

# Factors Affecting the Internationalisation of Manufacturing SMEs in Zimbabwe

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## EXECUTIVE SUMMARY

This policy brief presents evidence that SME internationalisation is at very low level in Zimbabwe. It identifies the major factors that are inhibitors of SME internationalisation in the manufacturing sector, including negative attitudes by SME owner/managers, lack of international market knowledge, risk perception by owner/managers, inadequate financial resources, poor networks

and unfavourable regulation. Furthermore, it outlines the actions the government and industry associations need to take to improve the performance of manufacturing SMEs through internationalisation. It is recommended that government should work closely with SME associations to better understand their resource needs.

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## INTRODUCTION

According to the relevant literature, there are a number of factors that inhibit or drive SME internationalisation. However, this work has been based in the developed countries and in only a few developing countries. Very little information is available on SME internationalisation in Zimbabwe.

Eighty percent of manufacturing SMEs in Zimbabwe have not fully internationalised, suggesting the presence of a myriad of inhibitors. This research is focused on identifying the factors affecting SME internationalisation in the manufacturing sector in Zimbabwe. It further suggests how the Government of Zimbabwe and the SMEs can mitigate these factors.

## METHODOLOGY

This study adopted a triangulation of both the explanatory and descriptive analytical design. This involves using quantitative approaches to collect primary data from a large number of respondents with the intention of projecting the results to a wider population.

The target population was all manufacturing SMEs in the formal sector. The number is estimated to be 1,451. Using scientifically proven approaches, a sample size of 302 was obtained.

To select 302 SMEs, a simple random technique was used. Each SME in the sample frame was assigned a number according to their sequence in the SME directory. After choosing the first number randomly, a number was then chosen at intervals of three until the 302 SMEs were selected.

The research sought to determine the effect of identified independent variables (including availability of funds, age and size of SMEs, age, experience, attitude and perception of owner managers) on the dependent variable (SME internationalisation). Hypothesis testing was conducted to accept or reject propositions that each of the independent variables positively influences

internationalisation. Correlation analysis was also conducted to ascertain the degree of association between certain independent variables and SME internationalisation.

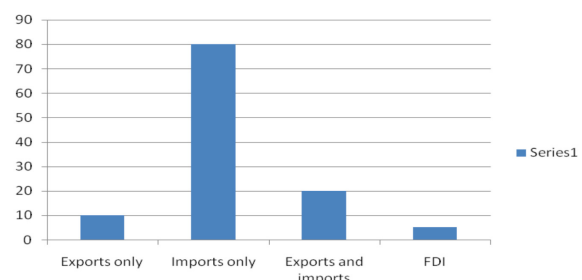
## RESULTS AND DISCUSSION

Out of 302 questionnaires that were distributed, 141 were returned and usable for data analysis. This gave a response rate of 47 percent.

### • Mode of internationalisation

The findings show that 80 percent of the SMEs are involved in only importations, 20 percent are into both importations and exportations, 10 percent are in only exportations, and five percent are into foreign direct investment (FDI).

**FIGURE ONE: SME Internationalisation Activities**



Source: Survey data

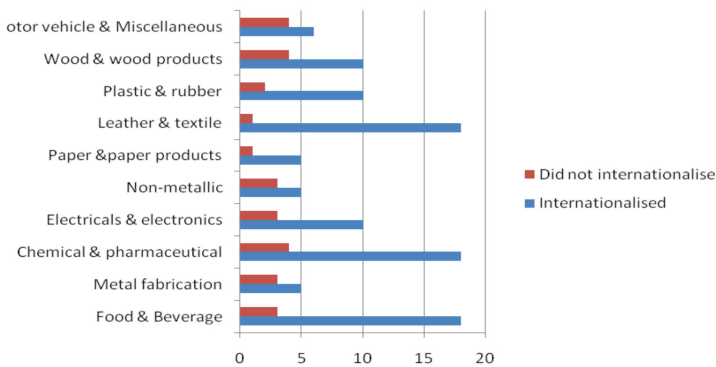
The results show that there are more SMEs in the import sector than those that export sector. Although both imports and exports increase chances of SME survival, a preference towards imports may have a negative impact on the overall balance of payment (Onkelinx and Sleuwaegen, 2008).

### • Sectoral internationalization of SMEs

The SME manufacturing sectors that lead in internationalization include 1) food and beverages, 2) textiles and leather, and 3) chemicals and pharmaceuticals, respectively. Metal fabrication, non-metallic and glass, and paper and paper products have the lowest international involvement level. This could be because of the small number of

stakeholders involved in these sectors. Figure Two is a graphic representation of these results.

**FIGURE TWO: SME Sectoral Internationalisation Level**

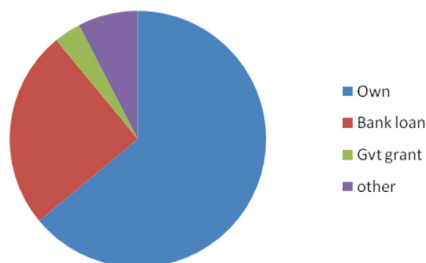


Source: Survey data

• **SME source of financial resources and internationalisation**

The sources and level of funding are critical in international ventures. Figure Three shows that 64 percent of the internationalised SMEs used their own resources, 25 percent received loans from banks, and 3.4 percent received government assistance. At the same time, findings in Figure One show positive correlation coefficient of 0.4 between financial resources and internationalisation. Therefore, it seems that the availability of financial resources has been limiting the internationalisation of SMEs.

**FIGURE THREE: Sources of Funds for Internationalization.**



Source: Survey data

• **Impact of SME age and size on internationalisation**

The SME age produced a correlation coefficient of -0.955 with internationalisation, while size produced -0.818. This demonstrates that the older and bigger the SME, the stronger the inertia to internationalise. The results are consistent with those by Rajesh (2008) and OCED (2009).

• **Impact of SME manager/owner's age on internationalisation**

The manager's age and internationalisation show a moderate positive relationship, with a correlation coefficient of 0.5. There has been very limited research in this regard, as the focus was on manager's experience, capabilities or level of education. This may imply that as age increases, the manager has more experience, which results in reduced risk perception and greater linkages necessary for internationalisation.

• **Impact of networks on internationalisation**

Hypothesis tests confirmed the proposition that networks positively influence internationalisation. This is consistent with studies by Lu and Blemish (2012) who found that international networks are key in expediting internationalisation through knowledge and information flow, movement of goods and services, and capital transfer.

• **Impact of knowledge of regulation on internationalisation**

The findings of the study show that knowledge of regulations, rules, and laws in the foreign market positively influences SME internationalisation. Cateora (2010) made similar observations.

## RECOMMENDATIONS

This study has shown that the internationalisation of SMEs in Zimbabwe is affected by inadequate financial resources, negative attitudes towards internationalisation, lack of information about international market requirements, and weak or non-existent networks. It is therefore recommended that:

- An environment to facilitate SME financing should be created, as internationalisation requires significant funding for pre and post-shipment activities. Government and industry associations could facilitate the financing of these activities through bank loans, grants, and more. Furthermore, follow-ups could measure the impact of support and assess effectiveness of specific measures.
- Government and industry associations could initiate continuous campaigns to raise awareness, and describe the benefits of internationalisation in the face of globalisation. Information about international market requirements, laws and regulations should be made available to both new and old SMEs. Quality advisory service is needed by the SME sector.
- SMEs should be linked with local, regional and international strategic partners and multinational enterprises to circumvent barriers to internationalisation. Clusters could be developed to assist SMEs in establishing partnerships and increase international cooperation.
- There should be a right framework for education and training of SMEs, as well as trade and investment.

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