ASSESSMENT OF THE ROLE OF FINANCIAL PLANNING ON THE ECONOMIC SUSTAINABILITY AND GROWTH OF SMALL AND MEDIUM ENTERPRISES IN MANUFACTURING SECTOR IN ZIMBABWE: A CASE OF SMEs IN HARARE.

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ABSTRACT

This study aimed at assessing the role of financial planning on the economic sustainability and growth of manufacturing SMEs operating in Harare. The study adopted financial planning practices as the independent variable and economic sustainability and growth as the dependent variable. The study chose a case study as the most appropriate research strategy and used a mixed methods approach to collect data. Survey data was obtained from 57 SMEs operating in the Manufacturing Sector in Harare with 52 responding to the questionnaire and 5 respondents responding to in-depth interviews. Research participants were purposively selected to ensure the results were representative of all players within the Manufacturing SME subsector in Harare. The study established that there was a significant positive relationship between financial planning practices, economic sustainability and growth of Manufacturing SMEs in Harare. It was also revealed that the extent of use of financial planning in exploiting market opportunities, making capital budgeting estimates and managing risk was very low. The study findings also revealed that the firms who adopted financial planning practices had superior performance. Furthermore, the study also gathered suggestions on what needed to be done for SMEs to embrace financial planning to achieve economic sustainability and growth. Amongst the highlights recommendations from the respondents was the need for training and tapping into institutions of Higher Learning to cater for SMEs who cannot afford qualified Accountants to implement Financial Planning. Study findings will contribute towards the reduction in the rate of failure or alternatively
growth and sustainability of SMEs to improve the economic performance of the Zimbabwean economy.

KEYWORDS: Financial Planning, Economic sustainability, Growth, Small to Medium Enterprises

1. INTRODUCTION

The various economic challenges which bedevilled the country over the last two decades have seen SMEs becoming a key player in the development of the Zimbabwean economy. The increased significance of the SMEs is not unique to Zimbabwe alone. According to the World Bank (2018) SMEs are the most significant contributors to employment and generate the majority of jobs in developing economies. Hendrik and Quentin (2015) argued that Small businesses are globally regarded as being important for the income, growth and prosperity of individuals, the community and the economy. Despite the recognition of the significance of these entities as being pillars to any economy what has been of concern is their high rate of failure. Nyathi, Nyoni and Bonga (2018) pointed out that SMEs tend to exhibit high failure rates and poor performance regardless of the business environment they operate in. Consequently, their success and/or survival has been receiving increasing attention from economists and researchers alike. A lot of research has been done to investigate and understand factors causing the failure of SMEs in Zimbabwe and globally. One area that the researcher identified as requiring closer scrutiny was the role of financial planning given that cash is the lifeblood of any business entity.

2. BACKGROUND TO THE STUDY.

Literature on Small and Medium-sized Entities(SMEs) concur that they are the foundations of every economy. The World Bank (2018) reported that Small and Medium Enterprises (SMEs) account for over 90% of firms worldwide. Pisar and Bilkova (2019), in citing various authors considered SMEs as a necessary part of any economy and its stability. Hendrik and Quentin (2015) cited Rogerson (2001) in arguing that the activities of the SMEs in Africa is crucial for promoting economic growth, job creation and poverty alleviation. Sibanda, Hove-Sibanda and Shava (2018) referred to the studies focusing on the job creation of SMEs in developing countries by (Deijl, De Kok and Veldhuis-Van Essen (2013)) which concluded that SMEs created two-thirds and 80% of all formal jobs in emerging and low-income economies respectively, in concluding that the stated figures are a testimony to the important role that SMEs continue to play across the globe towards economic stability and development. In the Zimbabwean context, Maseko and Manyani (2011) argued that the
development and growth of SMEs in Zimbabwe can provide solutions to the problem of high unemployment facing the country as these entities have low start-up costs, low risk and can exploit untapped knowledge bases of creativity in the population for new product development.

In a study of SMEs survival, Abduli (2013) argued that starting an enterprise is one thing and survival or sustainability is another. In the case of Zimbabwe Nyathi et al. (2018) argued that firm closures have seen many people losing jobs through retrenchments resulting in the rise of the number of SMEs with many becoming entrepreneurs by default. Njanike (2019) argued that although many enterprises are started, few have survived and grown phenomenally due to a myriad of challenges. According to research as cited by Hendrik and Quentin (2015), the failure rate ranges from 35% (Marzocchi, Ramlogan and Gagliardi (2013)) in developed economies to 90% (Rapidere and Van Scheers (2005)) and Pretorius (2009) in struggling economies. The website https://zimdev.wordpress.com states that 95% of start-up businesses fail. It is therefore critical that profitability and sustainability of SMEs be enhanced if more job opportunities are to be created and business growth experienced for the good of the economy.

Investing in the sustainability and growth of SMEs is worthwhile. Pisař (2019 noted that the classical approach on how to support the stability and long-term development of SMEs is focused on externally influencing the operating environment, providing institutional support, and funding. The author argued that there is also another way. The author argued that according to previous research on SMEs sustainability it was found that planning, modern information system powered by modern controlling, precise financial management and people motivation for these activities (to accept that changes are necessary and important) are the important factors in SMEs stability and long-term development. This view was further supported by Mashizha, Sibanda and Maumbe (2019) who argued that in an endeavor to strengthen the functioning of the SMEs sector, financial literacy has been considered a prerequisite for the sector, as business owners make routine financial decisions daily. There is consensus amongst experts that financial management skills are some of the key components in the skills mix for SMEs to be successful (Bloom and Boessenkool (2002), Roodt (2005), Kotze and Smit (2008), Akande (2011) Bezuidenhout and Nenungwe, (2012) as cited by (Hendrik and Quentin, 2015).

Whereas various studies have been done to investigate the relationship between financial literacy and accounting practices to the performance of SMEs, the researcher noted a gap on
studies specific to the role financial planning plays on economic sustainability and growth of SMEs.

3. STATEMENT OF THE PROBLEM.
According to the World Bank (2020) extreme poverty is estimated to have risen in Zimbabwe from 29% in 2018 to 34% in 2019, an increase from 4.7 million to 5.7 million people due to the combined effects of a tough economic environment, successive droughts, lack of bilateral support, an unstable currency and natural disasters amongst other issues. The SMEs sector therefore is the real source of solace for the general population and economic development as big companies either close shop or scale down operations. The need for growth and sustainability of SMEs to improve the welfare of the general population is not blind to the reality that there is a high failure rate of SMEs in Zimbabwe. To mitigate the high rate of failure capacitation of owner managers of SMEs with financial planning skills is of paramount importance.

4. RESEARCH OBJECTIVES
The study was guided by the following objectives:

4.1 Primary Research Objective
To assess the role of financial planning on the economic sustainability and growth of SMEs in the manufacturing sector in Zimbabwe.

1.4.2 Secondary Research Objectives
- To determine the extent to which SMEs in manufacturing sector in Zimbabwe are using financial planning in the management of their revenues and expenses.
- To determine the extent to which SMEs in manufacturing sector in Zimbabwe are applying financial planning in investment decisions.
- To determine the extent to which SMEs in manufacturing sector in Zimbabwe are applying financial planning in making financing decisions.
- To determine the strategies that could be put in place to ensure that SMEs in manufacturing sector in Zimbabwe incorporate financial planning in their operations.

5. HYPOTHESIS OF THE STUDY
The research was hypothesized as follows:

Ho. Financial planning plays a significant role in the economic sustainability and growth of SMEs in manufacturing sector in Zimbabwe.
H1: Financial planning plays no significant role in the economic sustainability and growth of SMEs in manufacturing sector in Zimbabwe.

6. RESEARCH QUESTIONS

The study was guided by the following research questions:

6.1 Primary Research Question
To what extent is financial planning crucial in determining the economic sustainability and growth of SMEs in manufacturing sector in Zimbabwe?

6.2 Secondary Research Questions

➢ To what extent are the SMEs in manufacturing sector in Zimbabwe using financial planning to manage their revenues and expenses?
➢ To what extent are the SMEs in manufacturing sector in Zimbabwe using financial planning when making investment decisions?
➢ To what extent are SMEs in manufacturing sector in Zimbabwe applying financial planning when making financing decisions?
➢ What strategies should be implemented to ensure that SMEs in manufacturing sector in Zimbabwe incorporate financial planning in their operations?

7. DELIMITATION OF THE STUDY

The study focused on the SMEs in the manufacturing sector which were operating in Harare Metropolitan Province during the period 2018 to 2020.

8. CONCEPTUAL FRAMEWORK

This study sort to examine how small business owners manage current and future cash resources using an action framework. Action theory by Frese and Zapf (1994) is centred on focus, sequence and action structure. The theory was developed to model an understanding of the action process, whereby focus is represented by the task itself, sequence looks at the broad range of activities, dividing them into goal setting, mapping the environment, planning, monitoring and feedback. Action structure is about cognitive regulation of behaviour, implying that initiation of actions is dependent on self-regulation mechanisms. If well done, the key outcomes of financial planning in small businesses are efficient and effective use of cash resources. Achieving this involves planning, monitoring and control activities and a series of deliberative steps.
Also, literature accentuates the importance of internal people factors in defining motivation and pro-enterprising behaviour which can be used to explain and justify economic viability of small to medium enterprises even under poor and anti-enterprising economic climates. As such, the study hypothesizes that financial planning practices are positively associated with economic sustainability of SMEs. The relationship between the independent variable (financial planning practices) and the dependent variable (economic sustainability) as measured by profitability through turnover and return on investment, is subject of this study. This is illustrated in Figure 1 below:

**Figure 1: Conceptual framework of financial planning and economic sustainability and growth**

<table>
<thead>
<tr>
<th>INDEPENDENT VARIABLE</th>
<th>DEPENDENT VARIABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Planning</strong></td>
<td>Economic Sustainability and growth</td>
</tr>
<tr>
<td>o Planning of revenues</td>
<td>• Profitability</td>
</tr>
<tr>
<td>o Planning of related expenses</td>
<td>• Turnover</td>
</tr>
<tr>
<td>o Planning of investments</td>
<td>• Return on Investments</td>
</tr>
<tr>
<td>o Planning of capital requirements</td>
<td>• Liquidity</td>
</tr>
<tr>
<td>o Planning of financing</td>
<td></td>
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</tbody>
</table>

Source: Author (2020)

9. GAP ANALYSIS

From the above review of some international and domestic empirical evidences, one can detect that there is limited research on the subject of financial planning relating specifically to operations of SMEs. Whereas the closest research focused on the role of financial planning on financial performance of SMEs, there is a gap in terms of the aspects that address growth and economic sustainability of SMEs. Specifically, in the Zimbabwean context there is no previous study specific to financial planning practices by SMEs. Hence, the researcher focused on the study of financial planning by SMEs in the manufacturing sector in Harare to provide empirical evidence by filling those gaps that prior researchers did not cover. The empirical evidence was sought to fill up the knowledge gap on how SMEs are using financial planning to manage risks, compile capital expenditure estimates, exploit opportunities in the market in a bid to grow and sustain their business.
10. RESEARCH METHODOLOGY

10.1 Research Philosophy
The research adopted a positivist ontological framework. According to Newman (1998) positivism assumes that reality exists independently of the thing being investigated and as such the meaning of phenomena is consistent between subjects. In this study the relationship between the practices of financial planning and the economic sustainability of manufacturing SMEs were assumed to be consistent across all SMEs.

10.2 Research Approach
This research adopted a deductive approach which according to Silverman (2013) develops a hypothesis upon pre-existing theory and then test the theory on the basis of the data collected. This approach was suitable for this study as the research was concerned with examining whether the observed phenomena fits with expectation based on previous research (Wiles et.al.,2011). In addition, Sneider and Larner (2009) argued that the deductive approach is considered suitable for the positivist philosophy which permits formulation of hypothesis and statistical testing of expected results to an accepted level of probability.

In this study and as explained by Kothari (2004) the approach is characterised as the development from the general theory and knowledge gained from the research process which is then tested against it.

10.3 Research Design
This research was designed to achieve a combination of evaluation, explanatory and exploratory purposes (Saunders, Lewis and Thornhill, 2016). The research sought to evaluate the extent to which the SMEs use financial planning in exploring opportunities, making capital budgeting estimates and managing risks. In addition, the research also took an explanatory approach in seeking to find the relation between financial planning practices and economic sustainability. Finally, the research also sought to explore how firms can use financial planning to achieve growth and economic sustainability.

The mixed method research design was used to answer the research questions and to achieve the research objectives outlined above. Cooper and Schindler (2008) explained that qualitative and quantitative research methods can succeed one another, or be conducted simultaneously, thereby compensating the weaknesses of the other methodology and providing stronger validation of new theories. According to Stake (2010) a qualitative
research design is appropriate when the goal of research is to explain a phenomenon by relying on the perception of a person’s experience in a given situation. Furthermore, Bryman and Bell (2011); Cooper and Schindler (2008) argued that qualitative research methods emphasize the inductive approach in which the result of the research is the theory. On the other hand, Creswell (2003) argued that a quantitative research is appropriate when a researcher seeks to understand relationships between variables. Nevertheless, various researchers agree that the use of both the qualitative and the quantitative methods increase the value and perceived quality of the research. Saunders et al. (2009) argues that no research solely falls into the quantitative and qualitative camps and that a balanced business research often utilises both positivism and phenomenology. Therefore, the present study applied both methods to increase its quality and rigor.

Having laid out the research design of choice the next step was to choose the research strategy. According to Denzin and Lincoln (2011) a research strategy is defined as a plan of how a researcher will go about answering her or his research question and provides a link between the philosophy and subsequent choice of methods to collect and analyse data. This study chose a case study as the most appropriate research strategy. Yin (2014) defines a case study as an in-depth inquiry into a topic or phenomenon within its real-life setting. A case study strategy has the capacity to generate insights from intensive and in-depth research into the study of a phenomenon in its real-life context, leading to rich, empirical descriptions and the development of theory (Dubois and Gadde (2002); Eisenhardt (1989); Eisenhardt and Graebner (2007); Ridder et al. 2014; Yin 2014). The literature further state that an in-depth inquiry can be designed to identify what is happening and why, and also to understand the effects of the situation and implications for action. Yin (2014) further posits that to achieve such insights, a case study research draws on quantitative or qualitative research designs and frequently uses a mixed methods approach to understand fully the dynamics of the case. Furthermore, Yin (2014) proposes that a multiple case study strategy may combine a small number of cases chosen to predict literal replication and a second small number chosen to predict theoretical replication. The author further argues that where all of the findings from these cases are as predicted, this would clearly produce very strong support for the theoretical propositions on which these predictions were based.

10.5 Population
The target population comprised manufacturing SMEs registered and operating in Harare. For this study SMEs were defined as firms employing less than 100 employees. Majority of
SMEs in Zimbabwe are owner and micro-managed, hence the characteristics of the entrepreneurs, thus their knowledge and commitment plays an important role in determining survival and growth of their businesses. According to Muchaendepi et.al. (2019) the most prominent of Harare’s small business clusters are Glenview Complex, Gazaland, Mupedzanhamo and Siyaso Magaba. These main clusters were targeted for this study. According to the Ministry of Small and Medium Enterprises Development there were 667 registered manufacturing SMEs in Harare Zimbabwe. This constitutes the population of the study with a manufacturing SME being the unit of study as represented by the Owner or Manager. The study endeavoured to cover various categories of the manufacturing SMEs in Harare ranging from Carpentry, Food processing, Metal industry, Chemicals and Detergents, Dress making, Leather, Plastic and Paper manufacturing industry as listed in Table 3.1 below:

**Table 3.1: Population and Sample Size**

<table>
<thead>
<tr>
<th>Category</th>
<th>Population per Cluster</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food processing</td>
<td>205</td>
<td>27</td>
</tr>
<tr>
<td>Carpentry</td>
<td>154</td>
<td>20</td>
</tr>
<tr>
<td>Chemicals and Detergents</td>
<td>103</td>
<td>13</td>
</tr>
<tr>
<td>Steel- welding and fabrication</td>
<td>64</td>
<td>8</td>
</tr>
<tr>
<td>Welding</td>
<td>51</td>
<td>7</td>
</tr>
<tr>
<td>Dress Making and design</td>
<td>64</td>
<td>7</td>
</tr>
<tr>
<td>Printing</td>
<td>26</td>
<td>3</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>667</strong></td>
<td><strong>85</strong></td>
</tr>
</tbody>
</table>

Source: Muchaendepi et.al.(2019)

**10.6 Sampling**

This study chose to collect data from a sample instead of the entire population to answer the research questions. From the population of 667 SMEs, and using a Raosoft sample size calculator (Raosoft Inc 2017) set at a confidence level of 95% and a margin of error of 10% the sample size was set at 85. Saunders et al (2009) argued that the sample which is representative must produce the same results that can be produced if the whole population
was used. The sample was spread according to the population of each category using simple proportions.

10.7 Sampling Procedure
The sample was selected using a combination of stratified random sampling based on the manufacturing category as the strata and purposive sampling using the researcher’s judgement, where it was necessary to ensure that a representative sample was selected. Purposive sampling is often used when working with very small samples such as in case study research and when the researcher wishes to select cases that are particularly informative (Neuman, 2003). From the sample size of 85 data from a total of 80 SMEs was collected by use of a questionnaire and the balance of 5 was collected by of semi-structured interviews.

10.8. Data collection Procedure
In this research the researcher used primary data to measure variables and ensure current and correct information was gathered to answer the research questions. The primary data was collected using a combination of administering of a structured questionnaire and in-depth interviews.

10.9 Data analysis
The data was carefully captured in an excel sheet with a code identifying the questionnaire number. The coded data was then uploaded to Statistical Package for Social Sciences (SPSS) version 22.0 for calculating certain statistics. Furthermore, some demographic information of respondents, like their size and age of the SME, needed to be grouped to compare responses better. Subsequently, means and correlations were calculated to test bivariate relationships, as they are the best way to summarize the strength of associations between two metric variables (Nardi, 2006)

11. RESEARCH FINDINGS

11.1 The extent to which SMEs use financial planning in management of revenues and expenses
The results of the study indicated that the extent to which SMEs used financial planning in when managing their revenues and expenses was limited to less than a third of the firms studied. An analysis of the financial planning practices indicated that only a total of 30% of the respondents explicitly confirmed undertaking financial planning. The results from the
survey corroborated well with the responses from the structured interview questions where only one out of five of the respondents acknowledged that they do apply financial planning.

11.2 The extent to which SMEs use financial planning in investments

The results of the study indicated that the extent of use of financial planning in investment decision making by SMEs in the manufacturing sector in Harare was limited to less than a third of the firms studied.

11.3 The extent to which SMEs use financial planning in financing

The results of the study indicated that the extent of use of financial planning in financial planning by SMEs in the manufacturing sector in Harare was limited to less than half of the firms studied. An analysis of the financial practices in managing risks indicated that only a total of 36% of the respondents explicitly confirmed undertaking financial planning practices in managing risk. The results from the survey corroborated well with the responses from the structured interview questions where three out of five of the respondents stated that they did not use financial planning in managing risks. It was therefore a research finding that there is limited use of financial planning by SMEs in the manufacturing sector in Harare in managing risk.

12. CONCLUSION

The findings of the research showed that more work needed to be done to inculcate the concept and practices of financial planning in the way SMEs in the Manufacturing sector were being run given the empirical evidence that there was a significant positive relationship between financial planning practices and the economic sustainability of SMEs. The increasing role of the significance of the Small and Medium Enterprises to the Zimbabwean economy cannot be over-emphasized. It was therefore critical that efforts be invested in ensuring the growth and sustainability of the SMEs. Over and above all other factors it was critical that the role of financial planning in the economic sustainability and growth of SMEs be given attention. Financial planning is an integral part of financial management which deals with the management of a firm’s funds with a view to maximizing profit and the wealth of the owner. Financial planning involves analysing financial flows of a firm as a whole, forecasting the consequences of various investment, financing and remuneration decisions and weighting the effects of various alternatives. This study showed that there was very
limited use of financial planning by SMEs in the Manufacturing sector in Harare despite the strong relationship between financial planning and performance of a firm. As a way forward policymakers and Entrepreneurs needed to invest in measures that would result in the improvement of the extent to which SMEs applied financial planning in managing their entities. The findings of the research showed that more work needed to be done to inculcate the concept and practices of financial planning in the way SMEs in the manufacturing sector are run.

13. RECOMMENDATIONS

13.1 Entrepreneurs of SMEs in manufacturing sector
The study recommends the following to the owners of SMEs in the manufacturing sector:

- Owners of SMEs invest in personal development in order to revamp their approach to business and think big instead of having a survivalist approach to running their businesses. Attending workshops and training that equip them with financial planning skills was key to ensuring their growth and sustainability.
- Owners of SMEs were encouraged to strive to run the businesses on a professional basis by having formal structures and maintain proper accounting records.
- Owners are encouraged to benchmark how they run their businesses with big and successful organisations in order to copy and implement success strategies such as adopting financial planning in running their businesses.
- Owners are encouraged to employ qualified Finance Managers or Accountants to help in executing the financial planning role either on a fulltime or part-time basis.
- Owners are encouraged to approach Institutions of Higher Learning and seek ways to exploit the knowledge bank which is in abundance from research projects. This may include hiring students on attachment to study and give recommendations to aspects such as financial planning.

13.2 Policy Makers
The Ministry and other related Government Institutions that oversee the development and sustainability of SMEs are encouraged to:

- Invest more resources and time on training programs and workshops that focus on financial planning as a key aspect of successfully running an SME.
- Arrange platforms were SMEs can benchmark locally or internationally on aspects related to financial planning.
Exploit opportunities to equip SMEs with affordable technology necessary for the adoption of financial planning on a sustainable basis.

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