, zeal and capacity hinder business success. Njanike [24] argues that before one starts a business the following important question must be answered: Am I an entrepreneur? If one gets into business by default the probability of failure is high and if self-driven such enterprises will sustain adversaries. Many enterprises on the African continent today are a product joblessness, retrenchment, economic malaise and shrinking job markets.

#### *4.2.10 Financial problem*

Many SMEs highlight lack of financial resources as the hindrance from success or high profit levels. Formal financial institutions prefer large enterprises to SMEs sighting high financial costs. Large enterprises have lower risk of default, clear financial statements. SMEs have limitation of finance, low research and development investment and low levels of financial inclusion [11]. Those SMEs with capital or access to financial resources have more chances of survival and better profit levels.

#### *4.2.11 Business regulation problem*

Government regulations have an effect on the performance of SMEs or any other business. The regulations enforced by the government can promote or hinder business growth. Some businesses are required to sell their products through some outlined procedures and their adherence assures them of continuity in business. For example some gold miners are required to sell minerals through the government agencies and are not allowed to export them on their own. In Kenya a study found that a positive relationship existed between profitability and other government requirements in some sectors [25].

#### *4.2.12 Employee motivation skills*

Financial and non-financial benefits contribute to profitability of an enterprise as employees are motivated to achieve organisational goals. Improving motivation combined with good culture may increase net profits [14]. These benefits may include the 13th cheque, medical aid, lunch packs and transport allowances among others.

#### *4.2.13 Advertising*

An advertised business grows more or enjoys more profits than the one that does not. Large corporations have marketing departments or personnel to drive sales and interact with the consumer. Consumers become aware of your product to gain or sustain market share through advertising [26]. To what extent does advertising influence profitability of SMEs in Zimbabwe?

#### *4.2.14 Licenced*

The licenced businesses are able to access orders or jobs from large corporations or government departments as it is a requirement. The licenced SMEs are likely to enjoy business, benefits and loans that the unlicensed entities are not able to access. They are also likely to be making more profits with clear records and systems in place. In many cases depending on the sector they are expected to adhere to certain rules monitored by a regulator [19].

#### *4.2.15 Bank account*

A firm with a bank account is more likely to be having a licence and to some extent operating with clear records. Having an account with a formal financial institution makes a firm have access to loans and other financial services. Customers are also able to pay for goods or services using debit cards, credit cards and other electronic transfers rather than paying cash. More business may be experienced with more convenient payment methods on board.

#### *4.2.16 Business records*

A business operated with proper records has a higher chance of survival as determination of profitability is easy. Those that operate without records are not able to assess the extent of profits or losses obtained. With clear records a business is able to attract outside funding and access loans. It is also possible for projections of cashflows, profits and business demand. Analysis of events, assessment of business activities and planning is easier with records [27]. How can one ascertain profits if no proper records are in place?

#### *4.2.17 Business advisory*

It is difficult to operate without independent view of others or experts in the business field. In more developed countries business advisory is taken seriously rather than depend on one's intellect and belief in business. The skills that a small business owner or other employees have are complemented by consulting business advisors on some important issues to maximise profits [25].

#### *4.2.18 Expertise*

Requisite skills or expertise in business is a necessity and there is need to have them. One may have worked for a company in the same line of business, trained or attended college for the skill(s). Because small businesses may not have the capacity to pay a qualified individual the owner, of the business has to have an appreciation or knowledge on it [25]. This is the only way outstanding profits can be obtained.

#### *4.2.19 Corruption*

Depending on the line of business or sector red tape may hinder an establishment or growth of business. In Africa there are corrupt tendencies on licencing or permission to operate or in winning tenders. These are hindrances that may cause SMEs not to succeed and enjoy high profit levels [10]. To what extent has corruption affected business profitability in Zimbabwe?

#### *4.2.20 Tax*

Every legitimate (licenced) business is expected to pay tax to the government. Many informal businesses evade tax and continue reporting high profits [13]. On the other hand paying tax may have indirect benefits as the money paid to the government is used for public goods. Increasing corporation tax has an effect on business profits as costs are increased.

#### *4.2.21 Age*

Many studies have found varying results on effect of age on SMEs profitability. The young may not be able to perform as expected in business unless they are well trained. Those with experience are likely to produce better results as they may have worked elsewhere or have been operating for some time as one learns from mistakes. However the effects on profitability of SMEs in Zimbabwe remain to be investigated.

#### *4.2.22 Gender*

Women and men operate businesses in the same sector and profitability of their businesses varies. Does gender have an effect on SMEs business profitability in Zimbabwe?

#### *4.2.23 Marital status*

There are cases where marital status determines success and profitability of business. The one married has an advantage of sharing ideas for business prosperity with his/her spouse. In some cases married women are limited by their husband's approval and not able to make progressive business decisions [13]. To what extent has marital status influenced success, growth and profitability of business?

#### *4.2.24 Education level*

Education level is a basic requirement of business and the higher the level the better results are expected in business. Depending on the business complexity or market dynamics one is not able to handle some pressures with lower levels of

education. The higher the level of education obtained the greater the results or profits are expected. With education one is expected to be more organised with better appreciation of business concepts.

#### *4.2.25 Level of Business R&D*

Many developed countries today are what they are because of investment in research. A business that takes research and development (R&D) seriously is always outstanding and is expected to report high profits. B&D drives innovation, business growth, profitability and ultimately economic growth. Research shows that R&D contributed significantly to the growth of businesses and economies of Republic of Korea, India and China [28]. In some countries R&D did not increase profitability and growth significantly. R&D is an important factor to consider on business profitability but for this study the data was not available.

In sum, the following factors were considered in this study: profitability, businessnum, travel distance, education level, age, ownerun, business type, family business, ownership, use ICT, self- motivation, financial problem, business regulation problem, business planning problem, employee motivation, advertising, licenced, bank account, business insurance, business record, business advisory, expertise, corruption, tax and marital status. R&D is an important determinant of profitability but was not considered because of lack of data.

## **5. Empirical results**

This section gives the results of the LPM regression (see **Table 2**) and discusses the results.

A total of 3222 observations were considered in the analysis. The LPM regression results were reported.

Number of business entities or units (businessnum) was found statistically significant at 10% level. The more business entities one has the greater the profits obtained. The findings were in line with Ayyagari et al. [29] who argued that the concept of diversification helps explain business dynamics in this case. If one unit is doing well and the other one is not the owner is cushioned and enjoys some income. In terms of income two is better as they can provide you with twice the income. With two or more businesses there may be synergy in marketing and other aspects of business [30].

The variable of travel was not significant with a negative correlation. It may not have been significant but the negative sign shows that to some extent as the distance from the work place increases the less profit is reported. With owner managed businesses the problem may be absence when crucial decisions are to be made and lack of supervision. However, the findings contradicted Kapteyn and Wah [31] who found distance travelled significant to profitability.

Education level was found significant at 1% level. This shows that the more one is educated the better the management and profitability of business in Zimbabwe. Someone educated is expected to have a better appreciation of business concepts hence better profits. A number of studies have shown that education level contributes positively to profitability of a business [18].

Age was found not to be significant. This showed that age had no significant effect on profitability levels of business. However, the results contradicted Abeh [13] who found that age had an effect on business profitability of small businesses.

The ownerun variable was found not to be significant implying that whether the business is run by the owner or not there is no effect on profitability of business.

	LPM
Variables	Profitability
Businessnum	-4.156*
	(2.172)
Travel	-0.0324
	(0.0556)
Education level	2.511***
	(0.875)
Age	1.375
	(0.872)
Ownerun	5.366
	(22.86)
Bustype	19.82**
	(9.884)
Fambus	-7.660***
	(2.223)
Ownership	-0.245
	(2.577)
Useit	5.072
	(6.902)
Motivations	2.312
	(2.317)
Finprob	-3.575
	(2.239)
Busregprob	0.448
	(6.055)
Busplanprob	-37.28
	(25.89)
Empmot	-3.266
	(3.041)
Advertising	6.067**
	(2.916)
Licenced	-5.504*
	(3.058)
Bankacc	-8.432*
	(4.335)
Businsurance	-1.694
	(8.899)
Busrec	2.055
	(9.941)
Busadvisory	-2.711
	(3.988)

	LPM
Expertise	-5.456** (2.648)
Corruption	8.426 (13.56)
Tax	-6.087 (9.387)
Marital	-0.0188 (2.571)
Constant	54.20** (23.93)
Observations	3222
R-squared	0.043

*Standard errors in parentheses. \*p < 0.1*  
*\*\*p < 0.05*  
*\*\*\*p < 0.01*  
*Source: Stata 2014.*

**Table 2.**  
*Empirical results.*

The results contradicted that of Soni [32] who argues that the one running the enterprise determines SMEs profitability.

The type of business (bustype) was found significant at 5% level implying that the formal business was more likely to report better profits than an informal enterprise. Formal businesses have an advantage of being taken seriously by customers and stand better chances of getting big contracts. The finding was in line with Kazimoto [18] who found that formal business had more opportunities hence better profits.

Family business (fambus) was found significant at 1% significance level showing that a business owned by a family was likely to have more profits than the one owned by different people. This may be due to less conflicts in running the business as a family. This is in tandem with Soni [32] who found that family businesses are likely to report better profits but results may vary as the enterprises get bigger with time.

Ownership variable was found not to be significant. This shows that the ownership structure had no effect on the profitability of SMEs in Zimbabwe. However, this differs with other studies that found that ownership influences profitability levels of businesses [12].

The use of ICT (useit) in business was not significant. This implied that the application of technology in business operations had no impact on profitability of SMEs in Zimbabwe. The level of technological development of the country and/or consumers may have an impact on the effectiveness of ICT use. The study contradicted a number of studies that found ICT applications having a huge impact on profitability of business [11, 14]. The argument is that the use of ICT use drives costs of operations down.

The reasons for starting a business (motivations) were found not significant. The reasons behind the start of an enterprise had no effect on the profitability of small



businesses in Zimbabwe. The results contradicted with other studies that argue that motivation had an effect on profitability and sustainability of SMEs [32, 33].

Financial problems (finprob) were found not significant. The issues to do with the business having financial problems at some stage of the business had no significant impact on the profitability of business. This contradicted with other studies that found that financial problems contributed to SMEs business failure and suppressed growth [12, 34, 35].

Business regulation problems (busregprob) was found not significant implying that the challenges encountered due to some regulations in place had no effect on the profitability of SMEs in Zimbabwe. Some studies have shown that some regulations indeed have had a negative effect of business profitability [14, 32].

The business planning problem (busplanprob) had no significant impact on profitability. The problems associated with business planning had no significant impact on SMEs operating in Zimbabwe. However this differed with other studies that found that lack of planning was the major hindrance of SMEs growth and sustainability [10, 12]).

Employee motivation (empmot) had no significant effect on profitability of SMEs in Zimbabwe. This implies that any form of scheme to motivate staff had no impact on profitability levels. The reason may be that as many are owner/family run incentives may not mean much to them as they will be building on value of business. However many studies found different results from the current one because motivation of employee is believed to be having a huge impact on profitability of business [36, 37].

Advertising of business was significant at 5% significance level. This implied that adverts are an important component of a growing business. The more expenditure on advertising the better the profits achieved in business. The results were in line with some studies that reported that a business that does not advertise may not produce outstanding results [26, 38].

The licenced variable is significant at 10% level. This implies that a business operating legally is more likely to report more profits than one operating illegally. The legal status makes such businesses operate more profitable and sustainable [31, 36].

Bank account variable was found to be significant at 10% level. If a company is financially included higher profits are expected. If a company has a bank account it is likely to access funds at cheaper costs and more profits are reported as a result [39]. The results are in tandem with findings of Nkuah et al. [12] who reported that those firms with bank accounts are likely to report better profits than the financially excluded. Financial services are important in an economy and particularly for SMEs entrepreneurs. Financial institutions play a pivotal role in the resource allocation process and entrepreneurs need finance to grow their businesses.

Business insurance (businsurance) was found not significant. This implies that business insurance has no influence on profitability of business. However the results differed with some other studies that reported that an insured business was likely to report more profits [40].

Business records (busrec) was found not significant. This implied that whether the business records are in place or books done by a professional had no effect on the profitability of SMEs in Zimbabwe. The finding contradicted other studies that reported that those firms with business records are likely to have better profits [12].

Business advisory was found not significant. This means that whether the business owners receive business advice or not there is no effect on profitability of SMEs in Zimbabwe. Though business advisory is important some sectors may not require special business advisory let alone for a small firm. The findings disagree with some studies that advocate for business advisory at any stage of growth and in decision making [11, 33, 41].

Expertise was found significant at 5% level. This implies that if the business operator is skilled the higher the probability of better profits. The findings are in line with other studies [19, 32]. To operate a business it is best for one to be knowledgeable for better results to be realised. For the SMEs to contribute more to the GDP and create more job opportunities, there is need to train the operators in every sector.

Corruption was found not to be significant. Any corrupt activity in the system does not have any effect on profitability of business in Zimbabwe. This contradicts with some studies that have found that corruption has become a hindrance to business growth and profitability [16, 36]. In some cases corrupt activities in the system may hinder licences, permits to operate or sell in some markets influencing profitability of business. Some countries have been affected by corruption making it difficult to operate business.

Tax variable was not significant. Any form of tax or tax status of a company has no influence on the profitability of an enterprise in Zimbabwe. A business that avoids tax usually reports more profits as tax is an expenditure that reduces profits [13, 15, 33].

Marital status was not significant. Whether one is married or not has no significant effect on profitability levels. Some single women are operating in Zimbabwe with varying results and equally competing with married individuals. Business is no longer determined by marital status as individuals can take independent decisions or make decisions aimed at promoting business [13].

## **6. Conclusion**

The findings call for enhanced coherence of strategies and policy formulation on employment creation across the multilateral system. The following factors were found significant: number of business, education level, business type, family business ownership, expertise, licencing, advertising and bank account. The policymakers should craft policies that enhance their contribution to profitability, growth and creation of employment. There is need for policy makers and other social partners to design and implement strategies that enhance employment opportunities in their countries. It is necessary for authorities at local, national and regional levels to embark on evidence-based analysis feeding the social dialogue and policy making processes for building a knowledge base for employment creation in SMEs. The discovery that all variables considered in this study have a form of relationship to SMEs' profitability is a good starting point. This serves to assist in intervening in SMEs sector on better designs and stimulations of productive business activities and strategies for job creation. The factors investigated in this study have to be considered and ensure the environment is improved for SMEs growth and profitability. The governments can provide the effective assistance required for young women and men in business to make a good start in the world of business. This will positively influence young people's personal and professional success in all stages of life.

Looking ahead to improve standard of living, create more job opportunities and economic growth the combination of growth factors that Africa presents create unparalleled opportunities for SMEs in the long term. The continent's natural resources as well as fast growing economies will sustain high levels of business growth making Africa's rise unavoidable. This will take political will and selfless decisions by the countries' leaders. The basis of a sustainable undertaking in Africa is dependent on the empowerment and support of regional SMEs and young entrepreneurs to reduce brain drain and poverty. The governments, international investors and other developmental institutions should be central to the stability

of the world's economy. There is need to support the millions of SMEs and future entrepreneurs in improving the regulatory and business environment, improving institutional support systems, promoting technology transfers, innovations and improving productivity.

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