Business Financing Options for SMEs in ZimbabwePost February 2009

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	During the decade starting from 2000, Zimbabwe has experienced a severe economic meltdown culminating in hyperinflation. Most business operations ground to a halt due to lack of agricultural and industrial production. To kick start the economy, the Zimbabwean government adopted a multi-currency system in February 2009 among other several measures. This policy position wiped away all savings which were Zimbabwean dollar denominated and this meant that all entrepreneurs were starting businesses or continuing in business from a zero capital base. To compound issues there were limited or no external financial sources. SMEs are considered to be the bedrock upon which Zimbabwe's economic revival will be built. The objective of this study is to explore how Zimbabwean SMEs financed their operations post the adoption of the multi-currency system in 2009 or gained access to financial resources. An interesting finding of this studywas that resources especially financial resources were very limited due to the economic conditions prevailing in the country. Organisations had to balance the need for resources against availability and had to depend on internal resources rather than external resources. As a result several business issues have had to be parked until the business's financial position improves.

1.0 Introduction

Zimbabwe experienced a decade of severe economic meltdown starting from the year 2000. According to Makwati (2013), "Agricultural production was also severely affected resulting in the country depending on imports to meet the demand for domestic consumption and industrial needs. Furthermore, these challenges led to significant skills flight and erosion of private and public financing, thereby negatively affecting quality service delivery and achievement of the United Nations (UN) Millennium Development Goals (MDGs)." As a result many businesses folded up during this period and SMEs were negatively affected by the deteriorating economic environment and most could not access both private and public financing. Business success was not even contemplated.

Government had to intervene to reverse the dire economic situation obtaining in the country. Makwati (2013) says that the cocktail of measures that were adopted by Government in 2009 resulted in some modicum of economic stabilisation, with Zimbabwe achieving a real GDP growth rate of 5.4% in 2009, 11.4% in 2010, reaching a peak of 11.9% in 2011. He further stated that the recovery remained fragile as growth declined from 11.9% in 2011 to 10.6% in 2012 and 3.4% in 2013. Despite the economy having shown some degree of stabilization, with inflation modestly below 5%, it still experiences a myriad of challenges, which if not addressed, will reverse the marginal gains recorded so far, (Makwati, 2013). After the dollarization of the economy all businesses particularly SMEs had to start from a zero capital base both in terms of start-ups and operational capital for existing businesses.

There was need for capital injection for start-ups and for continuing operations from a zero capital base. This did not however, stop entrepreneurs from pursuing business opportunities that were ushered by the adoption of a multi-currency system by the Zimbabwe government. There are several financing options available to entrepreneurs in pursuing business opportunities but these tended to be limited in the case of Zimbabwe following the adoption of the multi-currency financial system. What financing options were

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available to entrepreneurs starting and growing businesses? Which financing options were adopted by these entrepreneurs and what effect did these financing strategies have on the performance of these SMEs?

2.0 Literature review

Wu et al (2008) argue that the difficulty of financing SMEs growth is a universal problem and further pointed out that stakeholders of SMEs find they are discriminated against by lack of access to external funding...Financing SMEs in Zimbabwe is particularly difficult given the economic history of the country starting from year 2000. A key determinant of successful strategy implementation is resource allocation which, according to Okumus (2003), is the process of ensuring that all necessary time, financial resources, skills and knowledge are made available. Hussain et al (2006) argue that in most developed and developing economies, a growing number of SMEs need access to a wide range of sources of finance.

Hussian et al (2006), however, state that when the cost of survival or growth in these firms exceed the availability of financial resources owned or controlled by owner/managers, they become dependent on the availability of external sources of finance. From the external sources, bank finance has traditionally been the main source of financing for SMEs, but to be able to service bank debt, companies need cash flow on a regular basis (Gabrielsson et al; 2004). Therefore SMEs development today faces serious constraints including the scarcity of long term financial resources for example long term loans and venture capital (Wu et al, 2008). Hussian et al (2006) argues that an increasingly centralised banking system had the effect of standardising lending decisions while removing some of the discretion that bank managers could exercise when considering personal and/or local conditions in relation to the approval of small business loans. This might result in the rejection of viable propositions to the detriment of local and regional SMEs (Hussain et al).

Kumar et al's (2006) study on the service industry found that the resources were allocated to the strategy implementation process and the organisation was designed and built to make it possible to carry out the strategic plan. In the strategy execution process, the organisation utilizes resources to deliver services and implement the strategic plan on a continuous basis throughout its predetermined life cycle. According to the pecking order theory, owner/managers tend not to sufficiently organise their finances in order to obtain optimal capital structure (i.e. debt versus equity) but prefer options that ensure and maintain their control upon a business (Hussain et al, 2006). This is confirmed by Gabrielsson et al (2004), who state that equity financing, mainly private, with less rigid payback in the form of dividends is more appropriate for young, rapidly growing technology based firms. Hussain et al (2006) state that with the exception of a few top performing businesses, the vast majority of SMEs in China do not possess their own full capital requirement and as such, it appears that there exists a finance gap for SMEs in China, which might limit or constrain growth. Antony, Kumar and Labib (2008) found that 80% of the British SMEs in their survey stated that lack of resources was one of the factors impeding the successful introduction of six sigma. Lam (2010) argues that most SMEs experience a funding gap and states that successful SMEs use the concept of bootstrapping on other people's resources like negotiating favourable credit terms from suppliers. Resource allocation is the key to successful strategy implementation in SMEs. According to Okumus (2003), the key issues to consider are:

- *"The procedures of securing and allocating resources for the new strategy.*
- *Information and knowledge requirements for the process of implementing a new strategy.*
- *The time available to complete the implementation process.*
- *Political and cultural issues within the company and their impact on resource allocation."*

Case sites A and D in Ashill, Fredrerikson and Davies's (2003) study sought resource allocations by banding together with other functional groups within the organisation and seeking informal support from top management. This scenario was also applicable to large organisations studied by Ashill et al (2003), but might have limited applicability to SMEs, particularly in Zimbabwe. SMEs are owner managed and the owner/manager will determine resource allocation with very little input from those charged with implementing the strategy. This is likely to affect overall strategy implementation by SMEs. Ashill et al (2003) also confirmed that where resource allocation was perceived to be less than optimal, with resource bargaining a frequent activity with core service departments, in case C, the national marketing planning manager coped by seeking informal support from non-marketing personnel on the same floor. This suggests

that different organisations adopt different resource allocation strategies and these will impact performance.

3.0 Methodology

The present research analysis is based on field research on growing SMEs' finance raising strategies post the adoption of a multi-currency system in Zimbabwe. A multiple case study research was selected to build an understanding of current practice with regard to raising funds. Content analysis will be used to analyse the data collected.

4.0 Findings

Resources were considered to be very important to strategy implementation; as all the respondents (100%) indicated that resources were a prerequisite for successful strategy implementation. BYO 2 confirmed that:

"*Thirdly we have to look for the resources since resources are key to strategy implementation. We need competent human resources for successful strategy implementation. Resources can be unlocked from various sources including suppliers, customers etc.*"

Only HRE 2 indicated that resources were limited, but added that this had not negatively affected strategy implementation.

"*The key to success in this environment is to start with a sound business idea, and then usually money follows good ideas. As far as we are concerned there has never been a shortage of money to support good ideas.*"

Although they did not state their source of funding, the implication was that they were not short of financial backers either in the form of investment or loans; consequently their growth has been phenomenal since 2009. On the other hand, the other seven businesses adopted the approach of growing the business organically from the profits generated. These entrepreneurs indicated that they did not want to bring in partners or to borrow to support the growth of their ideas. They were prepared to grow their businesses slowly. This resulted in serious delays in project implementation. BYO 1 noted that:

"*Each operation has to be self-sustaining otherwise it will not be prudent to keep it operating on the back of others. However we share the trucks among the business units. We availed all required resources to the business units but resources are never adequate. We are always over ambitious and need to expand always. We have had to dispose one asset to finance business operations. We have always tried to finance our activities internally so that our businesses grow organically. We have not resorted to borrowing to finance our business activities. Our maxim has been to start small and let the business grow organically. If there need to increase production, the market will tell and you will have to respond accordingly. Growing the business organically will not create pressure to perform in order to service loans.*"

BYO 2 adopted the approach of reviewing what needed to be done and then prioritising projects subject to funding availability. He pointed out that:

"*We do not need to overstretch our resources but then prioritise the projects that get funding. For example the company opted to purchase a commercial property which was on the market instead of buying a drilling rig. Our construction works are generally funded internally and consequently we have to discuss and agree as to how the resources are to be used. It just has to be a collective decision if we are going to get a buy in on how resources will have been deployed.*"

However resources were the major challenge confronting six of the SMEs under study. GRU 1 and HRE 3 were the most affected by a lack of resources and this negatively affected strategy implementation. GRU 1, for example, did not plan how the resources, especially cash, would be used, but asked employees to determine the most urgent use for any resources generated by the business. This was a hand to mouth approach to distributing resources:

"*They are willing to forego salaries for the vision. In this regard when limited finances are raised they decide how the money should be used e.g. they may decide to give it to the most deserving employee or the most deserving business use at the time.*"

This seems to be some form of business financing whereby the funds meant for salaries were redeployed for business use, a form of internal creditors. In addition when resources were not available from operations GRU 1 tended to use parts from other trucks to service those that had been contracted, especially when it came to replacing tyres, or resorted to selling long term assets. This approach was also adopted by BYO 1, who sold a five storey building for one million dollars to support the agro projects.

HRE 3 also faced serious cash flow problems and adopted a completely different approach. In the first instance, he would ignore all requests for resources and hope that employees would work their way round the lack of resources:

> "Resources needed by the organisation are in the form of human and financial resources and these are hard to come by. Employees in the business development unit are always complaining about the lack of resources. There is just not enough money to undertake the work they are charged to do. Without resources they just sit back and do nothing until they are pushed to do something within the resources that are available.
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> "Limited resources make organisations walk a tight rope to balance the need for resources. We have had to depend on internal resources rather than external resources, thereby making the resources situation very tight. As a result several business issues have had to be parked until the business's financial position improves.
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> "Employees put you under pressure by sending weekly emails demanding for resources and requesting for material for use in the work in the organisation. You will initially resist the demands but eventually you will have to give in and allocate resources to the employee or team that exerts the greatest pressure."

This approach often frustrated employees with some not taking any initiative and simply waiting for resources to be made available. This was particularly the case with the less vocal employees who did not fight for resources. There was no prioritisation of projects and consequently resources might have been misdirected to the detriment of effective strategy implementation. This was demonstrated by the reversal of growth in the business. HRE 3 adopted a reactive approach to resources allocation and this was detrimental to effective strategy implementation; the thrust was survival. Indeed, it was surprising that the owner expected employees to take initiative given their lack of experience, the lack of rewards and recognition, and the skewed resource allocation. This was confirmed by HRE 3:

> "Due to lack of resources, we have lost many deals. We try to do everything or the manager responsible for a project will end trying to do everything due to lack in trust of subordinates and we eventually miss important deadlines. As an organisation we have lost a lot of money through the behaviour of our employees and in one case it amounted to US$30 000. We do not have compliance policies and regulations in place and sometimes we have been forced to pull out of a contract due to the delivery breaches."

SMEs in Zimbabwe generally had problems mobilising resources to implement the strategies adopted. Only one of the organisations under study claimed that they had few problems mobilising resources, but at the same indicated that human resources were hard to come by. This problem was common to most SMEs and is discussed elsewhere. However, only one organisation, BYO 2 sought to prioritise projects, producing budgets for all projects. BYO 1 and GRU 1 resorted to selling assets or using existing assets to serve new purposes. HRE 3 decided to delay projects or completely pull out of projects and in the process tarnished the image of the company; no criteria were set to allocate the available resources and in the end resources were availed to the employees who were the most vociferous. Consequently, the SMEs with clear criteria for allocating resources grew faster than those that opted for organic growth or had no set allocation criteria.

SMEs owners in Zimbabwe conceded that resources were the key to strategy implementation; 100% of the respondents stated that this is the case. However, they all concurred that resources were scarce, negatively affecting strategy implementation. Only one SME owner, HRE 2, indicated that financial resources were not a problem because "money always followed good ideas". The others seemed to be risk averse, choosing to grow organically from profits generated by the business, which were invested in other property as future security. While HRE 2 experienced phenomenal growth tied to their strategic plan, the other businesses tended to struggle with inadequate resources and ended up pursuing any opportunity that had the potential to generate quick money for reinvestment. This tended to remove essential cash from the business, leaving it to struggle. This was particularly the case with BYO 1, GRU 1 and HRE 3. When push came to shove, the owners sold assets to raise capital to invest in the business. The investment served two purposes; to save

resources in case of future business needs or an investment for future personal needs. The growth of the business was therefore compromised to accommodate these interests.

5.0 Conclusions and recommendations

The business owners were very risk averse in terms of resource mobilisation and preferred organic growth through ploughing profits back into the business. Growth was therefore very slow because profits had to be invested in sure assets such as buildings and land or starting a business with potential immediate cash flows. Borrowing from financial institutions was out of the question as they feared the takeover of their businesses by creditors in the event of failure to repay borrowed funds. They preferred to sell assets to raise business finance rather than using their assets as collateral. The businesses tended to struggle with their cash flows, leading to delays in implementation or projects being abandoned.

SMEs in Zimbabwe generally had problems mobilising resources to implement their adopted strategies. Only one owner claimed that they had few problems mobilising resources; at the same time indicating that human resources were hard to come by. This problem was common to most SMEs. However only one organisation, BYO 2 sought to prioritise projects, producing budgets for all projects. BYO 1 and GRU 1 adopted strategies to sell assets or use existing assets to serve new purposes. HRE 3 decided to delay projects or completely pulled out of these projects and in the process tarnished the image of the company, and no criteria were set to allocate available resources. In the end, resources were made available to those employees who were more vociferous in their demands. Consequently, SMEs with clear criteria for allocating resources grew faster than those that opted for organic growth or had no set allocation criteria.

It is recommended that where organisations seek to grow as a strategy, alternative funding sources like inviting investors or mergers should be seriously considered when external funding such a loans and government funding are not available.

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