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**Primary Factors Threatening Survival of SMEs in  
Mozambique**

SAWAYA ALEN

PhD Student with the Zimbabwe Open University (ZOU).

Tel: +258 84 310 9900.

E-mail: [asawaya@afritool.co.mz](mailto:asawaya@afritool.co.mz)

BHERO, SHEPHERD

Department of Chemical, Materials and Metallurgical Engineering

Botswana International University of Science and Technology

Tel: +267 75 90 76 85

E-mail: [Bheros@biust.ac.bw](mailto:Bheros@biust.ac.bw)

**Abstract**

There is no dispute that entrepreneurship is critical for spurring entrepreneurs into launching small businesses to solve the perennial problem of youth unemployment. The prevailing viewpoint has therefore postulated on the fact that only the lack of entrepreneurship is to blame for the observed paucity of business start-ups to address the scourge of unemployment in Mozambique. This paper is based on a research that was carried out in Greater Maputo, the capital of Mozambique, involving a sample of 485 SMEs chosen using random sampling strategy. A face to face interview was conducted using structured, close-ended questionnaires to collect the primary data. The research was carried out applying quantitative methodology, using descriptive statistics and inferential research design, emphasising on frequencies and percentages as

instruments of data management. The study revealed that the main problem of the start-up, growth and sustainability of SMEs was in fact inadequacy in competitiveness rather than the lack of entrepreneurship per se. The paper therefore offered recommendations on the appropriate solutions of encouraging the spirit of competitiveness within SMEs so as to deal with the scourge of youth unemployment in Mozambique.

**Key Words:** Competitiveness, Entrepreneurship, small and medium enterprises, SMEs

### **Introduction**

The problem of employment has been a troubling concern in Mozambique, a country in which nearly 23% of its youth are considered unemployed (Mapote, 2013). Decision makers have constantly pondered on ways and means of resolving this endemic problem by adopting several measures that included formulating supporting strategies through government organizations, financial institutions, or involvement of large firms to render support to budding small businesses and so on. Academics and investigators from several fields, notably universities, and specialized supporting organization have carried out field works to determine the missing variable that hampered the establishment and growth of SMEs, which were considered to be the best solution to counter the problem of unemployment. Several theories were put forward and conclusions drawn overwhelmingly suggesting that the problem lied with the lack of the spirit of entrepreneurship in Mozambique that discouraged the formation of small businesses and as such the failure of these entities in resolving the endemic scourge of unemployment. The present study attempted to prove that the main problem lies in the lack of competitiveness rather than entrepreneurship. The study will analyze the review of related literature; the methodology used in the study, discussions of the results and offers a conclusion at the end.

### **Review of Related Literature**

The following section will analyse the literature pertaining to the three main variables considered in this paper, being SMEs, entrepreneurship and competitiveness.

#### **1. The Role of SMEs in Mozambique**

This section analysed a brief literature of SMEs in Mozambique, starting from the definition, role and challenges facing this important sector in the country. Storey (2008) declared that there is no regional or indeed global consensus on the definition of Small to medium enterprises (SMEs). Although there is no single and uniformly acceptable definition, SMEs are known globally to be effective in creating employment for young people and further enhancing economic development. The OECD estimated that small and medium enterprises account for 90% of firms and employ 63% of the workforce in the world (Munro 2013; cited in Berisha & Pula, 2015). The safest method of understanding and researching on SMEs is to believe that there is no specific definition of SMEs that may be taken as a reference by all economies, statistical agencies or

researchers of economy (Berisha & Pula, 2015). Despite the lack of a global definition of SMEs the importance of SMEs in employment creation, growth in national income, increase in exports, income distribution and dissemination of appropriate technology and innovation is indisputable. For the purpose of this study and in the Mozambican context, micro enterprises are those hiring between 1 to 4 workers with an annual turnover of less than US\$ 40,000; small firms being those hiring between 5 to 49 workers or having turnovers of less than US\$ 500,000 and medium enterprises are firms employing between 50 to 100 workers with annual turnovers of less than US\$ 1.000.000 (Zimba, 2013).

SMEs are recognized as an engine of growth in Mozambique. Fox and Sohnesen (2013) revealed that a lot of new jobs came about from start-up micro, small and medium enterprises rather than hiring within the existing SMEs. According to Fox & Sohnesen (2013) out of all registered SMEs, ninety-six percent are run by a single person with or without family help, while only 4% of SMEs reported hiring any worker outside the family. Yet, Valá (2007) disclosed that 78% of the total entrepreneurial businesses in the manufacturing and industrial sector in Mozambique pertained to the SMEs, covering about 67% of all the workers employed in this sector. In his assessment of the SMEs in Mozambique, Zimba (2015) revealed that although SMEs represented a larger portion of all registered businesses in Mozambique employing close to 70% of all working population, they contributed to a modest 24.1% of the National income.

## **2. The Challenges of SMEs Development in Mozambique**

Omar et al, (2009) argued that the main characteristic that distinguishes SMEs from larger firms other than size itself is that of uncertainty. According to these authors, additional challenges include among others, lack of markets, tight and rigid government tax systems, inadequate infrastructure, low capacity of research and development in technology, globalization and inadequate managerial knowledge and skills. Others include, barrier from global sourcing, poor infrastructure, low productivity, lack of managerial competence and poor enforcement of regulatory legislations (Fox & Sohnesen, 2013). The unfavourable contribution of SMEs into the national wealth had prompted the Mozambican government to constitute the Institute of Promotion of Small and Medium Enterprises (IPEME) under the Ministry of Industry and Trade, whose main mission is to encourage the deployment, consolidation and development of SMEs (Zimba, 2015). Within the IPEME a specialized institution was established known as the national institute of promotion of SMEs or put simply, the Enterprises Incubator (IE). The aim of the IE is to stimulate entrepreneurship and the formation of preliminary training in business management and development of micro and SMEs through the creation of enterprises incubators (Zimba, 2015). The IE strategy however, does not define in details how the planned incubation course of action is aimed at particular groups such as the youth. This is a serious gap that has

been observed and this paper intends to address this important omission pertaining to SMEs development in the Mozambican context.

### **3. Entrepreneurship as Perceive in Mozambique**

Entrepreneurship refers to an individual's ability to turn ideas into actions. It encompasses creativity, power of initiative, innovation and risk-taking, including the instincts to plan and manage projects in order to achieve the required intention (Nagler & Naudé, 2014). The authors mentioned that education plays a subsidiary role in entrepreneurship because entrepreneurs are born and not made. The weakness of home-grown entrepreneurship is mentioned among the main causes of Mozambique's developmental crisis, often not without reason (Valá 2007; Nagler & Naudé, 2014). Low development indices and rampant unemployment prevailing over Mozambique sends a message that the spirit of entrepreneurship needed to encourage business activities in order to create more employment and growth, is lacking. In an effort at instigating entrepreneurship in Mozambique, the IPEME and the national institute of employment and professional training (INEFP) were conceived to ensure that the system met both the need of formal and informal sectors, promoting entrepreneurship, on the job training and apprenticeship training (INEFP, 2013).

SMEs are an outcome of entrepreneurship, and have the possibility to generate direct and indirect employment especially for young people. Small firms are not only the fastest growing sector in Mozambique and Africa - they are also considered an outlet for indigenous entrepreneurship (Vletter de, 1996; cited in Kauffman & Parlmeyer 2000). Therefore, it is necessary to inculcate entrepreneurship through exposure to business in the formative years of youths by work integrated learning, vocational employment and even organised industrial trips for students. One reason for low training threshold may be attributed to the paucity of information relating to training for entrepreneur in Mozambique. A report on Mozambique by the International Growth Sector - IGS (2016) reveals that one programme of this nature is the Entrepreneurship Curriculum Programme (ECP). This program was initiated by the Mozambican ministry of education and culture together with UNIDO and the government of Norway. The programme aimed at promoting entrepreneurship creation, through the SMEs. Such noble initiatives nonetheless, may not be known to many budding SMEs in remote areas and ordinary folk due to low publicity.

### **4. Competitiveness and its Advantages**

Our next discussion is on the theory of competitiveness. Porter (1993) separated competitive advantage into two components: Lower cost and Differentiation. Lower cost is the ability of a firm to design, produce, and market a comparable product more competently than its competitors. At prices near those of its competitors, lower cost translates into a firm's superior returns. Differentiation is the ability to give unique and advanced value to the buyer in terms of product quality, special features, and after-sales

service. Producers who have a competitive advantage compete on differentiation strategies involving high product performance, reliability, and responsive service. Differentiation gives the business the ability to command better prices which lead to profitability as long as the costs are comparable to those of competitors (Porter, 1993).

Competitive advantage of either kind translates into improved productivity for a firm. The low-cost firm produces a given output using fewer inputs than competitors need. The differentiated business attains higher revenue per item than competitors (Porter, 1993). Successful businesses have to pay close attention to both types of advantages, yet, upholding a clear commitment to dominance on one. Porter however, warns that any advantage can be surpassed by competitors sooner than it may be expected. The solution therefore is to improve continuously the firm's performance against its existing advantages; for example, more efficient operation of its production services or more responsiveness in terms of customer service. The development of a competitive advantage also develops from the way local Mozambican customers respond to the products of the businesses. Local demand can pressure businesses to meet the high standards demanded by them. Demanding customers are considerably more likely to provoke improvement and innovation than from outside buyers (Porter, 1993).

Competitive advantage grows not from comfortable home surroundings, but out of insistences, challenge and demands, according to Porter (1993). Therefore, the key to the competitiveness of SMEs depends on the accessibility of individual knowledge, skills, or aptitudes of the entrepreneurs. SMEs as such, employ these skills as an advantage to develop new products and improve on services (Pratten, 1991). SMEs have the advantage of being flexible in adapting to the challenges of innovations and new technology. The SMEs smallness make them lack economies of scale and scope, but this may be substituted by their readiness to adopt new techniques of production and the use of adaptable and appropriate manufacturing systems (Pratten, 1991).

### **Research Methodology**

The study was carried out in Greater Maputo, the capital of Mozambique. Maputo is the melting point of all business activities in the country. Maputo was chosen because it is home to more SMEs than any other provinces of the country and as such has all the characteristics necessary to represent the other provinces. A sample of 485 SMEs were chosen from the population of SMEs in accordance to the acceptable definition of SMEs prevailing in Mozambique. The choice was made on the basis of simple random sampling, from the seven administrative districts of Greater Maputo that have different levels and indices of economic and social development. Data was collected from owner-managers of SMEs through interviews carried out on the basis of face-to-face approach, using structured questionnaires that abided by the closed-end format. Data was processed using the SPSS program, with the assumption that it was non-parametric data, that entails less theoretical efforts resulting in the process being faster

and more user friendly. The quantitative approach was used, whereby the study employed descriptive statistics and inferential research design, involving frequencies and percentages as instruments of primary data collection.

### Findings and Discussion

The following sections reviews the findings from the study, discussed on the basis of divergence of views: The findings will be analysed and argued in order to contrast with the common conviction that prevails in Mozambique that it is solely the lack of entrepreneurship that impedes the establishment and advancement of SMEs for the purpose of alleviating unemployment in Mozambique. The section outlines the findings from the 485 SMEs that were surveyed in Greater Maputo, and whose implication assist in demonstrating the dichotomy between two important variables entrepreneurship and competitiveness amongst SMEs in Mozambique. The study looked specifically at three modules that are crucial in determining whether entrepreneurship or competitiveness is the dominant variable in SMEs development and sustenance in Mozambique:

#### 1. The motive that Prompt People to Establish Their Own Businesses

There is prevalence belief that many potential business people would start their companies only if they had sufficient knowledge of the market or if they discovered the existence of a business opportunity (niche) in the market. However, out of the sample of 485 SMEs surveyed in this study, 61.8% wanted the autonomy and pleasure that come with being one's own boss as shown in Table 1 below:

**Table 1: Motive for Starting Own Businesses**

Motive for starting own business	Frequency	Percent
Personal wish to be own boss	300	61.8
Following appropriate training	73	15.1
Family influence	47	9.7
Attractive market incentives	43	8.9
Others	22	4.5
<b>Total</b>	<b>485</b>	<b>100</b>

From the study, only 8.9% of the respondents cited the discovery of incentives in the market as a reason for going into personal business, followed by 15.1% who said they started their firms because they had the appropriate training.

A study of SMEs in Mozambique by IPEME found that 31% of all respondents cited 'prior knowledge of the market' followed by 'discovering of opportunities in market

(27%)’ as the main factors for starting SMEs (IPEME, 2015:14). In other words, supporters of these arguments contend that if these opportunities were missing, potential entrepreneurs would not risk leaving secure paid employment and launch their own businesses.

The supposition is that the mere fact that people left previous employment for business independence is enough proof that entrepreneurship exists and not in contrast. This also invalidates the argument by Batista et al, (2014) that there is a need of an external factor, such as the presence of an immigrant in a household to stimulate entrepreneurship. There is a reasonable level of entrepreneurship in Greater Maputo and Mozambique as a whole, but the birth, growth, development and survival of SMEs is hampered by other extraneous factors such as *inter alia* low education, lack of proper training, lack of a view to innovate and adoption of new production ideas. Fox and Sorrenson (2013) revealed that a large percentage of SMEs in Mozambique operated their enterprises from homes; offering poor services or producing low cost, inferior goods needed by other households such as hairdressing, bricks making, furniture, beer and charcoal processing. Many SMEs established in Mozambique lacked innovative ability, operated at very low worker productivity levels and had owner-managers without the necessary skills and acumens of business management. The problem is not necessarily lack of entrepreneurship, rather it is the lack of competitiveness that would require SMEs to operate at increased productivity, and strive to produce goods and services of higher quality.

Government support all along has been geared at supporting the growth of entrepreneurship in Mozambique for example through the promotion of incubators under the IPEME initiative. These measures did not take into consideration the question of workers productivity or innovativeness pioneering within SMEs, especially manufacturing ones. Therefore, it is necessary to inculcate competitiveness by exposing youths to business in the formative years through work integrated learning, vocational employment, apprenticeships and even organised industrial trips for students. The existing incubators must not only strive to encourage entrepreneurship, but must offer training on tactics of improving worker productivity and instil the aptitude of improving product or services quality.

## **2. The Sources of Funds for Business Start-Up and Sustainability**

It is widely accepted that many would be entrepreneurs are not able to launch their SMEs because of lack of funding. The study in Greater Maputo nonetheless found that almost 84 percent of all those surveyed used their personal funds to start own businesses as shown in Table 2.

**Table 2: Source of Start-up Capital of SMEs**

Source of start-up capital	Frequency	Percent
Personal funding	402	84
Help from family	28	5.4
Commercial banks	27	5.1
Informal sources	10	1.4
Microfinance groups	2	0.6
Others	16	4.1
<b>Total</b>	<b>485</b>	<b>100</b>

By having so many owner-managers committing their meagre savings to launch businesses was a clear sign that the urge to form and manage own businesses superseded the constraint of not having alternative sources of finance. The belief in Mozambique is that the youth shy away from entrepreneurship because of lack of support from financial institutions (Fox & Sohnesen, 2013). The implication is that youths would not venture into business unless formal financial institutions or specialized government financing bodies lend funds to the aspiring entrepreneurs.

The willingness to commit meagre person funds in business star-ups is a clear sign of the presence of entrepreneurship in Mozambique. The challenge is on how the businesses are run. Inadequate managerial expertise, due to inadequate training, or previous experience in running a business concern is one of the major constraints. The limited success in running successful SMEs could also be due to lack of interlinked family support on the part of owner-managers who are not from business oriented family. Mutalemwa (2005) in a study in Tanzania observed that the variable ‘family background’ is one of the celebrated aspects in SMEs and suggests that individuals whose parents or close relatives are self-employed are not only likely to operate a business, but also to outperform others.

The solution would therefore rest on the need for more effective support to these SMEs. Financial institutions could launch user friendly funding packages that would entail less bureaucratic procedures; the government could engage in infrastructural modernization that would enable accessibility to new information systems. Large firms could assist by provision of factory space and lending of machinery and tools, and non-governmental bodies (NGOs) could assist in training on book keeping and inventory management. These measures could prompt the much-needed spirit of competitiveness amongst SMEs in Mozambique.

**3. Crafting of Business Plans and Organized Accounts**

From the study in Greater Maputo the majority of respondents (68.7%) indicated that they had a business plan at the inception of the SME as shown in Table 3.

**Table: 3 Availability of Business Plan at Start-up**

Availability of a business plan	Frequency	Percent
SMEs that had business plans	333	68.7
SMEs without business plans	146	30.1
No response	6	1.2
<b>Total</b>	<b>485</b>	<b>100</b>

This is a signal that potential entrepreneurs were willing to embark on the odious task of crafting business plans in order to start their businesses, and a clear indication of the presence of entrepreneurship in Mozambique. The conviction amongst business circles especially within the financial institutions in Mozambique is that potential SMEs founders are not able to draft business plans and do not possess organized accounts as such are not eligible for financial support from banks or relief on taxes from the government (Lopes, 2014). With this existing handicap, young people are unable to launch their own businesses or sustain those already in operation leading to failure in a short period.

The lack of support by financial institutions in Mozambique to start-up or sustain ongoing SMEs is not entirely because business plans were not in place but because of *inter alia*, badly crafted business plans, lack of confidence on the entrepreneur, absence of collateral security and policies that are not in favour of SME development. Tomé (2015) in her study on business planning in Mozambique lamented that many of the business plans were not based on business thinking and lamented that the plans were not founded on long time strategies and assessment of risks.

Supporting institutions are supposed to offer the necessary foundation to would be entrepreneurs in designing decent business plans that can encourage banking institutions and government organizations into supporting emerging SMEs. Efforts should be made using big businesses, tertiary institution and NGOs to offer support in training and guidance to SMEs owner-managers on business plans preparations and accounts management, that can give the SMEs a competitive advantage, in order to improve productivity and offer high-quality services.

### Conclusion

Results from the study in Maputo of 485 SMEs dispels the myths and arguments that it is solely the inadequacy of entrepreneurship that holds back the creation and development of enterprises in Mozambique. The arguments presented are in response and largely invalidate the above conviction.

The spirit of entrepreneurship is significant in stimulating people into starting and sustaining their own businesses as such resolve the endemic problem of youth unemployment and stagnant economic growth in Mozambique. Whilst not totally disputed, but evidence presented in this paper showed that entrepreneurship on its own is not the *de facto* cause that thwarts the attainment of these noble national objectives. Evidence presented in this paper, of people leaving their secure vacancies for the business freedom, proofs of young people dedicating meagre funds to start-up businesses and the willingness to draft business plans are a clear evidence of the presence of entrepreneurship and the acumen towards assertive business aspirations. The lack of the drive towards competitiveness was the main problem that hindered the survivability and sustainability of SMEs from their perceived goal of alleviating the scourge of unemployment and weak economic growth.

Supporting institutions and economic agencies have to emphasise and encourage SMEs to strive for competitiveness. The same measures aimed at encouraging the promotion of entrepreneurship among the youth in Mozambique have to be reorganized to motivate SMEs not only to produce abundant goods and services, but to produce superior goods and quality services. Support has to enable start-up SMEs in crafting elaborate business plans and efficient organizational methods that will encompass proper management skills and accounting procedures, to make Mozambican SMEs eligible for attaining support from financial institutions and other supporting organizations.

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