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Key Success Factors for Sole Trader Retailer Growth in a Multicurrency Zimbabwe

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Abstract:

Small scale businesses have become the most common feature of business activity in Zimbabwe, contributing in excess of 20% to the gross domestic product, given the rampant closures of big companies forming the mainstream economy. The Zimbabwean government has thus recognised the importance of this sector to the growth of the economy. This study focuses on the key success factors driving sole trader retail businesses in Zimbabwe utilizing both descriptive and inferential methods. The study identifies education, family support, access to finance markets and business experience as the chief drivers of success in this sector.

Keywords: *Key success factors, capital, survival, networks, partnerships*

1. Introduction

Zimbabwe's economy has had a gradual shift from the formal business anchored economy to an informal sector based economy following the shrink in the size of the mainstream economy. Since the inception of the multicurrency regime unemployment in Zimbabwe has been estimated at above 80% forcing those unable to find employment into small scale businesses. There has been a significant growth in the number of sole trader retailers both in urban and rural areas as the unemployed mass seek to engage in survival economic activities.

The adoption of the multicurrency regime has brought with it a new economic environment which calls for new strategies for survival especially for small scale businesses operating under a tight liquidity environment such as Zimbabwe's. Although there has been a tremendous growth in small businesses such as sole trader activities, there has also been a significant number of such business ventures that have failed over the years.

Given the importance of small scale businesses in the contemporary Zimbabwean economy, there is need for a proper synthesis of the environment in which the small businesses operate so as to unpack the key success factors driving this sector.

2. Literature Review

Defining success for sole traders tend to be difficult and complex. Since survival is dependent upon viability it may be proper to consider survival beyond one year as success for small independent sole traders (Morley, 2014 citing Forley, 2006). There are more issues to consider when gauging the success of sole traders. Gordon and Davidson (2013) posit that success of sole trader ventures may be measured on the basis of survival, employment, performance assessment, experience and profit.

Gadenne (1998) argues that one way of defining success is by comparing the profits generated by the business against the amount of assets deployed.

2.1. Access to Finance

For any business establishment to prosper, it has to be anchored by strong financial resources. DETE (2001) identifies access to finance as a key factor that limits the success of most sole trader businesses. In most economies world over, sole traders are the most affected by a limited access to finance because (I) they are perceived to be high risk on the basis of unproven business performance, success, going concern and lack of collateral hence financial institutions may be hesitant to extend financial assistance, (II) most sole trader ventures face excessively low intergenerational transmission of wealth in the form of inheritance (Morley, 2014; Forley, 2006; Dodson and Smith, 2003)

Many other researchers have found finance to be a chief driver of both growth and survival in Small and medium enterprises. Munanga (2013) identifies the need for capital in three forms; permanent capital that is essential primarily for start up, expansion and development needs; asset finance for the acquisition of assets and working capital finance which is necessary for the finance of daily operational activities. In Zimbabwe, small businesses face serious challenges in accessing and raising capital (Nkonoki, 2010 and Munanga, 2013)

Because of the difficulties in accessing finance, most sole traders in most countries end up involuntarily high cost finance sources that are suicidal (Mauchietal., 2014; Munangaetal., 2014; Indarti and Langenberg, 2005)

Sole trader entrepreneurs need to find affordable financial capital and patient sources of funding if they are to survive. Gadenne (1998) singles out working capital management as the underpinning force for the success of small businesses. Small businesses need skills on determining the cash balances, maintaining a high sales turnover and keeping the required levels of inventory.

In their study of challenges faced by women entrepreneurs, Mauchietal. (2014) noted that lack of access to capital is a major driver of entrepreneurial failure in Zimbabwe, where collateral, lack of credit record and stringent credit criteria are causes of great concern. However, Keating (2013) presents that whilst the availability of financing is a key ingredient, so are the financing terms and conditions of the funding. Factors such as capital market access, interest rates, insurance options, bank accounts and asset know how among others are important elements that have strong influence on the success or failure of the entrepreneur.

2.2. Access to Financial and Business Advice

Morley (2014) identifies lack of financial and business advice and support as one of the factors that have contributed to the failure of most sole traders. In developing nations, most sole traders lack the requisite financial literacy in the ability to undertake informed judgments and prudent decisions as to how to spend and manage their finances.

ATO (2009) points on the need to nurture sole traders in business expertise as well as mentorship at the foundation level of business formation. It is universally agreed by scholars that there is need to impact business development skills to sole traders. In light of this, Whitford and Ruhanen (2009) identify budget and cashflow management, business planning, marketing, inventory management, human resources management as well as networks and partnership as vital skills that need to be developed by the sole trader in order to be successful.

2.3. Business Support

Business support is a critical ingredient for the development of the entrepreneur. ATO (2009) found that most sole trader businesses are run by males who exclude women or their female spouses as well as family in management and decision making. They report a positive result in business performance when women and family members are involved and present that women have rather a holistic view which ultimately gives them an edge and enables them to build self-esteem and to maintain process and systems within the business.

Gordon and Davidson (2013) cement on the proposition of ATO (2009) and identify support and encouragement from social contracts as vital elements in what they refer to as social capital. It has been quite a cause of concern that lack of support from family members has been quite a phenomenal challenge faced by small indigenous businesses in Zimbabwe, especially the failure of succession (Maphosa, 1999). The essence of succession planning hinges on the ability to promote stability, survival and growth. It has been observed that many of the indigenous African businesses have failed still in the infancy stages due to a crisis of succession on the organizational future beyond the founders, and in most cases, very few have been able to survive beyond their founders.

Keating (2013) posits that the issue of company succession is particularly a pertinent issue for small businesses on the basis that the entrepreneur has a special strong financial as well as personal bond with the business. A significant portion of family owned businesses have proper succession plans in the developed world though most of these end up passing ownership cheaply (Keating, 2013) contrasting sharply with most of Indigenous African businesses that have no succession plans (Maphosa, 1999)

The major challenge that has often been identified with entrepreneurial leadership has been that it is personalized or the entrepreneur most of whom, despite being great visionaries, put much value in autonomy decision making and hence exclude other people who might be able to give them support to better enhance the chances of success and survival. It has been realized that the support family members extend in business management and process is core to success (Mauch et al., 2014). Buttressing on the Mauchi's findings (2014) is Bukaliya (2012) who presented that sole traders have a tendency to concentrate all business management duties on themselves which results in underperformance of some crucial duties since none is best at everything.

2.4. Networks and Partnerships

Social and business networks and partnership may prove vital in so far as they enables the entrepreneur to access information helpful for business success. ATO (2011) and Morley (2014) identify the need for networks and partnership development as one underpinning the success of sole traders. There is need to develop relevant avenues through which the sole trader will obtain business advice and gain better access to suppliers and customers, a concept ATO coined 'Business Networking'. Businesses that are in rural areas have been reported to be lacking avenues of obtaining business advice or enhanced access to suppliers and customers. It was presented by Koster and De Vries (2011) that networks are necessary for the acquisition and mobilization of additional resources where needed.

Mauchi et al. (2014) posit that lack of access to information is a restraint to entrepreneurial activity in Zimbabwe. They identify two sources of information accessibility; entrepreneurs can obtain information by way of individual effort and human capital or through social capital and networking. Linehan and Scullion (2008), cited by Mauchietal. (2014) noted that most businesses in Africa are poorly developed as social assets despite networking providing significant merits for entrepreneurs. Entrepreneurs can mitigate risks and substantially curtail their costs as well as enhance access to business ideas, funding and knowhow by way of appropriate use of networks and partnerships (Indarti & Langenberg, 2005)

2.5. Education

Gordon and Davidson (2013) present that education is a determinant of success for trade ventures although it is a double edged sword. They found that higher education tend to increase profits for the ventures because it leads to high ambitions on the part of the trader. However, higher education was found to be no guarantee for survival.

The education background may affect the ambition of the entrepreneur and hence have an impact on the performance of the business. However, Gaddenne (1998) reports that there is no certain relationship between ambition and success. Ambition itself is a double edged sword- at certain optimum levels, it encourages success, but when it reaches excessive levels it limits success. When an entrepreneur gets adequate education, the ultimate benefit is manifested in the edge the entrepreneur gets in business (Nkonoki, 2010), a view shared by Charney and Liebecap (1999), cited in Mauchietal. (2014), who present that entrepreneurial education results in self-sufficient entrepreneurial businesses that are successful despite creating successful innovation.

Most of small businesses in Zimbabwe lack business management skills and business Knowhow, a factor that has crippled the growth of small and informal business entrepreneurs. Uptake of training programs has been low since business operators do not value training highly (Bukaliya, 2012)

2.6. Experience

Gordon and Davidson (2013) identify two forms of experience that impact on, and are strong predictors of firm success, as measured by survival in the form of industrial experience and management experience. They report a negative relationship between prior management and firm success in that prior management experience reduced, on average, survival and profitability of the firms.

It has been recognized that experience may determine the management practices or strategies that are employed in the running of the businesses, hence there is a significant relationship between management practices and the success of the business (Gaddenne, 1998). Empirical findings show that management practices and leadership styles are central to the survival, growth and success of the indigenous African Businesses, especially the small scale businesses (Maphosa, 1999). The formation and survival of these small scale ventures may strongly hinge on the founder's individual effort and personality which may rightly be influenced and shaped by the experience of the entrepreneur, hence it is worth to note that the background and experience in business contributes immensely to the success of entrepreneurial business (Nkonoki, 2010)

2.7. Business Planning and Realistic Assessment of Business Ideas

Successful business ventures are anchored on a positive, realistic assessment of business ideas. Morley (2014) reports that quite a majority of sole trader businesses is not founded on a realistic assessment of business ideas or markets a phenomenon that tends to bring them down. It has been widely noted that most small businesses lack considerably in strategic planning (DETE, 2001) and that the success of any business is hinged more on the decisions and capabilities of the entrepreneur (Keating, 2013)

Gordon and Davidson (2013) report that the growth and success of businesses has been underpinned by business planning. They posit that the form and intent of the plan is an important predictor of success, though just having a business plan has no effect on success.

This view is buttressed by Gaddenne (1998) and Nkonoki (2010) who studied the critical success factors for small businesses and identified business planning and control as a key determinant of success as measured return on investment. A study by Bukaliya (2012) noted that most small businesses in Zimbabwe do not have strategic business plans and neither do they keep financial records; the key ingredients to success. The lack of proper record keeping on the part of entrepreneurship businesses has also been reported globally (Nkonoki, 2010 and Bukaliya, 2012) thus most of these businesses may not be able to carryout proper business planning.

2.8. Credit Management

Gaddenne (1998) reports that credit policy has an impact on the performance of small businesses. He identifies a significant positive relationship between credit policy quality and the success of a business as measured by the return on investment. His study, however links the credit policy to management practices and working capital management abilities, both of which are strong influences on the success of these businesses.

Weak financial control has been quite a significant contributor to small business failure (DETE, 2001). Empirical studies show that most small business enterprises lack financial literacy on management of credit and financial planning as well as working capital management (Bukaliya, 2012 and Nkonoki, 2010). The inability to maintain proper records may inhibit a proper credit management policy.

2.9. Market Catchment

Whilst international studies have found a strong link between poor marketing and the failure for small business enterprises (DETE, 2001), most studies in Zimbabwe have found no significant evidence linking challenges pertaining to market access and the success or failure of small business in Zimbabwe (Mauchi et al., 2014; Bukaliya, 2012) though Lack of proper marketing strategies has been a major weakness of a majority of enterprises in developing nations. However, most small business lack market awareness.

3. Methodology

The study employed a survey approach to collect data from small independent retail traders in four provinces; Matebeleland North, Bulawayo, Matebeleland South and Masvingo. A total of 60 potential respondents were targeted of which 45 responded to the questionnaires.

A survey design approach was chosen because of its high representativeness for large populations, low costs, convenient data gathering, good statistical significance and a standardized stimulus for respondents.

The study focused on the multicurrency era from 2009 to present (2015) and utilized mainly primary data collected from the retail traders. Since the information sought needed to be collected in a standardized way and called mostly for considered response and reference to records it was appropriate to use questionnaires and interviews (with the questionnaire as the interview guide).

Though many authors prefer to use survival beyond one year as success for small independent sole traders (Morley, 2014 citing Forley, 2006), this study considers the underlying driver of survival, profitability, as a yardstick for success as postulated by Gordon and Davidson (2013)

Whilst many studies on key success factors have focused on either descriptive statistics or inferential statistics, this study takes a joint approach by employing both descriptive and inferential statistics in analyzing the data.

Because most of the data collected is categorical, the study utilizes Categorical regression (Catreg) which “uses optimal scaling to analyze data that are difficult or impossible for standard statistical procedures to analyze and quantifies categorical data by assigning numerical values to the categories, resulting in an optimal linear regression equation for the transformed variables” (Meulman, J.J. and Heiser, W.J., 2011) through maximizing the squared correlation between the transformed response and the weighted combination of transformed predictors under study.

The study models the relationship between profitability, as a measure of success, and experience, family support, education, market size and access to finance as predictors. Profitability (Y) is regressed against experience (EX), family support (FS), education (ED), market size (MS) and access to finance (AF) at a level of significance of 5% in the model;

$$Y = \beta_0 + \beta_1 EX + \beta_2 FS + \beta_3 ED + \beta_4 MS + \beta_5 AF + U$$

The hypothesis tested is

H_0 : $\beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = 0$ [there is no relationship between Profitability, as a measure of success, and any of experience, family support, education, market size and access to finance]

H_1 : Not all slope coefficients are simultaneously zero [there is a relationship between profitability and at least one of the determinant factors.]

4. Analysis & Results

The results show a high level of predictive power of the predictors (experience, family support, education, market catchment and access to finance) on the dependent variable (profitability) with a coefficient of multiple determination, R^2 of 88% and an adjusted R^2 of 84% which means that more than 80% of the variability in profitability is explained by the predictors as shown in table 1 below.

Multiple R	R Square	Adjusted R Square
.937	.879	.837

Table 1: Model Summary

Dependent Variable: Profit. Predictors: experience, familysupport, education, and market catchment

The analysis of variance table shows a valid and significant model between profitability and experience, family support, education, and market catchment with an overall model p-value of 0.000. Table 2 below shows the ANOVA table for the model as a whole.

	Sum of Squares	df	Mean Square	F	Sig.
Regression	30.370	12	2.531	7.096	.000
Residual	9.630	27	.357		
Total	40.000	39			

Table 2: ANOVA

The standardized coefficients of the individual predictors to profitability are as shown in Table 3 below.

	Standardized Coefficients		df	F	Sig.
	Beta	Std. Error			
Experience	.195	.080	1	5.955	.021
Family support	.199	.079	3	6.375	.002
Education	.236	.072	2	10.635	.000
Market catchment	.157	.072	2	4.735	.017
Access to finance	.651	.089	2	53.243	.000
Dependent Variable: Profit					

Table 3: Coefficients

Experience has a catreg predictor standardized coefficient of 0.195 with a p- value of 0.021 indicating a strong relationship between the success of retail sole trader business, as measured profitability, and the experience of the sole trader. Most of the sole trader businesses fail because of the inexperience of shop owners who in most cases run the business single handedly. With experience sole traders tend to develop networks and partnerships with the value chain players which then gives them an edge in bargaining for better deals and accessing vital information.

The study shows that family support in the running of the business is a critical success factor for the sole trader business growth. Family support has a standardized beta coefficient of 0.199 and a p- value of 0.002 indicating that a change in family support by 1 unit of standard deviation results in a 0.199 units of standard deviation change in profitability. Sole traders need to incorporate key family members in the running of business to ensure success. This becomes critical in cases of terminal illness for the owner or in case of death where key family members can take over the running of the business.

The level of education attained by the owner of sole trader run businesses is a strong determinant of the success or otherwise of the business. The results indicate a standardized beta coefficient of 0.236, with a p-value of 0.000 for the predictor education level indicating the influence of sole trader education on the growth and success of the business. Many a sole trader that have no basic education have struggled to survive in a dynamic Zimbabwean economy where business and financial risks are excessively high. Most successful businesses in Zimbabwe have been leveraging on education for survival, especially in as much as it gives them an edge in bookkeeping skills.

The size of the market served by the trader also proves to be significant in determining the success of the entrepreneur. Entrepreneurs serving a large market are likely to succeed compared to those serving relatively smaller markets. The study found a strong standardized beta of 0.157 between market catchment and profitability indicating that for every standardized unit of a standard deviation change in market size there is a corresponding 0.157 standardized units of variation in profitability. Sole traders need to consider the size of the markets they are serving and interrogate the cost structures or business model in line with the market potential. The growth of quite a proportion of sole traders has been limited by market size that cannot absorb further growth.

The study found access to finance to be the most significant determinant of sole trader success. The catreg standardized beta of 0.651 for access to finance is the largest for all predictors indicating the importance of finance in any business activity. Businesses that are able to access finance and at a lower cost have a powerful edge in their cost structures as this puts them at a competitive position in times of fierce competition from rivals. Accessing finance at a low cost gives some flexibility in terms of cost structures of the business.

4.1. Other Determinants of Success

4.1.1. Access to Business and Financial Advice

In any business setup there is need for ease access to business as well as financial advice if the business is to succeed. Most sole trader retailers in Zimbabwe lack access to business and financial advice on how to run their businesses. The study shows that 40% of the respondent sole traders fail to access advice on business and financial management as illustrated by figure 1 below.

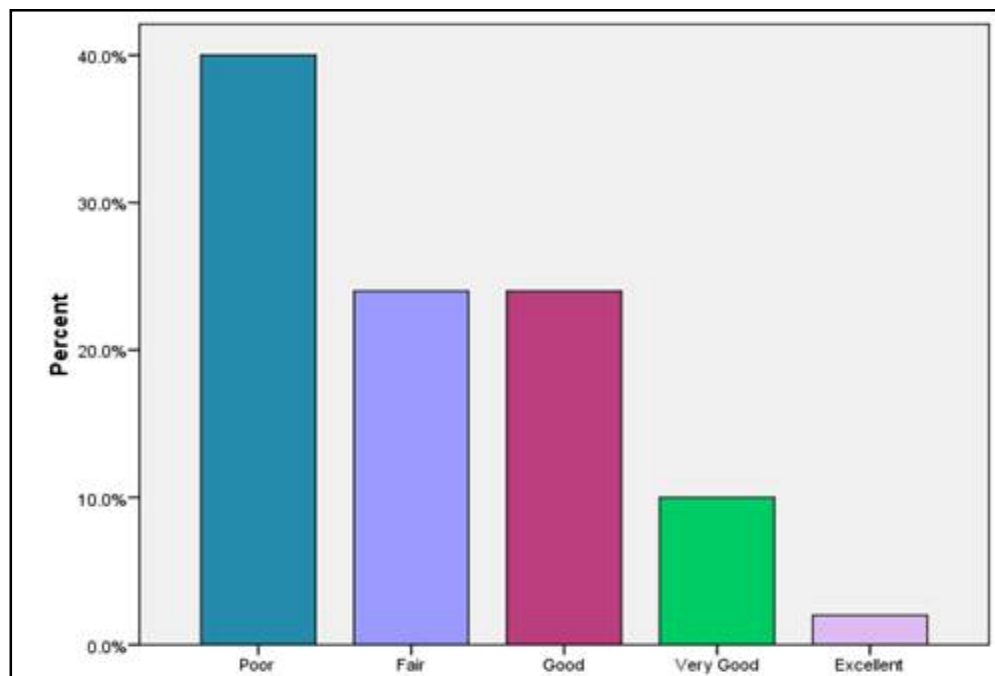


Figure 1: Access to Business and Financial Advice

4.1.2. Nature of Competition

Business survival and success is also affected by the level of competition in the market in which the business is operating. Monopolies may be able to survive and even succeed regardless of uneconomical cost structures because of the absence of competition. Sole traders on the other side do not have this protection as they operate mainly in a highly competitive environment. The study indicates that most sole traders, at close to 60%, operate in a highly competitive environment making success a difficult target. Figure 2 below illustrates the nature of competition faced by most sole trader businesses.

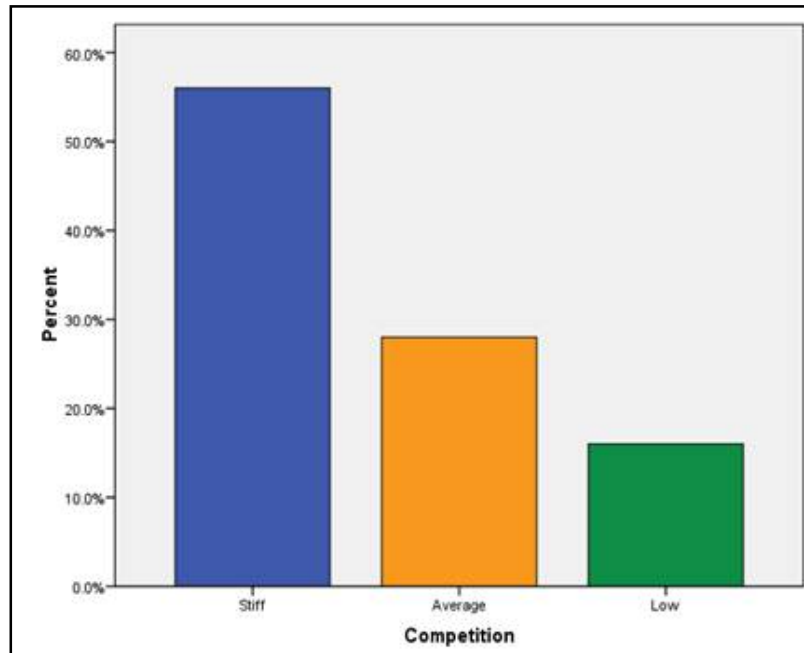


Figure 2: Competition Level

4.1.3. Availability of Transport

Many small businesses in Zimbabwe face problems of transport and the transport network itself. The availability of an effective and cheap transport system ensures effective supply chain and an affordable cost structure for the business. A majority of the small businesses in Zimbabwe especially those operating in rural and remote areas face transport challenges. The results show that 29% of the sole traders in Zimbabwe use hired transport whilst 53% use public transport for business purposes which is un conducive for survival and success of any business. The nature of transport used is indicated in figure 3 below

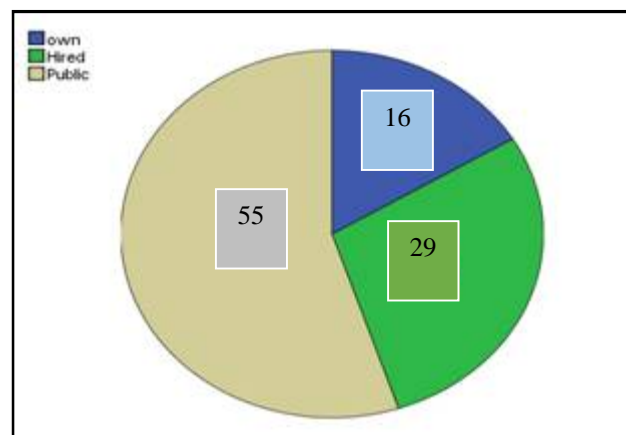


Figure 3: Transport used

4.1.4. Networks and Partnerships

Business thrives on information availability and idea sharing. In a world of information asymmetry there is need for businesses to develop networks and partnerships through which to acquire and share information and ideas pertinent to the operation and running of the business. The study shows that quite a majority (at 32%) of small businesses do not have proper networks and partnerships for information exchange. Figure 4 below shows that only 44% of the respondents have information and business networks

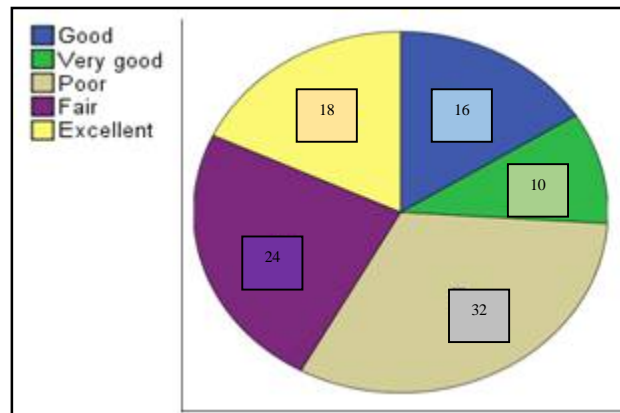


Figure 4: Networks and Partnerships

4.1.5. Debtor Management

Stiff competition in the retail businesses especially in rural areas force most the businesses to offer credit to their customers as a way of attracting customers and developing relationships with the customers. However results from the study indicate that most of these small businesses offering credit face low repayment of debt as, out of the liquidity squeeze in the economy, customers default. Figure 5 below shows that over 50 percent of the debtors have repayment challenges. This indicates the need for effective debt collection strategies to avoid loss of capital.

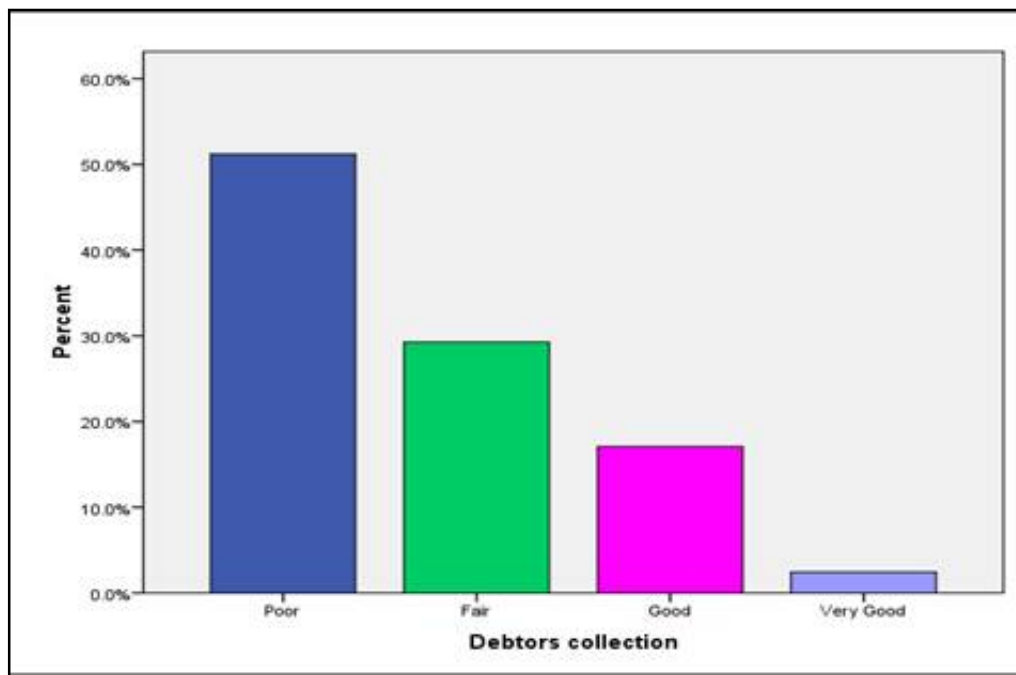


Figure 5: Debtors Collection

5. Conclusion

With the growing significance of the informal sector in Zimbabwe, there is need to ensure that this sector is well supported and nurtured. Sole trader ventures have become a common feature of business activity, though facing many challenges. The study recognizes that education, family support, market catchment, experience and access to finance are at the core of business success for small enterprises.

Small business need to be supported to be able to access business and financial advice, affordable transport, accessing networks and partnerships in business and debt management so as to survive in this highly competitive business. There is need to equip small business entrepreneurs with skills in business planning and realistic assessment of ideas as well as record keeping. There is scope for development of customized financial assistance to the sector.

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