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Factors Restraining Small to Medium Enterprises (Smes) from Engaging in Export Market: The Case of Manuafcturing Smes in Harare, Zimbabwe

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Abstract: ***The study explored factors restraining Small to Medium Enterprises from engaging in exports with the ultimate objective of stimulating exports for SMEs.A survey of forty one manufacturing SMEs in Harare revealed that lack of knowledge and resource constraints are the major reasons behind SMEs' inertia on exports.The study also suggest that SMEs believe that their products are good enough to compete on the international scale and that government regulation is not an issue in their non-export decisions.Authorities are implored to intensify information dissemination and also focus export oriented SMEs in their funding priorities.***

Keywords: Small to Medium Enterprises, factors,export market

1. Introduction

Available information show that more than two thirds of the manufacturing SMEs in Zimbabwe rely exclusively on the domestic market at the expense of exports (Mpofu, 1998;Zindiye 2013; Gumede,2000).Statistics also reveal that for the few SMEs that export, the percentage of exports to total sales is very low, in some cases as low as five percent (ibid).Yet there is consensus among academics and policy makers alike that internationalisation is a key element for the long term survival of SMEs, in the wake of globalisation-induced open market policies (Tambunan, 2011).

2. Problem Statement

Zimbabwe is currently reeling from liquidity distress caused by, among other issues, a very low export base and an inflated imports bill (Government of Zimbabwe, 2015).A rise in exports by SMEs would impact significantly to the country‟s fiscus.In addition,following the Keynesian economic model,exports create employment (Mohr and Fourie, 2004).An increase in exports will bring much relief to Zimbabwe which have placed faith on SMEs to address high unemployment statistics, currently touted at around eighty percent.This unemployment figure is way above the global average of six percent (Econometrix, 2015).An increase in the employed would translate into a fall in poverty levels and also a shrink in the income disparities between the rich and the poor (Todaro,2000).

3. Objectives of the study

1.To determine factors restraining manufacturing SME in Zimbabwe from exporting their products.

4. Research questions

1) To what extent does lack of knowhow impact on SMEs decision not to export?
2) To what extent is lack of resources a factor on the SMEs inability to export?
3) Is regulation a factor in SMEs inability to export?
4) Is lack of interest in exports by SMEs indicative of inferior products that cannot stand international quality standards?

5. Significance of the Study

This study *diagonises* the SMEs export problem and then *prescribes* measures to address same.To the extent that the diagnosis is proper and that the prescriptions are applied, then the SMEs export „disease‟ will be cured or at least significantly reduced.The study is thus significant in the sense that from a Zimbabwean perspective, it has the potential to increase SMEs exports and thus contribute significantly to export receipts.In addition, the study is also important to Zimbabwe from an employment creation point of view, from a poverty reduction standpoint and also from an income distribution pespective.

The study is also significant as it addresses an on going debate on the future of SMEs in an era of globalisation.According to Tambunan (2011), most SMEs in developing world cannot survive or sustain their growth due to globalisation and trade liberalisation which have opened up domestic markets to foreign competition.Tambunan reckons that SMEs need to counter the wave of international competition by going international themselves (ibid).In short, Tambunan prescribes that the only way for SMEs to remain competitive is to identify export markets that will absorb the excess production created by loss of domestic market to international competitors.The study thus tallies with Tambunan‟s theory as it seeks to ascertain the factors restraining SMEs from , and prescribe measures to assist SMEs to partake in exports.

6. Scope of the Study

The study focusses on non-exporting manufacturing SMEs in Harare ,Zimbabwe .The bottomline is to increase the export base of manufacturing SMEs and this can be done by creating a condusive environment that will entice those SMEs that are currently not exporting to start doing so and also increase the volume of exports for those SMEs who are already engaged in exports. The choice of Harare is informed by the fact that this is the capital city of Zimbabwe.It is therefore assumed that the city would have dirvese responses which collectively would be representative of the national views. The study focuses on the following manufacturing sectors; food processing, textile and footwear as well as furniture.The choice of these manufacturing sectors is informed by statistics in Zimbabwe which suggests that such sectors are popular with most manufacturing SMEs (Rwigema & Karungu, 1999; Nyoni, 2002).

7. Methodology

The study is largely descriptive in nature and employs a structured questionnaire in order to accommodate and contain the huge number of responses. In order to unlock more information, structured interviews were used to complement the questionnaire.

7.1 Target Population

Reliable and updated statistics on the number of manufacturing SMEs involved in food processing, textile and footwear as well as furniture remains scant, mainly because most such entities are unregistered and tend to enter and exit the market at a high frequency compared to their more established counterparts.

7.2 Sampling Framework

The study adopted the definition of the Small Enterprises Development Corporation (SEDCO), a government-supported development agency in Zimbabwe, which defines an SME as an enterprise employing not more than 75 people with a fixed asset base not exceeding $500 000 (SEDCO, 2014).Samples were obtained from the manufacturing SMEs around the Siyaso, light industrial area and Msasa in Harare. The following manufacturing segments were targeted namely food processing, textile, footwear as well as furniture. According to the Reserve Bank of Zimbabwe, these manufacturing sectors have encountered the greatest amount of foreign competition (Gono, 2011).The sampling procedure employed involved partitioning and clearly demarcating the four chosen manufacturing sectors. Thereafter, convenience sampling was used to identify responds.

8. Review of Related Literature

Serving a foreign market, either through exports, foreign production, or contractual modes, is an opportunity for SMEs, but one that comes with costs. In particular, firms engaging in international activities face both variable and fixed, often sunk, costs. These costs act as barriers to exporting by preventing some firms from making profits in international markets. Only the best firms can extract a profit from their international operations once they have borne the cost of doing business abroad. It is then rational for only a few firms (those achieving higher performance *ex ante*) to bear the cost of exporting. It is likely that exporting involves some sunk costs – due to the need to acquire information on foreign markets and find suitable contacts for selling products abroad – and substantial variable (transport) costs, while foreign production entails higher fixed (and sunk) and lower variable costs. This encourages the best performers to become multinationals; the intermediate performers to become exporters; and the worst performers to focus on their domestic markets, serving foreign markets through indirect exports, or end their business endeavours. This idea, formalised by Melitz (2003) echoes the much older idea put forward by Hymer (1960), who suggests that firms operating in foreign markets need to overcome some liability of foreignness. Therefore, only firms that have certain market power can do business abroad, which mainly comes from possessing proprietary assets (such as patents, or, more generally, firm expertise) that enable them to achieve superior performance, which Dunning (1970) describes as ownership advantages. For SMEs, these costs of doing business abroad can be a major obstacle. In particular, the presence of the fixed costs of internationalisation affects the profitability of international operations more for smaller firms than for larger ones.

A large number of studies have investigated the extent to which higher productivity explains firms‟ export decisions. A robust finding in these studies is that more productive firms are more likely to export (see Greenaway and Kneller, 2007 and Wagner, 2007 for surveys). This fact has also been confirmed in studies based on internationally comparable firm-level data (ISGEP, 2008; Mayer and Ottaviano, 2007). Particularly interesting is the fact that the productivity premium of exporting is larger for SMEs, while large exporting firms are not always more productive. This is consistent with the idea that larger firms are in a better position to bear the sunk costs of exporting, while only very productive SMEs are able to engage in exporting. In general, the relationship between productivity and exporting goes in both directions, which makes it difficult to draw conclusions about causality. The two way relationship between exports and productivity is usually referred to the "selection hypothesis" (Bernard and Jensen, 1999; and Bernard and Wagner, 1997) versus the "learning-by-doing" hypothesis (Clerides, Lach and Tybout, 1998). By and large the evidence is in favour of the selection of more productive firms into exporting (Wagner, 2007).

8.1 Technological Innovation

In addition to the initial level of productivity and human resources, innovation activities are generally identified as the other main determinant of exports. Successful product innovations in particular are a prerequisite of doing well in international markets. However, the evidence of other indicators of innovation activities is less clear. There is also a relatively broad consensus that firms that introduce product innovations are *ex post* more likely to export. For example, using Community Innovation Survey (CIS) data for two time periods in Belgium, Van Beveren and Vandenbussche (2010) find that Belgian firms self-select into innovation in anticipation of export market entry rather than that technological innovations drive entry to the export market. This suggests that firms start exporting after successful introduction of new products and production processes. Based on SMEs in the UK, Añón Higón and Driffield (2010) find that exporting businesses are also characterised by high levels of both process and product innovation. Using matching CIS data for the UK, Criscuolo et al. (2010) show that globally engaged firms (multinational firms and exporters) do generate more innovation output and use more knowledge input. However, there appears to be a two-way relationship between exporting and technological innovation: export entry or export intensity are likely to boost technological innovation, and successful innovation is likely to lead to higher exports. For instance, Love and Ganotakis (2013) analyse the effect of exporting on the subsequent innovation performance of a sample of high-tech SMEs based in the UK. They find that exporting subsequently helps high-tech SMEs innovate.

8.2 Regulation as a Factor in Export Decision

The characteristics of home and host markets, as well as the policies of governments at home and abroad, are drivers of international engagement. These characteristics include gravity factors (geographical and cultural distance, size of the domestic and host markets), business and export regulations in the home and host markets, including tax considerations, and quality of transport infrastructure. Surveys among European SMEs reveal that SME export decisions are primarily motivated by the growth and size of the host market in question, combined with a small domestic market size (see Crick 2007b). Home-country characteristics include business and export regulations and export promotion programmes. The lack of domestic governmental assistance/incentives and unfavourable domestic rules and regulations in general (e.g. costs of starting a business) and export regulations in particular can be severe barriers to internationalisation (Leonidou 1995). Export regulations increase the costs of exporting. These costs to export include documents (fillings of export declarations and supporting documents), administrative fees for customs clearance and technical inspection, customs brokering fees, terminal handling charges, and inland transport. Other costs occur due to safety and security legislation, labeling rules and packaging requirements. Therefore, efficient customs administration and the availability of standardized and harmonized trade documents are crucial to success in exporting.

Government assistance can be, for instance, in the form of financial support (e.g. credit assistance, income tax exemption or reduction, and exemption from import duty on essential raw materials.They can also be classified as the following direct measures: (i) country image building (e.g. advertising and promotional events); (ii) export support services (e.g. export training and technical assistance); and (iii) marketing (e.g. trade fairs and export missions), market research, publications (e.g. market surveys), and trade finance support (export credits, export guarantees/insurance) (Lederman, Olarreaga, and Payton 2006). Governments set up export credits through direct loans, subsidies, insurance and guarantees (Fleisig and Hill 1984). These tools are intended to help firms overcome financial and liquidity difficulties related to their international activities or credit constraints. Export guarantees are mainly provided on exports to countries that present significant political risks. For example, Wu and Cheng (1999) studied determinants of the export performance of China‟s township-village enterprises, and found that government financial support contributes positively towards the international competitiveness of township and village enterprise‟s export performance. Previous studies show that export credits and guarantees have a positive impact on the level and intensity of exports (see Janda et al, 2013, and Badinger and Url, 2013). Even though governments have extensively adopted EPPs, various studies point out that SMEs have a limited awareness of such measures and do not actively use them (Hauser and Werner 2010).

The information gap is still regarded a serious problem for SMEs, even in the current era of extensive information availability (Kumar 2012). The literature shows that SMEs that are unable to gather and use export market information exhibit a lower probability of exporting and lower export intensity (Koksal and Kettaneh 2011). Evidence based on surveys of the UK shows that the inability to contact potential overseas customers is a serious barrier to *SME* entering international markets (Crick 2007a; Kneller and Pisu 2007). Using data for Swedish manufacturing exporters, Rundh (2001, 2007) shows that difficulties in finding suitable distribution channels as well as insufficient knowledge of the procedures involved in international business are very important barriers together with competitors' control over the distribution system.

9. Research Findings

Out of a snap survey of 60 non-exporting manufacturing SMEs, 41 (68%) SMEs responded and these comprised of furniture (17), textile and footwear (13) and food processing (11).The vast majority of SMEs (71%) have businesses that generate less than $50 000 in sales annually and employ less than 100 permanent employees. In addition most of the respondents SMEs had opened their businesses in the last twenty years, making them relative infants.

Impact of foreign competition on their domestic business

Virtually all the SMEs acknowledged that their business had been impacted negatively by the entry of foreign companies on the domestic market. The textile and footwear sector, in particular, registered the highest „very negatively affected‟ response to this question followed by the food processing and lastly the furniture sector. Such negative impact should surely have motivated the SMEs to "fight back" through a vigorous export drive.

Factors influencing SMEs not to export

Lack of knowhow (55%), limited resources (29%) and unfavourable export regulations (8%) were cited as the main reasons why the SMEs in the survey were not exporting their products. Most SMEs, whilst acknowledging the fact that they need to export in order to survive in the long term, admitted that they simply had no clue on how to start the export business. This knowledge dearth related to different dimension such as lack of regulations and processes for one to get started on exports, lack of knowledge on potential international markets, lack of information on host country requirements, lack of information on international payment system and lack of information regarding freight, insurance and customs.

Increased exports are a desired goal for every government. Spending on exports by foreigners constitutes an injection into the circular flow of income and spending in the domestic economy (Mohr and Fourie, 2004). Spending on imports on the other hand, constitutes a leakage or withdrawal from the circular flow of income and spending in the country. In short, exports increases liquidity in the domestic economy, stimulating investments, and creating jobs (Mohr & Fourie, 2004).

Limited resources were cited as a key factor in SMEs failure to export. Most of the SMEs in the survey noted that they were surviving from hand to mouth, with all of them affected to varying degrees by the current liquidity constraints in the country. In fact SMEs highlighted that they were already disadvantaged well before the onset of the current liquidity crisis, because they are perennially underfunded. Most respondents were aware that they could actually escape the poverty cycle by exporting. However, there were simply no resources to do that, with most prioritizing survival above everything else. Valodia and Velia (2004) investigated the relationship between international trade liberalization at macro level and its micro- or firm-level adjustment effects in the South African manufacturing industry. Their findings suggest that there is a strong relationship between the average firm size and the volume of cross-border trade. More specifically, it was found that more than half of the firms not engaged in international trade are SMEs. At the opposite extreme, almost half of the firms involved in both importing and exporting are large enterprises, employing more than 200 workers. It appears that large enterprises have been more successful than their smaller counterparts, at integrating their manufacturing activities into the global chain of production (Tambunan, 2008).This study affirmed Valodia‟s findings.

Are export regulation an issue?

Less than one tenth (8%) of the respondents cited export regulations as an issue in their non-exporting decision. The study noted that out of this group, a small number had actually attempted to export but were frustrated with the process and the attendant costs (in terms of time, money and manpower) These were mostly in the food processing sector. Other respondents said they never attempted but feedback from their unsuccessful peers was enough to put them off.

Is lack of interest indicative of inferior products that cannot stand international quality standards?

Most respondents (63%) were adamant that despite the country being ranked among the worst performing in Sub-Saharan Africa, their products matched or even surpassed those of their international competitors. In other words, they had the skills to manufacture international quality products, but they lacked skills on how to get into the exporting business. They needed knowledge on how to find markets, how to negotiate, the platform of negotiation, issues around transportation and finally issues around payments.

Is government doing enough to assist them?

More than half of the respondents (55%) noted that there was a government ministry and institutions such as SEDCO (Small Enterprises Development Agency) to which they could approach for funding. However, they indicated that these institutions had limited financial resources given the huge number of SMEs. In addition the process of applying for funding was cumbersome and in most cases time-consuming with no guaranteed success.

10. Recommendations

Authorities and interested parties on SMEs need to address the lack of knowledge on export activities and issues around shortage of resources. While funding constraints are the biggest challenge to address the funding gaps highlighted by the study, it should be clear that an increase in exports could be one sure way of escaping from the economic crisis. In this vein, the few available resources may need to be prioritized to the export initiative of SMEs.

Addressing the knowledge gap on exports may not be as expensive as funding the exports. Information dissemination needs to be intensified, perhaps taking into account bodies representative of the SMEs. The research suggests that regulation is not a factor in SMEs failure to export their products, although there is always room for improvement.

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