

# A Melt Down of Steel Small Business Enterprises in Gweru Urban

Wilson Mabhandu<sup>1</sup>, Dr. Kurebwa Mercy<sup>2</sup>

<sup>1</sup>Principal Lecturer: Gweru Polytechnic College, Zimbabwe

<sup>2</sup>Senior Lecturer: Zimbabwe Open University, Zimbabwe

**Abstract:** *The study sought to investigate factors contributing to closures in steel small business enterprises in Gweru urban Zimbabwe. Fundamentally, the examination of this topic has been stimulated by criticism of the rapid closures of SMEs against thousands of dollars being siphoned by government to promote SMEs for economic development. The qualitative research approach was used to solicit various ideas, opinions, perceptions and attitudes on factors leading to unprecedented closures of small businesses enterprises in the steel fabrication industry. Data were collected through face to face interviews, focus groups and open ended questionnaires. Purposive sampling was employed to collect data for this study. Data were thematically analysed in line with the qualitative research approaches. It emerged from the empirical findings of the study that factors, such as managerial skills, lack of finance, legislation, lack of financial control, business information, lack of planning, red tape, bureaucracy, marketing issues and escalating of costs led to the closures. This study recommends that SMEs be closely monitored and supervised as interventions to mitigate effectiveness through feedback mechanism. Furthermore there is need for support from the government, private sector and other stakeholders.*

**Keywords:** Small to Medium Enterprises, decline, melt down

## 1. Background to the Study

Zimbabwe once a British colony became independent in 1980. This signaled the beginning of new approach to businesses in a free Zimbabwe. Thus entrepreneurship, in a formalised sense was a relatively new phenomenon among many black Zimbabweans who have been since restricted by the former colonial master's policies, (Zimbabwe Chamber Of Commerce 2005.) The government re-addressed the colonial injustices in the name of inhibitive legislation that restricted the easy entry of indigenous enterprises to own businesses (Zimbabwe Policy Frame Work for Indigenization 2005). Such policies undermined economic development and black economic empowerment. Trade liberalization policy was lessened to empower individual ordinary Zimbabweans to fight poverty through self initiated projects. The enabling environment good for start ups, has seen several mushrooming of small business enterprises to off set poverty and a life of marginalization. With the growing number of unemployed people entrepreneurship had to be harnessed for economic development and for creating employment opportunities. Today entrepreneurship or small business firms have become an important part of economic national development in Zimbabwe, (Zimbabwe Chamber Of Commerce 2005). This also has led to the introduction of Small Business Enterprises Development Corporation (SEDCO) to cater for the new business players in the form of surviving training skills to manage the new startups. In other words to ensure the support to these enterprises the Ministry of Small and Medium Enterprises was opened in the president's office so that this economy conforms to government's economic development goals.

The small business sector is recognised as an integral component of economic development and a crucial element in the effort to lift countries out of poverty (Wolfenson, 2001). Thus small businesses are meant to be driving forces for economic growth, job creation, and poverty reduction

across the countries in the world. According to Storey and Westhead (1994), SMEs are regarded as the seed-bed for the development of large companies and are the life blood of commerce and industry at large. Furthermore, small scale businesses have been recognised as a feeder service to large-scale industries (Fabayo, 2009). Literature suggests the positive link between economic development and the existence of small businesses in the world over. Therefore, globally SMEs are being hailed for their pivotal role for promoting growth of economies and improvement of the general standards of living.

Some researches into small-business development have shown that the rate of failure of small scale businesses in developing countries is higher than in the developed world (Marlow, 2009 as cited in Olibisi 2009). In Nigeria, despite the support and incentive programmes to small scale business, Akabueze, (2002) succinctly stated that it would seem reasonable to expect that small businesses would grow and flourish, but the rate of business failure continues to increase because of the obstacles affecting business performance. Unfortunately, according to the U.S. Small Business Administration (2003), over 50% of small businesses fail in the first year and 95% fail within the first five years. "Businesses with fewer than 20 employees have only a 37% chance of surviving four years (of business) and only a 9% chance of surviving 10 years", Furthermore, Zimmerer and Scarborough (1998) found out that 24% of new businesses fail within two years, and 51 per cent shut down within four years. In Zimbabwe the disappearance of small businesses is an important factor to consider in this research. This decline in small businesses made it imperative for the researcher to investigate the challenges leading to the closures and to proffer possible solutions to mitigate the challenges.

SMEs are a large contributor to global economies and their importance is noted in every country. SMEs make a

substantial contribution to the economy in terms of job creation, Gross Domestic Product (GDP) investment and social welfare (Nieman, 2006). Underscoring an important aspect, Mudavanhu et al. (2011) agrees that many countries consider entrepreneurship as a solution to unemployment and other socio-economic challenges like poverty. Besides the gains that come from SMEs several of these businesses are suffering huge setbacks as many of them do not survive due to several challenges. Empirical evidence has shown that the life span of SMEs tends to be short, with approximately two thirds of all start-ups failing within the first five years (Ladzani and Van Vuuren, 2002). The vulnerability and closures of SMEs are a combination of factors that are mainly political, social, and economical and legal related. Lack of skills has been a major challenge to the SMEs (Smith & Perks, 2006). In addition lack of essential information on running the business and lack of proper funding of the business (Chimucheka and Rungani, 2011; Monk, 2000) militate against survival of small businesses. Nyoni (2002) summarises the challenges contributing to failures of SMEs as follows:

- limited access and cost of finance;
- Lack of marketing skills and market knowledge;
- inadequate management and entrepreneurial skills;
- lack of access to infrastructure;
- lack of access to land;
- lack of information; and
- A hostile regulatory environment.

With poor business-management the small business failure rate is relatively high (Harare Chamber of Commerce, 2005). In support of the above assertion a research by Zimmerer and Scarborough (1998:23) underscored that, 'In most small businesses, management, in-experience or poor decision making ability is the chief problem of the failing enterprise.' The business, small or big requires a combination of leadership and management skills. What kills companies has usually less to do with sufficient money, talent, or information than with something more basic: a shortage of good judgment and understanding at the top", (Zimmerer and Scarborough, 1998). Capital is a scarce resource, and in most cases indigenous businesses have little or no security hence it becomes difficult to get loans from the bank. Brooks (2003) suggests that as a result of low capital investments, black businesses are insignificant in the American economy. The situation is critical at the time of this study in Zimbabwe where the economy is bleeding. The Zimbabwe government policy framework for indigenisation of the economy (2004) notes constraints facing indigenisation as indigenous entrepreneurs have no collateral security a condition financial institutions place before loans are advanced for start-ups. Research by Robbins and Coulter (2002) and Jesselyn (2003) revealed that laws and regulations determine the "rules" of the game and what decisions and actions are likely to meet with -success. It is therefore, imperative that any business ventures must be in line with government laws and regulations.

#### **a) Research Objectives**

- To establish the main challenges that lead to decline of steel fabrication businesses

- To proffer interventions to mitigate closures of small scale businesses.

#### **b) Research questions**

- What could be the challenges responsible for closures of small scale businesses?
- How can the closures of small scale businesses be mitigated.

#### **c) Purpose of the Study**

The purpose of the study was to establish the challenges that contribute to the closures of small scale businesses in Gweru Urban, and to proffer solutions that mitigate decline of small businesses.

#### **d) Statement of the Problem**

The SMEs are hailed for the pivotal role they play in economic development. Despite the assistance they get from support institutions and government, the new business ventures are closing down a scenario that defeats the government's national goals of economic development. It is the essence of this study to establish factors contributing to the problem faced by SMEs in Gweru urban.

## **2. Research Methodology**

The researcher used the qualitative research approach. Qualitative researchers study view phenomena in their natural settings, attempting to make sense of or to interpret phenomena in terms of the meanings people bring to them (Denzin & Lincoln, 2000:3). All the participants of this study were purposely selected. Three focus groups of six participants each were conducted two from Mkoba and one from Mtapu high density suburbs. Individual in-depth interviews, and open ended questionnaires were also used to collect data from participants. All the data gathered in this study were transcribed and analysed thematically in line with qualitative research approaches. Themes emerged from the data.

## **3. Findings and Discussion**

### **3.1 Challenges contributing to failure of small business enterprises**

The main objective of the study as alluded earlier on was to establish the factors contributing to business failure of SME's. All the factors found were discussed as follows.

### **3.2 Financial Related Factors**

In this study it was found that lack of finance contributes to small business failures. Zimmerer and Scarborough (1998:24), warn that "Many small business owners make the mistakes of beginning their business on a "Shoe-string" which is a fatal error." Several of small businesses are self-sponsored. The study revealed that lack of financial sponsorship is vulnerable to the success of small businesses. Financial backing is the bedrock of a sustainable black empowerment regime (Ray, 2000-Enterprise). Internal researches have shown that 80% of small businesses without financial backing fail within 5 years, where as 80% of

incubated business leave as sustainable enterprise (Ray, 1998-Enterprise). The following statements illustrate the view points of these entrepreneurs

*"It's hard for me to continue in business when I do not have adequate funds just to buy materials".*

*"It is difficult to get finance from support institutions because they demand collateral security which is beyond our capacity."*

*"I am just a lodger, where can I get the collateral security to avail these funds?"*

*"It's difficult for me to decide for the business, when I do not have money to buy food for the family."*

*"We need money to buy materials, maintain our machines which breakdown so regularly."*

In light of the above statements made by these entrepreneurs, financial problems were a common challenge leading to business failure. Out of the forty two participants 83% highlighted financial challenges as the main impediment to business success. The SEDCO officials also concurred with these findings and highlighted that financial challenge; financial discipline and misappropriation of funds leave these businesses vulnerable to closing down. Roc Connect Limited (2005:24) underscores that "Many small businesses fail because managers do not integrate accounting practices to a reasonable level in their businesses. By failing to do so, they suffer from the lack of financial control and consequently cash flow problems force the business to close."

### **3.3 Planning and Management related factors**

In a research conducted by Liedholm, Macpherson and Chuta (1994) they obtained that large number of small enterprises fail because of non-financial reasons such as a lack of forecasting and planning skills, a lack of skilled human resources and poor management practices. Furthermore, a lack of managerial and entrepreneurial skills hampers the growth of SMEs in Zimbabwe (Nyoni, 2002:10). This research indicated that small business owners lacked managerial skills. Some small business owners lamented statements outlined below:-

*"I have a huge interest in my business but I do not know where to start from. I do not have management skills. I did not do accounts at school so I do not see the need to have accounts books."*

*"The SEDCO people are just after helping to assist the favoured ones in getting loans".*

Some good level of education is needed to run a successful business. In as much as the business is expected to excel many participants cited lack of education as an obstacle to achieve success.

One emotionally charged entrepreneur said,

*"Customer funds are used unplanned, lack of funds to maintain equipment led owners to sell machines, raw materials are too expensive, absence of capital to buy*

*grinders, drill machine, rods and metal blades reliance on customers' funds to buy materials, breakdown of machinery and also too much politicization of loans leads to closures. Sometimes balancing business time is difficult."*

It is apparent from the statements above that the business people interviewed concurred that management skills are important to save a business from closing down. It was evident from the study that planning was not done on paper. Lack of training on how to manage the business funds and customers' funds left everything to chance, hence automatic closures. The interviewees revealed underestimated time of requirements; family pressure, pride, lack of financial responsibility and awareness, and lack of a clear focus are reasons contributing to business failure.

### **3.4 Economic Related factors**

According to Botha (2006), the absence or low levels of key skills like ability to gather resources, marketing and technical skills, may lead to zero performance, while weakness in a particular element would decrease effectiveness in the overall performance of the venture. In this study one of the participants highlighted that, *"I have multiple problems in this business, when we produce our products we do not know where to sell them"*.

For instance, the results of the interviews also subscribed to this idea and many participants were not sure of where to buy or where to sell their products. This study revealed that market information was inadequate despite the services provided through the support institutions SEDCO and Ministry of Small to Medium Enterprise. Furthermore, some entrepreneurs got into business without any knowledge of market research and market segmentation. Through further interviews one respondent was very sad as to the experiences he got in doing the business itself, *"When I got into this business I thought I was going to make money but, it wasn't the case. There was stiff competition for customers and as a result the products fetched sick money and I could not get profit, I could not repay the loan, I could not pay for the fees and feed the family"*. Due to multiple problems some business operators highlighted that they just disappeared with the customer's order funds. The above sentiments seem to suggest that there were no specific channels that were in place to help failing business, due to lack of focus and direction and thus made the ventures vulnerable.

### **3.5 Government Policy Related Factors**

The study revealed inflexible government policy and legislation contributed to failure of small business ventures. The business operators lamented the demand of collateral security upfront as a condition to get the loans. One interviewee said, *"I do not own a house nether do I have a car to pledge as collateral security."* This could even been more factual coupled with the slow effort of raising transparency, bureaucracy and red tape as regards to SME regulation, transactions and registration (Gaomab, 2004). This seems to suggest that the factors above are too restrictive conditions that contribute to business failure. After further investigations the venture operators concurred



that they constantly fear government policy surprises and unexpected changes in rules that can seriously affect their businesses. It seems there is lack of an enabling legislation framework that encourages survival of small businesses despite the fact that support institutions have been established to promote growth of small enterprises in Zimbabwe. These findings tend to reveal that there are no adequate preparations on the part of the government to avert the decline of small businesses.

#### 4. Conclusions

- SMEs failed due to lack of finance, managerial skills, break down of machinery, lack of markets, too much competition, escalating prices of raw materials, no business information, red tape, lack of transparency on the issuing of loans, government policy and lack of financial control.
- The small business ventures were thought to be the panacea for solving economic problems haunting the country but during the time of study this economic goal has failed.
- There was no close supervision and monitoring of small businesses to ascertain whether the funds loaned were used in the correct manner and for the purposes they were acquired.

#### 5. Recommendations

Based on the findings of the study, the study comes up with the following recommendations:-

- To realize feasible economic development small businesses need to be supported professionally through the afore-said support institutions, by exhibiting transparency in issuing of loans, avoid politics, training and monitoring and supervision to get effective feedback.
- The government needs to try to minimize excessive regulations, bureaucracy and red tape in accessing loans and policies that maintain stable operating rules for SMEs must be put in place.
- There is need for a deliberate policy to assist those without, security or collateral. For instance, some loan providers put homeownership as one of the prerequisites of getting the funds when the majority of urban people do not own houses.

This study recommends further research be conducted on the state of SMEs in Zimbabwe to have an in depth insight of the problems contributing to SMEs decline and thus policy makers can realign the economic development goals of the country.

#### References

- [1] Administration, Washington D.C, June (2003) (Available from [www.sba.gov](http://www.sba.gov))
- [2] Akabueze, B. (2002). Financing small and medium enterprises (SMEs): The Small and
- [3] Buffalo City Municipality, South Africa, *African Journal of Business Management*. 5(14) (2011), 5509-5517.
- [4] Botha, M. (2006) Measuring the effectiveness of the Women entrepreneurship programme, as a training intervention, on potential, start-up and established women entrepreneurs in South Africa, *Published PhD Thesis* Pretoria: University of Pretoria.
- [5] Brooks, R. (2003), "Population Aging and Global Capital Flows in a Parallel Universe," IMF Working Paper 00/151 (Washington: International Monetary Fund).
- [6] Denzin N. K. & Lincoln Y. S (2000). *Qualitative Research* (2<sup>nd</sup> Ed). Edited by and Thousand Oaks. Service No. ED451189.
- [7] Denzin, NK. (1978). *Sociological Methods*. New York: McGraw-Hill.
- [8] Fabayo, J.A. (2009) Small and Medium Enterprises development strategy: A critical Option for sustainable Long -Term Economic Development in Nigeria. A paper presented at the first annual International Conference on: Effective Management of Small and Medium scale Enterprises for sustainable Economic Development held at Abraham Adesanya Polytechnic, Ijebu-Ode held from 25-27 August.
- [9] Gaomab II, M. (2004) Challenges Facing SME's. Namibia Economic Society.
- [10] Jesselyn, M. (2003) An Analysis of the Formal Institutional Factors Affecting Entrepreneurship in a Developing Country: Lessons for Africa. University of Natal South Africa. lack of financial management knowledge to small, medium and micro enterprise.
- [11] Liedholm, C., Macpherson, M & Chuta, E. (1994). Small Enterprise Employment Growth in Rural Areas. *American Journal of Agricultural Economics*, 76, 1177-1182.
- [12] *Mass. Comm. Thesis*, Port Elizabeth: Nelson Mandela Bay Metropolitan
- [13] Medium Industries Equity Investment Scheme (SMIEIS) Option. Lagos. Nigeria. Mudavanhu V, Bindu S, Chigusiwa L, Muchabaiwa L (2011). Determinants of small and medium enterprises failure in Zimbabwe: A case study of Bindura. *Int. J. Econ. Res.* 2(5):82-89.
- [14] Nieman G. and Bennet A. (200), *Business Management: A Value Chain Approach*.
- [15] NYONI, S. (2002) *Small, Micro & Medium Enterprises (SMMEs)*. Policy & Strategy Pretoria: Van Schaik Publishers
- [16] Olabisi S. Y. (2009) Factors affecting small business performance in Informal economy in Lagos State – Nigeria a gendered based analysis. Lagos University
- [17] Ray (1998) Enterprise. [www.pressreader.copm](http://www.pressreader.copm)
- [18] Ray, (2000) Enterprise. [www.pressreader.com](http://www.pressreader.com)
- [19] Robbins, P.S. AND Coulter, M. (2002) *Management* 7<sup>th</sup> Edition. New Delhi: Prentice-Hall of India Pvt Ltd.
- [20] Roc Connect Limited (2005) [www.roc.com](http://www.roc.com) Small Business Economic indicators, Office of Small Business Advocacy, US Small Business
- [21] Smith E. E. and Perks S. (2006) Training interventions needed for developing black macro
- [22] Storey, D.J. & Westhead, P. (1994). Financial Constraints on the Growth of High Technology Small Firms in UK. *Applied Financial Economics*, Vol. 7(2): 197-201.
- [23] T. Chimucheka and E.C. Rungani, (2011) The impact of inaccessibility to bank finance and lack of financial

management knowledge to small, medium and micro enterprises in Buffalo City Municipality, South Africa, *African Journal of Business Management*, 5(14) (2011), 5509-5517.

- [24] Wolfenson, J.D.(2001) Comparing the performance of male and Female –controlled businesses :relating output to inputs. *Entrepreneurship Theory and Practice*.26 (3).Pp 91-100.
- [25] Zimbabwe Chamber of Commerce (2005), Harare
- [26] Zimbabwe Government Policy Frame Work for Indigenization Of The Economy February (2005). Harare
- [27] Zimmerer, T. W. and Scarborough, M. N. (1998) *Essentials of Entrepreneurship and small Business Management*. 2<sup>nd</sup> Edition Prentice Hall International (UK) limited London