



**THE INFLUENCE OF INTERNAL CONTROLS ON SMALL BUSINESS  
SUSTAINABILITY IN THE HARARE CENTRAL BUSINESS DISTRICT, ZIMBABWE**

**by**

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## DECLARATION

I, Makomborero Bure, declare that this dissertation is the result of my own work and research, except indicated in the acknowledgements, references and my comments included in the body of the report. I also declare that this dissertation has not been previously submitted towards any qualification or any academic examination. Furthermore, it represents my own opinions and not necessarily those of the Cape Peninsula University of Technology.

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## ABSTRACT

The purpose of this study was to determine the influence of internal controls on sustainability of small and medium enterprises (SMEs) in Harare's Central Business District (CBD), Zimbabwe. The question at the core of this research is: to what extent do internal controls influence the sustainability of SMEs in Harare's Central Business District, Zimbabwe. SMEs are perceived to be of paramount importance for the economic affluence of countries the world over, mainly because of their pronounced benefaction and contribution to livelihoods of the dwellers of a country and the gross domestic product (GDP). SMEs have been credited for playing a leading role when it comes to innovation, significant export revenue, custom-suited goods, services provision to society, employment opportunities, and social contribution. This can also be attributed to SMEs operating in Zimbabwe despite the volatility of the Zimbabwean economy.

The Zimbabwean business environment, in general, is constantly changing. The changes can be attributed to an eruptive economic environment and unstable political atmosphere. The resultant effect is the departure of larger businesses and investors from the country. Generally, this leaves a great opportunity for SMEs not to be subjected to stiff competition from larger businesses. SMEs are indeed enjoying this space, braving the conditions to start up; however, their operations are short-lived. For SMEs to brave the fortuity of such an unpredictable environment, a system of internal controls must be in place.

Research has placed emphasis on internal controls and sustainability of large organisations, while little to no attention has been given to SMEs. The little research on internal controls and sustainability in the context of SMEs has mostly been done in developed countries. Despite this, internal controls and sustainability have not been extensively implemented in the context of developing countries. The need to determine the influence of internal controls on sustainability of SMEs underlines this research.

This report adopted a positivist philosophy that entailed utilizing a survey questionnaire to collect data from 150 SMEs operating in Harare's CBD, Zimbabwe. The sample was further split into Active SMEs and Dormant SMEs (the control group). Data were analysed through Statistical Package for the Social Sciences (SPSS) Version 25 to spawn statistical and descriptive results. To determine reliability of data, Cronbach's alpha value was employed.

The results indicate SMEs are not implementing controls as they ought to and those SMEs that have controls in place do not ensure that they are adhered to effectively and efficiently in order for them to achieve their desired objectives. In a bid to determine whether there is any difference between SMEs operated by males and SMEs operated by females, findings were

cross tabulated by gender. The research found that SMEs with females leading the SME are proportionally better placed in terms of control manual implementation and that females perceive sustainability to be of paramount importance as compared to males. SMEs with control manuals in place were also the same SMEs who have been operation from longer periods. Through the dormant SMEs (the control group), the study found that these SMEs attributed nepotism, lack of controls and running the SME as a part-time or secondary income generator as the factors which led to the discontinuing of operations. Results of this study are of paramount importance as they proffer a unique panorama of internal controls and sustainability in the context of SMEs in developing economies. Withal, very few studies have minded paying attention of SMEs and sustainability in the context of developing economies to which this study was pivoted on. Furthermore, results obtained from the study materially add to the comprehensive body of knowledge with regard to SMEs' importance and sustainability.

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## ABBREVIATIONS/ACRONYMS

SME	Small and medium enterprise
RBZ	Reserve Bank of Zimbabwe
EU	European Union
TV	Television
OECD	Organisation for Economic Co-operation and Development
GDP	Gross domestic product
US	United States
COSO	Committee of Sponsoring Organizations of the Treadway Commission
ICT	Information and communication technology
CBD	Central business district
ANOVA	Analysis of variance

# CHAPTER ONE INTRODUCTION

## 1.1 Background to the Study

Firms are increasingly facing pressure from various stakeholders to be transparent on sustainability matters. In the same light, firms are expected not only to report on sustainability but to also act sustainably (Egels-Zandén, 2016:47). Another contributor to the growing interest in sustainability relates to corporate scandals in the area of corporate sustainability. However, the majority of the studies available on sustainability focus more on corporate sustainability reporting for large corporations that are listed on the stock exchange neglecting SMEs.

Debates continue to intensify on establishing the 'meaning' of sustainability in business context. Siew (2015) however indicates that there are efforts to find a harmonized meaning on sustainability. For this study, the researcher opts to use Szekely and Knirsch (2005) perspective on sustainability. They argue that, "sustainability for corporations refers to 'sustaining and expanding economic growth, shareholder value, prestige, corporate reputation, customer relationships, and the quality of products and services". However, considering that sustainability is a mix of concepts such as sustainable development, corporate social responsibility and stakeholder theory (Marková & Lesníková, 2015), the researcher assumes a broader perspective of the term.

Taking inference from the above, it is evident that sustainability deals with many aspects in the business enterprise. It is essential however to also understand that often, corporate sustainability can be affected by external factors. Academic research on corporate sustainability has significantly increased over the years. Though there are varied studies, geographical distribution of such studies remains imbalanced.

Further to this, it is critical to outline that in its current context, it appears that the issue of sustainability is associated with larger firms and as such, SMEs, especially in developing countries, are excluded. The SMEs in developing countries are critical to these economies as they play various roles such as creating employment. This study recognizes the aforementioned importance seeking sustainability in the context of SMEs in developing economies and in this case, the researcher focuses on SMEs in Zimbabwe.

In all, sustainability is studied in many different contexts and as such, this proposed study seeks to complement existing research in this area. Therefore, this study seeks to establish how internal controls can contribute towards corporate sustainability in SMEs. This is critical considering that the SME failure rate is alarming in developing countries.

## 1.2 Background to the Research Problem

SMEs are critical to the growth of any economy – developing or developed (Brink, Cant & Ligthelm, 2003). Despite this, these SMEs face a myriad of challenges and a significant number of them eventually fail within a few years of establishing (Nyathi, Nyoni & Bonga, 2018). Against such a high failure rate, as alluded to by Kemp et al. (2015) who see 70% of SMEs failing within 5-years of opening, it is worrying that studies on SMEs especially in developing countries such as Zimbabwe mainly focus on financing of these SMEs. Despite these studies, SMEs are still failing and not reaching a stage of being sustainable. It is critical, therefore, for research to understand the dynamics behind the sustainability of these SMEs.

In any business operation (large or small), there are many risks which inherently arise including but not limited to financial, operational, and technological risks, among many others. These risks have the potential to affect the attainment of the organisational goals if not managed properly. However, it is important for business enterprises, especially SMEs to understand that these risks can be managed<sup>1</sup> in different ways. However, Makochekanwa (2017) opined that SMEs often lack the capabilities of dealing with risks, resulting in business sustainability being negatively impacted. Internal controls, if properly designed and implemented can help businesses to manage risks and thereby improving sustainability. It is unfortunate that understanding whether SMEs' sustainability can benefit from the implementation of internal controls is compromised by lack of empirical studies on this aspect (Anderson, 2017).

The lack of studies on the sustainability of SMEs creates a need for more empirical studies in order to improve theory and practice. Niță and Ștefea (2014) indicate that “some specific tools are indispensable to achieving business sustainability”. In their study, Niță and Ștefea focus on the use of cost control (only part of the entire internal controls) to achieve business sustainability. However, further to the assertion by Niță and Ștefea (2014) this proposed study is not limited to cost control as it seeks to understand how internal controls in their entirety influence the achievement and maintenance of business sustainability.

Based on the foregoing discussion, this study assumes an approach that seeks to understand the relationship between SMEs' internal controls and sustainability. Prior studies such as that of Aduda, Gachoka, Kaijage and Okiro (2018), suggest that internal controls are not well established within SMEs for many reasons including lack of human and financial resources. Therefore, this study, using 150 SMEs drawn from Zimbabwe, seeks to establish whether internal controls result in improved sustainability. This study is exploratory and as such, is not deterministic on the result of implementing internal controls. Apart from sustainability, the study

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<sup>1</sup> Managing risks can take different forms such as mitigating, sharing.

establishes how else SMEs can benefit from the introduction and/or use of internal controls. Furthermore, the study provides critical analysis of internal controls needed by SMEs to improve sustainability.

### **1.3 Statement of the Research Problem**

SMEs in developing economies face a myriad of challenges in their operations and these impact on the corporate sustainability of these enterprises (Navare & Handley-Schachler, 2018). A lack of resources, furthermore, means that SMEs are not in a position to prioritise the design and implementation of the appropriate internal controls. As a result, SMEs, practitioners and policy makers do not fully comprehend the impact of the presence and/or absence of internal controls on business sustainability (Amroune, Plaisent, Hafsi, Bernard, & Zuccaro, 2017).

### **1.4 Research Question**

The primary research question for the study reads as follows: *How do internal controls influence the sustainability of SMEs in Harare, Zimbabwe?*

#### **1.4.1 Sub-questions**

This primary research question is further supported by secondary research questions, which are:

- a) To what extent do SMEs implement internal controls in their enterprises?
- b) What influences the presence and/or absence of internal controls within SMEs in Zimbabwe?
- c) How does the presence and/or absence of the internal controls impact on the sustainability of SMEs?
- d) How do SMEs perceive sustainability?

#### **1.4.2 Objectives**

The primary objective of this study reads as follows: To understand the contribution of internal controls in the sustainability of SMEs operating in Harare, Zimbabwe. Further to this, based on the primary objective, the study also seeks to achieve the following sub-objectives:

- a) To establish whether SMEs are implementing internal controls systems in their operations
- b) To understand how SMEs, perceive the issue of sustainability
- c) To determine how the presence and/or absence of internal controls impacts on the sustainability of the SMEs
- d) To recommend on internal controls and sustainability in SMEs

## **1.5 Literature Review**

The following section deals with review of past studies and research relevant to the current research.

### **1.5.1 Measuring corporate sustainability**

Ozdemir, Härdtlein, Jenssen, Zech and Eltrop (2011) indicate that although there are disagreements in understanding corporate sustainability, researchers tend to agree that sustainability should be measurable. However, the complexity around understanding sustainability has not been resolved yet and as such, measurement of sustainability cannot be expected to be easy (Lee & Saen, 2012). The elements around sustainability are mainly qualitative and measuring these may be timely, costly and requiring expertise. At least for larger organisations, they may have the resources to do so which is not the case with SMEs.

In the context of this study, the researcher seeks to establish how internal controls impact on corporate sustainability. This entails that the researcher needs to establish a mechanism to measure sustainability within the selected SMEs. There are studies, however, which provide determinants of sustainability and can be relied upon. To this end, the researcher also seeks to understand the link between internal controls and determinants of corporate sustainability.

Some of the complexities with sustainability also include understanding personality or characteristics of management. For instance, Egels-Zandén (2016:47) found that in one case study, sustainability was a result of the personal values of owners and management, and the desire to do the right thing aided by a belief that sustainability provides a competitive advantage in the future. Based on this, researchers need to have a deeper relationship with the business enterprises to be able to obtain the personal perspectives of owners, employees and other stakeholders who can impact a business' sustainability.

## **1.5.2 Internal controls and sustainability**

Corporate sustainability is a result of a combination of factors, both internally and externally. Lloret (2016) indicates that establishing corporate governance frameworks within a business enterprise provides a crucial way of enhancing sustainability. Further to this, Choi, Lee and Sonu (2013) also indicate that internal controls are crucial to the sustainability of business enterprises. However, the issues of corporate governance and internal controls are mostly associated with larger companies than SMEs.

There are many types of internal controls that business enterprises can employ e.g. detective controls and preventative controls. The different internal controls are implemented in different situations but all contribute towards the achievement of the organisational objectives. SMEs often lack adequate resources (financial and human) to deploy all the controls. Also, the organisational structure of the SMEs may not allow for all the controls to be deployed. However, there is no doubt that even in extreme lack of resources, SMEs deploy their own controls in order to achieve the organisational objectives.

Based on the above, this study therefore seeks to establish the nature of internal controls that are currently being implemented by the selected SMEs in Zimbabwe. The study attempts to establish how owners, employees and other stakeholders perceive the concept of internal controls. Thus, the study determines how controls are established within SMEs, who initiates internal controls, the various limitations to the internal controls, as well as how these internal controls, their presence and/or absence, impact on the overall sustainability.

Using this critical approach, the study sought to understand the state of financial, operational, marketing and technological (first set of controls) and cost, income regulation, consumer relations and corporate governance (second set of controls) and to understand how the absence or presence influences sustainability. However, the researcher was open to know any other controls which might not have been covered in the two sets aforementioned. This is motivated by the fact that internal controls are generally not common within SMEs. Therefore, different classes of internal controls are expected to emerge and this may be critical in assessing whether a specific class of internal controls contributes towards sustainability in a different way to another class.

## **1.6 Research Design**

The number of SMEs in the Harare Central Business District (CBD) in, Zimbabwe has significantly increased over the years. Despite this, studies providing an accurate estimate of the total number of SMEs in the Harare CBD are scarce. In addition, official records are extremely unreliable due to the lack of frequent updating. As such, determining an accurate

population for the SMEs in the Harare CBD remains a challenge. Based on this, the research uses an average determined by considering the samples sizes in relevant studies. Using a sample of 100 SMEs, which are still in existence, and 50 SMEs who have since stopped operating at the time of the study, this study assumes a quantitative approach. The SMEs used in this study were purposively selected to ensure that the most relevant SMEs are used.

### **1.6.1 Data Collection Methods**

To date, limited studies exist on sustainability within SMEs especially in Zimbabwe. However, there are existing studies that make significant contributions in this field of study. Therefore, this research emulates research methods previously implemented in other studies. Specifically, the study borrows from Tomsic, Bojnec and Simcic (2015) who designed their study as follows;

### **1.6.2 Research instrument**

The questionnaire was pilot tested to ensure that as the final data collection tool, it does not have ambiguous questions. As a result, the pilot testing provided the researcher with a chance to fine-tune the research instrument.

### **1.6.3 Nature of questions**

The questions will be a combination of closed-ended questions and likert scale.

### **1.6.4 Data analysis: Use of SPSS software**

The researcher used a questionnaire as a research instrument for the study. To ensure usability of the questionnaire, the researcher also conducted a pilot test of the questionnaire. Based on the feedback from the selected research participants, necessary adjustments were effected to the questionnaire before final data collection. Only questionnaires deemed to be completed significantly were to be used for final data analysis, and any other questionnaires deemed inappropriate were discarded.

## **1.7 Delineation of the Research**

This study specifically focuses only on SMEs located in the Harare CBD, Zimbabwe. Sustainability is a wide topic, hence the need to delineate the areas of focus. The researcher



focused on understanding how the presence or absence of internal controls in the broad sense, i.e. preventative, detective and corrective, impact on a firm's sustainability.

## **1.8 Ethical Considerations**

In conducting this research, it was important that research ethics be adhered to. That being the case, the researcher sought ethical clearance from the Cape Peninsula University of Technology's Research Council to ensure that the research complies with academic research standards as prescribed by the university. Over and above university clearance, some key ethical elements were also considered. This study, as part of an academic program, was designed not to harm research participants. This was achieved over and above by seeking university ethical clearance which assesses the ethical connotations to the research participants voluntarily participated with the full knowledge of their rights to withdraw from participating in the study should they decide to do so. Voluntary participation was also enhanced through informed consent. Informed consent ensured that participants had full knowledge of the circumstances they were agreeing to. The researcher also committed to report the findings of the research truthfully without falsification.

## **1.9 Contribution of the Research**

The proposed research contributes significantly to theory and practical elements. The results of the study add on to the debate on internal controls within SMEs. The majority of small businesses do not have an independent internal auditing department or risk management that can give assurance to the effectiveness of the internal controls. This study provides small businesses with a starting point in understanding the impact of these internal controls on their sustainability. Further to this, the study results are critical in addressing the failure of SMEs within developing countries. The chapter that follows reviews the literature surrounding this study.

## **1.10 Overview of chapters.**

The research was broken down into five chapters as follows:

Chapter One: Introduction, background of research, statement of the research problem, research questions sub-questions and objectives, ethical considerations and contribution of the research.

Chapter Two: This chapter covered literature relevant to this research study. The literature review included facts pertaining to SMEs, internal controls and sustainability.

Chapter Three: This chapter dealt with the methodology and research design that was effected to succour the research questions of this particular study. The chapter went at length to explain the research design, data collection and sampling techniques used. The chapter touched on validity and reliability of the research, the use of SPSS and various analytical tools embedded in the software. The chapter ended by highlighting on the ethical considerations that should never be ignored when collecting, handling and presenting data.

Chapter Four: This chapter focused on analysis, discussion and interpretation of data collected by the research. By so doing, research questions, and research objectives of this study were dealt with accordingly. Various correlations and similarities were laid bare in chapter four, drawing definitive conclusions.

Chapter Five: This is the last chapter of this research study. In this chapter, the researcher goes back to the research questions carefully checking if these questions were answered. Limitations of the research, contributions of the research and suggestions for future research, aligned to this research study are discussed. Conclusions and recommendations will also be touched on.

## **CHAPTER TWO LITERATURE REVIEW**

### **2.1 Introduction**

The previous chapter introduced the research study highlighting the background of the research problem and putting across the main research question and sub-questions. The chapter also touched on the objective of the research making clear the processes that were followed for this study. The sole objective of this chapter is to review the literature around internal controls and sustainability issues in relation to SMEs. The literature pays particular attention to relevant literature in the context of SMEs in the Harare CBD and Zimbabwe as a developing country. By so doing, the problem statement is contextualised and thereby finding information that justifies the rationale for this study. Moreover, reviewing academic arguments, debates and findings posits key issues that need to be identified, explored and understood, providing informed understanding and insight into the topic of the current study.

According to the Reserve Bank of Zimbabwe (March, 2017), the

“... SMEs sector in Zimbabwe has an estimated turnover of US\$7.4 billion circulating within the sector, with 2.8 million Micro, Small and Medium Enterprises (MSME) owners and employing 2.9 million people.”

These recent figures and many other statistics reveal the importance of SMEs. Important to note is also contribution to the economy in various ways through entrepreneurship, innovation, economic growth and jobs creation which SMEs have (Wang, 2016). Many research studies have reported that SMEs are critical to both developed and developing countries (Masocha, Buso & Fatoki, 2017). However, despite all this, the SMEs sector is also vulnerable to many threats (Rogerson, 2005). There are studies that indicate that within the 5-year period of opening, many SMEs struggle and fail to continue in operations (Kemp et al., 2015). For those that manage to overcome the hurdle, they are faced with a diverse range of challenges that threaten their continued existence (Ngary, Smit, Bruwer, and Ukpere, 2014).

Given the importance of SMEs in developing and developed countries, Wang (2016) believes it is essential to continue nurturing the existing SMEs and creating a conducive environment for the incubation of others. In recent years, the concept of achieving and maintaining sustainability in SMEs has become more prevalent. While debated, the term sustainability broadly refers to economic, social and environmental matters of the business enterprise (Epstein & Buhovac, 2014). Some writers for example Barrera, Berkel and Castro (2017) argue that cultural sustainability is important for business operations and survival. Barrera, Berkel

and Castro (2017) further highlight the fact that in recent years, it has increasingly become critical to understand how sustainability within emerging and existing SMEs can be achieved. Many studies reveal that achieving sustainability in SMEs is a result of external and internal business factors. That is the focus of this study.

The failure of SMEs can be attributed to the manifestation of risks which business owners are unable to deal with (Makochekanwa, 2017). Risks in businesses are mitigated through the implementation of controls under the oversight of management. These controls come in the form of policies and procedures that are referred to as internal controls (Germann & Manasseh, 2017). The majority of studies tend to suggest that internal controls should be discussed in the context of medium and large enterprises since small business are less likely to implement these (Werner & Gehrke, 2018). However, this argument lacks credibility considering that it treats small business as a homogenous group lacking the capability to implement controls. Also, there are many shortfalls in claiming that small businesses are less likely to implement internal controls in that, small businesses have their own mechanism controls which they use to counter risks and these should be considered internal controls.

Based on the above, the focus of this chapter is to present an integrated analysis of current literature debates and discussions on the influence of internal controls on the sustainability of SMEs in Zimbabwe (focusing on those in the CBD of Harare) (see Bruwer & Coetzee, 2016). The literature review process enables the researcher to identify gaps within existing debates and discussion, and by so doing assists in mapping the research in relation to these existing studies. Further to this, the process of gathering literature to be used in the study needs to be systematic to avoid inclusion of irrelevant literature.

Therefore, the chapter provides an overview of sustainability and internal controls in SMEs and aims to reveal how internal controls play a vital role to aid the sustainability of SMEs. In doing so, the chapter also provides an analysis of the presence of internal controls in SMEs as well as challenges and opportunities of establishing these internally in SMEs.

### **2.1.1 Definition of SMEs**

Bonga and Nyoni (2018) note that the definition of SMEs varies greatly from country to country and it also varies depending on the reporting entity. That being the case, researchers tend to come up with specific definition of SMEs depending with the objectives of that specific research. In South Africa SMEs are defined according to number of employees, turnover and Gross assets (South Africa, 1996). To summarise the definition of SMEs according to various institutions and countries refer to the table 2.1.

**Table 2.1: Various recognition criteria of SMEs**

Country	Author(s)/authors	Number of Employees	Turnover	Gross Assets, excluding fixed property
South Africa	National Small Business Act , 1996	<b>Medium:</b> Between 100 & 200 <b>Small:</b> Less than 50 <b>Very small:</b> Between 10 & 20 <b>Micro:</b> Less than 5	Less than R10m to R50m Less than R2m to R25m Less than R200 000 to R500 000 Less than R150 000	Less than R2m to R8m Less than R2m to R4.5m Less than R150 000 to R500 000, Less than R100 000
European Union	Greenwood, 2017.	Medium: < 250 Small: < 50 Micro: < 10	≤ €50 million ≤ €10 million < 2 million	≤ €43 million ≤ 10 million ≤ €2 million
Zimbabwe	Government of Zimbabwe	Micro: ≤ 5 Small: ≤ 50 Medium: ≤ 100		
World Bank	World Bank	Less than 300 employees	US\$15 million in annual revenue	US\$15 million in assets
Africa Development Bank		< 50	(None)	(None)

**(Source: Modified from (Noko, 2011)**

In addition to the above, another key distinguishing factor to note is the registration of the company. The legal status of the business distinguishes between formal and informal businesses. Although Noko (2017) argues that even informal businesses also play a significant role in bettering the livelihood of people by providing some sort of income, they also concur that the benefits of registering as a legal entity outweigh the pros of operating informally. In order for SMEs to contribute immensely to an economy, SMEs should be registered (Sağ, Sezen & Güzel, 2016). They argue that registration facilitates the payment of government taxes and the inclusion of SMEs when calculating the Gross Domestic Product (GDP). Formalizing a business might not be easy as there are costs involved in the form of taxes and operational

costs; however, it is important to note the benefits that accrue to the business if registered. These benefits include access to financial resources from lending institutions and government support programs that are often extended to SMEs. Zimbabwe's Ministry of Small and Medium Enterprise Development's definition of SMEs is not specific about the registration requirements of SMEs in Zimbabwe (Matamanda & Chidoko, 2017).

### **2.1.2 Characteristics of SMEs**

The Organisation for Economic Co-operation and Development (OECD) opines that SMEs are an integral part of a countries' economy. Cohen and Ladaique (2018) and OECD (2017) come up with the following characteristics:

- Labour-intense as compared to larger corporations.
- A breeding ground for talent and entrepreneurial skills.
- Cornerstone of generating employment opportunities.
- Ability to provide services to smaller restricted markets.
- Cornerstone of social stability by invigorating personal savings.
- Improving general participations to national cause by citizens.
- Birthing of new industries starts with SMEs.

Gibson et al. (2008) adds the following points:

- Limited negotiating power both to government and private bodies.
- More centralized managed styles.
- More focused on the now than the future.
- Less technological sophistication and slow to adapt to technological trends.
- Dependent relationship between management and workers as well as clients.
- Greater proportion of unskilled workforce.

### **2.1.3 Importance of SMEs**

Several studies conducted in recent years and even past decades allude to the importance of SMEs in the economy (see for example: Bruwer, 2017; Cohen, 2017 and Park, 2017). The importance of SMEs makes the study of these SMEs topical. In this section, the study presents an overview of the importance of SMEs focusing on economic growth, innovation and poverty alleviation.

*Economic growth:* Matamanda and Chidoko (2017) point to the importance of SMEs explaining how they contribute immensely to economic growth. In the case of Portugal, a substantial amount (98%) of the industrial fabric is produced by SMEs (Borges, Duarte and Soares, 2018)

The Fin Scope Survey conducted in 2016 found that in Zimbabwe, the SMEs sector contributes a notable percentage of over 60% to the country's GDP, employing an estimated 5.8 million people.

*Unemployment alleviation:* Small firms also help alleviate unemployment in an economy. Unemployment has adverse effects on the economy and having employment opportunities ready in an economy improves the standard of living. SMEs become very important as they also provide employment opportunities to people who by larger corporations' standards are not employable by them (Berger, Bouwman & Kim, 2017). Large corporations are known to be too demanding when it comes to recruiting, as they demand years of experience and are not compromising when it comes to qualifications needed to fill positions. It can also be said that since small firms are not as demanding and strict when it comes to recruiting, they in turn provide experience needed and by so doing act as a training ground for personnel (Matamanda & Chidoko, 2017).

*Breaking bulk:* In the context of Zimbabwe, SMEs are favoured because of their ability to break bulk. Large corporations usually manufacture products and package them in large quantities. These quantities exclude the poor who cannot afford to buy in bulk (Makochekanwa, 2017). A niche in the market is created consisting of people who need certain products but are left out because of the available quantities on sale. SMEs buy the bulky products and divide them into smaller portions that can be bought, and are accessible to the poor and people who cannot afford nor need the bigger sizes (Manaye, 2018).

*Innovation:* Over the years, SMEs have been known to be at the forefront of innovation (Bos-Brouwers, 2010). It is in these SMEs that employees work in close proximity to consumers and customers. This provides a platform for SMEs to learn first-hand about customers' and consumers' needs (Khalifa & Saad, 2017). It is typical of SMEs to have a very minimum distinction between managers, line workers and the business owner. Subramanian, Joshi and Deshmukh (2017) suggest that employees of SMEs are better placed to help their organisations grow and achieve sustainability by sharing ideas and giving feedback to the control environment. By so doing, this benefits consumers and customers. SMEs have less bureaucracy as compared to larger corporations. This is an advantage as new ideas take less time to be put into action. In the case of Zimbabwe, a trend has also been established where innovative workers prefer to work in smaller businesses (Cohen, 2017).

*Adaptability to changing economic climates:* Stemming from the above, SMEs are more capable of adapting to changing economic climates. SMEs are in most cases customer-oriented. Studies have reviewed that local customers' loyalty is not deterred even in the midst of an economic crisis (Valaei, Rezaei, and Ismail, 2017). This suggests that SMEs can thus be able to stay afloat during tough times. To the economy, this strengthens and helps in the path to economic recovery in the event of an economic meltdown. SMEs relatively accumulate less revenue than large corporations do. This means that SMEs would have less to lose in times of economic crisis (Germann, 2017). In the case of Zimbabwe during the 2008 global recession and local economic crisis, SMEs helped to keep the economy afloat (Matamanda & Chidoko, 2017). Noko (2011) suggests that SMEs in Zimbabwe were quick to adapt to ever changing government policies.

*Future Growth:* Güzel et al. (2016), among several other authors, note that SMEs do not always stay small. There are quite a number of large corporations today that started as SMEs. Notable among these are Nike, Apple, Hewlett-Packard and Amazon among thousands of SMEs who grew to become large corporations. The information and communication technology industry cannot go unnoticed in this regard, such as the case of computer industry leaders today who began as "tinkerers," having worked on hand-assembled machines in small confined places, and in some cases even garages. Microsoft is a prime example of how a SMEs' idea can influence the world. SMEs that grow into large corporations often remain in the community in which the business was first established (Seidl, Baumgarten, Beaumont & Erskine, 2017). Choi, Lee and Sonu (2013) further allude to the same notion, stating that it becomes advantageous because having a large corporation's headquarters in a community helps to provide much needed employment, that in turn stimulates the local economy.

## **2.2 SMEs' Sustainability in Zimbabwe**

There are many theories that have been applied in studying corporate sustainability. Dočekalová and Kocmanová (2016) specifically indicate that the issue of corporate sustainability is based on the stakeholder theory. Therefore, focusing on this, the proposed study is premised on the stakeholder theory that attempts to encourage managers to consider the interests of all stakeholders when making business decisions. Stakeholder theory propounds that sustainability activities as well as the performance of a business enterprise enhance the long-term value of the enterprise by fulfilling the social responsibilities, environmental consciousness obligations, and reputation improvement. Shnayder, van Rijnsoever and Hekkert (2016) indicate that stakeholders are increasingly playing a critical role in corporate sustainability.



## Defining sustainability

The term 'sustainability' remains a contested term and there many studies presenting different definitions. It is prudent to acknowledge that a clear-cut definition is difficult to arrive at since the definitions change in relation to the context of study. However, despite many definitions existing, there are common elements that filter through these various definitions that can provide a starting point in developing a working definition for this present study.

Dyllick and Hockerts (2002) perceive corporate sustainability as:

*"...meeting the needs of a firm's direct and indirect stakeholders (such as shareholders, employees, clients, pressure groups, communities, etc.), without compromising its ability to meet the needs of future stakeholders as well".*

Also, Perrini and Tencati (2006) reckon that corporate sustainability refers to "... the capacity of a firm to continue operating over a long period of time, depends on the sustainability of its stakeholder relationships" From these existing definitions (see for example Bruwer & Coetzee, 2016) the critical elements which are central to sustainability deal with resources and stakeholders. In all this, it is critical to understand sustainability as a concept that is applicable to all business organisations.

In large and medium organisations that have adequate resources, there are even dedicated departments and personnel to deal with sustainability issues. However, this is not the case in SMEs as they are often characterised by lack of financial resources. Therefore, the concept of sustainability appears to be of less relevance to small business owners and yet, this needs to be at the fore. Many studies have made efforts to address this issue but the rate at which small businesses continue to fail within the early stages of operation is a clear indication of the need for more empirical studies. Cohen (2017) and Kemp et al. (2015) estimate that 75% and 70% respectively of SMEs fail within the first five years of existence. The high failure rate of SMEs prompted the researcher to focus more on SMEs survival. If this can be accepted, then this study submits that the sustainability of SMEs should be measured on the ability of these SMEs to continue in existence and be operational. Further to this, the aspect of sustainability should be addressed in relation to the state of the macro environment (Dočekalová & Kocmanová, 2016). For instance, given the poor economic performance of Zimbabwe's economy, it is more prudent to focus more on the economic pillar of sustainability without totally ignoring the other sustainability pillars (social, environmental and cultural). However, SMEs in more developed countries are likely to fare well economically and thus, sustainability of these SMEs can be explored on the environmental and cultural pillars (Barrera et al. 2017).

In addition to the above, it is critical to understand that the concept of sustainability can be integrated in the strategy of SMEs especially when considering the volatility of the global and

local economic environment. SME owners need to understand how sustainability works, what affects sustainability, and how they can enhance the sustainability of their own businesses. By providing SMEs with a brief introduction to sustainability, the present study also provides an opportunity for SMEs to evaluate their current practices and establish whether these practices are contributing towards sustainability or not. In order for SME owners to be able to undertake such independent evaluations of sustainability and the contributions of specific practices to sustainability, it is also critical that reliable and user-friendly techniques on measuring sustainability be developed.

### **2.3 Measures of sustainability**

Ozdemir et al. (2011) indicate that although there are disagreements in understanding corporate sustainability, researchers tend to agree that sustainability should be measurable. However, the complexity around understanding sustainability has not been resolved yet and as such, measurement of sustainability cannot be expected to be easy (Lee & Saen, 2012:219). The elements around sustainability are mainly qualitative and measuring these may be timely, costly and require expertise. At least for larger organisations, they may have the resources to do so which is not the case with SMEs.

Some of the complexities with sustainability also include understanding how personality or characteristics of management for instance, Egels-Zandén (2016:47) found that in one case study, sustainability was a result of owners' personal values and the need to do things effectively and efficiently by a belief that sustainability brings about a future competitive advantage. Researchers need to have a deeper relationship with the business enterprises to be able to obtain the personal perspectives of owners, employees and other stakeholders who can impact business sustainability (Crutzen et al., 2017).

In order to understand how internal controls, influence sustainability, there is a need for a clear-cut definition and understanding of the term sustainability as well as measures of sustainability. The availability of many definitions of sustainability also means that there are several ways of measuring it. There are different motivations for sustainability within SMEs (Hahn & Scheermesser, 2006). The current state of sustainability measurement is that there are many predetermined measures (social, economic and environmental) which are used to determine whether an enterprise is sustainable or not. While these are relevant and valid, it is critical to indicate that the mere use of the predetermined measures constrains researchers who may want to explore non-standard elements of sustainability e.g. cultural sustainability. However, despite this fact, in this study, the researcher only focuses on the three pillars of sustainability already established which are social, economic and environmental (Bos-Brouwers, 2010).

### **2.3.1 Social sustainability**

One of the critical sustainability measures of a business is its impact of societal aspects. The social pillar of sustainability encompasses many elements that aim at understanding the 'social good' of a business. In Bos-Brouwers's (2010) study, social sustainability elements identified include but are not limited to:

- Sponsoring
- Active in (public) debate
- Sharing of information with relevant stakeholders by reporting on social and environmental performance of the business
- Taking note of stakeholder concerns when making business decisions
- The ability the organisation philosophy to build and develop social infrastructure
- Social and societal engagement is pivotal
- Product development especially for organisations in developed countries

### **2.3.2 Economic sustainability**

Perhaps one of the most relevant measures of sustainability in SMEs is the economic pillar. Economic sustainability relatively refers to the ability of the enterprise to continue in operations profitably. However, profitability is not the only economic sustainability measure as other measures including ability to withstand an economic turbulence and ability to recover from a major economic shock or negative event are also critical (Grimm et al. 2016). In the context of this study, economic sustainability was perhaps an interesting aspect to consider as the SMEs are operating in an ailing economy.

The Zimbabwean economy has since early 2000 taken several turns (collapse and improvements) which had an impact on the sustainability of the SMEs. Between 2000 and the year of the study (2017), several activities, mostly negative, have occurred at macroeconomic level e.g. introduction of bearer cheques (describe what they are here) and dollarisation, which all had an impact on SMEs. Most recently, the government, through the RBZ introduced a new form of currency, known as bond notes, that has also triggered the disappearance of the United States (US) dollar. All these activities have major impacts on the sustainability. However, if some SMEs have managed to survive the economic volatilities – these SMEs must be considered from an economic perspective to be sustainable. This study views sustainability in terms of the number of years a business continues to exist and be in operation.

### 2.3.3 Environment sustainability

Another critical aspect to consider is the environmental sustainability of the SMEs (see for example, Reserve Bank of Zimbabwe, 2017). The environmental sustainability aspect of SMEs pertains to their contribution to environmental matters such as pollution. Some of the suggested ways in which SMEs could ensure environmental sustainability (see also, Jamali et al., 2017) for SMEs and corporate social responsibility) include but are not limited to:

- Cleaning up frontage including roads, back corridors and sanitary lanes
- Provision of bins in shops and work areas to allow waste generated to be diffused
- Organizing groups and zones to clean-up in your specified areas
- Facilitation of regular clean-ups to keep work areas clean and comely to customers
- Designate anti-litter personnel and or monitors for your workspace
- Liaising with local authorities to be part of their clean-up efforts with possible provision of branded bins
- Involvement of organisations in recycling waste cans, bottles, and plastic bottles, among others
- Having waste management strategies and policies in place
- Provision of acceptable environmentally friendly carrier bags
- Publish how waste of imported goods is being dealt with
- Exploration of alternatives to fast food packaging material such as polystyrene foam (known locally as 'kaylite') that are not environmentally friendly
- Moving from traditional paper flyer advertising by adopting modern environmentally friendly electronic and social media, TV and radio

The outlined measures are only some of the recommended practices and it can also be considered, for the purpose of this study that, if an enterprise has some or all of the outlined practices (depending on nature of business), it is acting in a sustainable way. The focus of many business reports even in large enterprises has been on financial reporting, overlooking the principles of triple bottom line. As such, it is prudent to indicate that limited attention has been given to the environmentally sustainability measures over the years (Cramer et al., 2016). Mac Lane (2013) opines that it is even more complicated in SMEs that cannot afford the exorbitant fees of engaging skilled experts to assist with non-financial concerns. Nevertheless, the researcher expanded various aspects considered by different researchers. This research views sustainability in the same light as Perrini and Tencati (2006) who as aforementioned, view sustainability as the capacity of a firm to continue operating over a long period.

## **2.4 Drivers of Sustainability**

There are many drivers of sustainability in the business enterprises across the globe (Lozano, 2015). These many drivers of sustainability can however be classified as internal or external drivers with the former playing a much more critical role (ibid). Internal drivers include but are not limited to leadership, management style and internal control systems. Also, even though external drivers are critical, this study opts to focus on internal drivers and specifically the role of internal controls. However, before focusing on the internal drivers, specifically internal controls, the study provides an overview of external drivers – specifically an overview of the operating environment (the Zimbabwe socio-political and economic environment). SMEs face many challenges including sustainability. While SMEs individually appear not to make a major contribution to the economy of countries, collectively, SMEs are critical and make a significant contribution hence the need to promote sustainability of these (Lawrence et al., 2006).

### **2.4.1 Zimbabwe socio-political and economic environment**

The current socio-political and economic situation in Zimbabwe is dire. For many years, the political arena has been considered as less conducive for business but despite this, many SMEs have thrived even though there are several which also collapsed (Mugobo & Wakeham, 2014). Many lessons can be drawn from both groups – those that have collapsed and those that survived. Currently, and during the study period, the economic conditions in Zimbabwe were further collapsing. The government of Zimbabwe abolished the Zimbabwean dollar in 2008 and adopted the US dollar as the official currency. However, the government of Zimbabwe started issuing bond notes that they deemed to be at par with US dollars and this subsequently triggered cash shortages. People prefer US dollars to the local bond notes as they are perceived to be of greater value (Makanyeza & Mutambayashata, 2018).

It is critical to consider the external drivers of sustainability as SMEs 'do not operate in a vacuum' but depend largely on the success of the external economy. While this is beyond the scope of the study, it is essential that it not be overlooked as it influences internal elements, for example, national cash shortages may trigger internal problems, such as cash theft or abuse of resources. In addition to the socio-political complexity, the Zimbabwean economy is also mirrored with many regulations that are also a critical driver of sustainability within a country. For instance, the Statutory Instrument 64 banned the importation of specific goods (mostly grocery items) from South Africa.

## **2.4.2 Financial resources**

Navare and Handley-Schachler (2017) point to the fact that SMEs are characterised by low capitalisation, citing that the main source of capital within SMEs is the owner's' contributions. Further to that, Khalifa and Saad (2017) opine that financial position of an enterprise is major contributor and driver of sustainability. For instance, a SME's financial position can be a major determinant of whether the enterprise can access financial assistance (loans), hire required human resources and also, finance the required assets in the enterprise (ibid). Despite the aforementioned, Dach and Allmendinger (2014) argue that SMEs can thrive on limited financial resources, and thus are at risk.

Withal, to undertake sustainable activities, often SMEs lack the financial resources required. For instance, sustainability initiatives and other business processes require investment and yet, SMEs are unable to finance these investments (Nobanee & Ellili, 2016). Gandhi, Sachdeva and Gupta (2018) weigh in on SMEs' human capital by opining that those human capital departments of SMEs struggle to attract the qualified suitable personnel that can facilitate the process of sustainability.

In the context of the study, the country has experienced a liquidity crisis, and thus cash was not easily available. During the period of dollarisation, the country also faced a liquidity crisis and this adversely affected SMEs. Pillosof (2009) explains dollarisation as a process of aligning a country's currency with the US dollar. In the case of Zimbabwe, the country totally abolished the use of its local currency and adopted the US dollar as the major form of legal tender, as previously mentioned, among other currencies that included the South African Rand and the Botswana Pula.

Mashingaidze (2010) further explains the background in which Zimbabwe had to adopt the US dollar noting that a period of hyperinflation during years leading to 2009. Mashingaidze (2010) argues that by introducing a multi-currency system, the Zimbabwean government had curbed the issue of hyperinflation. Bhatasara et al. (2018) also point to the fact that the majority of SMEs in Zimbabwe use manual systems, and thus do not have access to electronic payment systems like medium and large enterprises. The implementation of an electronic efficient system is capital intensive in nature and requires a lot of initial capital outflow. It is also important to note that besides funds, an electronic system also has legal and compliance requirements prior to implementation.

## **2.4.3 Competition**

The capacity of SMEs to continue in operation is threatened by the extensive competition which SMEs face (De Villiers, Rousse & Kerr., 2016). SMEs in Zimbabwe (in different industries) are

operating in direct competition with established enterprises. In addition, recently there have been relatively cheaper goods imported from other countries such as China and Dubai. These are exerting pressure on SMEs relying heavily on local goods or those that are unable to import (Ayandibu & Houghton, 2017)

The growth of internet sales (e-commerce) and social commerce are also increasing the competition (Rahayu & Day, 2017). In all this, the complex global economic crises and the current economic challenges are complicating the sustainability aspect of the SMEs. Gupta, and Barua (2018) indicate that the "... highly competitive and rapidly changing environment makes innovation more challenging, costly and risky for companies" including SMEs.

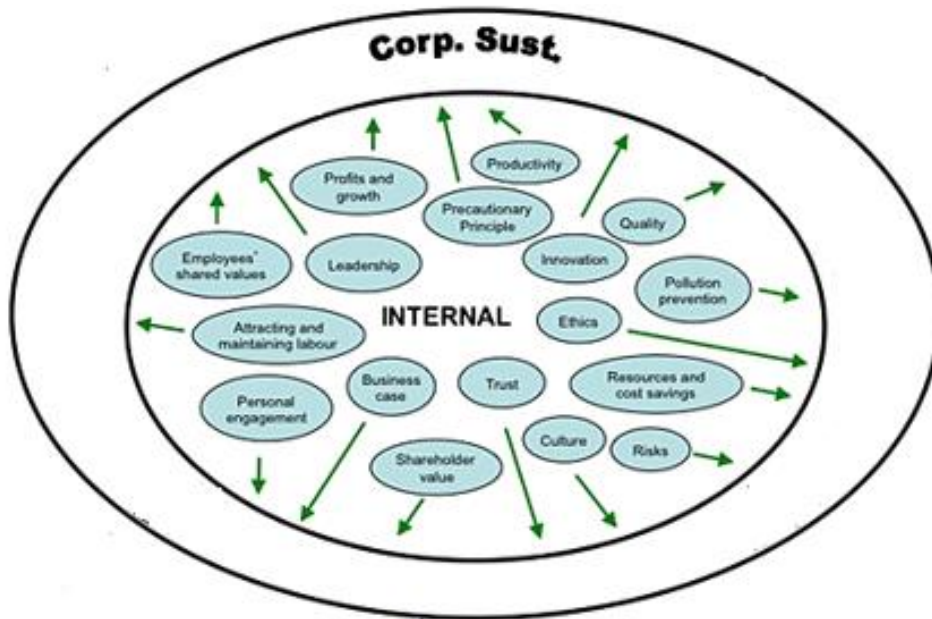
## **2.5 Internal Drivers of Sustainability**

Corporate sustainability is a result of a combination of factors, both internally and externally. Batista and Francisco (2018). indicates that establishing corporate governance frameworks within a business enterprise provides a crucial way of enhancing sustainability. Further to this, Choi, Lee and Sonu (2013) also flaunt that internal controls are crucial to the sustainability of business enterprises. However, the issues of corporate governance and internal controls are mostly associated with larger companies than SMEs.

There are many types of internal controls that business enterprises can employ e.g. detective controls and preventative controls. The different internal controls apply in different situations but all contribute towards the achievement of the organisational objectives (Germann & Manasseh, 2017). Werner and Gehrke (2018) opine that SMEs lack adequate resources (financial and human) to deploy all the controls. In addition, the organisational structure of the SMEs may not allow for all the controls to be deployed. However, Gachoka, Aduda, Kaijage and Okiro (2018) compliment SMEs claiming that there is no doubt that even with an extreme lack of resources, SMEs deploy their own controls in order to achieve the organisational objectives.

Apart from external complex factors, the sustainability of SMEs is also driven by many internal factors including but not limited to business culture, resources availability (financial and non-financial), management approach and attitude, among many others. In addition, the sustainability of an enterprise is also driven by the ability of the enterprise to develop and implement appropriate internal controls (Werner & Gehrke, 2018).

Figure 2.1 that follows depicts factors which ultimately contribute to corporate sustainability of an enterprise. Collectively the aspects would be seen by Lozano (2015) to enable a firm to be sustainable



**Figure 2.1: Internal drivers of sustainability**

**Source: Modified from Lozano (2015)**

The present study focuses on establishing how internal controls contribute to the sustainability of SMEs considering that internal controls are generally aligned to large and medium enterprises. The design (development) and implementation of internal controls requires resources (financial and non-financial) which are often beyond the budgets of SMEs and hence, these internal controls are often absent in most SMEs. However, apart from this, SMEs have their unique control practices that can also be related to internal controls and these are often overlooked in many studies. This notion was reaffirmed by Gachoka et al. (2018). In the next section, an overview of internal controls is presented before analysing their contribution to the sustainability of the SMEs.

### **Internal controls**

Studies show that internal controls have been used in business organisations to promote sustainability (Khalifa, 2017). Accordingly, the Committee of Sponsoring Organizations of the Treadway Commission, (COSO) defines internal controls as,

“... a process, affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding achievement of effectiveness and efficiency of operations, reliable financial reporting, and compliance with applicable laws and regulations” (2017).



From the COSO's definition, it is evident that there are some elements that are or most likely to not be applicable to SMEs. However, the study opts to focus on what is relevant and applicable, thus, the function of the internal controls. Based on the definition of the internal controls, it is clear that internal controls exist to ensure that an organisation achieves "...effectiveness and efficiency of operations, reliable financial reporting, and compliance with applicable laws and regulations" as alluded to by Kaya (2018) thus, contributing to the economic sustainability, social sustainability and environmental sustainability of the SMEs.

## **2.6 Internal Controls in SMEs**

In this section, the researcher focuses on internal controls precisely in the context of SMEs.

### **2.6.1 Definition and assimilation of internal controls**

The operations of SMEs are faced by many challenges and these need to be mitigated if enterprises are to achieve their goals (Handley-Schachler, 2017). Germann (2017) argues that internal controls are designed to help enterprises achieve their objectives through the mitigation and elimination of the potential risks. Even though this is the case, SMEs are traditionally known to be lacking in the implementation of internal controls. Generally, medium and large enterprises are well resourced and positioned to develop and implement internal controls.

### **2.6.2 Governance and leadership**

In SMEs, the business owners generally find themselves involved in the operations of the business. The involvement of the business owner in the daily operations and running of the business ensures that the operations are done in accordance to the standards expected by the owner. Therefore, SMEs are characteristically owner-managed businesses and there is no detachment of ownership and control (Hussain & Hadi, 2018).

However, Bruwer and Coetzee (2016) argue that internal controls need to be developed in a proper manner that facilitates their adoption and implementation. Internal controls are there to be used by management and as such, management needs to be capable of using the existing internal controls. Furthermore, Choi, Lee and Sonu (2013) reiterate that it should be realised that ultimately for an effective and efficient business, internal controls should be the responsibility of all employees, starting with management who design and monitor their implementation, to general staff who execute numerous control activities.

## **2.7 Sustainability and Internal Controls in SMEs: An Integrated Analysis**

Therefore, based on the above, it is critical to examine whether internal controls contribute to the sustainability of SMEs and if so, find out how and in what ways. In the current debates on sustainability, there is no clear-cut definition of the concepts within sustainability but in this study, sustainability of SMEs is considered as "... the capacity of a firm to continue operating over a long period of time (Perrini & Tencati, 2006).

However, even though defining sustainability remains a major challenge, it is evident, from previous studies, that internal controls can play key roles in the various departments e.g. in production, finance, marketing, and human resources this as noted by Antolín-López, Delgado-Ceballos and Montiel (2016). For this reason, the presence of internal controls helps organisations to achieve their set objectives but may do so in different ways in each organisation.

### **2.7.1 What do internal controls do?**

There are several types of internal controls and these perform different tasks. In this study, internal controls are classified into preventative controls, detective controls, corrective controls and compensating controls. The presence and/or absence of each set of controls contribute differently to the sustainability of the SMEs.

### **2.7.2 Preventative controls**

Aduda, Gachoka, Kaijage and Okiro (2018) describe the preventative controls as those controls which prevent a risk from occurring e.g. preventing loss of stock (external and internal people) by putting physical barriers to the storeroom. Germann (2017) puts forward that preventative controls ensure that the SMEs do not realise the risk e.g. theft. Preventative internal controls are critical in that these ensure fluidity in business processes considering that the occurrence of negative aspects in a business can affect the fluidity of the business. The risk negatively influences the SME's ability to meet its operational objectives.

Gehrke (2018) further suggests that the latter includes, but not limited to, general controls such as physical access. An example of this is a system that is set up regarding access to stock or cash. These controls ensure that all assets are secure and are not easily exposed to theft. Segregation of duties can also fall under preventative controls, as it will in turn deter risks from materialising. Aduda et al. (2018) note as an example "segregation of duties" as such, that key duties are divided amongst staff such as ensuring that access to the storeroom will have two separate locks to which the two keys to the respective locks are not kept by the same person.

There are also conditions that increase the risk conditions such as too much trust, lack of reconciliation and the absence of verification of transactions after they have been recorded.

Domingos, Imoniana and Soares (2018) reiterate that preventative controls do not only focus on theft or loss of an SME's assets but they also ensure that the assets are not exposed to conditions that will cause losses on their part. Examples of such preventative controls would be the setup of secure storage spaces for physical assets, which prevents exposure to physical elements such as rain, wind and the sun; which depending on the goods will result in loss of value of the asset. Rahayu and Day (2016) opined that preventative controls require a major effort to set up but require minimum ongoing investments to maintain.

**Contribution to sustainability**

Park et al. (2017) suggest that preventative controls ensure that risks do not manifest in the organisation; thus, ensure the smooth flow of activities within an organisation. Manifestation of risks, e.g. loss of cash to theft, disrupts the functioning of the organisation and can mean extra costs; for example, replacing stolen stock. By having preventative controls, SMEs can also ensure that they avoid incurring extra expenses within the enterprise. Against this, it is prudent to argue that preventative controls need to be in place for businesses to avoid risks from materialising.

**Table 2.2: Sustainability dimension and respective controls**

Sustainability dimension	Example of preventative controls
Economic sustainability	<ul style="list-style-type: none"> <li>• Locking the cash box</li> <li>• Use of CCTVs to deter theft</li> <li>• Use of biometric systems</li> <li>• Proper segregation of duties</li> </ul>
Environmental sustainability	<ul style="list-style-type: none"> <li>• Use of certified approved products</li> <li>• Proper waste management mechanisms</li> </ul>
Social sustainability	<ul style="list-style-type: none"> <li>• Awareness of products campaign</li> <li>• Social responsibility</li> </ul>

Source: Adapted from Domingos, Soares & Imoniana (2018)

**2.7.3 Detective controls**

Stemming from the above they are situations in which preventative controls may fail. In a bid to safeguard SMEs' assets, and prevent losses and risks from further adverse impact on the

business, detective controls can be put in place. Detective controls are mainly responsible for detecting when the risk has manifested (Germann & Manasseh, 2017).

Park (2017) refers to detective controls as the second line of defence after preventative controls. Werner and Gehrke (2018) acknowledges that the ideal would be to have preventative controls which are effective and efficient to ensure that risk does not materialise and is prevented with “the first line of defence”. It can also be said that detective controls can be employed for various goals that include, but not limited to, quality control, legal compliance, fraud prevention and fraud detection (Aduda, 2018).

### **2.7.3.1 Types and examples of detective controls**

Small firms do not have sophisticated detective controls. Common detective controls include reviews of performance by management. This can be easily done by reviewing and comparing current information to budgeted figures, and analysing each variance. In the event that the firm has benchmarks, unexpected results can be identified and investigated. From the above, the use of reconciliations is also an effective detective control tool, where different sets of data are compared to one another to identify and investigate differences, and ultimately take corrective action (Crutzen et al., 2017).

The use of physical inventories is also an effective detective control measure. This can be done by comparing what is reflected on the stock card to the physical stock at hand. Though it takes a considerable amount of time and effort, it is also the most effective detective control if carried out properly. The use of audits, though not popular among small firms, identifies and detects an organisation's shortcomings. After an audit engagement, an opinion is given which can act as the detective control. Audits are done by selecting a suitable data sample to which an audit team then deduces a conclusion (Shah, Jacob, Desai, Atodaria & Modi, 2018).

Beatty (2010) opines that an audit can also be done on the controls that are in place to have an opinion given on how effective and efficient the set controls by management are working. It must be noted that COSO (2018) emphasises that auditors are independent of the firm's operations and are guided by a code of ethics which should ensure that they are objective, independent, competent, and have professional due care, among other ethical attributes. Furthermore, assurance engagements are designed with the aim of expressing a conclusion to which a degree of confidence is given to the intended user other than the firms concerned; this includes appraisal and measurement of a subject matter to a set criterion. A firm can also have review engagements; common ones includes, but not limited to, risk assessment reports, review of internal controls, system reliability reports, value of money reviews and social environmental reports (Werner & Gehrke, 2018).

### **2.7.3.2 Contribution to sustainability**

Werner and Gehrke (2018) further suggests since business organisations in some instances fail to have the desired preventative controls, risks manifest which can affect the sustainability of the business in multiple ways. With a variety of risks being able to affect SMEs, e.g. financial risks, environmental risks, there is need for businesses to have controls that are essential in detecting diverse risks. The presence of detective controls ensures that management is able to timely identify when a risk has manifested; thus, providing an opportunity for management to respond to the risks. Therefore, since the sustainability of business enterprises also depends on their ability to respond to inherent risks, detective controls play a key role in enabling management and/or business owners to timely identify the risks.

### **2.7.4 Corrective controls**

Corrective controls are also as important as the aforementioned controls. These are controls that help to tranquilise damage incurred once a risk factor has materialised (Ge, Koester & McVay, 2017). A firm should have policies and procedures on how corrective controls should be implemented. Enforcing the corrective controls might in turn mean warnings to staff members for wrongdoings or termination of employment for erring staff members.

If effective corrective controls are in place, a firm should be able to back up its stored data hence have the luxury of restoring functioning systems in the event of unfortunate circumstances that might befall the firm. Corrective controls can also be in the form of a disaster management plan. A disaster management plan is explained by Haddow (2017) as a plan of action on what to do before, during and after a disaster or emergency occurs.

Haddow (2017) further explains that for a disaster management plan to be effective it should be well documented and easily implementable as and when unforeseen circumstances arise. A disaster management plan is corrective in nature as it can be a backup of important information that can include information on debtors or creditors of the firm. After the unforeseen event, the firm should be able to still pay its creditors and follow up on its debtors for payment; this makes this information very important. For firms manufacturing products that require a production formula, it will be in its best interests to back up such formulas in order for them to be retrievable. Ge et al. (2017) also categorises insurance as a corrective control.

Insurance companies take it upon themselves to make sure that a company can claim any losses that might have accrued to companies. Berger, Bouwman and Kim (2017) critique the concept of small firms getting insurance. They argue that the expense for SMEs becomes a big challenge for owners, who almost never have any set-aside cash to devote to "what ifs." Berger et al. (2017) also note that insurance has limitations and exclusions, in the event that a

business is exposed to risks exceeding the policy provisions. When a company takes insurance, it will include a list of exclusions and in most cases, these exclusions from the pinnacle of things a firm wanted to be insured against.

It is also important to note that insurance may also have an annual cap on payments for losses. This in turn effectively cuts off cover after a certain threshold is reached. It becomes a problem if the business is faced with massive losses, is hit by a disaster or a lawsuit, or the insurance provider is only able to cover a portion of the losses Ge et al. (2017). Finally, yet importantly, it is important that if a firm is to claim, it must understand and adhere with accepted reporting requirements of the insurance provider. Insurance companies are notoriously known for turning down claims by clients. They more often than not cite incorrect reporting by SMEs as the reason. If this happens, it means the corrective nature of insurance is hampered (Park, 2017).

### **Contribution to sustainability**

Lloret (2016) opines that in the early stages of business or even in the normal operations of a business, there are risks which manifest due to many reasons, for example, failure to detect risk or respond to detected risks. However, the presence of corrective controls is critical in that it allows businesses to be able to react and put in place corrective measures to enable them to achieve its objectives. However, it is critical to outline that the role of corrective controls in a business is to limit damage rather than totally avoid the risk. An example would be a social media crisis. If an SME is involved in damaging posts, corrective controls may entail engaging the public to limit the damage rather than fail to respond.

#### **2.7.5 Internal controls and sustainability**

Corporate sustainability is a result of combination of factors, both internally and externally. Lloret (2016) indicates that establishing corporate governance frameworks within a business enterprise provides a crucial way of enhancing sustainability. Further to this, Choi, Lee and Sonu (2013) also indicate that internal controls are crucial to the sustainability of business enterprises. However, the issues of corporate governance and internal controls are mostly associated with larger companies than SMEs.

It is important to reiterate Gachoka et al.'s (2018) opinion that there are many types of internal controls that business enterprises can employ e.g. detective controls and preventative controls. The different internal controls are implemented in different situations but all contribute towards the achievement of the organisational objectives. SMEs often lack adequate resources (financial and human) to deploy all the controls. In addition, the organisational structure of the SMEs may not allow for all the controls to be deployed. However, there is no

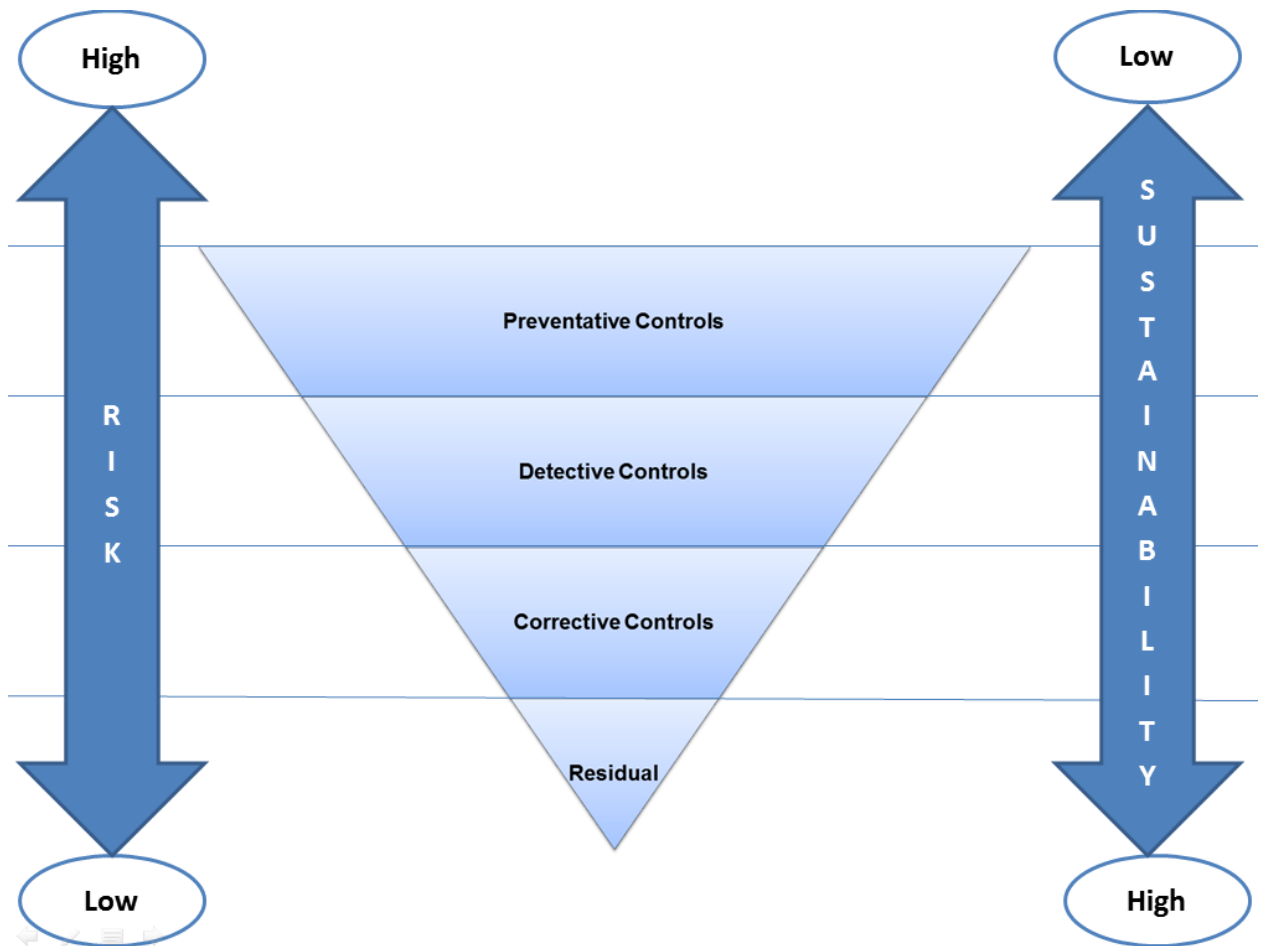
doubt that even in an extreme lack of resources, SMEs deploy their own controls in order to achieve the organisational objectives (Amroune et al., 2017).

Based on the above, this study therefore seeks to establish the nature of internal controls that are currently being implemented by the selected SMEs in Zimbabwe. The study attempts to establish how owners, employees and other stakeholders perceive the concept of internal controls. Thus, the study determines how controls are established within SMEs, who initiates internal controls, the various limitations to the internal controls, as well as how these internal controls and their presence and/or absence affects overall sustainability.

Using this critical approach, the study therefore does not restrict itself to a specific class of internal controls. This is motivated by the fact that internal controls are generally not common within SMEs. Therefore, different classes of internal controls are expected to emerge and this may be critical in assessing whether a specific class of internal controls contributes towards sustainability in a different way to another class.

## **2.8 Summary of Contribution of Controls**

To summarise the literature section, Figure 2.2 that follows depicts what researchers present.



**Figure 2.2: Relationship between risk and sustainability**

**Source: Author own illustration**

The figure shows that when risks are high and if they materialise, sustainability of the SMEs is very low. The opposite is true; when risks are low sustainability of that firm is high. In the middle of the figure it shows a summary of the “prevent, detect and correct” approach which firms must follow. SMEs were being encouraged to follow that approach, as preventative controls are cheaper than detective controls, and detective controls are cheaper as compared to corrective controls this was alluded to by researchers (Berger et al., 2017; Bruwer & Coetzee, 2016). The residual risk at the bottom of the titled pyramid is the residual risks, which will materialise even after all the controls are in place. Figure 2.2 also shows that preventative controls should be more than detective controls, and detective controls more than corrective controls. This was the order of preference highlighted by (Ge, Koester & McVay, 2017).

Table 2.3 summarises the impact of a lack of internal controls and the respective pillar of sustainability affected.



**Table 2.3: Impact of lack of internal controls**

<b>Impact of lack of internal control</b>	<b>Sustainability Pillar Affected</b>
Inadequate capital and funds resulting in failure to meet desired goals	Economic and Social
Misuse or loss of assets can be due to theft and/or unintentional errors	Economic
Poor decision making by management due to relying on iffy financial statements and operational reports	Economic
Penalties and damage to the reputation of the firm due to non-compliance with laws, rules, or regulations	Environmental/ Economic/ Social
Loss of customers and negative publicity as a result of customer dissatisfaction caused by ineffective operations	Economic and Social

**Source: Modified from Domingos et al. (2018)**

### **Challenges with internal controls in SMEs**

Even though internal controls are critical tools in the operations of businesses, SMEs face many challenges in implementing these controls or simply do not have the controls in place. While SMEs may not have similar controls to those of medium and large businesses, there are often business-specific practices that are in place to mitigate risks. The challenges in implementing business-specific controls are, however, similar to those faced in implementing standard controls.

The following are among other challenges faced by SMEs:

#### **Cost**

One of the major challenges facing SMEs in developing and implementing internal controls is the cost element (Manaye, 2013). The majority of SMEs are unable to secure adequate funds for internal controls such as security features, control systems, digital systems and other related elements. In addition, the majority of SMEs lack human capital to design and implement them. In the case of disaggregation of duties for instance, the SME owner feels that s/he has much more control when they are doing the work themselves. Effective internal controls may cost SMEs extensively; thus, inhibits SMEs from implementing these (Epstein & Buhovac, 2014).

## **Attitude and knowledge**

Navare and Handley-Schachler (2017) found that SMEs perceive internal controls to be for bigger organisations and often find these unimportant for their business enterprise. Furthermore, they alluded to the point that SME owners are also unwilling to change their approaches of doing business even when the complex challenges within the business environment are changing.

## **Separation of duties**

Amroune et al. (2017) take note of the fact that large corporations have the capacity to divide performance of critical functions among different employees. On the contrary, SMEs usually have inadequate human resources. Nyathi et al. (2018) further concur that it will not be extraordinary for a single employee to be tasked with responsibilities for multiple tasks in a critical process. It is important to note that, failure to segregate duties effectively results in a high exposure to greater risk of errors and it further makes fraud more likely.

Ge et al. (2017) are of the opinion that, assigning different employees to responsibilities such as authorising transactions, recording in the books, reconciliations of accounts and custody of the organisations' assets enhance more effective and efficient internal controls. A single employee should have specific job responsibilities, which should be preferably defined in writing and even orienting employees on the responsibilities. Nyathi et al. (2017) also allude to the fact that reassignment of specific duties which are part of the holistic process to different appropriate employees materially aids to the mitigation of risks.

## **Policies and procedures**

One of the most understood control tools is having effective policies and procedures. This helps an organisation align the objectives of the business and at the same time aids to the establishment of best practices for operating procedures. Chesbrough and Vanhaverbeke (2018) point out that SMEs are reluctant to set clear-cut policies and procedures, arguing that SMEs believe that, because of the size their operations and the perception that their businesses' are straightforward and the idea that the owner or manager knows the business well proper policies and procedures become difficult to set up and follow. However, there is overwhelming value in creating written policies and procedures (Ge et al., 2017).

Although business processes are different and unique for each business, common ones that are of paramount importance to define and document include:

- Financial statement closing and reporting
- Purchases and accounts payable

- Management of cash and cash equivalents, and banking
- Sales and accounts receivable
- Human resources management and payroll

It is important to document key controls in the above-mentioned cycles as this will provide transparency and consistency, and by so doing allows for the assignment of clear-cut responsibilities to specific individuals. In the event that a critical employee decides to leave the organisation, it becomes easier and less time consuming to bring a new employee up to speed with functions and responsibilities. For this to be possible, extensive documentation is required, which outlines procedures that are already in place. Appreciably, documenting policies and procedures helps to clearly define the operations and alignment of operations with management's expectations including the vision and mission of the organisation. It is unfortunate that despite all the above discussed benefits, SMEs remain reluctant to have clear-cut policies and procedures (Park, 2017).

### **Documentation**

SMEs are also found wanting when it comes to documenting. Haddow (2017) believes that it is important to maintain adequate and relevant supporting documentation as part of the foundation of coming up with an effective internal control framework within organisations. Ge et al. (2017) believes that the absence of adequate documentation makes it difficult to demonstrate the existence of transactions completed, procedures performed, and controls in place. Matamanda and Chidoko (2017) also agree, saying that proper documentation makes it easier and more efficient to respond and research to questions from consumers, customers, management and auditors.

Just by stressing the value and importance of maintaining proper evidence, the management team would have helped reduce risks to employees and to businesses organisations (Matamanda & Chidoko, 2017).

### **Oversight and review**

SME owners are predominantly occupied with laying out clear strategic and operational goals of their enterprises. This makes it very difficult to have enough time and attention to see to it that internal controls and effective monitoring procedures are in place. For internal controls to be beneficial to an organisation, reaching a point of being effective and efficient, oversight and review is indispensable. Furthermore, an effective and effective internal control systems help to fight fraud, preventing it and detecting it (Ge et al., 2017).

Internal controls require regular review as this will facilitate essential metrics on sales/income, expenditure, cash reports, variance statements, payroll expenditures, and other cardinal data

on a monthly basis. This effectively helps in identifying problems that may exist. Matamanda and Chidoko (2017) believe management should have their fingers on the pulse of their businesses as this provides valuable information that enables informed key decisions to be made.

### **User access rights for information systems**

It is typical of SMEs to grant employees access to information and systems over and above what the employee needs to perform their respective job responsibilities and tasks (Braojos, Benitez, & Llorens-Montes, 2017). In most cases, this is done against the backdrop of lessening the time delay of application or in some instances, the person granting access will not be of full comprehension of the new employee's role within the organisation. Despite this, what then happens is that the business is then exposed to additional risks that those charged with governance may not be aware of.

Braojos, Benitez and Llorens-Montes (2017) suggest that employees must start by being given limited access to information systems. This limitation should be to the extent of rights to perform functions that are essential to that user's work only. However, Braojos et al. (2017) also adds that as the employee's workload expands, additional access rights may be granted to ensure that the employee can work optimally.

Kavanagh and Johnson (2017) propound that all users' access rights must be reviewed at regular intervals with the objective of ensuring that only the company's business purpose access was granted to respective users. The authors conversely agree that this approach would require a lot of time and effort if it is to enhance the system of controls and security, but they concede that reviewing access rights on regular intervals is the right thing to do.

SMEs have limited resources as compared to large corporations. However, there are various controls and guiding policies that can be put in place to support the prevention while enhancing the detection of fraud. By so doing this mitigates operational and financial risk. Despite all the benefits discussed above in SMEs, user access rights for information systems remain atrocious (Kavanagh & Johnson, 2017).

### **Opportunities for improving internal controls in SMEs**

There are many opportunities that SMEs can exploit in order to improve the process of internal controls in their business ventures. Developing and implementing effective internal controls are processes and therefore, should not be treated as once-off activities.

*Change of attitude:* Germann and Manasseh (2017) opine that there is an increasing need to educate SME owners on the concept of internal controls, their benefits, and the process of

having these put in place. Further to that, it must be noted that the majority of SME owners are reliant on their knowledge and some have negative attitudes towards learning approaches.

*Adoption of ICTs:* Khalifa and Saad (2017) note that even though ICTs are not a panacea to the problems facing business enterprises, it is prudent to acknowledge that ICTs are pivotal in businesses. The digitisation of business processes can enhance controls within the business and reduce risks. However, the process of digitisation must not be blindly done without a proper consideration of the costs and benefits of doing so.

## **2.9 Discussion**

In this review, it has emerged that SMEs play critical roles in the economies of both developing and developed countries. In the context of the study area, Zimbabwe, the economy is ailing leaving many individuals unemployed and with no reliable sources of income. Against this, SMEs present an opportunity for entrepreneurship and job creation. Key statistics reveal the role that SMEs in Zimbabwe are playing is major. However, despite all this, the study has also revealed that these SMEs continue to face many challenges that threaten their economic sustainability. Largely, economic sustainability relates to an enterprise's profitability and efficiency. Many factors are contributing to this situation, among them, macro factors and a lack of internal controls.

The reviewed literature suggests that properly designed and implemented internal controls can play a key role towards improving an enterprise's sustainability. General controls such as physical access restrictions and management attitudes mitigate internal risks such as loss of assets (e.g. cash) enhancing the economic sustainability of the SMEs. While there is a notion that internal controls are costly to implement, SMEs can and should identify cost-effective internal controls by adopting the cost-benefit analysis of internal controls before implementing them. Effective risks rating (through assessing likelihood and likely impact) can also be critical in helping the SMEs decide what internal controls to implement. Further to this, another critical perspective raised in this review is that internal controls do not only address risks but also provide insights on opportunities that can be explored in the business. Therefore, the presence of internal controls – in addition to minimising risks – helps businesses identify areas to improve on and perhaps grow the business from small to medium and/or large. However, it is also critical to understand that a firm's sustainability is an outcome of many factors, and only when these conditions converge, can sustainability be achieved.

Literature and research studies have been done focusing on internal controls as well as sustainability. However, the focus of these studies was on large companies. It is also in the same light that studies that focus on internal controls and sustainability in the context of SMEs

are minimal. Therefore, there is limited evidence on the intersection of internal controls and sustainability. It is also apparent that the SMEs continue to fail.

## **2.10 Chapter Summary**

This chapter has outlined that sustainability, in the context of SMEs, is a critical aspect that should also be considered by them. Current studies and related research, however, focus more on medium and larger enterprises. The chapter notes that controls are also of paramount importance and very much applicable to SMEs.

Debates continue on what sustainability is, however, most writers agree on the pillars of sustainability, which are economic, environmental, social, and cultural. The latter has also found its way to the pillars of sustainability in recent years.

Internal controls are critical and contribute to the sustainability of SMEs in multiple ways and at different stages. Internal controls generally follow a “prevent, detect and correct” approach. The objective of controls would be to prevent risk from materialising, but in the event that they do materialise, the business should be able to detect the risk and lastly take corrective measures.

Despite the contributions of SMEs, adoption and use of internal controls need to be revisited since there are limited studies explaining the SMEs adoption patterns of controls, specifically with the view of understanding various challenges they face in adopting the controls.

The next chapter seeks to provide an elaborate analysis of the research methodology for this study. The chapter aims to indicate the process through which data used for the study was obtained, analysed and presented.

## **CHAPTER THREE METHODOLOGY**

### **3.1 Introduction**

The previous chapter dealt with a literature review around internal controls and sustainability as it relates to SMEs in the Harare CBD, Zimbabwe – a developing country. The chapter also contextualised the problem statement, giving rationale for pursuing this study by reviewing debates and arguments. The cynosure of this chapter is providing an elaborate analysis of the research methodology for the study. The chapter aims to indicate the process through which data used for the study was obtained, analysed and presented. In each research study, various elements need to be considered to ensure that the data collection, analysis and presentation reflect accurately the purpose of the study; these include the sample size and research instruments (validity and reliability).

### **3.2 Background to Research Area**

The study was conducted in the Harare CBD, Zimbabwe. In the past two decades, the Zimbabwean economy has faced many challenges and these have negatively affected several businesses in the country. The economic turbulence means that business enterprises' economic sustainability is often threatened by issues such as cash shortages, fluctuating exchange rates and lack of lines of credit. These challenges therefore mean that for businesses to survive there is need for mechanisms to enhance sustainability.

The aforementioned leads into the research question – How do internal controls influence the sustainability of an SME? The latter comes from a background of the vast advantages for a country of having SMEs which are sustainable and which are contributing to the wellbeing of its habitants. It also comes at the background of numerous researches such as Bonga et al. (2018), Amroune et al. (2017), and Khalifa, and Saad (2017) that all point to SMEs as the answer to socio-economic problems countries face in the 21st century.

### **3.3 Research Design**

According to Ballard, Slabbert and Tengeh (2012) the types of questions that the research seeks to explore are a major influence on a research plan or design. The research design aims to outline procedures of carrying out studies serving to provide unerring answers to the research questions. By so doing, this framework of inquiry prevents the collection of irrelevant data. The research design lays out the procedures carried out for the specific research study and serving to provide precise answers to the research questions and ultimately the objectives of the research. It thus should be viewed as a framework of inquiry that proscribes the collection of inapposite data.

Three types of research designs are often used. These are experimental (casual) research, descriptive and correlational. The three method are examined and expanded on in the section that follow.

#### **3.3.1 Exploratory research**

Exploratory research is mainly used in situations whereby the researcher lacks knowledge of the research problem. This kind of research allows the researcher to go out and examine data, thereby gaining a better apprehension of the research problem. According to Stebbins (2001), exploratory studies aid to the development of concepts more clearly, generating operational definitions, and ultimately improving the final research design. This is accomplished through literature searches, review and in-depth interviews. In relation to exploratory research focus groups, case studies, interviews with relevant stakeholders, and case studies, are among major data collection methods and tools. The researcher used questionnaires that are not part of the exploratory research method to gather data.

#### **3.3.2 Descriptive research**

Bachman and Schutt (2017) explain descriptive research as one that examines existing literature aiming to uncover new facts and meaning around a research problem. Stebbins (2001) opines that descriptive research mainly focuses on observing, describing and documenting aspects and elements of a situation as it naturally eventuates. In this type of research, design takes into account events or phenomena being studied without interference and manipulation or altering of results and findings. Descriptive research must have precise and well-structured research problems. Common data collection tools include surveys, case studies and observation. Bachman and Schutt (2017) also note that descriptive studies are quantitative in nature and thus are very conclusive. This research study falls under this



category as the researcher used questionnaires to collect and gather data without manipulation of the variables.

### **3.3.3 Experimental research**

Bachman and Schutt (2017) explain experimental research as a methodical and scientific approach to research. In this instance, the researcher can manipulate one or more variables of a process or activity by controlling and measuring any changes in other variables. Stebbins (2001) adds that experimental research is mainly used to find causation that is the direct cause effect between variables. Furthermore, Bachman and Schutt (2017) explains that there are mainly three instances where experimental research is used, which are:

- Where time is a priority in a causal relationship, thus when the cause precedes the effect
- Where there is consistency of some sort in a causal relationship in instances where a cause leads to the same effect always
- Where the magnitude of the correlation is significantly great

This research aims to solve structured problems. To conclude it is also important to note that experimental research is quantitative in nature. This research is, however, not an experimental research.

### **3.3.4 Research design selected and merits**

Stemming from the explanation and description of various research designs above, the researcher will use the quantitative descriptive approach. This will be aggregated by the inclusion of contextual qualitative data and discussions. It comes against a background that the problem under study has a vast range of existing claims that also match to methodologies that have been used for such studies with structured problems conducted in similar businesses. The researcher is not carrying out an investigation thus the option of an exploratory or qualitative approach will not be used. Data will be collected using structured questionnaires. Structured questionnaires are perceived to be an easy surveying tool which respondents generally find easier to work with. Questionnaires also jibe with descriptive research designs hence their adoption by the researcher. Nevertheless, this research's paradigm is positivism, which is quantitative.

### **3.4 Data Collection**

In this section, the researcher deals with data collections and sampling techniques used.

#### **3.4.1 Population**

Population is viewed by Cohen (2017) as an aggregation of elements that the researcher wants to make deductions from. Target population, defined as a totality or group of persons and/or objects a study derives its data from and the results of the study it will apply to (Qin, 2017). Szekely and Knirsh (2005) add that by defining the population under study, it makes it easier for the researcher to select a representative sample. Bachman and Schutt (2017) allude to the fact that it is a complex exercise to determine a perfect target population. Logic and economic reasons are attributed to the difficulty, however, researchers tend to use representative sample rather. Qin (2017) notes that all sampling frameworks should be drawn from the population. The exact number of SMEs in the Harare CBD has significantly increased over the years. Despite this, studies providing an accurate estimate of the total number are scarce. In addition, official records are extremely unreliable due to the lack of frequent updating. As such, determining an accurate population for the SMEs in the Harare CBD remains a challenge.

Based on this, the research uses an average determined by considering the population sizes in relevant studies. These studies include Chapano, Iwu, and Twum-Darko (2018) who found a population of 375, Maseko (2014) who found a population of 690 for the entire Harare metropolitan city, and last but not least Chipika and Wilson (2006) who found a population of 560 for the Harare CBD. An extract from a database of the Small, Medium and Micro Enterprises Association of Zimbabwe was provided by the Ministry of Tourism and SMEs. The database was mainly used to identify SMEs that have ceased to operate (dormant SMEs) to which the researcher used these SMEs as a control group.

#### **3.4.2 Sampling**

Sampling is whereby elements of a population are drawn to represent the total population as a whole. Rogerson (2005) explains that sampling helps the researcher draw conclusions about attributes and idiosyncrasies of the entire population. In simple terms, sampling is a small part of the whole, which is deliberately designed to represent the nature and quality of the whole population. Sampling should ultimately help by giving direction to the researcher on how to survey, whom to survey, and the pertinent element of how to select the sample elements (Barrera, Berkel, & Castro, 2017). The researcher made sure the sample is representative of

the total population. Further discussions on how the researcher made sure the sample was valid to the research are discussed by exploring sampling techniques.

### **3.4.3 Sampling techniques**

Lewis, Saunders and Thornhill (2013) elucidate that sampling techniques refer to methods for selecting a sample from the entire population. Sampling techniques come in two categories. These are probability and non-probability sampling techniques (Barrera, Berkel, & Castro, 2017). Greenwood (2017) concludes by noting that the objectives and research questions determine the choice of the probability sampling technique for any study. In the section that follows, the researcher explores the two sampling techniques as identified by Barrera et al. (2017), clearly demonstrating how the chosen sampling technique was arrived at.

### **3.4.4 Non-probability sampling techniques**

Bonga et al. (2018) explain non-probability sampling techniques as methods whereby elements in a population do not have equal opportunities of being selected. The latter suggests that the techniques also rely on the researcher's judgment, which is in most cases tends to be subjective. Chidoko and Matamanda (2017) elucidate that this kind of method can be best adopted for an exploratory research or a pilot survey. This kind of sampling permits prefatory testing of the postulate that can lead to further testing of a more precise hypothesis in the main research. As compared to probability sampling techniques, non-probability sampling techniques are deemed to be cheaper and time effective. However, it is important to note also that the major disadvantage of non-probability sampling techniques comes in that it also becomes impossible to know to what extent the population is being represented. This is not in line with what the researcher ought to achieve hence, non-probability sampling techniques were not used.

### **3.4.5 Probability sampling techniques**

Probability sampling can also be referred to as representative sampling; this kind of sampling presupposes a random selection of elements. It is important to note that the randomness of this selection process gives all elements within a specified population an equitable unbiased mathematical opportunity to be selected (Lewis et al., 2013). Matamanda and Chidoko (2017) identifies four probability sampling techniques which are as follows:

- Simple random sampling
- Cluster random sampling

- Stratified random sampling
- Systematic random sampling.

De Villiers et al. (2016) affirm the use of probability sampling arguing that it completely deals with the unprecedented challenge of bias which is commonly faced by a researcher. However, Qin (2017) adds that the only challenge is that it is expensive and very difficult to have a perfect sampling frame. From the four identified methods by Matamanda and Chidoko (2017), the researcher chose stratified random sampling which will be discussed in a section that is to follow.

### 3.4.5.1 Determining sample

Stemming from the above information, the researcher used a target population consisting of 555 SMEs operating in Harare, Zimbabwe. This was based on the aforementioned determination of averages used by authors who have done similar research. The sampling frame was a database of membership to the Small and Medium Enterprises Association of Zimbabwe (SMEA). Since it was not possible to measure the whole target population, a sample of 150 SMEs was drawn in line with the stratified random sampling technique from the population. To justify the sample, similar examples can be noted from those who conducted a similar research. Maseko (2014) drew a sample of 145 SMEs, Chapano, Iwu, and Twum-Darko (2018) used a sample of 70 SMEs, and Chipika and Wilson (2006) used a sample of 130 SMEs. By using the aforementioned sampling technique, the researcher had an aim to give each of the SMEs in their respective categories proportional plausibility of selection, by so doing, representativeness is ensured. Alternatively, to calculate the sample size, the formula provides a basis that the sample was drawn. The formula has been used by researchers (Munyoro et al., 2015; Nyoni and Bonga, 2018). These researchers also conducted research in the same area focusing on SMEs.

$$n = N / [1 + N (e)^2]$$

where n = Sample Size

N = Total population

e = sampling error or precision level at 5% (95% confidence level)

Applying the formula to the study population of 472 SMEs:

$$n = 472 / [1 + 1555(0.05)^2]$$

$$n = 472 / (3.1375)$$

$$\mathbf{n = 150}$$

A sample of 115 SMEs still in existence and 35 that have ceased to operate was used to conduct this research. The study thus assumes a quantitative approach. The SMEs used in this study were purposively selected to ensure that the most relevant SMEs are used in the study. The researcher used the stratified random sampling technique. This would give SMEs in each category a proportional chance of being selected; by so doing, representativeness is guaranteed.

The above can be justified as it becomes statistically significant as the final sample is above the recommended minimum of thirty for a quantitative survey (Eichler et al., 2018).

### 3.4.5.2 Stratified random sampling

To make the determining sample clearer and analyse how it would appear across various industries, the six significant strata were determined. Simple random sampling sample would then proportionately draw from each discrete stratum. This would make sure each industry is represented proportionally.

Table 3.1 depicts the proportionate sample calculation for the six identified strata for active SMEs.

**Table 3.1: Proportionate sample calculation by industry**

	Industry	Number of SMEs in Target	Percentage Proportion	Proportionate number in sample
1	Food and Beverage	84	17.80%	15
2	Information and communication technology (ICT)	69	14.62%	10
3	Manufacturing and Engineering	75	15.89%	12
4	Transport and Logistics	90	19.07%	17
5	Retail and Wholesale	74	15.68%	11
6	Services	80	16.95%	15
	TOTAL	472	100%	150

Concerning dormant SMEs, the researcher chose 35 randomly selected ones from databases that were spread across the different industries. These 35 acted as a control group. Each industry was going to have at least four SMEs to act as a control group. In addition, to justify

the sample of 150 SMEs, Burmeister and Aitken (2012) opine that for quantitative research, a sample size of 70 is sufficient to give reliable and sufficient results.

#### **3.4.6 Sources of data**

This section of work aims to outline data sources used for this research study. Cohen (2017) points out two categories of data. These categories are primary data and secondary data and these are split into internal data and external data.

#### **3.4.7 Primary data sources**

Primary data refers to data that is collected for the first time for a particular purpose. Thornhill (2013) explains that primary data should be collected directly and this would be a first-hand familiarity. This gives enormous advantages as the enhancement of greater validity of the data and its trustworthiness. Cohen (2017) adds that with heedful planning and sampling, controls comprehended by methodology features if adhered it is more likely that data would be scientifically gathered for the stated purpose. All this adds to the credibility of the data and research as a whole. It is however, important despite the great advantage of working with primary data as it also comes with its impediments.

Firstly, for a researcher to obtain primary data, it is very costly. The researcher would need to walk through the whole process from drafting research tools and finding the right participants before running the study (Eichler, Wu, Cox, Klaus & Boardman, 2018). Secondly, in the event that the research has limited time to be completed, it becomes a major constraint, as primary data collection is time consuming and the logistical difficulty of placing a number of participants under one location in order to collect data from them. Taking heed of the literature above, the researcher relied of primary sources of data through a questionnaire survey that was distributed to SMEs in the Harare CBD.

#### **3.4.8 Secondary data sources**

Eichler et al. (2018:) identify secondary data as data that is already in existence. This data would have been collected and amassed for other purposes previously. The data would have been collected needlessly for a different problem than the problem at hand. The advantages of secondary data include that it is already in existence and can be used readily without much spending. To add to that, secondary data is easily assessable and brings about great feasibility of longitudinal and international comparative studies, by so doing, it generates and encourages new insights into a problem area. However, it should be noted that in this instance the

researcher would have no control over the quality of data. The researcher in some instances draws inferences from prior research that was done in similar circumstances. Secondary data also formed part of Chapter 2 of this study in which the researcher discussed literature and prior studies, carefully relating them to the current study.

### **3.5 Data collection**

The following sections deals with data collection and the instruments which were used to collect data.

#### **3.5.1 Data collection instrument**

For the purposes of this research study, a structured questionnaire was used. Eichler et al. (2018) explain a structured questionnaire as a data collection instrument that the researcher uses to collect data when doing a quantitative survey. Pre-drafted structured questions constitute the questionnaire. These questions are carefully constructed to extract opinions and facts from respondents. Questionnaires are advantageous in that they can be administered to large numbers of respondents simultaneously. This aids cost-effectiveness and efficiency, saving on duration of data collection (Qin, 2017). Furthermore, questionnaires allow respondents to be anonymous.

Writers and researchers such as Amroune et al. (2017) and Bhatasara et al. (2018) acknowledge the following advantages attributed to the use of questionnaires as a data-collection tool:

- Low cost
- Generally, questionnaires are simple to administer
- Respondents tend to be familiar with questionnaires
- Generally, they tend to be simple and faster for the respondent/participant to complete
- Data is collected in a homogenised way
- Sensitive research that may result in respondents feeling uncomfortable speaking to an interviewer about can be best-collected data using questionnaires
- Allows respondents to be given a fair amount of time to think through answers; this is because questionnaires usually can be dropped off and collected after some time. This aids the provision of credible well thought answers.

Researchers such as Lewis et al. (2013) and Deshmukh (2017) also point out some drawbacks culminating from the use of questionnaires which can be summed up as follows:

- In the event of missing a question, it is very difficult to go back to a respondent especially when the respondent was anonymous
- It is also a challenge to get a sufficient number of respondents especially with postal questionnaires or online surveys
- Respondents can ignore certain questions that are key to the survey
- The questionnaire is deemed to be impersonal
- Incorrect completion of questionnaires
- They are very difficult to use when investigating complex issues
- They might require a follow up research with greater depth to solve problems highlighted

### **3.5.2 Structure of questionnaire**

To encourage full participation of respondents, questions in the questionnaire were kept simple and clear. To add to this, care and precision was taken in the phrasing and wording of questions. This was also done to ensure full completion by respondents. Predominantly the questionnaire constituted closed-ended questions with a few open-ended questions. Taber (2017) advocates for closed-ended questions when a questionnaire is being used but in the event of open-ended questions there should be questions which draw short answers which are straight to the point. As aforementioned closed-ended questions reduce non-response errors and in turn, they are also easy to code and analyse (DeFouw, Holland Melovitz & Vasan, 2018). Curteza, Thomassey, Wagner and Zeng (2018) propound the use of open-ended mixed with closed-ended questions in a research instrument suggesting that the qualitative nature of open-ended questions circumvents possible bias, which DeFouw et al. (2018) argues to be inherent with closed-ended questions consequently because of the limitation of a number of answers one can provide. With that in mind, open-ended questions provide the opportunity for respondents to express their understanding of the subject.

DeFouw et al. (2018) further explain that closed-ended questions in a questionnaire can constitute dichotomous, multiple choice and a five point Likert-scale type of questions. Dichotomous offer only two answers to which the respondent can choose from. A Likert-type scale entails a respondent indicating on a scale their respective level of agreement or disagreement with a question. The use of dichotomous questions was adopted because of the nature of some of the questions enshrined in the questions, such as gender that generally has only two options. Likert-type scale questions were used because some of them assess perceptions, beliefs and attitudes, and these can be best measured on a scale. To reaffirm the use of Likert-type scale questions, Eichler et al. (2018) encourage their use as they standardise



responses, making it easier for the researcher to code and analyse a set of data in the most credible way.

### **3.5.3 Administering the research instrument**

The questionnaires were distributed to 150 SMEs selected for the sample. The figure constitutes both active and dormant SMEs. The researcher distributed the questionnaires to individual entrepreneurs, shop owners and managers by hand. This method of distribution was selected in order for the researcher to have an opportunity to also ask for further permission and explain to the potential respondent in the event that they have any area they so wish to be helped to understand and deduce the questions. However, all questions were accompanied by a cover letter explaining some ethical issues that the researcher would abide by and explaining the purpose of the research. The sample questionnaires are attached as an annexure.

### **3.5.4 Pilot study**

Kavanagh and Johnson (2017) strongly recommend that questionnaires should be pre-tested on a small proportion of the sample. This is to make sure that formatting errors are picked up and that the respondents understand questions as they appear on the questionnaire. Correction of flaws and limitations in the questionnaires, wording sequence, and average time to complete questionnaire are determined. The aforementioned are made possible because a pilot study allows the researcher to review the research instrument, thereby making necessary changes, making the final research instrument more credible and usable by respondents. Hence, a pilot study was done in a similar environment as that of SMEs in Harare's CBD, Zimbabwe, which yielded fruit as two questions were slightly altered because of misinterpretation by respondents.

### **3.5.5 Validity and reliability**

Stebbins (2001) opines that validity is achieved as and when the research instrument (questionnaire) measures precisely what the researcher intends it to measure and access. Content validity entails the researcher(s) judging the instrument or consulting knowledgeable people to give their opinion as well (Gálvez-Albarracín, García-Solarte and Pérez-de-Lema, 2018). Bonga et al. (2018) notes that statisticians are of great help in determining the validity of a research instrument. The researcher in this instance conducted a pilot study with the main

objective of identifying flaws, limitations and weaknesses of the questionnaire. This resulted in improvements being effected.

Reliability deals with consistency. If the same research study is administered under different circumstances and at different times, the research instrument should be able to produce consistent results. Qin (2017) adds that reliability is primarily concerned with robustness of the research instrument. However, Stebbins (2001) concludes by mentioning that data from larger samples bring more reliability as compared to smaller samples. Cronbach's alpha calculation was used to test internal consistency as recommended by (Mac Lane, 2013).

### **3.5.6 Data presentation and analysis**

Wang (2016) opines that data analysis is that process of developing and deducing information from responses gathered through the examination and interpretation of data. This also involves deducing patterns through statistical analysis techniques. Analysis is aimed at uncovering, understanding, and the interpretation of research findings reconciling them with the research questions. The aim of analysis also checks if findings are accordant with the hypotheses of the research (Yankovich et al., 2004).

Results, findings and analysis of this research are presented in charts, tables and graphs to succinctly concisely the data of the research study. Statistical Package for Social Sciences (SPSS) version 25 was used to analyse and understand the data provided. In order to enhance understanding and better interpretation, descriptive statistics in form of mean scores, percentages and frequencies were calculated. These were calculated for different variables and tabulated into frequency tables. Furthermore, pictorial and graphical formats have been used to present data; this enhances effective and efficient communications and understanding of information by stakeholders.

To test statistical significance at a level of 5% level of significance Analysis of Variance (ANOVA) and independent T-tests were carried out with the objective of comparing the means of different factors and testing. ANOVA is a statistical tool that is used to provide statistical tests unpacking whether the means of several groups are equal, and therefore generalises the T-test to more than two groups. ANOVA tests differences across different sample groups within a population. To understand the relationship between extracted factors (predators) and sustainability of SMEs (outcomes), correlation tests were conducted. Linear regression analysis was done to identify the effect of internal controls on sustainability of SMEs in Harare's CBD.

### **3.6 Ethics**

The present study conforms to the ethical requirements of the CPUT. Ethical clearance for the study was obtained from the university's research council. In addition to this, the study was conducted in consideration of the following ethical issues, that is, confidentiality, informed consent, right to withdraw, and no harm. The applications for these key principals were as follows:

- Confidentiality – entails dealing precisely with sensitive and personal information. In this regard, the researcher will not disclose any information about the respondents unless respondents give the go ahead. The respondent remains anonymous to readers at all times.
- Informed consent – entails letting the respondents know what the questionnaire is about first. The respondent has the right to reserve the right to continue. The first section of the questionnaire was a consent section which clearly outlined what the questionnaire is about and that respondents ought to acknowledge (consent) to participate in the research. Further to that, the researcher was willing to explain to respondents, should they have any further questions over and above what was covered in the consent and cover letter administered to them.
- Right to withdraw – entails allowing the respondent to withdraw from the survey at any given time. The researcher explicitly stated this right to the respondents in the consent section that the respondent can withdraw at any given time or from any question that the respondents deem uncomfortable disclosing to the researcher.
- No harm – entails that the study must not cause any physical or any other form of harm or loss. The researcher saw to it that no aspects of this research would cause any physical harm or damage to respondents.

### **3.7 Chapter Summary**

This chapter has discussed and justified the choice of the research design used in this study highlighting the research philosophy and the link thereof. The chapter sought to give an in-depth discussion of the literature underlying the process and concepts around the selection of the study population, sampling techniques, research methods and research instruments. Validity and reliability of the research have also been outlined in detail by showing how the latter and former can be measured. The chapter also dealt with research data and analysis clearly examining how it was done.

Chapter four deals with results of the study; the chapter also reflects back on literature (Chapter 2) to see how it applies or does not apply to the current findings. This chapter makes use of pictorial diagrams were applicable to enhance understanding of the research results.

## **CHAPTER FOUR RESEARCH FINDINGS AND DISCUSSION**

### **4.1 Introduction**

The previous chapter dealt with providing detailed analysis of research methodology. Clearly outlining the process through which data used for this study was obtained analysed and presented. This chapter focuses on analysis and interpretations of the findings, by so doing drawing a connection between relevant literatures discussed in Chapter 2. Statistical package SPSS (version 25) was used to analyse the data. The chapter outlines the business demographics, size of the business enterprise, management aspect of the business, and the registration status of the business. Correlation analysis was used to determine the relationship between presence of internal controls within a business and years of existence.

### **4.2 Response Rate**

The researcher distributed 150 questionnaires to selected SMEs who are still in existence in Harare Central Business District. The researcher also distributed 50 questionnaires to business owners or managers who have since stopped operations. The latter was facilitated through a database from the SMEA. This represented a response rate of 71% and 68.5% respectively. The response rates aforementioned exceed the minimum required to ensure that validity and reliability of the research findings. Kim and Choi (2017) argue that a response rate which is above 52% is acceptable. Eichler et al., (2018) further concur that for a quantitative study, a response rate above 50% is acceptable.

### **4.3 Reliability Tests**

Internal consistencies of the two questionnaires were individually assessed quantitatively for each of the variables under study. Measuring the validity and reliability of the research instruments is of great importance for this purpose the use of Cronbach's alpha on SPSS version 25 was used. When interpreting Cronbach's alpha, a value more than 0.7 is considered the acceptable minimum score (Taber, 2017). Table 4.1 shows the results as calculated using Cronbach's alpha.

**Table 4.1: Reliability of study**

Active SMEs			Dormant SMEs		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items	Cronbach's Alpha <sup>a</sup>	Cronbach's Alpha Based on Standardized Items <sup>a</sup>	N of Items
0.766	0.783	8	0.787	.0.764	6

The reliability was derived from the following factors, manuals and procedures that are in place in respect to financial, operational, marketing, and technological, costs control, income regulation, consumer relations and corporate governance. Basing on the respective reliability, constant values of 0.766 and 0.787 for active businesses and dormant businesses respectively, good reliability and consistency can be confirmed. The items used are well correlated to each other. This confirms that the two questionnaires both have passed the reliability test and are thus capable of gathering valid data.

#### 4.4 Normality Tests

The researcher carried out the Shapiro Wilk (S-W) tests to determine whether there was normal distribution of the data. The researcher used the industry of enterprise by the SMEs and perceptions on how absence of internal controls affected the business. Table 4.2 show results of the research instrument used for active SMEs while Table 4.2 shows results of the dormant SMEs.

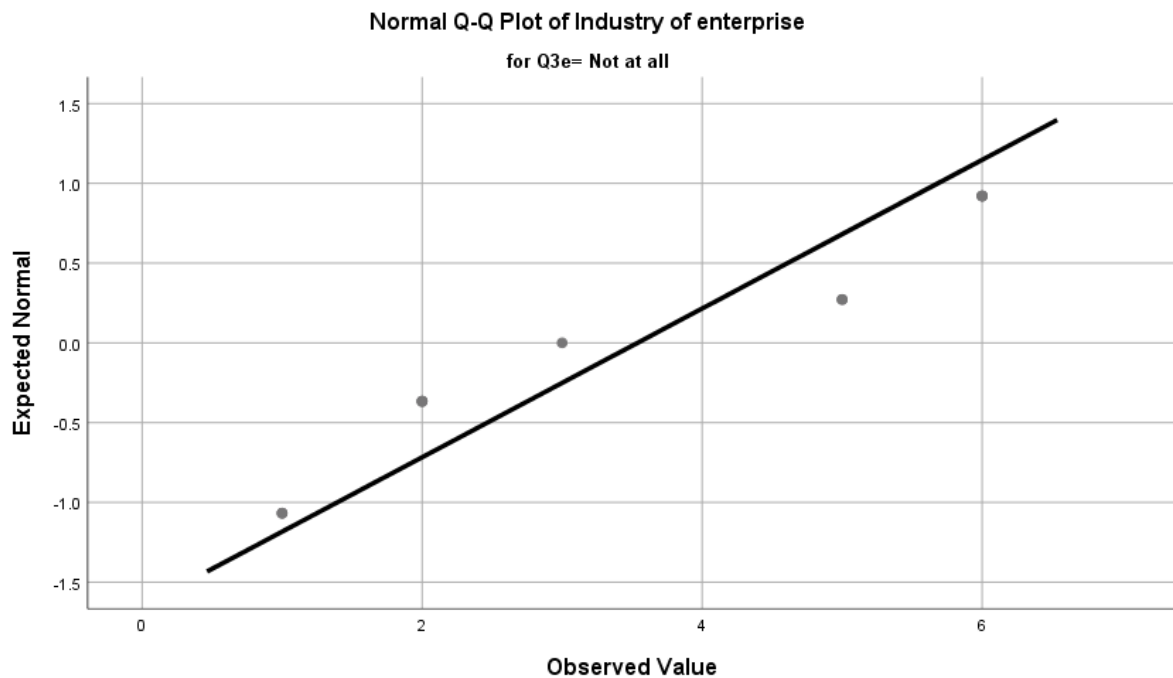
**Table 4.2: Test of normality for the study (Active SMEs)**

To what extent is business survival affected by the absence of Internal controls	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Not at all	.225	13	.071	.818	13	.011
Lesser extent	.224	22	.005	.890	22	.019
Moderate extent	.333	10	.002	.835	10	.038
Greater extent	.216	13	.097	.836	13	.019
Always	.180	23	.051	.872	23	.007

**Table 4.3: Test of normality for the study (Dormant SMEs)**

To what extent did the absence of controls contribute	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Not at all						
Lesser extent						
Moderate extent	.	2	.			
Greater extent	.157	11	.200 <sup>*</sup>	.904	11	.205
Always	.187	11	.200 <sup>*</sup>	.937	11	.480

Table 4.2 and table 4.3 above show results of the S-W test of normality. Significant values for S-W test are those greater than 0.05. Based on this, the data depicted is normally distributed. The researcher also used the Q-Q normality test. The results are presented in Figure 4.3.



**Figure 4.1: Q-Q normality test**

The results in figure 4.1 show that all the points are close to the diagonal line. This points to the fact that data is evenly distributed and is eligible for parametric testing using the Pearson's correlation tests.

## 4.5 Business Demographics and Characteristics of Entrepreneur/Manager

The first section of the questionnaire dealt with characteristics of the business and the characteristics of the entrepreneur or manager. The section sought to determine from which industry the business belonged to and the number of years the business has been operation. The section furthermore sought to determine in which category the business fell into, whether it was a small business or a medium enterprise.

### 4.5.1 Industry of enterprise

The section was moderated as the stratified random technique was used to ensure that each industry is equally represented, based on the population estimates for each particular industry.

Table 4.4 represents the division of questions with respect to industries.

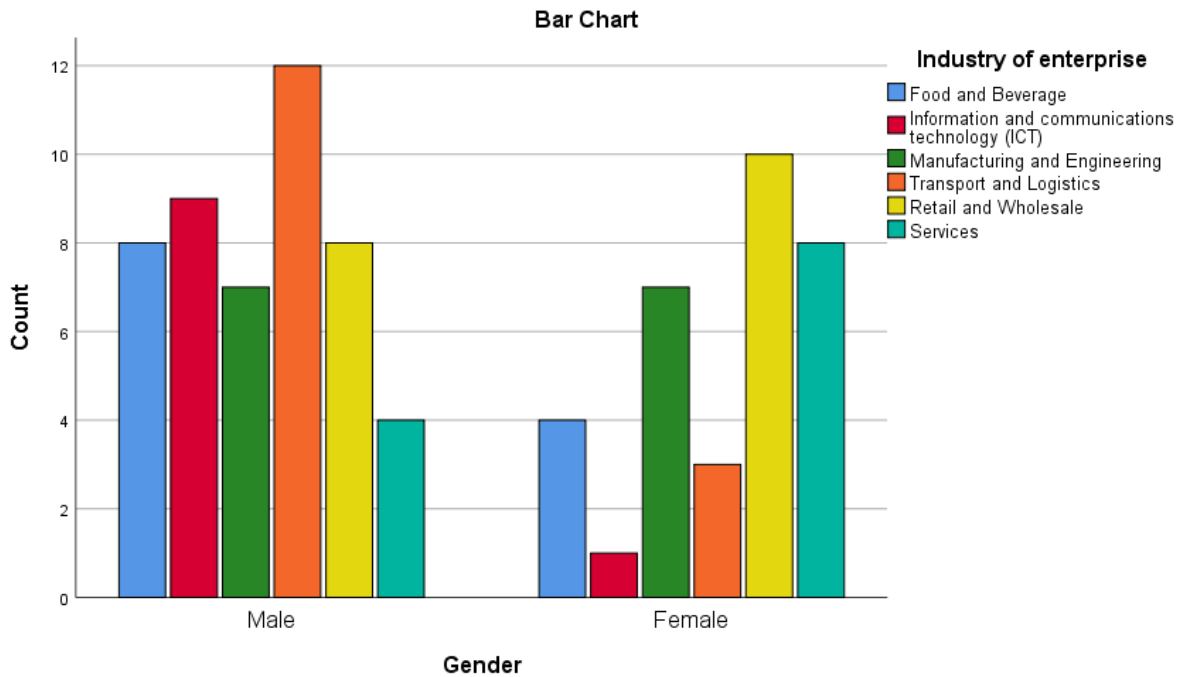
**Table 4.4: Industry of enterprise of respective SMEs**

	Active SMEs		Dormant SMEs	
	Frequency	Percent	Frequency	Percent
Food and Beverage	12	14.8	4	16.7
Information and Communication Technology (ICT)	10	12.3	4	16.7
Manufacturing and Engineering	14	17.3	4	16.7
Transport and Logistics	15	18.5	4	16.7
Retail and Wholesale	18	22.2	4	16.7
Services	12	14.8	4	16.7
<b>Total</b>	<b>81</b>	<b>100.0</b>	<b>24</b>	<b>100.0</b>

Consistent with the sampling technique used that sought to divide the SMEs into different industries to avoid focusing on one particular industry and to show representativeness for each industry. Food and beverage accounts for nearly 15% and 16.7% for active and dormant SMEs respectively, while 12.3% is of the SMEs are in ICT. 17.3% are in manufacturing and engineering, 18.5% are into transport and logistics, 22.2% are into retail and wholesale, while 14.8% of are into offering services. Important to note is that dormant SMEs were spread evenly throughout the six categories constituting 16.7% for each category.



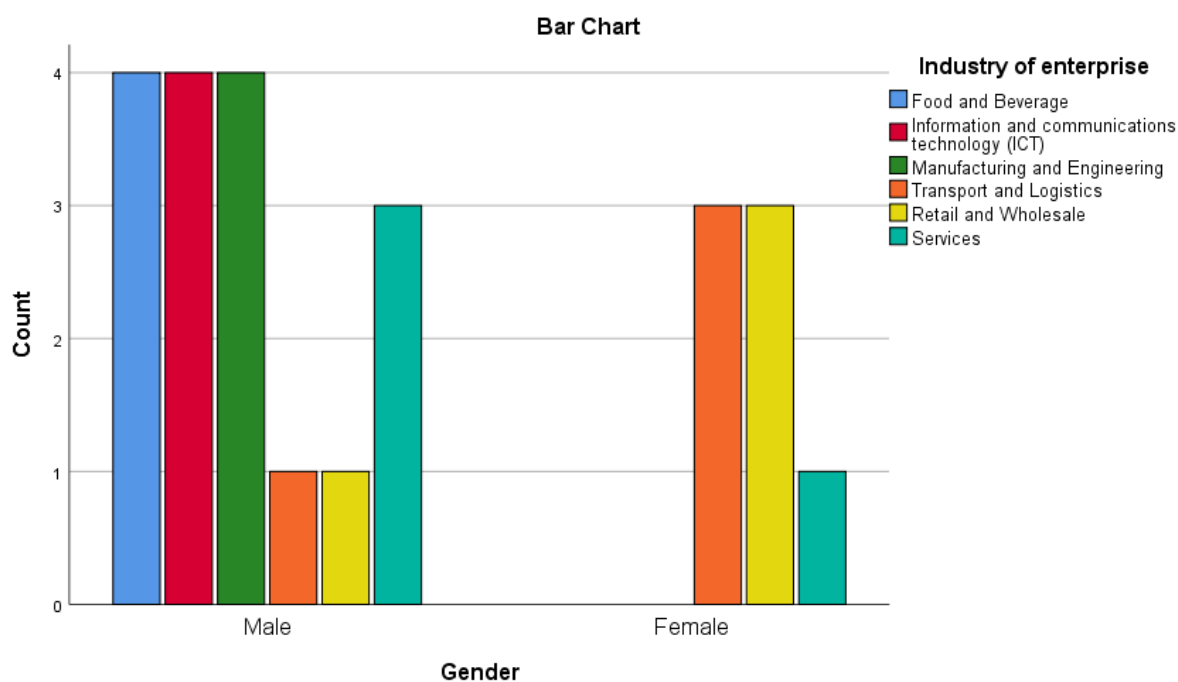
The researcher ought to know the proportion by gender of each industry depicted above. The results are depicted in Figure 4.2.



**Figure 4.2: Cross tabulation of SMEs Industry of Enterprise and Gender (Active SMEs)**

Notable differences in comparison are with the food and beverage and ICT industries, which are male-dominated. Women are also playing a leading role in the services, and retail and wholesale business, as compared to males.

Dormant SMEs results are depicted in Figure 4.3. The graph shows that the majority of failed or dormant businesses were run by males as compared to women. Most of these businesses are food and beverage, ICT and manufacturing. On the contrary, women who are in the aforementioned industries are doing well as no businesses started by women have failed. However, women who are in the transport and logistics industry, and retail and wholesale business are failing more than their male counterparts are.



**Figure 4.3: Cross tabulation of SMEs industry of enterprise and gender (Dormant SMEs)**

#### 4.5.2 Size of enterprise

The researcher sought to classify the firms into groups according to size. The two groups were small businesses and medium enterprises, though there are many definitions of SMEs. The researcher used the Government of Zimbabwe (2016) which takes into account employee size, turnover and market share. Table 4.5 shows how the businesses are split into their respective groupings. As stated in the literature section, that the case of Zimbabwe micro businesses is generally considered as small businesses.

**Table 4.5: Size of SMEs**

	Active SMEs		Dormant SMEs	
	Frequency	Percent	Frequency	Percent
Small	44	54.3	15	62.5
Medium	37	45.7	9	37.5
<b>Total</b>	<b>81</b>	<b>100.0</b>	<b>24</b>	<b>100.0</b>

Table 4.5 above shows that from the active businesses 54.3% are small businesses and 45.7% are medium size businesses. With respect to businesses that seized operations, 62.5% were small enterprises and 37.5 % were medium enterprises. The results imply that there are more

small enterprises in SMEs in Zimbabwe than medium enterprises. The latter also concurs with the study done by (Manaye, 2018).

### 4.5.3 Legal status of SMEs

The researcher was keen to know the legal status of the businesses. This is after a difficult time getting hold of official numbers of SMEs operating within the CBD. Table 4.6 shows how many SMEs are registered and not registered. It is also important to note that more than 50% of the respondents would ask why this question was asked and whether the researcher was sent to collect taxes on behalf of the government. There is a perception that points to some degree of thinking that registering a business means registering for taxes; ignoring the benefits that come by having a registered SME. Park (2017) highlights the importance of registering, linking it to easier access to finances and support from the government.

**Table 4.6: Legal status of SMEs**

		Active SMEs		Dormant SMEs	
		Frequency	Percent	Frequency	Percent
	Registered	53	65.4	10	41.6
	Not registered	28	34.6	14	58.4
	<b>Total</b>	<b>81</b>	<b>100.0</b>	<b>24</b>	<b>100.0</b>

The questionnaire reviewed that 65.4% of the businesses operating in the Harare CBD are registered and 34.6% are not registered. From the literature, Matamanda and Chidoko (2017) argue that even informal businesses play a significant role in bettering the livelihood of people by providing some sought of income. They also concur that the benefits of registering as a legal entity outweigh the pros of operating informally. In order for SMEs to contribute immensely to an economy of a country, they should be registered.

The latter facilitates payment of government taxes and the inclusion of SMEs when calculating the GDP. Formalising a business might not be easy as there are costs involved in the form of taxes and operational costs; however, it is also important to note the benefits which accrue to the business if registered (Williams & Kedir, 2018).

With regards to dormant business, 58.4% of those that were not registered failed. It can be argued that such businesses can receive little support from the government or money lending

institutions to facilitate their expansion and growth (Park, 2017). Only 41.6% of businesses that were not registered failed.

### Legal status of business split against gender

The researcher ought to know which gender, male or female, runs the registered SMEs.

**Table 4.7: Cross tabulation of legal status of SMEs and gender**

			Active Businesses		Dormant Businesses	
			Registered	Not registered	Registered	Not registered
Gender	Male	Count	18	15	3	14
		%	34.0%	53.6%	75.0%	70.0%
		% of Total	22.2%	18.5%	12.5%	58.3%
	Female	Count	35	13	1	6
		%	66.0%	46.4%	25.0%	30.0%
		% of Total	43.2%	16.0%	4.2%	25.0%

The results depicted above suggest that the majority of registered SMEs are being run by women with 66% of registered businesses run by them, and men only running the remaining 34% of active businesses. The table above depicts that the majority of businesses that are now dormant were being run by males. Furthermore, these male-run SMEs constitute 70% of the unregistered businesses.

#### 4.5.4 Length of operations

The researcher sought to know how long the SMEs have been in operation for active business. Likewise, the researcher also sought to find out how long the dormant SMEs were in operation before seizing operations. Table 4.8 depicts what the researcher found.

**Table 4.8: Period of active operation of SMEs**

		Active SMEs		Dormant SMEs	
		Frequency	Percent	Frequency	Percent
	0 - 3 years	36	44.4	14	58.3
	4 - 6 years	17	21.0	4	16.7
	7 years or more	28	34.6	6	25.0
	<b>Total</b>	<b>81</b>	<b>100.0</b>	<b>24</b>	<b>100.0</b>

A substantial number (44.4%) of SMEs are less than 3 years of age whilst 21% have grown over the past 3 years but are still less than 6 years old, and 34 % of the SMEs are 7 years and above.

The researcher further wanted to know from the available data, the composition of business ownership for each set of years. From the data, it can be ascertained that for 0-3 years the majority of SMEs that fall in this category were separately owned and separately managed. Results show that 57.14% of small firms that have seized operations were also separately owned and separately managed.

**Table 4.9: Composition of SMEs between (0-3 years) of existence**

	Existing	Dormant
Family owned and family managed	36%	21.43%
Self-owned and self-managed	28%	21.43%
Separate ownership and management	36%	57.14%

**Table 4.10: Composition of SMEs between (4-6 years) of existence**

	Existing	Dormant
Family owned and family managed	6%	22%
Self-owned and self-managed	53%	44%
Separate ownership and management	41%	33%

Analysis of SMEs that have been in existence for a period between 4- 6 years shows that only 6% of firms are family–owned. It is also important to note that 22% of business that failed to exist past 6 years are also family-owned. In both instances, a greater percentage of businesses that are currently 4- 6 years and failed within 7 and above years of existence are and were self-owned and self-managed. Table 4.11 depicts results of businesses which are 7 years and older.

**Table 4.11: Composition of SMEs with 7 and above years of existence**

	<b>Existing</b>	<b>Dormant</b>
Family owned and family managed	32%	0%
Self-owned and self-managed	25%	0%
Separate ownership and management	43%	100%

From the above it can be seen that 32% of the business that have made it past 7 years are family-owned 25% are self-owned and self-managed, while 43% are separate ownership and separate management. However, it is alarming to note that all business that failed after reaching 7 years of existence were separate-owned and managed.

The aforementioned aspect of ownership can be depicted in the graphs. It shows that the majority of SMEs (32%) are separate-owned and separate managed, 23% are family-owned and 26% are self-owned and self-managed.

**Table 4.12: Ownership of SMEs**

		<b>Active SMEs</b>		<b>Dormant SMEs</b>	
		Frequency	Percent	Frequency	Percent
	Family owned and managed	23	28.4	5	20.8
	Self-owned and managed	26	32.1	7	29.2
	Separate ownership and management	32	39.5	12	50.0
	<b>Total</b>	<b>81</b>	<b>100.0</b>	<b>24</b>	<b>100.0</b>

The table above depicts the ownership of businesses that have since stopped functioning. The results show that 20.8% were family-owned and managed, 29.2% were self-owned and self-managed, and lastly 50% were separate-owned and managed. A common trend among businesses that were separate-owned and managed was the inability to retain key employees. Respondents cited an issue whereby the manager in most instances resigned from their work and formed a shadow company in the same line of trade. This can explain the high number of failures of separate-managed.

#### 4.5.5 Number of employees

The researcher sought to know how many employees a single firm employs. Matamanda and Chidoko (2017) argued that SMEs alleviate unemployment and if supported, they can go a long way in dealing with the problem of unemployment better than large established firms.

Table 4.13 shows the number of employees employed in active SMEs and employees employed by dormant SMEs at the time of closure.

**Table 4.13: SMEs employment numbers**

		Active SMEs		Dormant SMEs	
		Frequency	Percent	Frequency	Percent
	< 10	19	23.5	11	45.8
	10 to 20	21	25.9	6	25.0
	20 or more	41	50.6	7	29.2
	<b>Total</b>	<b>81</b>	<b>100.0</b>	<b>24</b>	<b>100.0</b>

Table 4.13 shows that, for existing SMEs, 50.6% of the businesses employ over 20 employees, 23.5% employ less than ten employees and 25.9% employee 10 to 20 employees. This means that the assertion by Matamanda and Chidoko (2017) can be justified further to affirm calls by Dyllick and Hockerts (2002) and Ozdemir et al. (2011) that SMEs need support in order for them to continue to exist. The government data collected from dormant firms revealed that SMEs who employed less than 10 employees constituted 45.8% of firms. SMEs that employed 25% of the firms that have since shut down employed 10 to 20 people, and 29.2% of the firms employed more than 20 people

#### 4.6 Governance of SMEs

The researcher was keen to establish who prepared manuals and who saw to it that these manuals are implemented. Before doing so, the researcher wanted to know the person's identity, qualifications, age, and experience. The researcher also wanted to know the legal status of the business, that is, whether the business was registered or not.

#### 4.6.1 Person responsible preparing and implementations of manuals

The researcher ought to understand by finding out who between the manager and owner is responsible for preparing and implementing control manuals. This aspect is of paramount importance as it speaks of the governance practices of SMEs. Table 4.14 depicts the results.

**Table 4.14: Person responsible for controls**

	Active SMEs		Dormant SMEs	
	Frequency	Percent	Frequency	Percent
Owner	43	53.1	17	70.83
Manager	38	46.9	3	12.50
No one	2	2.5	4	16.67
<b>Total</b>	<b>81</b>	<b>100.0</b>	<b>24</b>	<b>100.0</b>

From the above, it can be concluded that the owner of the business plays a great role in the business, as they are the one who prepare and implement control manuals. Focusing on active businesses, 53.1% of the control manuals in place were prepared by the owner, 46.9% of the time they were prepared by the manager, and in only 2.5% of the time no one prepared the manuals. The assumption would be that businesses operated without clear and set out procedures of operation.

Turning the focus to dormant businesses, 70.8% of those that failed had operating manuals prepared and enforced by the owner. The managers accounted for 12.5% of the businesses that failed, and because no one took charge of the control manuals, 16.7% of them failed. Business owners and managers also attributed nepotism to being a great challenge and hurdle to deal with. Nepotism entails employing a family member or relative over a possible independent person. It means the company has limited its scope to family. Although family members are cheap to hire and use, they come with a cost if they are not competent.

#### 4.6.2 Age group of person preparing manuals

The researcher was keen to know the respective age groups of people who were responsible for manuals which determine what controls are in place, implementations and monitoring thereof. This was quite important because research by Börsch-Supan and Ferrari (2018) appreciated the rejuvenation of the older work force at the expense of new blood in organisations, citing experience being a better off factor than enthusiasm that is linked to



younger generations. On the contrary, Moore (2018) advocates for “youthful” workforce citing their likelihood to be productive and innovative. Thus, table 4.15 shows how the captains<sup>2</sup> of SMEs are spread through the respective ages.

**Table 4.15: Age group of person responsible for preparing control manuals**

		Active SMEs		Dormant SMEs	
		Frequency	Percent%	Frequency	Percent
	Less than 18	7	8.6	6	25.0
	18 - 28	19	23.5	9	37.5
	29 - 38	26	32.1	1	4.2
	39 - 48	12	14.8	6	25.0
	49- 58	12	14.8	0	0
	59 and above	5	6.2	2	8.3
	<b>Total</b>	<b>81</b>	<b>100.0</b>	<b>24</b>	<b>100.0</b>

Table 4.15 shows that majority of the age range was between 29 and 38 years constituting 32.1%. It can also be deduced from the results that ages 39–48 constituted 14.8%, while 49-58 also constituted 14.8%. The elderly who are above 59 years of age were only 6.2% of the active businesses. On the other side, people of the age group 18-28 constituted the number of businesses that have failed, representing 37.5% of the total dormant businesses. Ages less than 18 and 39-48 among dormant SMEs constituted 25%. Only 8.3% were above the age of 58 years and no business failure was recorded for people between ages 49-58.

#### **4.6.3 Gender of respondents**

Table 4.16 depicts how captains of SMEs are divided according to gender.

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<sup>2</sup> In this research captains of SMEs refers to Owners and Managers

**Table 4.16: Gender of respondents**

		Active SMEs		Dormant SMEs	
		Frequency	Percent	Frequency	Percent
	Male	53	65.4	17	70.8
	Female	28	34.6	7	29.2
	<b>Total</b>	<b>81</b>	<b>100.0</b>	<b>24</b>	<b>100.0</b>

From the table 4.16, 65.4% of SMEs that are in existence in the Harare CBD have males in charge of controls while 34.6% are female. Turning our attention to businesses that are no longer in operation, 70.8% of those had males in charge of control activities and 29.2% had female in charge.

#### 4.6.4 Qualification of captains of SMEs

Stemming from the above, the researcher wanted to know how learned the captains of SMEs are. Perhaps the problem was with having the majority of SME captains who did not receive formal education. Also, recalling that Mehralizadeh and Sajady (2006) found that there is a link between the type of management decisions made by an entrepreneur and their level of education. However, it was also found that not only the level of education affects decision making, but other competency factors should also be considered, such as years of experience, training and development. Table 4.17 shows how learned the captains of SMEs are.

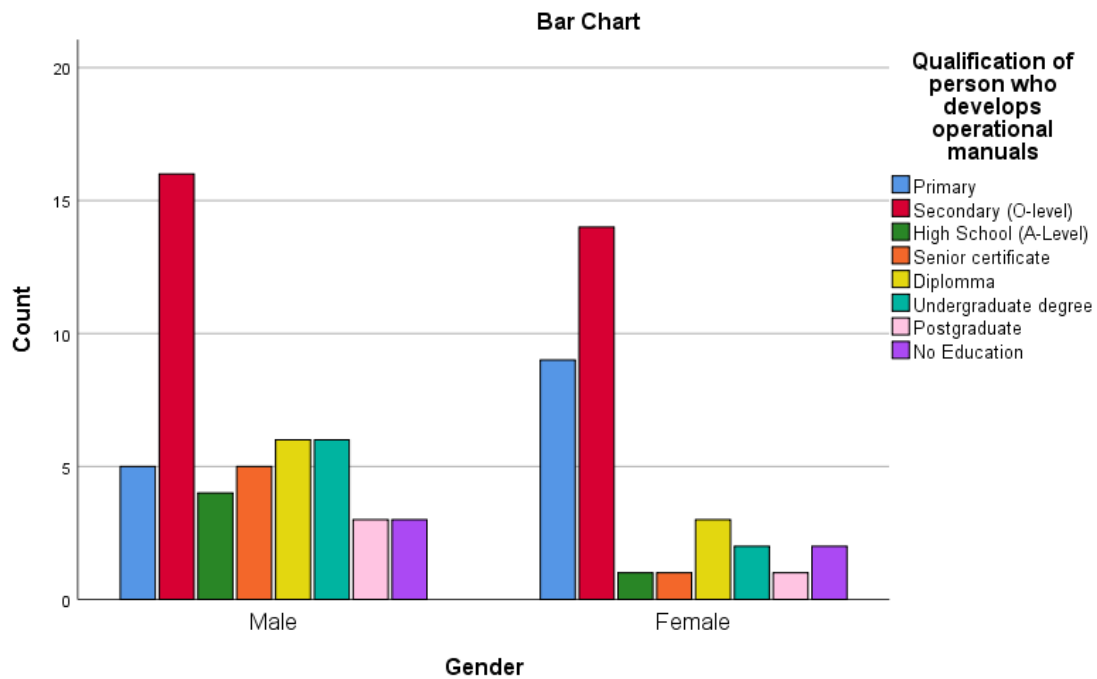
**Table 4.17: Qualification of person who develops operational manuals**

		Active SMEs		Dormant SMEs	
		Frequency	Percent	Frequency	Percent
Valid	Primary	14	17.3	5	20.8
	Secondary (O-Level)	30	37.0	8	33.0
	High School (A-Level)	5	6.2	4	16.7
	Senior certificate	6	7.4	2	8.3
	Diploma	9	11.1	2	8.3
	Undergraduate degree	8	9.9	2	8.3
	Postgraduate	4	4.9	0	0
	No Education	5	6.2	1	4.2
	<b>Total</b>	<b>81</b>	<b>100.0</b>	<b>24</b>	<b>100.0</b>

The results show that 17.3% of captains of SMEs in the Harare CBD have their highest qualification as primary education, 37% attained secondary education, 6.2% reached high school, 7.4% have a senior certificate, 11.1% have a diploma, 9.9 % have an undergraduate degree, 4.9% have a postgraduate degree, and 6.2% have no educational certificate. For the dormant businesses, 20.8% of owners and managers had their highest qualification as primary education, which is almost the same range as the active businesses.

The results for dormant businesses show that the lowest percentage after postgraduate is captains of businesses with no education. The latter only account for 4.2% of the businesses that have seized operations. This concurs with the aforementioned argument by Mehralizadeh and Sajady (2006) that in addition to attaining a formal degree, practical training and experience also counts in order for a business to be sustainable.

The researcher sought to find out how qualifications are spread gender wise. To do this the researcher used cross tabulation based on gender and qualification as depicted in Figure 4.4. The latter would show how qualified males and females are respectively.



**Figure 4.4: Cross tabulation of qualification and gender of respondents**

Figure 4.4 shows that generally men are more qualified than women, and it also shows that the majority of SMEs are being run by people with the Ordinary Level qualification. The graph also shows that a great number of women who are captains of industry only learnt until primary education level.

#### 4.6.5 Association between level of education and years in existence

The following section seeks to find the association between level of education and years of existence of the respective SMEs. Seeking to understand the length the SMEs were in existence can be reflected through the qualifications profile of that SME.

#### Pearson's correlation coefficient tests

The researcher sought to measure the relationship between variables in the research. To do this the Pearson correlation powered by SPSS version 25 was used. Correlation is an analytical technique used to ascertain the relationship between two variables. It thus measures the linear relationship between the identified variables. The Pearson's correlation coefficient ( $r$ ) ranges from -1 to 1. It is taken as  $(r)$  to be equal to -1 which indicates a negative relationship between the two variables and  $(r)$  equal to 1 is an indication of a perfect positive relationship between variable. To determine this relationship, the researcher chose the number of years in existence and the qualifications of the person who develops operational manuals. Table 4.18

clearly illustrates the correlation between qualification of captains of SMEs and length of operation's existence.

**Table 4.18: Correlation between qualification of “captain” of SME and length of operation’s existence**

		Active SMEs		Dormant SMEs	
		Qualification of person who develops operational manuals	Length in operation	Qualification of person who develops operational manuals	Length in operation
Qualification of person who develops operational manuals	Pearson Correlation	1	.208	1	1
	Sig. (2-tailed)		.034		
	N	81	81	24	24
Length in operation	Pearson Correlation	.208	1	.580**	.580**
	Sig. (2-tailed)	.034		.003	.003
	N	81	81	24	24
**. Correlation is significant at the 0.05 level (2-tailed).					

According to the results as shown in table 4.9.5 above, there is a significant relationship between the number of years an SME has been in operation and the level of education of the owner and/or manager of the SMEs. To reach this conclusion, the P test was used which states that any value which is less than 0.05 represents a significance of the relationship between the two variables whilst a variable which is more than 0.05 represents no relationship between the two variables.

#### 4.7 Manuals and Procedures in Place

An understanding of what controls were present in the business was of paramount importance to establish. The researcher was keen to find out which controls were in place. Control manuals help the business function as they work as a written down policy and way of operation. Their presence and adherence is viewed by Rahayu and Day (2016) to go a long way to ensure businesses are sustainable.

Table 4.19 shows how many SMEs have financial, operational, marketing and technological controls manuals.

**Table 4.19: Control manuals in place (first set)**

Item	Active SMES		Dormant SMES	
	Frequency	Percent	Frequency	Percent
Financial	30	37	6	25
Operational	31	38.3	11	45.8
Marketing	30	37	10	41.6
Technological	29	35.8	11	12.5

According to table 4.9.6 SMEs do not have control manuals in place. 37% of SMEs have control manuals in respect to finances, 38.3% have controls targeted as operations and have 37% and 35.8% respectively for marketing and technological manuals. Similarities can be drawn from businesses that have seized to operate, as dormant SMEs had 25%, 45.8%, 41.6% and 12.5% in respect to financial, operations, marketing and ICT. Basing on the similarities, it appears as active businesses are following in the path of dormant businesses that have since seized operations.

The researcher sought to see if controls or control activities were present within SMEs in regards to cost control, income regulation, consumer relations and corporate governance. Controls were regarded by Lozano (2015) as the heartbeat of the business and their absence is dire to the survival. These controls also speak to the working capital of a business which is regarded by Dey and Sharma (2018) as very important for a business. Dey and Sharma (2018) point to the fact that day in, day out, firms should balance and make sure their working capital is in correct proportions which enable the business to continue to exist. This is facilitated by policies and manuals which help usher in internal controls to be exercised and monitored.

**Table 4.20: Control manual in place (second set)**

Item	Active SMEs		Dormant SMEs	
	Frequency	Percent	Frequency	Percent
Cost	37	45.7	12	50
Income regulation	25	30.9	9	37.5
consumer relations	26	32.1	7	29.1
corporate governance	19	23.5	4	16.67

Table 4.20 above shows that both active and dormant businesses prioritise cost controls over the other crucial controls that relate to income regulation, consumer relations and corporate governance. The prioritisation of these controls that related to cost controls were found in

45.7% of active SMEs and 50% of dormant SMEs which have since seized operations also had cost controls.

The results also show that controls relating to corporate governance were the lowest in both active and dormant firms. This can be linked to the findings aforementioned that the majority of SMEs in the Harare CBD are owner-managed hence, the owner sees no need to put in place on the corporate governance of the firm.

**Table 4.21: Cross Tabulation of controls and gender (First set)**

Gender	Cost		Income Regulation		Consumer Relation		Corporate governance	
	Yes	No	Yes	No	Yes	No	Yes	No
Male	14%	40%	10%	33%	12%	36%	25%	35%
Female	36%	11%	28%	28%	23%	28%	38%	2%
		100%		100%		100%		100%

It is clear from Table 4.21 above that a greater proportion of females have controls in place as compared to their male counterparts, in which instance women recorded 38% of controls for corporate governance. Men have more SMEs without control manuals in place. 40% have no cost manuals in place, 33% of men have no income regulation in place.

The same was found for controls relating to corporate governance controls. Table 4.22 depicts the results.

**Table 4.22: Cross tabulation of controls in place and gender (second set)**

Gender	Financial		Operational		Marketing		Technological	
	Yes	No	Yes	No	Yes	No	Yes	No
Male	38%	35%	10%	36%	11%	38%	45%	39%
Female	25%	2%	33%	21%	27%	24%	7%	9%
		100%		100%		100%		100%

Similar to Table 4.21 that precedes Table 4.22 above, women have control manuals in place as compared to men, however, it is also important to note that men have by far, a greater

margin of technological controls in place than women, with 45% as compared to only 7% for women. Bearing in mind that the research also found that men are proportionally more qualified than women, one could argue that the level of education comes with exposure to technology. Also, males are leading with financial manuals which are in place with 38% as compared to 25% for women.

#### 4.7.1 Perception towards internal controls

The researcher was also keen at this stage to understand the perception towards internal controls of the respondents of active firms. The results are shown in Table 4.23 that follows. The researcher ought to find out the perception towards internal controls, against the backdrop of research that has been conducted before by authors such as Ge et al. (2017). They noted that the perception of SMEs towards internal controls, governance and risk management was negative. However, this research was conducted in a different location and for different SMEs. The results depicted in Table 4.23 are those of SMEs operating in the Harare CBD.

**Table 4.23: Perception and rating of internal controls on the sustainability of the business**

		Frequency	Percent
	Not relevant at all	12	14.8
	Slightly important	28	34.6
	Moderate	11	13.6
	Important	8	9.9
	Very important	22	27.2
	<b>Total</b>	<b>81</b>	<b>100.0</b>

With dormant firms, the researcher sought to know the perception and rating of internal controls both when the business was still active and after the business had seized operations. The results are depicted in the table.

Focusing on the results of active SMEs it shows that there is not much regard given to internal controls. 14.8% of SMEs regard internal controls as not relevant at all, 34.6% regard internal controls as slightly important, 13.6% view internal controls as moderately important, 16.7% as important, and 27.2% as very important. The researcher was also keen to know the composition of SMEs that had viewed internal controls as very important. Results show that 80% of the businesses that viewed the controls as important are those that have been in



existence for more than 7 years, and 20% of the business who viewed controls as either slightly important or not relevant at all have not grown past 3 years.

Bruwer and Watkins (2010) conducted a study on sustainability of SMEs in fast moving consumer goods (FMCG). Their research found that SMEs fail within 3 years of existence though it was conducted in the Cape Town CBD, South Africa. Current results concur with the study and raise a question of perception of SMEs to internal controls as firms that are less than 3 years old also view internal controls as not relevant. It can also be drawn from the results that as years go by, perception towards internal controls changes. Table 4.24 deals with dormant SMEs. The researcher sought to find out the perceptions of SMEs during and after operations.

**Table 4.24: Perception and rating of internal controls on the sustainability of the business**

		Frequency	Percent When business was Active	Frequency	Percent After Business closure
	Not relevant at all	12	50.0	1	4.2
	Slightly important	4	16.7	1	4.2
	Moderate	4	16.7	6	24.9
	Important	3	12.4	4	16.7
	Very important	1	4.2	12	50.0
	<b>Total</b>	<b>24</b>	<b>100.0</b>	<b>24</b>	<b>100.0</b>

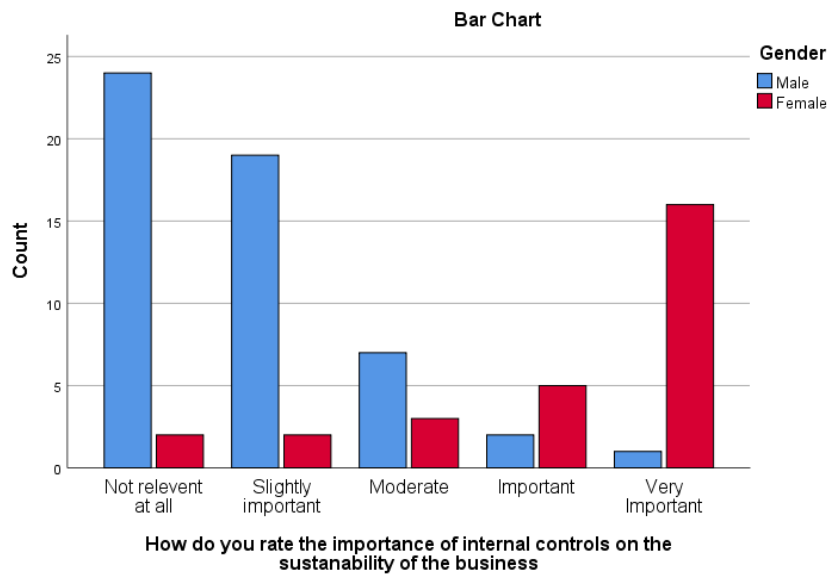
As depicted in Table 4.24 above, during operations, SMEs gave less regard to internal controls; that was the same perception towards internal controls given by active SMEs. However, reflecting back, the dormant SMEs have a better perception on the issue of internal controls. 50% of the them viewed controls as not relevant during operations but after shutting down only 4.2% still hold their view. 16.7% of firms viewed controls as slightly important but the number also drastically decreased to 4.2% after seizing operations.

It is also important to note that only 4.2% of firms viewed internal controls as very important, however, the perception changed after shutting down, rising to 50% of the SMEs who now regard internal controls as very important to the sustainability of the SMEs. Bruwer (2010) suggested that SMEs need to be taught on the importance of having internal controls. Surely, SMEs' perception on internal controls changed comparing perception during operations the

and perception after business was now dormant, had the perception been the same the business could have been still in existence.

### Cross tabulation according to gender

The researcher sought to analyse further the findings by cross tabulating them by gender. Figure 4.5 reviews that there is a clear distinction between men and women on how they respectively perceive internal controls as they relate to sustainability.



**Figure 4.5: Rating of internal controls on sustainability of SMEs**

According to Figure 4.5, females perceive internal controls to be very important for firms to be sustainable as compared to males. This is also consistent with findings on the same graph where a greater proportion of males perceived internal controls not to be relevant at all as compared to a very small number of females who opined that way. However, it should also be noted that a greater proportion of men opined that internal controls are moderately important than women did.

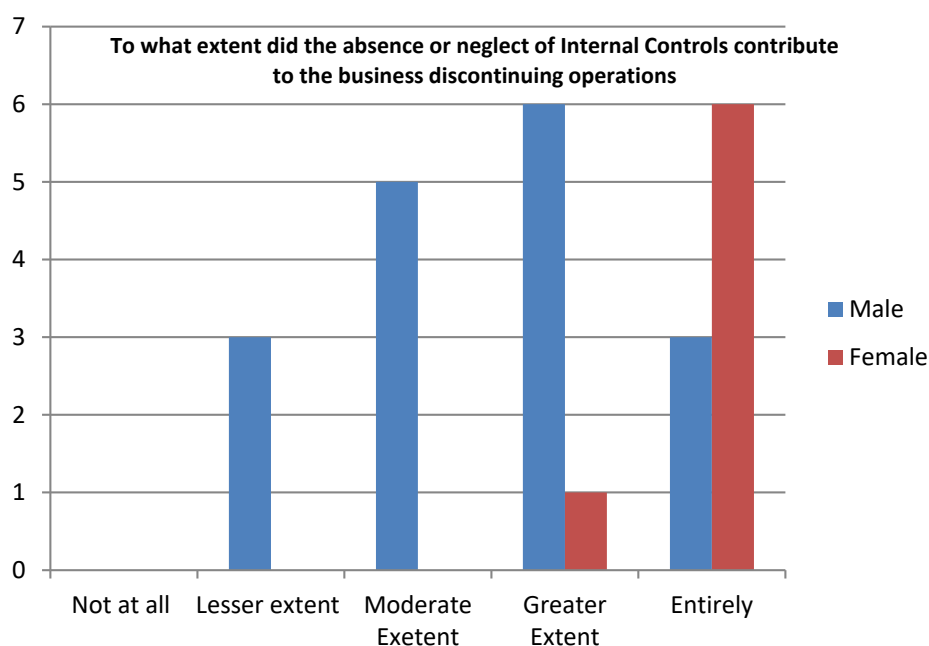
In line with the gathering of information, the researcher sought to know from dormant businesses, to what extent the absence or neglect of internal controls contributed to the business discontinuing operations. The results are depicted in Table 4.25.

**Table 4.25: Extent to which absence or neglect of internal controls contributed to the SME discontinuing operations**

		Frequency	Percent
Valid	Not at all	0	0
	Lesser extent	1	4.2
	Moderate extent	2	8.4
	Greater extent	10	41.6
	Entirely	11	45.8
	<b>Total</b>	<b>24</b>	<b>100.0</b>

The results as depicted by Table 4.25 above show that 45.8% entirely blame the neglect or absence of controls for their business' failure. 41.6% believe that largely, the neglect or absence of controls contributed to their downfall. 8.4% believed they were affected moderately, while 4.2% believe that the business was affected minimally by the absence or neglect of internal controls. It is evident that internal controls are very important as none of the SMEs think they would have made it without internal controls. In one way or the other, all the SMEs acknowledge that the neglect of internal controls leads to the discontinuing of operations.

The researcher sought to find out if there are any differences on how males and females of dormant firms now perceive internal controls' impact and contribution to businesses discontinuing operations. The results are depicted in Figure 4.6



**Figure 4.6: Effect of the absence or neglect of controls**

It is evident from Figure 4.6 that women as compared to men hold internal controls and their neglect thereof as the reason why the business discontinued its operations. It is also important to note that a great proportion of females hold internal controls solely as the reason for the business discontinuing operations. However, a great proportion of males also opined that largely, lack of or neglect of internal controls contributed to the business discounting.

#### **4.7.2 Challenges facing SMEs in Zimbabwe**

The researcher also wanted to understand the challenges that SMEs in Zimbabwe are facing; sensibly so, because Zimbabwe uses a multi-currency system that is dominated by the use of the US dollar. Noko (2011) cites a wide range of challenges which the adoption of a multi-currency system would bring, let alone the introduction of a local currency which is not backed by anything.

SMEs both active and dormant cited liquidity as a very huge problem. This means that money is not circulating in the country, as it ought to do. However, asked what they are doing to deal with this challenge, SMEs cited the use of plastic money and issuing incentives to customers for them to trade in hard currency. A number of SMEs cited that they encourage their clientele to pay using foreign currency. This would facilitate and deal with the problem of foreign currency shortages, money that is much needed if a company is importing goods (Noko, 2011).

SMEs also cited stiff competition from larger corporations as a challenge that they are faced with. However, asked how they are adopting and dealing with that challenge, it came out that all retailers break bulk, niche market and become more flexible with their operation including working hours and their ability to provide custom made service, all this, larger corporation find it difficult to quickly change to, hence their failure to provide a service which is at par with SMEs (Manaye, 2018).

Dormant firms cited lack of innovation, recklessness of employees, high theft numbers, and lack of knowledge and skills, as challenges they had to deal with when they were still active. All aforementioned are things that good internal controls can combat.

A number of SMEs (25%) highlighted issues related to culture as a challenge. SMEs would in turn, have to abide and do things that are culturally acceptable and permissible to their clientele. This concurs with recent studies which are now looking at cultural sustainability, such as that of Leonidou, Skarmelas, and Saridakis (2018) which focuses on ethics sustainability and culture.

### 4.7.3 Effect of macroeconomics on SMEs

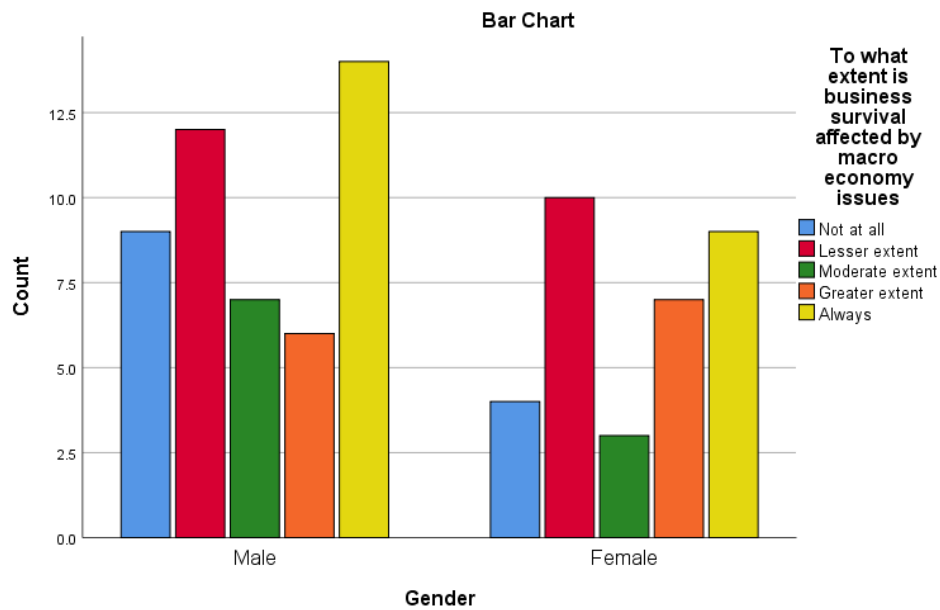
The researcher was keen to find out how the macro economy is affecting SMEs. Macroeconomics mainly focusses on actions taken by government in terms of policies and regulations. These are believed to have an impact on businesses and an economy (Pilossof, 2009). Table 4.26 depicts how SMEs perceive the effects of macroeconomics on their survival.

**Table 4.26: Extent SME survival affected by macroeconomic issues**

		Active SMEs		Dormant SMEs	
		Frequency	Percent	Frequency	Percent
	Not at all	23	28.4	10	41.7
	Lesser extent	22	27.2	6	25.0
	Moderate extent	14	17.3	4	16.7
	Greater extent	13	16.0	2	8.3
	Always	9	11.1	2	8.3
	<b>Total</b>	<b>81</b>	<b>100.0</b>	<b>24</b>	<b>100.0</b>

Despite all the macroeconomic factors that businesses have to deal with, SMEs in Harare, both active and dormant, do not regard macroeconomics as a huge factor, which can affect their survival. Of the active businesses, only 11.1% regard microeconomic dynamics as a factor that always affects SMEs. Considering the perception of dormant SMEs which only 8.3% of the SMEs perceive that macroeconomics always affects the business. Quite a huge number of SMEs, active and dormant respectively, perceive macroeconomics not to play any part in the business survival, with 28.4% and 41.7% respectively. Matamanda and Chidoko (2017), credit SMEs to be ahead of larger firms when adapting to the changing economic terrain. This concurs with the findings of this research.

The researcher sought to know how the afore discussed was cross tabulated by gender. The results are depicted in Figure 4.6.



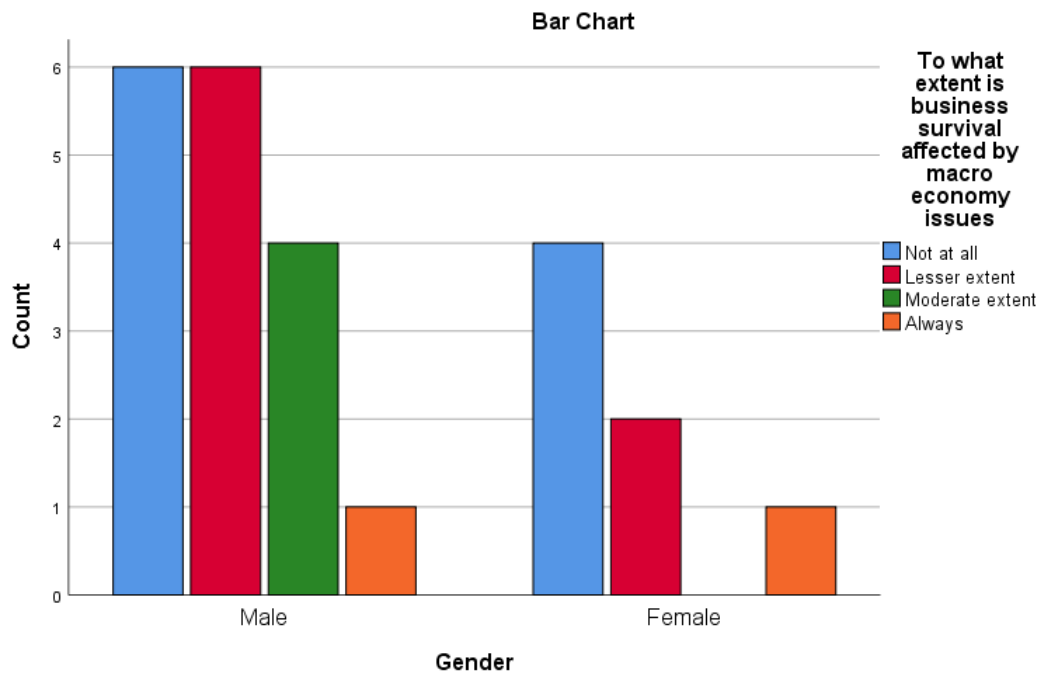
**Figure 4.7: Extent SME survival is affected by macroeconomic issues (Perception of active SMEs)**

From Figure 4.7, a greater proportion of males opined that SMEs are always affected by macroeconomics; contrary to views of female counterparts, that a greater proportion opined that macroeconomics affects SMEs to a lesser extent. However, it is also important to note that the similarities can be drawn from males and females in that the two most popular answers are lesser extent macroeconomics affects SMEs survival and always SMEs are affected by macroeconomics affects SMEs.

### **Effect on Dormant Businesses**

Dormant businesses' data suggests that macroeconomics does not affect SMEs that much as the top two answers are "not at all" and "lesser extent" for both males and females. Figure 4.8 has the least number of SMEs opining that SMEs are always affected by macroeconomics.

**Figure 4.8 Dormant Businesses**



**Figure 4.8 Extent SME survival is affected by macro-economic issues**

Figure 4.8 shows that the same number of males and females perceive SMEs to be affected by macroeconomics. A greater proportion of males as compared to females opined that the business is not at all affected by macroeconomics. This was also true to the next selection (lesser extent) where males have a greater proportion as compared to females.

#### 4.7.4 Sustainability goals

The researcher also sought to find out if SMEs set sustainability goals and determine who is also leading the process. Table 4.27 reveals the number SMEs have set sustainability goals.

**Table 4.27: Have you set goals for sustainability within your business enterprise?**

		Active SMEs		Dormant SMEs	
		Frequency	Percent	Frequency	Percent
	No	65	80.2	20	83.3
	Yes	16	19.8	4	16.7
	<b>Total</b>	<b>81</b>	<b>100.0</b>	<b>24</b>	<b>100.0</b>

The results from Table 4.27 showed that only 19.8% of SMEs set sustainability goals. From the dormant businesses, only 16.7% had sustainability goals. 80.2% and 83.3% of active and dormant SMEs respectively, do not have sustainability goals.

The researcher zoomed into SMEs that had sustainability goals. Of the firms that had attested to the fact that they have sustainability goals, 75% of these were separate-owned and separately managed, and the 25% was accounted for by SMEs that were family-owned. Reluctance in setting sustainability goals was seen in self-owned and self-managed SMEs. However, the results for dormant firms were otherwise, as 16.7% had set sustainability goals. 75% were owner-managed SMEs.

The researcher sought to know from SMEs that did not have sustainability goals, what their reasons were. SMEs assumed that the business was going to survive for the foreseeable future. About 15% of the businesses opined that planning was time consuming in a volatile environment. Other reasons brought forwards by SMEs include, lack of insight, lack of knowledge, lack of skills, assumption that the other family member was doing it and in some cases the problem was the “owner knows” mentality all the reasons summed up resulted in SMEs not have any sustainability goals.

The researcher also sought to find out how males and females cross tabulate in relation to setting in goals. Table 4.28 shows results as they are split according to gender.

**Table 4.28: Gender Business have set goals for sustainability**

			Active SMEs		Dormant SMEs	
			Yes	No	Yes	No
Gender	Male	Count	14	25	3	14
		%	31.8%	67.6%	75.0%	70.0%
	Female	Count	30	12	1	6
		%	68.2%	32.4%	25.0%	30.0%

From Table 4.28 that focusses only on active SMEs, it can be deduced that 68.2% of SMEs that have sustainability goals, are run by women. It is also evident that the majority of SMEs that are owned by men have no sustainability goals. 67.6% of SMEs have not set sustainability goals are owned by men. However, of the dormant SMEs, 75% of the SMEs that had



sustainability goals are owned by men. However, a similarity can be drawn from SMEs that are active and dormant in that also a substantial number (70%) of SMEs without sustainability goals were also owned by men.

### Analysis of variance (ANOVA) – one-way

With this, the researcher aims to present data to see if there are relationships between variables posed to the SMEs. The one-way analysis of variance (ANOVA) test was used for this purpose. The researcher, to begin with, wanted to see the relationship between SMEs in their respective strata and the length of operation. Results are shown in Table 4.29.

**Table 4.29: Association between length of operation and industry**

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Food and Beverage	12	1.75	.866	.250	1.20	2.30	1	3
Information and Communication Technology (ICT)	10	2.20	.789	.249	1.64	2.76	1	3
Manufacturing and Engineering	14	1.86	.864	.231	1.36	2.36	1	3
Transport and Logistics	15	2.27	.884	.228	1.78	2.76	1	3
Retail and Wholesale	18	1.61	.916	.216	1.16	2.07	1	3
Services	12	1.83	.937	.271	1.24	2.43	1	3
Total	81	1.90	.889	.099	1.70	2.10	1	3

**Table 4.30: Robust tests of equality of means**

	Statistic <sup>a</sup>	df1	df2	Sig.
Welch	1.157	5	33.256	.351
Brown-Forsythe	1.241	5	72.121	.299

a. Asymptotically F distributed.

Table 4.29 and table 4.30 sought to depict the relationship or association between length of operations of SME and the industry in which the SME operates in. Seeing that the researcher placed used stratified random sampling which placed SMEs into 6 different strata. The results

point to the fact that indeed that there is an association between SMEs Industry and length of operations. The data shows that SMEs in transport sector have been there longer than all other SMEs followed by SMEs in the Information and technology space. The most volatile industry were SMEs not surviving for a long period of time is in the retail business sector.

#### **4.8 How the Presence or Absence of Internal Controls Affects Business Objectives**

The researcher sought to find out from SMEs how the presence or absence of internal controls affects business objectives. To analyse this question, the researcher had to split the responses into two, that is, responses that constitute a SME having internal controls, and responses that constitute an SME not having internal controls (or neglect thereof).

##### **4.8.1 Effect of the presence of internal controls**

46% of SMEs had a view that putting in place internal controls results in expenditure to the business of initial outlay, and in some cases expenses that are incurred in monitoring. Contrary to the above, 66% of the SMEs have it that controls help in reducing stock theft by customers, employees and other stakeholders who may have a chance to do business with the business such as suppliers. A substantial amount (72%) of SMEs pointed out that internal controls would allow potential investors to make decisions to invest or partner with them as they have confidence that their potential investment will be well kept and looked after. 14% of SMEs had it that internal controls facilitate delegation of duties.

The latter suggests that some SME captains would rather undertake several tasks and responsibilities because of trust issues, with the fear that if they delegate, no controls are in place to pick up any unscrupulous behaviour. 20% of SMEs had it that internal controls are also one of the things which micro-finance institutions, banks and the government look at before they commit to lending SMEs any substantial amount of money. This suggests that the absence of internal controls is one of the reasons why SMEs are experiencing a tough time sourcing funding from financial institutions. It also suggests that SMEs with proper internal controls have a lesser burden upon themselves to convince financial institutions for the much wanted capital and investments.

#### 4.8.2 Effect of the absence of internal controls

64% of SMEs attributed high theft of SME's assets and information to lack of internal controls. 42% of SMEs acknowledged that lack of controls affects the confidence of shareholders and stakeholders in the business' dealings. 16% said that it deters employees from functioning optimally. This suggests that lack of controls will bring about reliance for decisions to be taken solely by the owner who are in some cases not privy to what is happening on the ground. It can also suggest possible bureaucracy and time delays for things to be made. 32% had it that bureaucracy/ delay for decision to be taken come because of not having internal controls. 26% SMEs also had it that because of a lack of controls, they experience cybercrimes, which ultimately leads to SMEs not achieving their business objectives. Other responses (less than 10%) put across by SMEs were that the lack of internal controls results in firms losing skilled ethical work force; failure to attract young graduates who bring innovation.

#### 4.8.3 Elements other than internal controls

The researcher sought to know what other elements besides internal controls are perceived by SMEs to be affecting the achievement of business objectives. The results will be split between what active SMEs perceive and what dormant SMEs perceive. Table 4.31 depicts findings from the respective SMEs.

**Table 4.31: Elements other than internal controls that affect achievement of the objectives of SMEs**

		Active SMEs		Dormant SMEs	
		Count	Percent	Count	Percent
	Governance	20	25%	21	88%
	Risk management	42	52%	18	75%
	Culture	60	74%	20	83%
	Crime	61	75%	13	54%
	Marketing	40	49%	10	42%
	Technology	43	53%	17	71%
	Entrepreneurial readiness	13	16%	15	63%
	Social network	20	25%	19	79%

	Legality	63	78%	20	83%
	Capital access	73	90%	14	58%
	Government support	63	78%	23	96%
	Business plan	9	11%	7	29%
	Inflation	14	17%	8	33%
	Political institutional factors	73	90%	22	91%
	Public support	63	78%	20	83%
	Cost of compliance	9	11%	9	38%
	Innovation	70	86%	22	92%
	Bureaucracy	3	0.4%	2	0.8%
	Access to labour	14	17%	8	33%

From the findings in Table 4.31, 25% of active SMEs raised governance as the other element important other than internal controls as compared to 88% of dormant SMEs that hold governance as a very important issue. 52% of active SMEs opined that risk management was also a factor; however, 75% of dormant SMEs cited risk management as another factor that helps a business achieve its goals. 74% of SMEs also raised issues to do with culture of the environment SMEs operate in, such a high percentage was also raised by dormant SMEs as 83% of dormant SMEs also raised the issue of culture. Crime was cited by 75% of active SMEs and 54% of dormant SMEs. Among other things, marketing was cited by 49% of active SMEs and 42% of dormant SMEs. Entrepreneurial readiness was cited by 16% of active SMEs and 63% of dormant SMEs. Social networks were not of importance to active SMEs as only 25% of active SMEs cited it; however, 79% of dormant SMEs opine that social network is very important. Capital access was also cited by 90% of active SMEs; however, only 58% of dormant SMEs cited capital access. Government support remains an issue that both active and dormant SMEs agree that the government must not neglect. 78% and 83 % of active and dormant SMEs cited it respectively. A few SMEs (20% of both active and dormant) cited business plans, inflation, bureaucracy, and access to labour as other factors. This goes to show that all those issues are perceived by SMEs not to be of importance. Other cited issues that SMEs perceived to be of great importance being cited by more than 80% of active and dormant SMEs are political institutional factors, public support, innovation and legality.

#### 4.9 Support Needed by SMEs

The researcher asked what kind of support is needed by small businesses for them to stay in business sustainably. Over 50% of the SMEs mentioned capital availability and accessibility as an area that SMEs need support. However, of the firms that mentioned capital, 62 % of them are not registered. They also mentioned that the Zimbabwean government should provide more stable policies that are not changed in short spaces of time, as this would enable SMEs to plan. 20% of SMEs appealed to the government to have a central database that can enable blacklisting of debtors who default payments. Manufacturing SMEs appealed for support in terms of policies at the macro level which dealt with intellectual property rights, patents and copyrights, understandably so.

SMEs in the service industry cited the need for help in building a centralised debt register that identifies defaulters so that SMEs cannot fall into the trap of dealing with bad debtors. SMEs also cited capital access as support needed, noting that this was also cited as another element that is needed apart from internal controls for SMEs to achieve their goals. SMEs also pleaded with the government to consider SMEs when tendering. They also note that political stability is also needed, as this will bring policy certainty thereby enabling SMEs to forecast and plan long-term.

SMEs across all the six industries have suggested tax leave from government. This will help alleviate capital generation problems, increasing profit retention. SMEs also cited the need for technological support. Taking note of the increase in cybercrime in recent years, intellectuals need to be capacitated on technological issues to safeguard these much-needed SMEs and increase their sustainability.

#### 4.10 Who is/was Leading Sustainability in SMEs?

The researcher sought to know from the SMEs, who was (from dormant SMEs) and is (from active SMEs) leading the sustainability drive. The results are depicted in Table 4.32.

**Table 4.32: Who leads sustainability activity?**

		Active SMEs		Dormant SMEs	
		Frequency	Percent	Frequency	Percent
Valid	Owner	15	18.5	3	12.5
	Manager	12	15.0	1	4.2
	(Owner + manager)	10	12.3	4	16.7
	No One	44	54.2	16	66.6
Total		81	100.0	24	100.0

Table 4.32 depicts that a total of 45.8% of SMEs have someone leading the firm towards sustainability; 18.5% being owners and 15% being managers. However, it is worrying that 54.2% of active SMEs do not have anyone tasked to see to it that the SME is sustainable. The same question was posed to dormant SMEs. The results show that 12.5% of the SMEs' sustainability issues were being led by owners and 4.2% were being led by managers similar to active SMEs. 66.6% of dormant SMEs did not have anyone tasked for leading sustainability.

#### 4.10.1 Reasons why no one was leading sustainability issues

Stemming from the above, the researcher sought to know from the SMEs which sighted that no one was leading the sustainability drive or seeing to it that the SMEs is or was sustainable. Reasons provided have been divided by those reasons provided by active SMEs, and reasons provided by dormant SMEs. Table 4.33 shows the reasons for both active SMEs and Dormant SMEs.

**Table 4.33: Reasons for not having anyone championing sustainability**

	Active SMEs		Dormant SMEs	
	Count	%	Count	%
Assumption that business was going to survive even without anyone leading the sustainability drive	3	6%	2	10%
Doing things formally was hindered by family mingling	11	20%	1	5%
It was time consuming in a volatile environment	5	9%	0	0%
Lack of advice, insight, knowledge, skills and vision.	16	29%	4	20%
"Running business as a part time thing" without much expectations	2	4%	2	10%
Too much trust on family	2	4%	1	5%
Owner knows all mentality	3	6%	2	10%
Implementation challenges	12	22%	8	40%

Table 4.33 shows that the majority of active SMEs (29%) do not bother having anyone leading the SME towards sustainability because of lack of advice, insight, knowledge, skills and vision. The second most common reason (22%) was that SMEs struggle with the implementation of

policies, ideas and work operations which drive the SME towards sustainability. 20% of active SMEs cited that doing things formally was being hindered by family mingling in the business operations. Other less subscribed to reasons were that SMEs assumed that business was going to make it through and be sustainable even without no one deliberately leading sustainability. The latter was cited by 6% of the SMEs. 9% of active SMEs cited that it was not worth it as the business environment was volatile and ever changing hence, “long term planning was only going to be time wasting”. Other SMEs viewed their businesses as a part-time thing that did not deserve much focus on sustainability.

Dormant businesses (40%), at some point, thought their business should be sustainable but failed to implement policies and procedures that would drive the business to be sustainable. Similar to active SMEs, dormant SMEs (10%) also cited that they was no one leading the sustainability issue because of lack of advice, insight, knowledge, skills and vision. Another 10% cited that they ran SMEs as a part-time business, hence lack of full commitment into the affairs and sustainability of the business. Another 10% believed that the business would be sustainable and carry on because of the profit figures obtained at the inception of the business. Last but not least, 5% of dormant businesses did not have anyone being tasked with sustainability because of family interference.

#### **4.10.2 What could have been done differently?**

The researcher, out of curiosity, sought to know if given a chance, what dormant businesses could have done differently. 54.1% mentioned dealing with nepotism. Some SMEs (50%) mentioned, “having proper systems in place” (internal controls). 25% of the SMEs cited the need to have policies and procedures that should be implemented, which will also deter the owner and those who are privy to withdraw assets and abuse them to the detriment of the business. “Lack of distinction between owner and business”, was a factor that was mentioned by dormant businesses. This points to poor governance which exists in the SMEs and lack internal controls which would curb the abuse and misuse of business assets. “Forming an association to get advice and help”; this is in line with the finding that a huge number of captains of SMEs did not have relevant qualifications even though they would be the entrepreneur behind the business.

SMEs (42%) also mention that registration is pivotal, as in, it enables SMEs to get government support and hustle less to convince micro-lending institutions to help the them with much needed funding for expansion. Dormant SMEs mention technology and innovation as things that could have been done differently. One particular SME writes, “Hiring of young graduates who are still energetic”; this for sure would inject innovation and energy into SMEs. This

research found that a sizable number are run by elderly owners who when analysed further, the majority did not go far with their education.

#### **4.11 Chapter Summary**

This chapter presented findings, analysed and discussed data obtained from the two sets of questionnaires from both active and dormant SMEs. The chapter tested the respective questionnaires for validity and reliability using SPSS version 25. Findings from active SMEs were put against dormant SMEs as a control. This was also to see whether there are any similarities in the perception of internal controls. Correlation and regression was used to determine the relationship between various factors within the two respective questionnaires. The results and findings point to the fact that internal controls are very essential in ensuring the sustainability of SMEs.

The next chapter cynosures conclusions and recommendations of this research based on the research findings and analysis providing suggestions for further studies.



## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

The previous chapter dealt with analysis and interpretation of findings. It also drew a connection between relevant literature and the findings. The cynosure of this chapter is presenting major conclusions and recommendations of the study. These will be carefully gleaned from the findings of the research. The researcher will also suggest areas that need further research. The main objective of this research was to understand the contribution internal controls have to the sustainability of SMEs operating in the Harare CBD, Zimbabwe.

#### **5.2 Research Questions and Objectives of Study**

The following section aims to sum up and reiterate the research question and objectives.

##### **Research objectives**

- a. To establish whether SMEs are implementing internal control systems in their operations.

This stems from the topic: "The influence of internal controls to sustainability of SMEs in Harare, Zimbabwe." The objective sought to establish whether the internal controls are being implemented among SMEs in Harare. To help accomplish this objective, data was obtained from the questionnaires distributed to active and dormant SMEs, and then populated on to SPSS version 25. Normal frequency tables reviewed how many SMEs had controls for each type of control asked.

- b. To understand how SMEs, perceive the issue of sustainability

The objective sought to find out how SMEs in the Harare CBD perceive the sustainability of their respective firms. To achieve this, SPSS version 25 frequencies were used. The researcher further divided the perception to each strata industry.

- c. To determine how the presence and/or absence of internal controls impact on the sustainability of SMEs

To achieve this, SPSS frequencies were used. The researcher also drew similarities from the dormant SMEs who were acting as the control group for the active SMEs group.

- d. To recommend on internal controls and sustainability in SMEs

### **5.3 Key Findings of the Study**

The research methodology employed for this study and the questionnaires distributed to the focus group had the aim of collecting and analysing data to see the influence of internal controls on sustainability of SMEs in the Harare CBD.

The researcher will first disclose findings that do not directly speak to the research question; however, these findings help to give a perspective and background to the findings that relate to the research questions. The following findings evinced.

#### **5.4.1 First finding**

The SMEs sector in the Harare CBD is dominated by males. Women only constitute a smaller percentage of the total SME owners.

#### **5.4.2 Second finding**

Quite a substantial amount of active SMEs is not registered in Zimbabwe (34.6%). From the control group nearly 60% of failed businesses were not registered.

#### **5.4.3 Third finding**

Cross tabulated results on qualifications held by captains of SMEs review that males are better educated than their female counterparts.

#### **5.4.4 Fourth finding**

SMEs pointed out that they need more financial support and access to finance their operations (80%). Furthermore, the majority of SMEs opined that they were not affected by macroeconomics.

#### **5.4.5 Fifth finding (Dormant SMEs)**

The control group pointed to nepotism, internal controls governance, risk management, and government policy, as the other reasons that contributed to their discontinuing operations.

## **5.4 Findings Directly Relating to Research Questions and Objectives**

The following findings directly relate to the research questions and objectives of the study.

### **5.5.1 Sixth finding**

This research finding aimed to uncover the state of internal controls in SMEs. The extent of implementation of internal controls by SMEs is aligned with the first research question and the first objective of this research study. After analysis of data provided by individual SMEs, it can be said that:

- SMEs are not implementing controls as they ought to and those SMEs that have controls in place do not ensure that they are adhered to effectively and efficiently in order for them to meet their desired objectives. SMEs confirmed that they do not have the following controls in place: 63% do not have financial and marketing controls; 61.7% do not have operational controls; 64.2% do not have technological controls in place; 54.3% do not have cost controls in place; 69.1% do not have income regulation controls; 74% do not have consumer relations controls in place; and 81% do not have corporate governance controls in place.
- Linked to the above, cross tabulation by gender found that despite females being less educated (third finding), SMEs that have females as captains are better placed in terms of internal control presence and implementation than their male counterparts. However, we should note that males lead on technological controls and financial controls.

### **5.5.2 Seventh finding**

The second finding was aimed at getting an understanding of how SMEs perceive sustainability. The following came out:

- SMEs now give high regard to internal controls' contribution to sustainability. Only a handful (27.2%) perceive internal controls to be important, nearly 10% view controls as important, 13.6% moderately regard internal controls as important, 34.6% view controls as slightly important, and 14.8% opine that controls are not relevant at all.
- The control group (dormant SMEs) was asked the same question two-folded, firstly how they view internal controls when they were still in operation, and how they currently view internal controls after discontinuing operations. When they were still in operation, 50% of the control group viewed internal controls as not relevant at all. Contrary to now,

only 4.2% still believe that controls are still not relevant at all. Only 4.2% of the dormant SMEs viewed controls to be important whilst they were still in operation.

- Cross tabulation to compare male and female results revealed that females perceived controls to be important as compared to males; a higher proportion of males as compared to females perceived controls to be moderately important. Many males also viewed controls not to be relevant at all.

The above findings perhaps confirm the notion that sustainability is more emphasised in larger enterprises while SMEs have been neglected in terms of teaching them on the importance of having a sustainable business. Fiske's (2018) opinion is that perceptions are formed based on experience and things which individuals are taught and made to value. As long as SMEs have a perception that internal controls are not relevant at all, implementation and appreciation of their value to sustainability of the businesses remains arduous.

### **5.5.3 Eighth finding**

Linked to the above and exclusively to the control group (dormant SMEs) finding eight comes from the determination on how the presence and or absence of internal controls impacts sustainability of SMEs. The following surfaced:

- 45.8% entirely agreed that the absence or neglect of internal controls leads to the discontinuing of business operations. Also, a larger number (41.6%) concurred opining to a greater extent that neglect of internal controls leads to business failure. 8.4% attested that internal controls were moderately important. None from the control group opined that controls did not play any role to their discontinuing operations.
- Cross tabulated results on the above revealed that after discontinuing operations, both males and females opined neglect and/or absence of controls contributed to their business discontinuing operations.

### **5.5.4 Ninth finding**

The study found through analysis that SMEs in operation for a longer period were also the same SMEs that had control manuals in place. When compared to the results of the control group where SMEs agreed not to have controls in place, a tally with number of years the SMEs were in operation, a conclusion was reached. The absence of controls leads to businesses

discontinuing their operations after short period of existence in comparison to SMEs that have control manuals in place.

### **5.5.5 Tenth finding**

Finding ten is heavily reliant on data from the control group (Dormant SMEs) who were posed with a question on what they now think they could have done differently if they were given a chance.

- 54.1% mentioned nepotism as the greatest hindrance to effective functioning of controls within SMEs.
- 50% mention that controls must always be in place and they should be effectively and efficiently applied through the whole SME structures without exempting anyone from abiding by the controls.
- “Because running the SME was a part-time thing, I did not pay much attention to it”. This quote shows that some SMEs might be failing because the owner has somewhere else to rely on for income.
- “Forming an association to get advice and help.” The statement speaks to training and development towards making SMEs realise how important it is to run a sustainable business and encouraging best practices in SMEs.

## **5.5 Recommendations to Government**

Recommendations propounded in this study are based on the influence of internal controls on the sustainability of SMEs, as endowed in the literature review section of this study, and reported by SMEs operating in the Harare CBD. For easy comprehension, recommendations are reported in line with stakeholders, which include captains of SMEs, large firms and the government. The two recommendations to government are stated first.

### **5.6.1 Recommendation one**

The research study has highlighted the importance of internal controls to the sustainability of a business. It is of paramount importance that SMEs are schooled and capacitated with skills, management capabilities and technical competencies on the issue of internal controls and sustainability. The literature discussed the importance of SMEs and the advantages of having an economy with them. That being the case, the government and any other organisations with the capacity of doing so need to develop particular suited skills development and training programs to capacitate captains of SMEs with appropriate knowledge on the importance of

internal controls and having sustainable SMEs. This recommendation is made basing on the fact that this research found that SMEs are not implementing internal controls at all, and the few SMEs that are implanting the internal controls are not as efficient and effective as they ought to be.

### **5.6.2 Recommendation two**

SMEs can only subsume macroeconomic activity and policies to but a certain degree. It is important that a conducive and enabling business environment be created by the Zimbabwean government and the local authorities (City of Harare). They should provide policy certainty, which in turn helps SMEs to forecast and plan for their future operations. Programs that foster and stimulate growth of SMEs should be developed and put into action. This recommendation comes against the background that SMEs were asked what influences the presence or absence of internal controls. An enabling environment was echoed by SMEs as an influence across all industries. This would go a long way to see SMEs becoming sustainable; by so doing, the nation of Zimbabwe benefits from the vast advantages brought about by SMEs as discussed in the literature section (Chapter Two).

## **5.6 Recommendations to captains of SMEs and large firms**

The five recommendations to captains of SMEs and large firms will now be listed and discussed.

### **5.7.1 Recommendation three**

Stemming from recommendations which focused on the government, it is in the best interest of SMEs to form associations of organisations which bring them together. These associations would play a part in representing SMEs at a national level, interacting with the government and making sure that when policies are being drafted, the interests of SMEs are presented and made known. These associations also make it easier for the government to roll out programs to equip SMEs with training and development programs.

### **5.7.2 Recommendation four**

Capital for expansion and for the achievement of optimum operation levels was highlighted in this research study. Two points can be derived. Firstly, SMEs should be schooled on the benefits of running a formal registered business as this makes it easier for them to explore credit facilities, among other benefits. Secondly, credit facilities should be made available to

SMEs. Financial institutions should be encouraged to explore the option of lending to SMEs. This entails lessening very high demands of collateral. The government and other capable organisations should explore the option of acting as guarantees for SMEs when they borrow from financial institutions.

### **5.7.3 Recommendation five**

SMEs highlighted concerns over intellectual property being stolen, which has an adverse effect on innovation. It is important that assistance with patenting and copyrights be afforded to SMEs. The government should consider granting privileges of differing patent fees by SMEs. The government should also consider this as it encourages innovation and development of SMEs. The government is key as it should also lobby and collaborate with developed countries to facilitate the dissemination of the experience in supporting and stimulating innovation activities of SMEs.

### **5.7.4 Recommendation six**

Building a trade and investment capacity for SMEs includes a deliberate effort to develop a national strategy which deals with export development and promotion. The government should encourage participation of all key stakeholders. Efforts should be directed at increasing the size and value of exports. The government should direct efforts to increase the number of exporting companies. The strategy should consider firms at different stages of export market development. An integration of export support and promotion should be the objective, by so doing, creating an effective business support system. Export support should be given to SMEs; this can include but not limited to:

- Information dissemination regarding specific markets and potential customers.
- Assistance contacting potential customers, public and private intermediaries and business service providers who can potentially have interest in good and/or services produced by SMEs in the Harare CBD.
- Where possible, the associations which must have representatives of government mentioned in the fifth finding above should assist with market visits.
- The government in its capacity should play a pivotal role to improve the flow of information of potential local suppliers and potential international purchasers, including creating supply opportunities to potential suppliers. An easier way of doing so would be by setting up a national website and/or electronic platform.

### **5.7.5 Recommendation seven**

The research found that SMEs perceive internal controls negatively and mostly as extra work, which slows down operations. The perception towards internal controls for a business that had been in existence (sustainably) for a longer period is different from that of businesses that are still new and at the start-up stage. The research also found from dormant SMEs, a huge difference of perception of SMEs during operations and after closing operations. That being the case, in addition to finding 5.4.3, the government must consider further investing in targeted education for captains of SMEs where issues facing SMEs are discussed and testimonies or case studies can be presented to help in fostering positive thinking among SMEs.



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## APPENDIX A: ETHICAL CLEARANCE



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Office of the Chairperson Research Ethics Committee	Faculty: <b>BUSINESS</b>
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At a meeting of the Research Ethics Committee on 17 August 2016, Ethics Approval  
was granted Bure Makomborero for research activities

Related to the MTech/DTech: MTech Business Administration at the Cape Peninsula University of  
Technology

Title of dissertation/thesis:	THE INFLUENCE OF INTERNAL CONTROLS ON SMALL BUSINESS SUSTAINABILITY IN THE HARARE CENTRAL BUSINESS DISTRICT, ZIMBABWE  Supervisor: Dr R Tengeh
-------------------------------	---

Comments:

Decision: **APPROVED**

	17 AUGUST 2016
Signed: Chairperson: Research Ethics Committee	Date

Clearance Certificate No | 2016FBREC389

*All communications should  
be addressed to*  
"The Secretary for Tourism  
and Hospitality Industry"  
**Telephone: +263 4 775 402**  
**Telegraphic address:**  
**"TOURISMT"**  
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**Ministry of Tourism and Hospitality  
Industry**  
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P.O. Box CY 1718  
Causeway  
Harare, Zimbabwe



8 June 2016

Mr Makomborero Bure  
**Cape Peninsula University of Technology**  
**Cape Town, South Africa**

**RE: CONSENT TO UNDERTAKE RESEARCH**

The above subject matter refers.

We are glad to acknowledge receipt of your request intending to do academic research in Small Medium Firms which fall under our Ministry.

We wish to advise that permission and authority thereof, has been granted, and we wish to state that the information you will obtain will be for academic purposes.

By copy of this letter to your and subsequent submission to your institution, we advise that you can proceed to carry out your research without hindrance.

For any further clarifications, please do not hesitate to contact the undersigned on direct office telephone: +2634777964 or mobile number +263775846100.

A handwritten signature in blue ink, appearing to read 'D. Muzeza'.

Dr D. Muzeza (DTech)  
Acting Deputy Director-Policy, Research, Planning and Development

**For: SECRETARY FOR TOURISM AND HOSPITALITY INDUSTRY**  
**REPUBLIC OF ZIMBABWE**

**APPENDIX B:  
QUESTIONNAIRE TO ACTIVE  
SMEs THE IMPACT OF INTERNAL CONTROLS ON SMALL**

**Active SMEs**

**Consent section**

a. I understand that my participation in the study is entirely voluntary and that I am free to stop at any time.	1.Yes	2.No
b. I understand that I cannot be identified by my answers and that my answers cannot be linked to me.	1.Yes	2.No
c. I understand that I do not have to answer any question I do not wish to answer for any reason.	1.Yes	2.No

**Business Demographics**

1a. Specify the Industry of your enterprise

1. Food and Beverage
2. (ICT)
3. Manufacturing and Engineering
4. Transport and Logistics
5. Retail and Wholesale.

6. Service

Other, specify \_\_\_\_\_

1b. Size of business enterprise

Small  Medium

1c. How long have you been in existence /operating? (*In years*)

0-3  4-6  7+

1d. How many employees do you employ?

<10  10 - 20  20+

**Business Internal Controls**

2a. Who owns and manages the business

- Family owned and family managed   
 Self-owned and self-managed   
 Separate ownership and management

2b. List the main challenges facing the business enterprise?

i. \_\_\_\_\_

ii. \_\_\_\_\_

iii. \_\_\_\_\_

2c. How does the business enterprise overcome these challenges?

i. \_\_\_\_\_

ii. \_\_\_\_\_

2d. Who develops the operational manuals/procedures for the business enterprises?

Owner  Manager  No one

2dii. if answer is Owner or Manager, Then what is their highest qualification do they have

Primary	
Secondary (O-level)	
High School (A-Level)	
Certificate	
Diploma	
Degree	
Postgraduate	
No Education	

2diii What is the age group of respondent

Less than 18 years	
18 - 28 years	
29 – 38 years	
39 - 48 years	
49 – 58 years	
59 and above	

2ei Gender of respondent

Male  Female

2eii Legal status of business

Registered  Unregistered

2f ii. What are the operational procedures and/or manuals in place?

	Yes	No
Financial		
Operational		
Marketing		
Technological		

2f ii. Who enforces the manuals and/or procedures?

	Yes	No
Manager		
Owner		

### Sustainability issues

3a. Does the business enterprise have controls for the following business elements?

	Yes	No
Costs control		
Income regulation		
Consumer relations		
Corporate Governance		

3b. If yes, what type of controls exist?

i. \_\_\_\_\_

ii. \_\_\_\_\_

3c. How does the presence and/or absence of these controls affect the achievement of business enterprise's objectives?

iii. \_\_\_\_\_

iv. \_\_\_\_\_

3d. What other elements apart from controls impact the achievement of business objectives in your enterprises

i. \_\_\_\_\_

ii. \_\_\_\_\_

iii. \_\_\_\_\_

3e. To what extent is the survival of your business affected by macro economy issues such as inflation?

Scale	Scale	Tick
1	Not at all	
2	Lesser extent	
3	Moderate extent	
4	Greater extent	
5	Always	

### Integration of internal controls and sustainability

4a. How do you rate the importance of internal controls on the sustainability of the business enterprise?

1	Not relevant at all	
2	Slightly important	
3	Moderate	
4	Important	
5	Very Important	

4b. Have you set goals for sustainability within your business enterprise?

Yes  No

If yes, who has been leading the activity?

Owner  Manager  No one

If no, why? \_\_\_\_\_

4c. What external support do you require to achieve the objectives of the enterprise?

\_\_\_\_\_

## APPENDIX C: QUESTIONNAIRE TO DORMANT SMEs

### THE IMPACT OF INTERNAL CONTROLS ON S MALL BUSINESS SUSTAINABILITY IN ZIMBABWE

#### Dormant SMEs

#### Consent section

a. I understand that my participation in the study is entirely voluntary and that I am free to stop at any time.	1.Yes	2.No
b. I understand that I cannot be identified by my answers and that my answers cannot be linked to me.	1.Yes	2.No
c. I understand that I do not have to answer any question I do not wish to answer for any reason.	1.Yes	2.No

#### Business Demographics

1a. Specify the Industry of your enterprise

- a. Food and Beverage
- b. (ICT)
- c. Manufacturing and Engineering
- d. Transport and Logistics
- e. Retail and Wholesale.
- f. Service

Other, specify \_\_\_\_\_

1b. Size of business enterprise

Small  Medium

1c. how was your business in existence /operating? (In years)

0-3  4-6  7+

1d. How many employees did you employ?

<10  10 - 20  20+

#### Business Internal Controls

2a. Who owned and managed the business

Family owned and family managed

Self-owned and self-managed

Separate ownership and management

2b. List the main challenges which the business enterprise experienced?

i. \_\_\_\_\_

ii. \_\_\_\_\_

iii. \_\_\_\_\_

2d. Did the business have operational manuals/procedures for the business enterprises?

Yes  No

2d. Who develops the operational manuals/procedures for the business enterprises?

Owner  Manager  No one

2dii. if answer is Owner or Manager, Then what is their highest qualification do they have

Primary	
Secondary (O-level)	
High School (A-Level)	
Certificate	
Diploma	
Degree	
Postgraduate	
No Education	

2diii What is the age group of respondent

Less than 18 years	
18 - 28 years	
29 – 38 years	
39 - 48 years	
49 – 58 years	
59 and above	

2ei Gender of respondent

Male  Female

2eii Legal status of business

Registered  Unregistered

2e. Select the operational procedures and/or manuals which were in place?

	Yes	No
Financial		
Operational		
Marketing		
Technological		

2f. Who enforced the manuals and/or procedures?

	Yes	No
Manager		
Owner		

**Sustainability issues**

3a. Did the business enterprise have controls for the following business elements?

	Yes	No
Costs control		
Income regulation		
Consumer relations		
Corporate Governance		



3b. If yes, what type of controls exist?

v. \_\_\_\_\_

vi. \_\_\_\_\_

Scale	Scale	Tick
1	Not at all	
2	Lesser extent	
3	Moderate extent	
4	Greater extent	
5	Always	

3c. To what extent did the absence of controls contribute to the failure of the business?

Scale	Scale	Tick
1	Not at all	
2	Lesser extent	
3	Moderate extent	
4	Greater extent	
5	Always	

3d. What other elements apart from controls impact do you consider impacted on achievement of business objectives in your enterprises

iv. \_\_\_\_\_

v. \_\_\_\_\_

vi. \_\_\_\_\_

3e. To what extent was the survival of your business affected by macro economy issues such as inflation?

### Integration of internal controls and sustainability

4a. Did the business have set goals for sustainability within your business enterprise?

Yes  No

If yes, who was leading the activity?

Owner  Manage  No one

If no, why? \_\_\_\_\_

4c. What external support do you think if you got you would have attained the business objectives of the enterprise?

\_\_\_\_\_

4d. What do you think the business could have done differently? /

(Advice to Active SMEs)

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