European Journal of Business and Management
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.7, No.24, 2015

An analysis of bottlenecks to SME growth in developing countries: A case of Malawi

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Abstract

Trade and industry have been key and crucial aspects of economic growth in every country and in most economies that are matured and self reliant, overall productivity has been realised mostly from trade activities. The most important question entrepreneurs struggle to address is where their businesses would be after some period of time, that is, whether the entities will grow substantially as anticipated by the owners on the onset. A lot of challenges exist that suffocate business especially those in the SME category and the lucky ones among many remain stagnant in size, profitability and efficiency. This paper investigates the key challenges faced by small businesses which hinder most of them from growing to the expected levels with particular emphasis on developing African economies which are mostly donor dependent. Through a questionnaire survey, the study reveals that the SME challenges are multifaceted ranging from basic management skills to access to finance. The findings of this study will assist firstly, the policy makers in the economy to create an environment conducive to the growth and consistent outstanding performance of SMEs in any economy; and secondly the entrepreneurs themselves will be able to identify any self made challenges in their operations and avoid recurrence of the same.

Key words: Small and Medium Enterprises, economic development, business growth, SME financing, entrepreneurship

1. Introduction

Since the dawn of democracy in Malawi in 1993, the business environment has been so conducive to small scale traders such that many individuals and families have been able to establish their own businesses. This has led to the increase in the number of small scale businesses to account for at least 80% of business entities in Malawi. Ever since the world became a global village, business activities have advanced at very fast rate and this has seen countries getting engaged in trade relations with other countries with little or no difficulties at all. The free trade benefits realised by most countries have seen the development of business entities within nations. In small African economies, Malawi being one of them, a number of small businesses have also mushroomed of late. The blossoming of small scale businesses, many of which are owned by individuals or a group of individuals, has had a bigger impact on the economic development of Malawi. For instance, the employment rate has increased as the small businesses established absorb into their systems some work force which the public sector could not otherwise absorb (Kedrock & Agar, 2007). In addition, the existence of SMEs directly aids the state government by way of contributing towards the consolidated fund through tax payments based on the businesses' annual profits, mitigation of national poverty, and as an economic empowerment vehicle for previously disadvantaged people (Masarira & Msweli, 2013). The General business environment has not been constantly rosy for business entities in the private sector and this has not spared the SMEs who by their nature lack the protective corporate coat enjoyed by government owned entities (Hepworth, 1993), as well as some large businesses in the private sector and as a result, the SME growth trends over the years has not been as expected. The actual growth of the SMEs has been dwindling over time and a number of such small scale entities have actually collapsed. Researchers have attempted to look into the causes of SME failure in Malawi and have established that among other causes, most SMEs collapse due to lack of finances for survival and growth, registration procedures, inadequate business skills, HIV Aids pandemic (Wanjohi, 2010). Research conducted by Bowler, Dawood & Page (2006), estimate that 40% of new business ventures fail in their first year, 60% in their second year, and 90% in their first 10 years of existence.

1.1. Nature of SMEs

The International Finance Corporation (2012) defines a Small and Medium Enterprise (SME) as a firm with less than 300 employees and total assets less than US$15 Million (for large economies). In smaller economies, an SME is defined as a firm with less than 20 employees (PECC finance forum, 2003), but according to International Finance Corporation (2012), an arm of the World Bank Group, the definition of SMEs is well understood and appreciated by grouping the businesses on the bases of number of employees, value of total assets, and value of annual sales or turnover. The IFC classification of SMEs is illustrated in the table below:

Table 1: IFC classification of Small and Medium Enterprises

Scale	Number of employees	Total assets	Annual sales
Micro	10	\$100,000	\$100,000
Small	50	\$3 Million	\$3 Million
Medium	300	\$15 Million	\$15 Million

Source: International Finance Corporation (2012)

Notwithstanding the classification of SMEs world over, let alone Malawi, their impact on the national GDP has been so tremendous. SMEs are the back bone of all the economies and are a key source of economic growth, dynamism, and flexibility in advanced and industrialised countries as well as emerging and developing economies. They are responsible for between 60-70% net job creations worldwide and are particularly important for bringing innovative products or techniques to the market (OECD Observer 2006). According to Samuels (1993), the common business objective for profit seeking firms, whether small or big in size, is growth, and Nieman et al (2003), identified five stages a business passes through in the process of its growth. The first stage, called the incubation stage or pre-start up stage, is where the business is still in its conceptual stage where the entrepreneur cannot harvest anything from it. Following this stage is the start up stage which is associated with increasing risks and potential for failure. The business' future at this stage still remains uncertain and as such, the entrepreneur cannot harvest from the business just as the incubation stage. These two stages require among others, high level of investing and resilient managerial skills as such entrepreneurs require a strong financial muscle to survive through these two stages. The next stage in the business growth process is the growth stage itself where the business shows some fruits for the entrepreneur to harvest. This is where the business gets stable and established in the industry, acquire a reasonable market share in the industry and show some profitability potentials. This stage is normally attained after an average period covering one third of the business' entire life (Scott & Bruce 1987). From the growth stage, the business evolves to the maturity stage which is characterised by tougher completion, especially with pressure in the distribution channels. At this stage, sales revenue decline and the available options to overcome problems faced by the businesses at this stage are mergers and alliances. In addition to the problems at this stage, profits of the business also go down. Finally, the business reaches its final stage, called the decline stage. This is where sales and profits rapidly decrease. According to Scott & Bruce (1987), as the transition from one stage to the next requires change, it will be accompanied by some crisis or another which tend to be disruptive and these problems of change can be minimized if managers are proactive rather than reactive. It is therefore crucial for business owners to possess prior knowledge of what generates crises and what to expect in each stage as this smoothens the process of change.

The purpose of this study is to examine the major factors that affect the growth and operational effectiveness of SMEs in the developing nations. To accomplish this objective, the paper is divided into five sections. The next section of the paper reviews the literature on SMEs while the third section describes the methodology used in this study. The fourth section presents the results and the analysis. Finally, there is a summary and conclusion section.

2. Literature review

2.1. SMEs contribution to economic development

Quite a number of studies have been conducted on SMEs concerning their positive contributions towards the national economy; their growth patterns world over, as well as challenges hampering their growth and performance, including studies by Zimmerer & Scarborough (2002) and Nieman, et al (2003). These made significant contributions regarding SMEs' contributions and operations. In their assessment of roles of SMEs in national economies, Maserira & Msweli (2013), argue that the SME sector is and has been acknowledged worldwide as an economic powerbase to stimulate economic growth. They further claim that Small and medium-sized businesses are not merely necessary, but vital in an emerging and growing economy. In their study, they find that SMEs account for about 91% of the formal business entities, contributing to about 51% of GDP, and providing almost 60% of employment in South Africa. Supporting these arguments is Cant (2012), who estimates that small business undertakings create about 80% of all new job opportunities annually in South Africa and that the sector has been placed on the South African government's priority list due to its contributions. PECC Finance Forrum (2003), further indicates that SMEs account for about 88.7% of the work force in Indonesia, and that they are also significant in enhancing the quality of human resources, nurturing a culture of entrepreneurship, fostering creativity and opening up new business opportunities Small and medium enterprises play an important role in the development of a country (Feeney and Riding, 1997). SMEs contribute to economic development in various ways: by creating employment for rural and urban growing labour force, providing desirable sustainability and innovation in the economy as a whole (Fida, 2008). The development of SMEs is seen as the way to accelerating the achievement of wider socio-economic goals, including poverty alleviation (Cook & Nixon, 2000). According to the findings of Longley (2006), small businesses with fewer than 500 employees drive the US economy by providing jobs for every half of the nation's workforce. According to Ackah & Vuvor (2011), the SME sector is considered very important in many economies because it provides jobs, pays taxes, is innovative and very instrumental in countries' participations in the global market. They further explain that SMEs account for nearly 93% of the registered businesses in Ghana and therefore play an important role in economic development by providing employment opportunities, opening up new business opportunities, enhancing entrepreneurship, and fostering creativity among many other things. According to Nkwe (2012), SMEs across the world have been identified as vital in achieving industrial and economic development objectives and that SMEs are earmarked as the cornerstones of both developed and developing economies. Governments themselves, according to Mutula & Brakel, (2006) view SMEs as major sources of employment, economic growth and wealth creation and in addition, development of this sector contributes to poverty alleviation and generation of potential entrepreneurs. Apart from these contributions, Nkwe (2012) further states that the sector offers linkage development to large industries and essential for a competitive and efficient market. SMEs support the rural economy in providing income generating activities thus increase the rate of growth of real per capita income, balance income distribution and improve economic stability. It is also argued that SMEs offer a large part of the solution to countries like Botswana where there are difficulties faced by marginalized groups such as disabled, youth and women (Acquah & Mosimanegape, 2007). In addition to their positive contributions to developing economies, Monks (2010), analyses the contributions of SMEs even to the already developed economies. Table 2 below shows the contributions made by SMEs to the developed economies world over.

Table 2: SMEs contributions in developed countries

Economy	SME contribution
Australia	73% of businesses are SMEs
	Contributes 46% of GDP
Austria	98% of businesses are SMEs
	Contributes 56% of the employed population
United Kingdom	99.3% of businesses are SMEs
USA	99.7% of businesses are SMEs
	Contributes 50% of private sector employees

Source: Monks (2010)

In his paper, Kongolo (2010), finds that SMEs play a significant role in the national development as they contribute to the transition of agriculture-led economies to industrial ones furnishing plain opportunities for processing activities which can generate sustainable source of revenue and enhance the development process. The creation of SMEs by individuals is commonly termed entrepreneurship which is defined as the emergence and growth of new businesses (April, 2005) and whose main motivational factor is the maximization of profits (Nieman et al 2003), which becomes a basic and traditional measure of business growth and success over time (Samuels, 1993). Unlike other big entities, SMEs are mostly owned by individuals or a small group of individuals who are involved in the ownership and control of such small business entities and prefer it that way to being employed due to, according to Zimmerer & Scarborough (2002), the fact that entrepreneurship creates an opportunity for the trader to be independent and able to achieve what is important to him as a person; and that with entrepreneurship, the owner of the business is able to reach their full potential since most entrepreneurs use their businesses as instruments of self expression and self actualization.

2.2. Measuring SME growth

Due to the dimensions in which SMEs are defined, the measurement of their growth is not universal as it also depends on which dimension it is being defined. Scott & Bruce (1987) defines small based on three aspects that management is independent, capital is supplied and ownership is held by an individual; and that area of concentration is mainly local. The International Finance Corporation (2012) defines the same SME on the basis of monetary values of total assets and annual sales and the number of employees. This means that growth in an SME may be viewed differently depending on the analysts' view point. These variations notwithstanding, it is an undisputable fact that any profit making entity aims at increasing its levels of profits, expand its scope of operations, and thereafter be able to increase the number of employees, and so on.

It is the normal anticipation that after the early years of its existence, a business wishes to expand or grow. Again, depending on one's view point, business growth is defined differently. Lawder (2001) asserts that business expansion can be achieved by increasing either the range of products or the number of locations, which eventually lead to maximising sales and profit. This view point according to Lawder (2001) has been considered a good measure of growth for most small business owners though from the economic view point it is not without limitations. As an alternative to define and understand business growth, Kemp, Verhoeven and Zoetermeer (2002) argues that growth can be achieved by using more production factors (more labour or more capital), or a more efficient use of these production factors (e.g. higher labour productivity). This means that business growth must be looked at considering the usage of the production inputs as a proportion of the production outputs. According to Kemp, Verhoeven and Zoetermeer (2002), when business productivity and efficiency keeps on increasing over time, it is said to be growing in as far as its contribution to the economy is concerned. In their research report, Danes, Bonner, Hart and Mason (2009), using turnover as a basis for measuring business growth, assess the impact of high growth firms on the UK economy on the employment side. They argue that in both time periods 2002 and 2005, high-growth firms were responsible for the creation of around half of the net employment change in existing businesses in the UK in the years before the recession. According to White (1997), the main indicator of business success is growth which can be measured in terms of the magnitude of the profits, expansions of operations, or even number employees. As Scott and Bruce (1987) pointed out, business growth, regardless of how it is defined, evolves from stage to stage each of which brings its own challenges to be dealt with to make growth successful.

2.3. SME challenges to growth

A lot of research has been done on investigating challenges facing SMEs in their quest to expansion, both in Africa and the world as a whole. In his study, Cant (2012) made a direct link to the lack of marketing skills and the failure of businesses and concluded that there is a positive correlation between the success of a business and the need for marketing skills in South African SME's. In agreement with Cant (2012); Van Aardt (1997); April (2005); Bowen, Morara & Moreithi (2009) and Jones (2009); argue that small entrepreneurs lack proper management skills which help to control a wide range of functions when running a business and be able to compete amongst themselves and other large firms. Other than lack of proper management skills as highlighted by some scholars, Rudjito (2003) and Ramukumba (2014) mention lack of appropriate technology and low production capacity as another challenge hindering SMEs' growth in the African region. It is argued, according to Monk (1991), that if productivity is to be increased, the efficiency of an existing production process must be increased and the way in which production is organised must be improved through innovation. Most SMEs use old and traditional equipment in their operations and they lack transportation and communication infrastructure not befitting the current business environment where almost everything is automated. This challenge leads to another challenge of having a restricted market access (Rudjito, 2003 and Cant, 2012).

Much as most scholars attribute SMEs failure to the reasons highlighted, Argent (1976), argues that business failure cannot wholly and always be attributed to the owner(s) personality, life style, or lack of business management skills. He says in his study that 90% of small scale businesses fail to grow (or actually collapse) due to lack of proper financing measures. Storey, Keasy, Watson & Wynarczyk (1987) argue that if SMEs cannot find the financing they need, brilliant ideas may be frustrated and this leads to a loss in potential growth for the entire economy. Ackar & Vuvor (2011), state in their study that SMEs in Ghana face challenges in obtaining credit whenever they desire to expand their operations by failing to devise appropriate development strategies that will capture the financial services requirements of small and medium entrepreneurs. This according to Klapper, Allende & Sulla (2002); McKee (2003); Olaiton (2006) and Bowen, Murara & Mureithi (2009) is a major challenge facing many developing countries, especially in Africa. The challenge of lack of access to finance has been cited as an important problem for Small and Medium Enterprises. While information on the financial performance and capital structure of SMEs is generally unavailable, existing surveys by most researchers indicate that supplier credit and bank borrowing (including leasing) are the main sources of external SME financing. Based on a 2003 Fundes survey of 687 Small and Medium Enterprises whose results are summarized in Rodriguez (2003), access to finance was ranked the second most important constraint, particularly for smaller, industrial and younger firms, in the creation, development or diversification of their economic activities. Within the access to finance category, credit conditions, relating primarily to interest rate, maturity, collateral requirements and lending procedures, were perceived to be the most important limiting factors. Small and Medium Enterprises therefore cannot access sufficient long-term borrowing to allow them to modernize their operations, while they lack alternative non-bank financing sources. Partly as a result, some Small and Medium Enterprises resort to the use of informal lending sources or worse still they cease to operate. Other researchers further discussed reasons why it is harder for Small and Medium Enterprises to access debt financing. Berger & Udell (1995) found that small and young firms, with generally shorter banking relationships, pay higher interest rates and are more likely to be required to pledge collateral. Satio & Villanueva (1981) and Peel & Wilson (1996) showed that in general, Small and Medium Enterprises have higher costs and reduced access to financing because of the information asymmetries associated with newer, smaller firms. Furthermore, Levy (1993) concluded that restricted access to financial services slows the growth of Small and Medium Enterprises. According to Von Blottinz (2001), a survey conducted among several financial institutions and lenders involved in SME finance gives some indication that compared to the average of institutions with an exposure to Small and Medium Enterprises, commercial banks strongly rely on the existence of collateral, but also use the greatest variety of means to assess their risk. They are also the strongest users of automatic or semi-automatic credit-scoring systems, which mostly do not work in favour of small entities in need of funding from such lenders.

3. Research objective

This study was conducted with the aim of identifying the key challenges that hinder SMEs growth in the developing countries like Malawi. As most of the developing countries world over share similar economic characteristics, the author projects the challenges and recommendations in this study to apply to all developing countries. In achieving the goal of the study, and in line with what other researchers have found on the same issue, the author investigates the challenges on the basis of the following hypothetical areas:

i. Lack of management skills hinders business growth
ii. Advancement of information technology hinders business growth
iii. Financing problems hinder business growth
iv. The Malawi legal environment hinders business growth

4. Methodology

The study was conducted through primary research using structured questionnaire. The researcher followed basic procedures that are employed when developing the Likert scale questionnaire to investigate the challenges facing and hindering growth and expansion of SMEs in Malawi and other developing nations. The formulated statements on the structured questionnaire were based on procedures recommended by Saunders, et al. (2009), and they culminated into the formulation of the statements that represented main variables of the study as summarised in Table 3 below.

4.1. Data Collection

Empirical data were collected by means of a survey. The results were used for an empirical analysis of the research findings. A structured questionnaire was designed, guided by the research aims. The questionnaire focused on variable statements that would evaluate and analyse the factors hindering the expansion of SMEs from Malawian small and medium entrepreneurs' point of view. The researcher surveyed sample of businesses operating in the City of Blantyre, which is a major industrial and commercial capital of Malawi. The researcher is of the opinion that the views obtained from this sample reflect the view point of the majority of the businesses in Malawi as a nation.

4.2. Questionnaire Structure

To make the questionnaires user-friendly, the researcher formulated statements whose response would require the respondent to agree or disagree with a particular statement based on the Likert-style rating scales with the rankings signifying the degree of agreement ranging from a scale of "1" referring to "Strongly Disagree" to a scale of "5" referring to "Strongly Agree" on a five-point rating scale of the structured questionnaire. A five-point scale was used to assess validity as to the extent of agreement on each statement. In Likert scales, it is assumed that all participants will perceive "Strongly Agree" as expressing greatest favour or agreement towards the given statements than "Somehow Agree" and "Strongly Disagree" (Babbie, and Mouton, 2007; Saunders, et al., 2009; Welman, et al., 2005). The same order of response categories was maintained so as not to confuse respondents, as recommended by Dillman (2000). Small business owners were asked to rate their responses on the continuum scale that they were given. The questionnaire also assisted in the formulation of an objective and scientific report of the study findings.

4.3. Sampling

The structured questionnaire was administered in hard copy format and was delivered to the respondents who were then followed up for any feedback. Small and medium firms based in the city of Blantyre and involved in production, retail and service delivery were randomly selected from those that are registered with the Registrar of Companies. The researcher also used a list of companies from the Malawi Confederation of Chambers of

Commerce and Industry (MCCCI) which represents the private sector of Malawi; as well as a companies' list from the Malawi telephone directory that is prepared by the Malawi Telecommunications Limited (MTL)

4.4. Sampling Adequacy

During data collection, a total of 104 questionnaires were dispatched to various businesses from the commercial sector in the city of Blantyre, Malawi. Out of these questionnaires, 76 responded to the questionnaire giving a final response rate of 73.1%.

5. Analysis and Discussion of Research Results

Ratings on each statement were done through univariate analysis by using individual rating statistics and frequency tables. Overall, the analysis shows that there were varied responses from participants regarding the extent of their agreement on each of the questionnaire statements. Statements 1 to 6 investigate the challenges to do with lack of management skills; statements 7 to 10, with challenges on information technology; statements 11 to 15 with challenges on access to finance and statements 16 to 17 with challenges on the business legal environment in Malawi. This section reports on the study results and analysis of ratings on the questionnaire statements

Statement 1: *We formally are equipped with business management skills:* There seems to be a general consensus among the entrepreneurs that most of them undergo business management courses to understanding the skills and principles of running their businesses. 69.73% of the respondents agreed (30.26% "Agree", 39.47% "Strongly Agree"). Only 23.68% somehow agreed and 3.95% of the respondents disagreed with this statement. The analysis thus indicates that most business owners understand the need to formally acquire some managerial skills.

Statement 2: *We expose ourselves competitively on the advertising spaces:* The study findings indicate the existence of some appreciation among the entrepreneurs of the need to advertise and market their products or services. A total of 44.74`% agree (19.74% "Agree" and 25.0% "Strongly agree") with the above statement, while only 26.32% disagree and 18.42% "Somehow agree". The analysis demonstrates that a good number of entrepreneurs strive to make sure their business is known far and wide by investing in advertising and marketing campaigns. As concluded in the study by Cant (2012) that there exists a positive correlation between the success of a business and the need for marketing skills in South African SME's, it is advisable that SMEs must increase their investments in acquiring marketing and advertising skills if the chances of survival of these SME's are to increase.

Statement 3: *Our key positions are held by relations with requisite skills.* Some commentators argue that SMEs have a tendency of not trusting professionals who are not their relatives to run the business, and this has been equally attributed to business failure. The results of the survey show that 28.93% of the respondents agree that their key positions are held with relations with requisite skills 39.47% disagrees with the statement, while 31.58% "somehow agree". The findings demonstrate that 60.51% of the respondents concede the fact that most SMEs hire relations to run and manage the business entity and a considerable number of them prefer well qualified and skilled relations.

Statement 4: *Our key positions are held by relations regardless of skills.* This statement was included to test if indeed entrepreneurs value skills from their workers or they just disregard the skills as long as a relation is in charge. The research findings show that a total of 49.99% of the respondents agree (28.95% "Agree" and 21.04% "Strongly agree") that entrepreneurs prefer hiring relations regardless of their skills. Only 28.95% disagree, while 21.05% "Somehow agree" with the above statement. As is the case with statement 3, the findings indicate that most entrepreneurs do not mind the skills as long as they work with their relations.

Statement 5: *Our key positions are held by any individuals with requisite skills.* The study showed that only 34.21% agreed with the statement that people hired to run the businesses have the requisite skills. Only 32.89% disagree and 32.89% "somehow agree" with the statement. The findings from statements 3 to 5 reveal the existence of weakness in management of SMEs among entrepreneurs regarding the identification of appropriate skills required to run their businesses.

Statement 6: *We maintain a proper accounts recording system*. Adom, Amakye, Doh & Anku (2014) suggest that in order to properly manage the cash flow position of any business, the accounts are to be maintained regularly and where the entrepreneur lack accounting skills, they must engage a competent book keeper. This statement was aimed at ascertaining whether the entrepreneurs posses some book keeping skill or engage some skilled book keeper to aid them appreciate the financial position of their entity. A vast majority (69.74%) of respondents agree to the statement and only 30.27% disagree. This analysis demonstrates that most SME owners do maintain proper accounts in their businesses.

Statement 7: *Our operations are automated.* This statement, together with statements 8, 9 and 10 was intended to test the impact of technological change on the performance of SMEs, at least from the entrepreneurs' own assessment. The results show that most operations in the SME sector are not automated, or do not use high tech sophisticated equipment. 34.21% agree with the statement while 26.35 somehow agree with the statement.

Statement 8: *Our machine model has been updated at least 4 times since our inception*. The survey shows that 31.58% of the respondents agree while the majority disagrees implying generally that there has not been any significant evolution of the production equipment they use in production.

Statement 9: *We have been able to respond to the changes in the machine model we use.* From the little number of operational equipment in statements 7 and 8, a good number of entrepreneurs have been able to replace their equipment to suit with advancing technology. This is evidenced by 61.84% of the respondents agreeing with statement 9.

Statement 10: *Our competitors have been able to respond and update their models as well*. In a perfect competition, whenever advanced methods of production are discovered and the business still sticks to the old methods while its competitors adopt the new methods, the business is likely to fail because the competitors will be able to capture almost the entire market. This statement was intended to test if the SMEs were moving together with their competitors, technology wise. The results show that both the SMEs and their competitors were moving at the same pace and therefore the resultant effect is zero. This is evidenced by the majority of 65.78% of the respondents agreeing that competitors were not technologically lagging behind.

Statement 11: *More than 50% of our capital requirement is from external sources*. This statement was intended at investigating the capital needs of SMEs to finance the level of their planned and desired operations. The results show that entrepreneurs conceive great business ideas beyond their capacity to finance and most of them require financial support from outside their entities. This is supported by the fact that 61.84% of the respondents agree to the stamen. 13.6% somehow agree and only 25% disagree.

Statement 12: *We have been able to obtain finance from private lending institutions.* Other than from within the business itself, SMEs can obtain finance for operations or growth from commercial banks or from government agencies. This statement intends to test if SMEs are able to obtain finance from such lending institutions, especially the private commercial banks. The results show that very few SMEs are able to access finance from these institutions with only 31.58% agreeing with the statement while a majority of 68.42% disagrees.

Statement 13: *We have been able to obtain finance through government lending agencies*. 18.42% of the respondents agree with this statement while 81.58% disagrees. SMEs fail to obtain finance from the government lending agencies due to among others the fact that they are very few in Malawi; and that most of them are used for political reasons and hence they support only those with allegiance to the ruling party (Amundsen, 2007). This problem, coupled with corruption is mostly associated with developing countries.

Statement 14: *The lending rate and conditions deter us from borrowing for expansion*. By the end of 2014, the bank lending rates in Malawi were hovering around 40% per annum and in addition to this, banks impose some conditions which include collateral, sound business plans, substantial loan application charges, etc. This statement was intended to test whether SMEs failed to access finance from commercial banks due to these factors. 84.21% of the respondents agree to this statement implying that the borrowing rate and other associated conditions are a great hindrance to SMEs accessing finance.

Statement 15: *There is need for the existence of an SME financing institution with soft rates and conditions.* Respondents who agreed with statement 14 were asked a follow up question which intended to find out if SMEs needed a special establishment to assist them financially. 97.62% agreed to the view of having an institution which could offer soft rates and conditions to SMEs. As highlighted in Ayadi & Thyri (2015).

Statement 16: *We understand the laws applicable in doing business in Malawi*. As one of the hypothesis to the study, the researcher included the legal and regulatory environment as a factor affecting growth of SMEs. This question was intended to test if the entrepreneurs do understand the business laws and regulations controlling the environment they trade in. the results show that a majority of them understand the environment they operate in. 74.99% agreed that they understand their business and legal environment while only 25.01 disagreed with the statement.

Statement 17: *Overall, the laws are a stumbling block to our expansion drive.* The respondents were then asked to assess the impact of the laws and regulations on their operations, that is, if they affect their growth potential. Only 17.11% of them agree to the statement while a majority of 51.31 disagreed and 31.58% somehow agreed with the statement.

The analysis of the 17 statements which made the core theme of the survey is summarised in Table 3 below:

Table 3: Statistical summary of the univariate analysis on the questionnaire statements

	Rating scale %						
Statement	SD	D	SHA	A	SA	Total	Mean µ
1. We formally are equipped with business management skills	2.64	3.95	23.68	30.26	39.47	100	4.00
2. We expose ourselves competitively on the advertising spaces	10.52	26.32	18.42	19.74	25.00	100	3.22
3. Our key positions are held by relations with requisite skills	14.47	25.00	31.58	18.42	10.53	100	2.85
4. Our key positions are held by relations regardless of skills	9.21	19.74	21.05	28.95	21.04	100	3.32
5. Our key positions are held by any individuals with requisite skills	21.05	11.84	32.89	23.68	10.53	100	2.91
6. We maintain a proper accounts recording system	13.16	17.11	23.68	26.32	19.74	100	3.22
7. Our operations are automated	25.00	14.47	26.32	25.00	9.21	100	2.79
8. Our machine model has been updated at least 4 times since our inception	42.11	18.42	7.89	22.37	9.21	100	2.38
9. We have been able to respond to the changes in the machine model we use	19.74	18.42	22.37	14.47	25.00	100	3.07
10. Our competitors have been able to respond and update their models as well	18.42	15.79	14.47	23.68	27.63	100	3.26
11. More than 50% of our capital Requirement is from external sources	15.79	9.21	13.60	40.79	21.05	100	3.42
12. We have been able to obtain finance from private lending institutions	30.26	38.16	13.16	11.84	6.58	100	2.26
13. We have been able to obtain finance through government lending agencies	46.05	35.53	14.47	3.95	0.00	100	1.76
14. The lending rate and conditions deter us from borrowing for expansion	5.26	10.53	23.68	17.11	43.42	100	3.83
15. There is need for the existence of an SME financing institution with soft rates and conditions	0.00	2.63	22.37	50.00	25.00	100	3.97
16. We understand the laws applicable in doing business in Malawi	10.53	14.47	21.05	5.26	48.68	100	3.67
17. Overall, the laws are a stumbling block to our expansion drive	27.63	23.68	31.58	17.11	0.00	100	2.38

N = 76
Key:

SD:	Strongly Disagree (Ranking 1)	D:	Disagree (Ranking 2)
SHA:	Some How Agree (Ranking 3)	A:	Agree (Ranking 4)
SA:	Strongly Agree (Ranking 5)		

The Table 3 above indicates that Statement 1: "We formally are equipped with business management skills" has the highest mean (μ=4.00) on the response ratings seconded by Statements 15 and then by statement 14: "There is need for the existence of an SME financing institution with soft rates and conditions"; and "The lending rate and conditions deter us from borrowing for expansion", with means of 3.97 and 3.83 respectively.

Overall, ten statements (hypotheses), which are 1, 15,14, 16,11, 4, 10, 6, 2, and 9 show means that are above average (μ>3.0) signifying the above-average rankings that in the statements' intention, the hypothesis cab be accepted without making a significant error (Field, 2000).

6. Summary and Conclusion

Business failure has been associated with a lot of factors both in the developed and the developing countries. SMEs have as well been a subject of these collapses especially at their earlier stages. As SMEs contribute greatly to the sustainable economic growth of any country, the fall of an SME could translate to grave effects on the economy as a whole and therefore SME survival and growth must be at the heart of the entrepreneurs themselves, policy makers as well as players in the financial sector. The results of this survey have shown that, besides the fact that entrepreneurs hire anyone to do some technical tasks as long as they are their relations, the main culprit of SME stunted growth and failure in the developing countries is the issue of financing. The results show that most financial institutions operating in the developing countries set conditions which are usually beyond the reach of the SMEs especially when they are at their youngest stages. The conditions mostly favour the large entities which already enjoy economies of scale and their affinity for finance may not be as high as that of the SMEs. Availing finance to SMEs with softer conditions, therefore, would help revamp the operations of SMEs. Due to their positive impact on the national economies, policy makers may assist SMEs by considering establishment of other financing avenues with tailor made products for SMEs as a long term policy independent of political influence.

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