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## An Investigation into the Factors Contributing to Lack of Growth of Small and Medium Enterprises (SMEs) in the Furniture Manufacturing Industry in Kelvin North, Bulawayo, Zimbabwe

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### **Abstract:**

*This research investigated the factors that contribute to lack of growth in Small and Medium Enterprises (SMEs) in the furniture manufacturing sector of Kelvin North light industrial site, Bulawayo Zimbabwe. The empirical data to achieve the objectives of the study was obtained through a self-administered questionnaire containing open-ended and closed-ended questions on a sample of forty (40) randomly sampled SMEs. The Likert scale scoring methodology was utilized in ranking the factor importance and frequencies in the study. Four (4) structured in-depth interviews with SME support organizations were also carried out to complement the results of the questionnaire. The study identified, limited access to finance, the lack of entrepreneurial skills, lack of skilled labour force, lack of access to land and unfavourable government policies among others, as the most influential factors constraining the growth of the furniture manufacturing SMEs. However, contrary to theory, lack of management skills was perceived to have a low impact on business growth as there were other factors, as mentioned above, that seem to have a greater impact on business growth ahead of managerial skills. Furthermore, the findings from this study suggested that despite the concerted efforts by the Zimbabwean Government to eliminate barriers to financing, several impediments are still prevalent. These findings have implications for policy makers, given the vital role that SMEs now play in the overall economy that has greatly been affected by de-industrialization, high unemployment and a huge brain drain. Lastly, the study recommends that SMEs, the Zimbabwean Government and other support organizations such as Empretec, ILO and SEDCO take measures to ensure the survival, growth and development of this sector which has the potential to steer the economy. These measures are expected to improve the entrepreneurial skills in the SME sector and consequently result in improved business growth.*

**Keywords:** SMEs, Growth factors; furniture manufacturing; entrepreneurial skills

### **1. Introduction**

According to Tustin (2001), SMEs play a significant role in the economies of developing and emerging markets, accounting for between 30% and 60% of the Gross Domestic Product (GDP) annually. The SME sector plays a critical role in eradicating poverty, creation of employment and promotion of economic growth. Legthelm *et al.* (2002) pointed out that SMEs are labour intensive and account for over half of the employment in the private sector. Similarly, the 2009 Short Term Emergency Recovery Programme (STERP) highlighted that SMEs are the backbone of the Zimbabwean economy as they contributed approximately 90% to economic growth.

The sustained corpus of knowledge on the SME sector in Zimbabwe was generated during the period of economic reform when the country adopted the Economic Structural Adjustment Programme (ESAP) in 1991. During this period, the SME sector was the safety net that absorbed those that were retrenched from the formal sectors of the economy. Storey *et al.* (1994) regard SMEs as the seed-bed for the development of large companies and also the life blood of commerce and industry at large. The innovativeness that characterizes the operations of SMEs arises from their flexibility and ability to avoid the bureaucracies that engulf large companies. The growth of SMEs has overall resulted in more efficient utilization of natural resources and consequently, transformation of livelihoods as well as spurring economic growth. Similarly, Schlogl (2004) has urged the Zimbabwean government to respond to the needs of SMEs given that they are the 'new engines' of economic growth.

However, SMEs in developing countries especially Zimbabwe, have to a greater extent, failed to achieve their full potential. On the contrary, they have mostly remained in a state of perpetual infancy due to a number of factors. Furthermore, studies on SMEs in Zimbabwe are rather limited and their role is not adequately documented despite the vital role they play in the economy. It is the link

that SMEs have to development coupled with the rather limited extant literature on small businesses in Zimbabwe that has motivated this research. Therefore, this study investigates the factors constraining SMEs growth and seeks to inform public policy on SME development.

## 2. Literature Review

### 2.1. Definition of SMEs

Burns (2001) highlighted that there is a lack of consensus on a universal definition of the SME and so do Sibanda (2005), Kayanula and Quarterly (2000), Chirisa *et al.* (2012) and Mtisi *et al.* (2013) to mention, but a few authors. Hence, the definitions tend to vary from author to author and country to country. This arises mostly due to the variability in the classification of what is considered 'small' in different industries and economies. This also depends on the stage of development of the economy such that a large firm in Zimbabwe, which is an emerging economy, would be an SME in a developed country context. Definitions which are objective in nature consider size metrics such as the number of employees, sales, profitability, net worth at sectorial level (Storey, 1994). The intuition derived is that in some sectors, all firms may be regarded as small while in other sectors there arises a possibility that all firms might not be considered small. Levy and Powell (2005) concluded that a key characteristic of an SME is flexibility and the ability to adapt to a changing environment.

However, whilst the definition of SMEs is contradictory, for the purposes of this study, the Zimbabwe Ministry of Small and Medium Enterprises and Cooperatives Development (MSME&CD) definition was adopted. The definition considers small enterprises as those with employees below the number 50 and medium ones to be in the range of 50-249 (Chirisa *et al.*, 2012).

### 2.2. Contributions of SMEs to Economic Development

Several writers are in agreement that the SME sector has an important role to play in the present and the future economic development focusing on poverty reduction and employment creation in developing economies (e.g. Hallberg, 2000; Kirchhoff, 1994). SMEs are the emerging private sector in poor countries, and thus form the base for private sector-led growth (Hallberg, 2001). An example can be cited in Zimbabwe where the SME sector plays a significant role in economic growth and improving the standard of living of the people of Zimbabwe (RBZ, 2007). This support is in the form of incomes, salaries and wages as most people are employed and earn a living in the SME sector. Acs and Audretsch (1993), as economists, also observed small business in the United States and Europe and found an increasing trend in their importance since the 1980s. In the Asian financial crisis, SMEs were depicted as 'an army of ants' for Taiwan to fight the crisis (Hu, 2003).

In 'The Theory of Economic Development', Schumpeter (1934) emphasizes the role of an entrepreneur as a prime cause of economic development, this development being achieved through innovation. However, in pursuit of this 'selfish' interest, great spillovers in the form of jobs and contributions to the fiscus are realized. SMEs broaden the base of participation in society, decentralize economic power and give people a stake in the society's future (Wickham, 2006). The SMEs therefore warrant a much closer focus by governments and other stakeholders, which, however, is not the case in most developing countries such as, Zimbabwe.

### 2.3. Literature on Growth of SMEs

The heightened interest from academic researchers on the SMEs sector has mostly emanated from the realization that small businesses are the major contributors to employment creation and economic growth, and its weight in the industrial fabric of most industrialized countries is above 80% (Vidal, 1999). However, both the empirical and theoretical understanding of the growth of small firms remains largely unclear and is rather limited in developing countries. Penrose (1959) highlighted that small firms that make the transition from small to large companies experience a change in character. Several stage models were advanced and all of them are premised on the notion that as a firm moves from one stage to another in the pursuit of growth, it evolves and experiences different characteristics that are phase specific. According to Churchill and Lewis (1983), as a new small firm starts and develops, it moves through some growth stages, each with its own distinctive characteristics. The researchers are of the view that these distinctive characteristics are influenced by the geographical location as well as the prevailing geo-social and political situation of each industry at any given time, and therefore, cannot be generalized to all firms in different parts of the world.

Churchill and Lewis (1983) identified five distinctive stages of growth, namely, existence, survival, success, take-off and resource maturity. In each stage of development, there is a different set of factors that are critical to the firm's survival and success. The Churchill-Lewis model gave insight into the dynamics of SME growth, including the distinguishing characteristics, problems and requirements of growing SMEs and explains business growth processes amongst SMEs. Scott and Bruce (1987) also concluded that small firms move from stage one, which is the inception, up to stage five, which is the maturity. In each stage, the roles that top management assumes, the management style and the organizational structure are assumed to evolve.

Storey (1994:122) critically analyzed the limitations of stage models of SMEs development as outlined below: -

- Storey concluded that not all firms begin from Stage 1 and move to Stage 5. This is so, because a significant number of small businesses cease to trade fairly early in their lifetime, so might never progress beyond Stage 1 or 2.
- The other drawback of the stage models is that a firm may well have a management style which is more or less advanced than that for its stage, for example, its organizational structure might not coincide with the phase. Furthermore, management roles do not move in parallel as assumed in the stage models.

- Storey is also of the view that, firms may achieve a particular stage, most notably survival, and never have any intention of moving beyond that stage. Thus, not all firms move from stage 1 to 5, even if they continue to exist.
- Lastly, stage theorists such as Churchill and Lewis (1983) or Scott and Bruce (1987) assume that movements from one stage to another are triggered by a point of crisis. This has been observed not to be true in practice, as some firms progress without a crisis triggering such a movement.

The researchers are of the view that the stage models describe rather than predict growth, when explaining business growth. Though the stage models remain largely the base from which small business growth is explained, they have several drawbacks that have limited their applicability in practice.

#### 2.4. Theoretical Framework for This Study

The limitations highlighted by Storey (1994) in a critique of stage models resulted in the researchers not adopting it as the prima for explaining SMEs growth. Miller (1981) suggested that, rather than moving predictably through a sequence of developmental stages, businesses might instead attain gestalts or patterns of strategy, structure, and environment that may emerge for any number of reasons. According to Miller and Friesen (1984), organizational structures, production systems, information processing procedures, strategies and environments, all tend to influence each other for business growth. In support of the works of Miller and Friesen (1984), the authors see more merit in considering the growing of small firms as a combination of three components namely, the starting resources of the entrepreneur, the firm and the strategy, as adopted from Storey (1994). In addition, the study briefly addresses small firm growth by considering the barriers to growth from several perspectives.

#### 2.5. Factors Influencing Growth of SMEs

In support of the work done by Storey (1994), Barkham *et al.* (1996) presented more evidence that certain owner-manager characteristics, business strategies and firm characteristics are essential for small firm growth. The entrepreneur's personality like gender, motivation, level of education, prior business experience, number of founders and behaviour tend to be causal factors for or against attainment of growth. A study by Barkham (1992) shows a positive relationship between the motivation of the entrepreneur(s) and the growth of the firm. In other words, the more positive the entrepreneur(s), the more likely the business tends to grow.

The characteristics in the firm reflect decisions made by the entrepreneur upon starting the business such as the choice of ownership, location, or the sector within which to operate. Ownership suggests the distribution of power and control in a firm (Aguilera and Crespi-Cladera, 2012). Gundry and Welsch, (2001) commented that the methods by which the firm was founded and its organizational structure and strategic choices are factors that may affect firm survival and growth or organizational decline or death. A study by Kuzilwa (2005) suggested that small entrepreneurs are reluctant to sharing ownership. This complacency or reluctance in ceding control inhibits the pooling of resources that arise with co-opting other partners into the business and further limit access to financing sources that require collateral. This explains why SMEs mostly rely on short term debt financing which is only available at very high rates and its short-term nature also restricts growth of the business. Kinsella *et al.* (1993) argued that the businesses which shared or were willing to share part of their ownership with other parties were likely to grow or have grown rapidly than the businesses which did not share equity.

The strategy in this context can be considered as asking the question like, given the characteristics of the entrepreneur and the firms, what managerial actions, once the firm has started, are likely to be associated with more rapid growth rates. Managing growth is a major strategic issue for a growing firm (Arbaugh and Camp, 2000). Included in this strategy are issues like market positioning, planning, management training, competition and introducing new products time and again. Casson (1982) has argued from a theoretical perspective that management experience and continuous training provide a particular entrepreneur with the necessary skills and competences needed for successful entrepreneurship. Martin and Staines (2008) found that lack of managerial experience and skills are the main reasons why new firms fail. Storey (1994) stated that education is a key constituent of the human capital needed for business success.

A study of the determinants of small business growth by Okpara and Wynn (2007) in Nigeria, recorded faster growth rates for small firms that had provided management training for its employees when contrasted with others that had not adopted such initiatives. In order to meet the demands of the fast-changing work environment, which is typically associated with SMEs, it is essential that smaller firms ensure that they are able to attract, retain and motivate high quality employees with effective transferable skills through the existence of a strategic training plan and a specific budget for training (Jameson, 2000). As with strategy, the influence of the environment or structure impacts through the way in which decision making is shaped. The ability to respond to changes in customer needs and wants enhances an organization's competitive advantage (Nieman and Bennett, 2002). Through proper planning and organizing, an entrepreneur will be successful. The available resources may be fully utilized through effective planning to achieve the goals of the enterprise. The business plan is necessary as it clearly articulates the marketing strategy to be adopted and describes the product (Rwigema and Venter, 2004). A business plan is critical for securing financial support (Guffey, 2008). All businesses require financial resources in order to start trading and to fund growth. Lack of access or availability can be a constraint on business growth (Cassar, 2004).

It is also argued that the firms that adopt modern technological tools in their business are more likely to cause the business to grow faster than small businesses without modern technological tools (Michael Gardias, 2006). The World Bank (2009) claims that investments in technology are required in order to build up existing capacity and to improve the quality and productivity of production which will generate in higher value-added products that will improve the competitiveness for firms. Storey *et al.* (1987) pointed out

that competition on the other hand has been mentioned by small business owners as a barrier to growth. The nature of the market into which a firm operates is a key influence upon its growth and that the low growth firms seem to have the poorest understanding of their competitors.

According to Brush *et al.* (1991) marketing is another obstacle for companies to grow since many businesses confront challenges in establishing effective distribution channels, communicating product features, pricing products and services in an attractive way. SMEs generally do not have the knowledge or information about other markets, thus limiting their ability to market their products to larger groups of customers and expand their businesses. Previous studies by Ligthelm and Cant (2003) have highlighted that limited access to financial resources available to smaller enterprises compared to larger organizations results in their low growth and development. New SMEs without access to capital may find it difficult to purchase necessary technology (Phillips and Wade, 2008). It can therefore be concluded that the entrepreneur, the firm and the strategy need to be combined to achieve growth in SMEs. The success of the combination depends on the external environment of each industry, thus this research needed to investigate the factors contributing to the lack of growth of SMEs in the furniture manufacturing industry of Kelvin North, Bulawayo, Zimbabwe.

### 2.6. Barriers to SMEs Business Growth

The question of growth of SMEs can also be addressed through reviewing literature on the barriers to growth. This body of literature assumes that a number of small firms wish to grow, but are affected by 'barriers'. In light of this, the researchers are of the opinion that although there are some problems peculiar to a particular country, the challenges faced by SMEs in different countries and geopolitical settings are basically the same. An example can be cited in a survey of Turkish SMEs by Organization for Economic Co-operation and Development (OECD) in 2004. The results showed that they were suffering the consequences of policy inconsistency, poor access to finance, insufficient know-how and low level of technology, and so many more. Johnson *et al.* (2000) studied firms in five transition economies and concluded that the main barrier to SME growth lay much more in unclear property rights than in lack of access to bank credit.

Pissarides *et al.* (2003), on the other hand, based on their analysis of Bulgarian and Russian managers' perceptions, concluded that lack of finance was a much greater barrier than were unclear property rights. Okpara and Wynn (2007) also describe that business owners in Africa tend to depend upon their own or family savings because access to capital is a challenge for them. Uzor (2004) believes that the constraints faced by SMEs in developing countries are not only accentuated by ineffective policy design, but also by market failures in the region. In Zimbabwe, the SME sector has faced a variety of constraints that hinder its growth and development. The principal areas of concern affecting the development of the SME sector identified by various studies include (Nyoni, 2003): -

- 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.

### 3. Methodology

The research was guided by the research 'onion' as highlighted by Saunders *et al.* (2009). In common with all scientific research, the study was based on certain philosophical assumptions. The researchers opted for the positivism approach which is a philosophical stance of the natural scientist. Aspects of the positivism approach have been adopted because it allows for the generalization of the results (Saunders, 2009) which the researchers wanted to do despite the rather small sample studied. The study was therefore accordingly guided by the deductive approach. Hussey and Hussey (1997:52) describe the deduction approach as the dominant research approach in the natural sciences where "laws provide the basis of explanations, permit the anticipation of the phenomena, predict the occurrence and therefore allow them to be controlled".

The survey research method was used by the researchers to conduct the research. It was selected because it is usually associated with the deductive approach (Saunders *et al.*, 2009). It also allows the collection of data from a sizeable population in a highly economical way. Wheather and Cook (2000) note that the broad area of survey research encompasses any measurement procedures that involve asking respondents questions. The study used survey research for the following reasons as pointed out by Cooper and Schindler (2003:663): surveys are relatively inexpensive (especially self-administered surveys); surveys are useful in describing the characteristics of a large population; surveys can be administered from remote locations using mail, email or telephone.

Of the three basic research approaches identified by Saunders *et al.* (2009) namely, the quantitative approach, qualitative approach and the mixed methods approach, the latter approach was chosen being a descriptive study that needed to collect both qualitative and quantitative data to help answer the objectives of the study.

A target population is a specified group of people or objects for which questions can be asked or observation made to obtain information (Hair *et al.*, 2008). The study was conducted in Kelvin North light industrial site, Bulawayo, which area is a light manufacturing industrial site for producing a wide range of mostly household furniture like wardrobes, beds, tables, and sofas, just to mention a few. The study area has a population of about 200 registered furniture manufacturing SMEs, a figure obtained from the local authority, the Bulawayo City Council (BCC).

A simple random sample of 40 SMEs was drawn from the defined population by placing the stand numbers of all the 200 furniture manufacturing enterprises and drawing at random. According to Fall (1984), where the objects under study are homogenous and not

more than 200, a sample of not less than 20 percent is ideal. Miles and Huberman (1994) recommend that a sample size should be guided by the research questions and the conceptual framework.

The primary research instrument that was used in this study was a self-completed questionnaire targeted at the surveyed SMEs. This was complemented by an in-depth interview guide for some four SME support institutions i.e. the Ministry of Small and Medium Enterprises and Co-operatives Development (MSME&CD), Small Enterprises Development Corporation (SEDCO), Zimbabwe National Chamber of Commerce (ZNCC) and the Bulawayo City Council (BCC). The questionnaire was pretested in line with Cooper and Schindler's (2008) guidelines for internal validity and reliability.

In terms of research ethics, Barbie and Mouton (2002) point out that conducting research requires good ethical considerations. In carrying out the study, the researchers abided by the following ethical research principles:

- The professional managers and owners of the targeted SMEs were informed of the objective of the research project.
- The researchers observed and respected the population under study by seeking permission from the Chairman of the furniture manufacturing industry in the studied area. A short indoor meeting was conducted with the Chairman in which the purpose and confidentiality of the research was explained.
- A covering letter was obtained from the University which contained information about the investigation, the voluntary participation of the respondents, assurance regarding confidentiality and anonymity.

#### 4. Findings and Discussion

##### 4.1. Sample Profile/Characteristics

Of the 40 sampled SMEs in the study, 85% (34) were owner managed while the remainder had professional managers. This is in line with past research which found out that most SMEs are owner managed (Bruce *et al.*, 1998). With respect to the age and gender of the respondents, the following table gives a summary.

Age	Male		Female		Total	
	Frequency	%	Frequency	%	Frequency	%
18-30	7	17.5	6	15.0	13	32.5
31-35	13	32.5	0	0.0	13	32.5
Over 35	12	30.0	2	5.0	14	35.0
<b>Total</b>	<b>32</b>	<b>80.0</b>	<b>8</b>	<b>20.0</b>	<b>40</b>	<b>100.0</b>

Table 1: Age and Gender Distribution of the Respondents

The table highlights that on an overall basis, the respondents are evenly distributed within the three age groups, with the over 35 years' category having the highest proportion of 35%. The study findings are almost similar to a study done in America by Muijanack *et al.* (2003) who determined that the optimum age for entrepreneurs was 25-35 years. When a comparison is drawn along the lines of gender, there were more young female entrepreneurs (15%) than old ones (5%), and that most SMEs are owned or operated by males (80%) with females only accounting for (20%) of the overall sample of the 40 SMEs surveyed. This can also be linked to the fact that perhaps the nature of the sector under investigation i.e. the furniture manufacturing industry, had an effect on the level of female participation. If this was knitting, textiles or handcrafts, the result could have been somewhat different.

With regard to educational qualifications, 18% of the respondents were holders of junior certificates, 47% had Ordinary and Advanced Level certificates, while 35% were in the Diploma and Degree category. This shows that the majority of the respondents had some fairly high levels of literacy. Level of education/training has been associated with increased business success in the SME sector (Marten, 2005; Osamwonyi and Tafamel, 2010; Bowen *et al.*, 2009; Barringer *et al.*, 2005; Biggs and Shah, 2006; Liedholm, 2001).

In terms of the ages of the businesses or the period they have been in operation, the following table presents the findings.

Years of business operation	Frequency	Valid percentage (%)
1-5 years	22	55
6-10 years	10	25
Above 10 years	8	20
<b>Total</b>	<b>40</b>	<b>100</b>

Table 2: Years of Business Operation

As can be observed, 55% of the respondent businesses have been in operation for between 1 and 5 years, 25% have been in operation for 6-10 years, while the remaining 20% have been in operation for above 10 years. This result shows that the sample consisted of a large number of new and young companies and few mature companies.

This is consistent with what Klein (2002) observed when he says that most SMEs do not go beyond six years of age as they get choked with liquidity and management problems and eventually close shop.

On the legal status of businesses, the results are as presented in the table below.

Legal status of a business	Frequency	Valid Percentage (%)
Sole trader	18	45
Private company	15	37
Partnership	7	18
Total	40	100

Table 3: Responses on the Legal Status of the Business of the Respondents

Forty five percent (45%) of the respondents were sole traders, 37% were private companies, while 18% were partnerships. This could be attributed to the fact that sole traders are easy to form. Cronje *et al.* (2004) point out that a sole proprietorship is by far the most popular form of business.

#### 4.2. Factors Inhibiting SME Growth

Respondents were asked to rank the importance of several business factors and risks on a scale of 1-3, with 3 being the most important factor and 1 being the least important. Table 4 below presents the rankings on factors affecting SMEs.

Factor	Score	Ranking
Access and cost of finance	104	1
Entrepreneurial skills	95	2
Government regulations	83	3
Access to land	79	4
Management skills	73	5

Table 4: Factors Affecting SMEs Growth from the Survey

**Access and cost of finance** was highlighted as the greatest factor constraining SME growth in the furniture manufacturing industry in Kelvin North, Bulawayo. This is no new finding in SME research as similar results have been reported from various studies the world over (e.g. Mtisi *et al.*, 2013; Zaidi, 2013; Gill and Bigger, 2012; Mugobo and Okpere, 2012; Fumo and Jabbour, 2011; Okpara, 2011; Smallbone, 2009; Okpara and Wynn, 2007). These findings are also supported by Kuzilwa (2005) who highlighted that the reluctance exhibited by small entrepreneurs in sharing ownership (sole proprietorship being the most popular form of SME business) limited access to finance and leads to over-reliance on short-term debt. Lending rates are particularly high in Zimbabwe averaging over 25% per annum in contrast to the world average for developing countries in the ranges of 11.2% to 15.7% per annum (Beck, Demirguc-Kunt, and Peria (2008).

The findings from the SME support organizations interviewed also show that lack of finance by SMEs to expand and innovate was the major problem. Most of the support providers were also stating that they do not have enough finance to fully support the SMEs. The SME support organizations also put forward that there are a few things that arise, making it hard for entrepreneur(s) to be able to have access to proper financing. These include such issues as collateral constraints, inadequate business plan, state of the economy and bureaucratic procedures in applying for loans or finances and that some business owners also dislike being in debt, avoiding the pressures of loan repayments.

Contrary to presumptions, **lack of management skills** was ranked the lowest of all the factors that inhibit growth of SMEs in furniture manufacturing industry in Kelvin North Bulawayo. However, studies by Martin and Staines (2008) and Okpara and Wynn (2007) have cited this factor as being important in ensuring the growth of SMEs. The disparity in these findings can be attributed to the fairly high literacy rate in the surveyed SMEs, hence, as most of the respondents (83%) in the survey had qualifications above junior certificate, they considered the benefits of further training as not being that important. The findings from the questionnaire survey also somewhat contradict with the results from the structured interviews where it was argued that prior experience of the manager in dealing with particular types of tasks is likely to supplement the expertise of the entrepreneur and enable business objectives to be more easily achieved.

The **lack of entrepreneurial skills** (which is distinguished from management skills) was also ranked highly with a score of 95 (in second place after access to finance). Entrepreneurial skills were documented by Storey (1994) and Barkham *et al.* (1996) as one of the most important factors that enable the manager to identify and capitalize on opportunities as they arise. These studies established the existence of a closer link between entrepreneurial skills and growth rates of SMEs. The SME support organizations also corroborated the same finding that the majority of SMEs in the studied area lack entrepreneurial skills. The major problem that was highlighted is financing, that limit provision of training in such skills to SME owners by the support organizations. They also stated that they do not offer such trainings regularly, citing lack of finance as a limiting factor.

**Government regulations** and **lack of access to land** were ranked in third and fourth place respectively. Zindiye, (2008) in a study of SMEs in Harare concluded that the Zimbabwean Government had not done enough to create an enabling environment for small businesses to grow. The inclusion of lack of access to land as a factor was premised on the importance that Zimbabweans attach to land ownership given that it is scarce and the high prices often charged for business stands in the city of Bulawayo and elsewhere in the country. The findings are also in agreement with results from SME support organizations. Most of them stated that lack of adequate land and property rights affect business growth. Most SMEs fail to expand and diversify as a result of lack of access to land and government regulations that are not favourable to them. This result is in line with previous studies on SMEs. Areetey and Ahene

(2004) also concluded by listing lack of access to land, utility installation and services, and import procedures as constraints to SME growth. The role of finance has been viewed as a critical element for the development of the SME sector.

#### 4.3. Skills Promoting SME Growth

While the above section was dedicated to reporting on the factors that inhibit the growth of SMEs surveyed in this study, in this section the flip side of that is looked at where respondents were asked to rank the importance of a number of business skills within each broad category on a scale of 1-3, with 1-most important and 3-less important. Table 5 below presents a summary of the results.

Management	1.Managerial Skills		
	Description	Score	Ranking
	Planning & organising skills	104	1
	Marketing skills	104	1
	Technical skills	97	3
	Customer care skills	90	4
	People management skills	79	5
	<b>Total</b>	<b>474</b>	<b>1</b>
Finance	2.Financial Management Skills		
	Description	Score	Ranking
	Financial planning skills	104	1
	Budgeting skills	99	2
	Tax planning skills	85	3
	Bookkeeping skills	80	4
	<b>Total</b>	<b>368</b>	<b>2</b>
Aspects	3. Important Aspects Affecting Business Growth		
	Description	Score	Ranking
	Business experience	106	1
	Entrepreneurial skills	97	2
	Training in business skills	89	3
	Others	48	4
	<b>Total</b>	<b>340</b>	<b>3</b>
Human Resources	4.Human Resources Management Skills		
	Description	Score	Ranking
	Staff motivation	94	1
	Staff development	91	2
	Performance appraisal	87	3
	<b>Total</b>	<b>272</b>	<b>4</b>
Marketing	5.Marketing Management Skills		
	Description	Score	Ranking
	Advertising	95	1
	Market scanning & knowledge	89	2
	Customer care	86	3
	<b>Total</b>	<b>270</b>	<b>5</b>
Operations	6.Operations Management Skills		
	Description	Score	Ranking
	Staff motivation	96	1
	Performance appraisal	86	2
	Staff development	84	3
	<b>Total</b>	<b>266</b>	<b>6</b>

Table 5: Summary Rankings of Factors and Skills Promoting SMEs Growth

Seemingly contrary to the inhibiting factors identified above, managerial skills were found to be key in promoting business growth ahead of financial skills. In this cluster of skills, planning and marketing roles were ranked highest. This result is consistent with other studies that identify a consistently positive relationship between the extent of planning activities and firm performance (Bracker *et al.*, 1986; Hussam *et al.*, 2007). Specific studies of small businesses have also suggested that there is a correlation between planning and successful performance (Schwenk and Shrader, 1993; Robinson, 1984). This correlation implies that the stronger the focus is on the professional planning of activities in SMEs, the larger their profit ratio and success rate is.

Still on the managerial skills cluster, SME owners and managers do not seem to regard people management skills as being important given their medium ranking in this study. This result differs from the findings of Ferlig *et al.*, (2004) which indicate that a link indeed exists in that human resource efforts in SMEs contribute to the competitive advantage of companies. This could imply that issues like lack of finance are the major constraints in the SMEs of the area under study.

On other skills, the finance skills cluster is still regarded as important for business growth, especially financial planning skills, coming second overall in this study as a business growth factor. Other aspects that stimulate business growth include business experience, which is the most single highly rated factor. It is common practice for SME operators to start ventures that are in line with their past work experience to enhance chances of success (Casson, 1982; Martin and Staines, 2008).

On operations management skills, quality control has been viewed as the most important. The responses from the respondents highlight the importance of production management skills in furniture manufacturing SMEs. The emphasis in SMEs should be on quality control to ensure that they offer quality products to customers. This will translate into satisfied and loyal customers. The issue of quality control was also raised as a matter of concern by SME support organizations. Most of them agreed that the majority of the SMEs in the studied area were producing uncompetitive products in the regional market. The reason cited was lack of finance, technology and relevant information. This therefore affects business growth for most buyers prefer imported furniture, hence, a need for quality control for competitiveness.

4.4. Risk Factors Affecting SMEs Growth

Figure 6 below highlights a summary of the major risks hindering entrepreneurial skills of the respondents. The results showed that one hundred percent (100%) of the respondents indicated that financial risk hampers their entrepreneurial ability. Eight eight percent (88%) indicated that social risk hampers their entrepreneurial ability whilst 80% alluded to the same impedement from family risk. Seventy percent (70 %) concurred that carrier risk hampers their entrepreneurial ability.

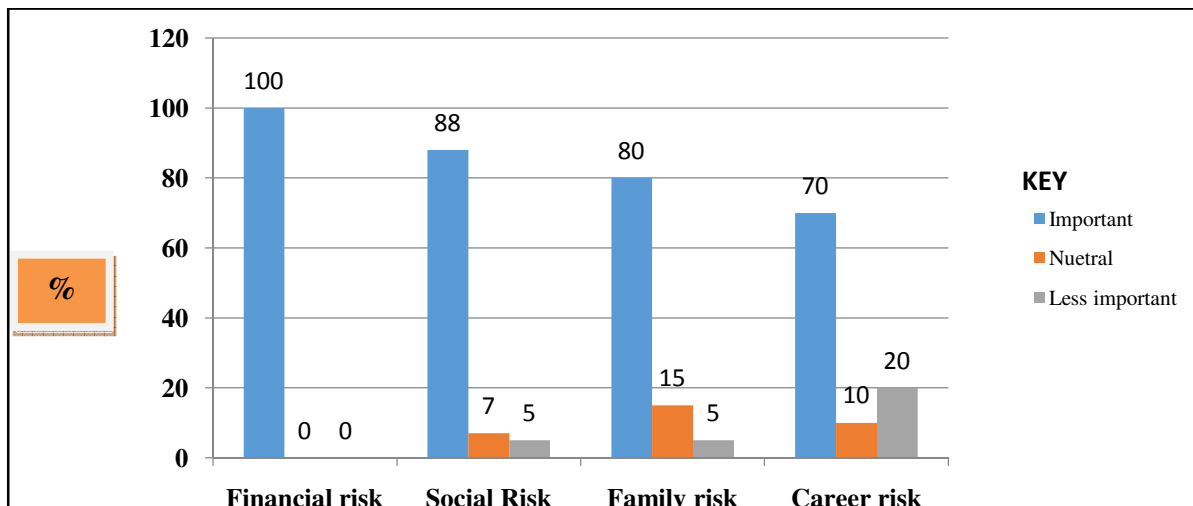


Figure 1: Risk affecting SMEs growth

This result indicates that financial risk and family risk are the two critical risks that hamper the entrepreneurial abilities of SME owners and professional managers in the furniture manufacturing sector in the study area, negatively impacting upon enterprise growth. The SME support services providers also noted that financial and family risk affect business growth. It was established that most SMEs fail to balance the needs of the business and the needs of the family.

4.5. Awareness, Use and Importance of Business Plans

The summary of the results of the study on the use and importance of a business plan before starting a business from the respondents are presented in Table 6 below.

Business plan	Frequency	Valid percentage (%)
Aware and using it	16	40
Aware and not using it	12	30
Not aware and not using it	12	30
<b>Total</b>	<b>40</b>	<b>100</b>

Table 6: Awareness, Use and Importance of Business Plans

Forty percent (40%) of the respondents agreed that they are aware of a business plan and they use it in their business operations. Thirty percent (30%) also said they are aware of a business plan, but do not use it, while the remaining 30% agreed that they are not



aware of a business plan and are not using it either. This view is supported by McKiernan & Morris (1994) who argued that the majority of literature on corporate performance in SMEs has indicated that the absence of formal strategic planning (or inadequacies in its process) can be directly linked with failure, while its presence can be linked to success. Specific studies of small businesses have also suggested that there is a correlation between planning and successful performance (Schwenk and Shrader, 1993; Robinson, 1984). This implies that a business which is focused on planning activities before it is initiated, has a higher rate of success and is likely to perform better compared to a business which does not plan.

The results are also in agreement with the findings from the SME support organizations for most of them pointed out that they offer training to SMEs on business planning focusing on business growth, but most SMEs in the studied area do not implement it. In addition, SME support organizations also cited that firms which have no proper business plans at start face the most challenges during the course of their lives. It is emphasized that a formal plan for a business is needed in order for proper goals and objectives of the firm to be laid out in the open so that the team in the enterprise works together for the same goals in their minds. Also, the business plan is important since it is helpful in monitoring the extent to which these plans are successful in terms of materialization and it provides the opportunity to review reasons as to why the plans and outcomes differ. In addition, a business plan was cited by SME support services providers as an important tool in securing loans from financial institutions which in turn promotes growth.

## 5. Summary, Conclusions and Recommendations

### 5.1. Summary of Major Findings

The results of the data analysis highlight that SMEs in the furniture manufacturing sector in Kelvin North, Bulawayo are greatly constrained by lack of access to finance and in cases where loans are available, they are mostly on a short-term basis with high interest rates. Furthermore, the lack of entrepreneurship skills was cited by the respondents in the survey as the second major constraint that impacts negatively on the ability of SMEs to innovate, manage risks, identify opportunities and adapt in an ever-changing business environment. Lack of finance also becomes a limiting factor to innovation and creativity resulting in inability to grow among the furniture manufacturing SMEs in Kelvin North industrial site.

Unfavourable government policies and regulations were cited as the third major constraint stifling growth of SMEs. Indiscriminant tax policies and the bureaucracy involved in registering small companies were among the top policies highlighted as affecting the growth of SMEs in furniture manufacturing in the study area.

The study also documented that the lack of management skills was contributing to the 'perpetual infancy syndrome' observed in SMEs. However, the lack of management skills was ranked as the least important factor despite it being essential in ensuring the survival and growth of small businesses. A possible explanation for this was the fact that the majority of the surveyed SME operators already have post-secondary qualifications which gave them a good management skills base for their businesses.

The study established that, in ranking order of importance, the following risks were confronting SMEs, namely; financial risk, social risk, business risk family risk and lastly, career risks. The highlighted risks are more pronounced in a volatile environment especially as was the case in the pre-dollarization era in Zimbabwe. The sole trader emerged as the most favoured form of business given that it is easy to establish and allows for greater autonomy.

### 5.2. Conclusions and Recommendations

This section outlines the major conclusions and recommendations derived from the study of the factors as affecting the growth of SMEs surveyed.

#### 5.2.1 Financial constraints

The lack of access to finance has been highlighted from the study of SMEs in the furniture manufacturing industry in Kelvin North, Bulawayo. This implies that most SMEs surveyed mostly rely on short-term expensive sources that are also not always available. The financial constraints limit innovation, creativity and opportunity grabbing leading to lack of business growth among the SMEs. For expansion purposes, SMEs require adequate finance. In addition to this, the situation is made complex by banks and credit institutions which have stringent requirements when SMEs want to borrow from them, primarily in the form of collaterals.

There is therefore need for government to intervene in the provision of loans to SMEs. Although the role played by the Small Enterprises Development Corporation (SEDCO), a government SME development and funding agency is noted, there is need to implement other initiatives in that direction given its importance in SME success. These initiatives can take the form of guarantees to lending institutions as small businesses lack the necessary collateral to secure borrowing. Subsidies on the loans by the government can also be another source of alleviating the financial constraints that SMEs grapple with. The need for reforms within the banking sector is apparent. Models such as those in Bangladesh and India of microfinance banks are required in Zimbabwe if SMEs are to reach their full potential and transform lives. Already the Reserve Bank of Zimbabwe (RBZ) has started to register microfinance banks and this is indeed a step in the right direction. SMEs can also form lending clubs, or borrow as groups as this can be another form of securing the necessary collateral.

#### 5.2.2 Entrepreneurial Skills

Entrepreneurship is a sustainable avenue for eradicating poverty and creating employment. Innovation and creativity are synonymous with small businesses which have the advantages of flexibility. However, the lack of entrepreneurship skills has been highlighted as the second major contributor to the lack of growth of SMEs in the furniture manufacturing industry in the study area.

The scope for imparting entrepreneurial skills is huge in Zimbabwe, but much has, however, not been done. The government has focused on the western forms of education that have failed to boost the economy. This type of education typically grooms workers and not necessarily business owners. There is need for more investment into vocational training centers for entrepreneurs such as Mshagashi in Masvingo and Guyu in Matabeleland South. Technical colleges are other avenues of imparting the necessary skills to boost growth of SMEs. The government can come up with policies to subsidize fees for such training or offer study loans. Training and education will motivate and strengthen small business owners' views of running successful businesses while equipping them with adequate business knowledge. This will eliminate the problems of lack of education and training, lack of motivation and drive, lack of background experience, improper record keeping and business plan unawareness as raised by the business owners in response to the questions posed about the issues.

### 5.2.3 Government Policies and Regulations

The economic policies of the Zimbabwean government have a direct effect on the growth of SMEs. Policies that have been cited as unfavourable from the study include the high taxes, bureaucratic systems of registering companies and the general lack of support from the government.

It has been noted from the structured interviews with support institutions that most of these institutions suffer from little resources to fully support the SME sector. A network of business gurus and angels should be developed so that the small firms can seek for help easily on matters that they are incapable of handling themselves. The SME support institutions should also share resources amongst themselves in an effort to assist the SME sector. The government through the Ministry of Small and Medium Enterprises should formulate several policies that can boost growth of SMEs. The government should concentrate on creating a macroeconomic framework that firstly promotes products that are produced locally and also which is suitable for encouraging the small firms to grow. This can be done by creating government schemes which support special types of firms or the Central Bank's special packages for SME's working within a particular industry. The policies can also be achieved through imposing tariffs on goods imported from abroad which compete with products that are produced locally, giving some form of protection to this important and emerging sector.

### 5.2.4 Access to Land

The shortage of industrial stands has also been cited as a constraint to SMEs growth. Areetey and Ahene (2004) also concluded by listing lack of access to land, utility installation and services, and import procedures as constraints to SME growth. The rentals and the prices of stands in most parts of the country are quite high and beyond the reach of most SMEs.

A scheme that facilitates SMEs to own their business stands can greatly enhance growth as it reduces the financial strains of rentals. Schemes that deliberately target SME owners or special industrial stands or loans to buy the stands can assist. However, the few stands that become available have often been taken up by the rich that in-turn lease them at higher rentals to the poor, further widening the gap between the two classes. SMEs are a viable avenue to reducing disparities between classes in society.

## **6. Directions for Future Research**

The study suggests extending further studies to other parts of the country given that it was faced by rapid de-industrialization during the pre-dollarization era (February 2009). Furthermore, there is need to study all manufacturing sectors, not just the furniture industry, to establish if the factors are the same. Since access to finance has emerged as the dominant factor affecting growth, a more fruitful survey focusing on financing issues, in which lending practices of financial institutions with regards to SMEs, can inform on public policies. SME sector warrants special attention of both the government and researchers since it accounts for more than ninety percent of the overall economy.

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