UNIVERSITY OF ZIMBABWE

Graduate School of Management

AN ASSESSMENT OF THE FINANCING STRATEGIES EMPLOYED BY SME REAL ESTATE FIRMS UNDER THE LIQUIDITY CONSTRAINTS IN ZIMBABWE.

A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF THE MASTERS IN BUSINESS ADMINISTRATION (MBA) DEGREE

ACADEMIC YEAR 2014

BY

ADAM CHOWA

GRADUATE SCHOOL OF MANAGEMENT
UNIVERSITY OF ZIMBABWE
P.O.BOX MP 167,
Mt. Pleasant, Harare.
Email: adamchowa@yahoo.com

SUPERVISOR: DR. G. MUPONDA
DECLARATION

I, the undersigned Adam Chowa, do hereby declare that this dissertation is the result of my own systematic process of collecting and analyzing the information resulting in an increase of the understanding of financing strategies employed by small to medium sized real estate firms under the liquidity constraints in Zimbabwe, except to the extend in the acknowledgements, references and acknowledged sources in my report, and that it has not been submitted in part or in full for any other degree to any other University or College.

__________________      _______________
Signature        Date

__________________      _______________
Dr. G. Muponda (Supervisor)      Date
ACKNOWLEDGEMENTS

I would like to thank all my friends and relatives who encouraged me to do the MBA programme during my most difficult time of my life following the death of my beloved wife Ropafadzo. The program really helped me to meet a lot of loving and caring people who continued to inspire me to forget the past and look forward to new things.

Special mention goes to my sister Angela and her husband Mr. S. Nyuke for the encouragement and support. Am very grateful to my daughter Theresa Vimbanayi who also inspired me to do my studies and who also endured most weekends and holidays without me.

I would also want to thank my supervisor Dr. G. Muponda for his support, advice and for being such a committed mentor.

Finally I thank all the Graduate School of Management of the University of Zimbabwe lecturers who taught me various courses during my studies which enabled me to finally write this dissertation.
ABSTRACT

The study sought to assess or investigate the financing strategies employed by SME real estate firms operating under the liquidity constraints in Zimbabwe and the effect on their growth and success.

The phenomenal growth and contribution to the economy of SME real estate firms is widely observed in all developing and emerging economies such as Brazil, Russia, India, China, South Africa and even Zimbabwe. These firms have contributed towards the creation of employment, value addition, foreign currency and competition among others.

The study used both quantitative and qualitative methodologies with combined survey and interview methods. Data was collected from a sample of 110 small and medium sized firms in Harare out of a population of 227 firms trading in Zimbabwe.

The study arrived at the following conclusions: SME real estate firms lacked financing strategies; they rely heavily on private equity and leasing finance; they have little access to bank loans; venture finance and public equity. They also lack skills, training, technology and markets. However the SMEs have great growth potential and have the capacity to increase their contribution to GDP.

The study therefore recommended the following: greater use of financing strategies in their operations; increased access to other sources of finance; skills; training and markets; increase capacity building initiatives to enhance entrepreneurial leadership skills; promote business development services; enhance operation effectiveness; strengthening business associations and increase information sharing or dissemination on available SME initiatives.
# TABLE OF CONTENTS

DECLARATION ........................................................................................................... i
ACKNOWLEDGEMENTS ................................................................................................. ii
ABSTRACT ..................................................................................................................... iii
LIST OF TABLES ........................................................................................................... viii
LIST OF FIGURES ......................................................................................................... ix
LIST OF ABBREVIATIONS AND ACRONYMS ........................................................... x

## CHAPTER ONE
Introduction to the Study

1.0 Introduction.............................................................................................................. 1
1.1 Background to the study............................................................................................. 3
1.2 Macro environmental analysis ................................................................................. 5
   1.2.1 Political Issues ................................................................................................. 5
   1.2.2 Economic Issues .............................................................................................. 6
   1.2.3 Social Issues .................................................................................................... 6
   1.2.4 Technological Issues ....................................................................................... 7
   1.2.5 Ethical Issues .................................................................................................. 8
   1.2.6 Legal Issues .................................................................................................... 8
1.3 Doing business in Zimbabwe..................................................................................... 9
1.4 Competitive Environment ....................................................................................... 11
   1.4.1 Threat of substitute products .......................................................................... 12
   1.4.2 Threat of new entrants .................................................................................... 13
   1.4.3 Industry Rivalry .............................................................................................. 13
   1.4.4 Bargaining power of suppliers ......................................................................... 14
   1.4.5 Bargaining power of buyers ............................................................................. 14
1.5 Statement of the problem ......................................................................................... 14
1.6 Research objectives ................................................................................................. 15
1.7 Research questions .................................................................................................. 15
1.8 Significance of the study........................................................................................... 15
1.9 Scope of the study .................................................................................................... 16
1.10 Chapter Summary ................................................................................................... 16
1.11 Structure of the study ............................................................................................ 16
CHAPTER FOUR
Presentation of Findings

4.0 Introduction ................................................................. 51
4.1 Response rate .................................................................. 51
4.2 Demographics Responses ................................................ 51
  4.2.1 Position in the company ........................................... 52
  4.2.2 Years in that Position .............................................. 52
  4.2.3 Highest Educational Qualification ............................. 53
  4.2.4 Total Numbers of Owners ....................................... 53
  4.2.5 Company Size .......................................................... 53
  4.2.6 Place of Occupation ................................................ 53
  4.2.7 Years of Operation .................................................. 53
  4.2.8 Company Registration Status ................................... 54
  4.2.9 Bank Account ........................................................ 54
  4.2.10 Accounting System ................................................ 55
4.3 Financing Strategies ...................................................... 55
  4.3.1 Start-up Finance of Business .................................... 55
  4.3.2 Source of your financing start-up of company ............ 56
  4.3.3 Interest Charged ...................................................... 58
  4.3.4 Duration of the Loan .............................................. 59
  4.3.5 Provision of Collateral .......................................... 59
  4.3.6 Awareness of Financing Facilities ......................... 60
  4.3.7 Aware of the Zimbabwe Stock Exchange ................ 60
  4.3.8 Plan to List on the ZSE ......................................... 61
4.4 Working Capital Financing .............................................. 62
  4.4.1 Type of assistance received .................................... 63
  4.4.2 Usage of Loan ...................................................... 63
4.5 Investment and Capital Expenditure Financing ................................................ 64
  4.5.1 Ownership status .................................................................................. 64
  4.5.2 Loan Received ....................................................................................... 65
  4.5.3 Use of the Loan Received ................................................................. 66
4.6 Marketing Strategies .................................................................................. 67
  4.6.1 Marketing outside Harare ..................................................................... 67
  4.6.2 Major competitors .............................................................................. 68
4.7 Performance Indicators ............................................................................ 69
  4.7.1 Performance of SMEs ......................................................................... 69
4.8 Business Challenges ................................................................................ 70
4.9 Conclusion .................................................................................................. 71

CHAPTER FIVE
Conclusions and Recommendations

5.0 Introduction ............................................................................................... 72
5.1 Conclusions ............................................................................................... 72
5.2 Recommendations .................................................................................... 74
  5.2.1 Proper financing and marketing strategies formulation ..................... 75
  5.2.2 Acquisition of skills, technology, training and development ............. 76
  5.2.3 Improve information dissemination .................................................. 77
  5.2.4 Strengthening business associations .................................................. 79
  5.2.5 Promote business monitoring and development services ................. 79
  5.2.6 Greater access to market and avoid competition ............................... 79
5.3 Area of Further Study .............................................................................. 80

References ...................................................................................................... 81

Appendix A: Introductory Letter ................................................................. 91
Appendix B: Questionnaire ........................................................................... 92
LIST OF TABLES

Table 1.1: Real estate firms by geographical distribution .................................. 4
Table 1.2: Share of business control by companies .......................................... 4
Table 1.3: Ease of doing business category ranking ........................................... 10
Table 2.1 Summarised uses and sources of finance .......................................... 30
Table 2.2 Financing strategies and growth levels of firm .................................. 34
Table 4.1: Response rate .................................................................................. 51
Table 4.2: Demographic Data .......................................................................... 52
Table 4.3: Interest Rates Charged .................................................................... 58
Table 4.4: Duration of Loan .............................................................................. 59
Table 4.5: Performance Indicator ..................................................................... 70
Table 4.6: Business Challenges ........................................................................ 70
LIST OF FIGURES

Figure 1.1: The five forces that shape industry competition ........................................... 12
Figure 2.1 Growth/Portfolio Matrix Model ................................................................. 34
Figure 2.2: BCG Growth-Share Matrix ................................................................. 35
Figure 2.3 Growth Life Cycle ................................................................. 38
Figure 4.1: Bank Account ................................................................. 54
Figure 4.2: Amount to start Business ................................................................. 56
Figure 4.3: Source of financing start-up of company ................................................ 57
Figure 4.4: Amount of Loan ................................................................. 58
Figure 4.5: Awareness of ZSE ................................................................. 61
Figure 4.6: Plan to List on the ZSE ................................................................. 61
Figure 4.7: Financial and Material Support ................................................................. 62
Figure 4.8: Type of assistance received ................................................................. 63
Figure 4.9: Use of Loan ................................................................. 64
Figure 4.10: Ownership status ................................................................. 65
Figure 4.11: Loan Received ................................................................. 65
Figure 4.12: Use of the Loan Received ................................................................. 66
Figure 4.13: Marketing Strategies ................................................................. 67
Figure 4.14: Marketing outside Harare ................................................................. 68
Figure 4.15: Major Competitors ................................................................. 69
Figure 4.16: Performance ................................................................. 69
# LIST OF ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIDS</td>
<td>Anti Immune Deficient Syndrome</td>
</tr>
<tr>
<td>BCG</td>
<td>Boston Consulting Group</td>
</tr>
<tr>
<td>CIFOZ</td>
<td>Construction Industry Federation Of Zimbabwe</td>
</tr>
<tr>
<td>CSO</td>
<td>Central Statistical Office</td>
</tr>
<tr>
<td>EACZ</td>
<td>Estate Agents Council of Zimbabwe</td>
</tr>
<tr>
<td>FSS</td>
<td>Forum for Social Studies</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GFC</td>
<td>Global Financial Crisis</td>
</tr>
<tr>
<td>GJBR</td>
<td>Global Journal for Business Research</td>
</tr>
<tr>
<td>HIV</td>
<td>Human Immune Virus</td>
</tr>
<tr>
<td>HRD</td>
<td>Human Resources Department</td>
</tr>
<tr>
<td>IAS</td>
<td>International Accounting Standard</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour organisation</td>
</tr>
<tr>
<td>IRR</td>
<td>Internal Rate of Return</td>
</tr>
<tr>
<td>JIT</td>
<td>Just In Time</td>
</tr>
<tr>
<td>MNE</td>
<td>Multi National Enterprise</td>
</tr>
<tr>
<td>NGO</td>
<td>Non Governmental Organisation</td>
</tr>
<tr>
<td>NPV</td>
<td>Net Present Value</td>
</tr>
<tr>
<td>GLC</td>
<td>Growth Life Cycle</td>
</tr>
<tr>
<td>POT</td>
<td>Pecking Order Theory</td>
</tr>
<tr>
<td>RBZ</td>
<td>Reserve Bank of Zimbabwe</td>
</tr>
<tr>
<td>ROI</td>
<td>Return On Investment</td>
</tr>
<tr>
<td>SME</td>
<td>Small to Medium Enterprise</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
</tr>
<tr>
<td>TIMP</td>
<td>Third Industrial Master Plan</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>VC</td>
<td>Venture capital</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>ZETDCO</td>
<td>Zimbabwe Electricity Transmission and Distribution company</td>
</tr>
<tr>
<td>ZSE</td>
<td>Zimbabwe Stock Exchange</td>
</tr>
</tbody>
</table>
Chapter One

Introduction to the study

1.0 Introduction

The real estate business primarily deals with the ownership and transfer of physical or immovable properties. Other activities include: management; valuation; auctioneering and development of the immovable properties.

Almost all the real estate agents in Zimbabwe provide some common real estate services, which are designed to identify, anticipate and satisfy the needs of the customers. Some of the essential real estate services provided by these real estate agents are: property sales; property valuation; property management; property auctioning; property development and property advisory services.

According to Ackerman et al (2002), Cooter and Ulen (2003) and Epstein (2007), property sales include the selling of immovable property, advising clients on real estate matters like property transfer and bond registration and property inspections. Property valuation consists of the valuation of land, buildings, plant, machinery and all other immovable properties, for the purposes of selling and purchasing properties, mortgage and loans financing, accounting and taxation, municipal rating, estate duty, leasing and insurance purposes. Property management is concerned with the activities regarding management of clients’ residential, commercial, farming and industrial property, including negotiation of leases, collection and disbursements of rentals and payment of levies, utility bills and service bills. Property auctioneering is primarily concerned with the auctioning of immovable and movable properties in Zimbabwe under various conditions such as open markets sales or forced sales. Property development is part of real estate which basically deals with the activities such as property appraisals, evaluation and design of properties (subdivisions and consolidations), policy analysis, urban planning analysis, research analysis and preparation of development plans. This is mainly done by large property companies with adequate capital to buy farms, survey the land, subdivide the land, service the land and sells as serviced small plots or serviced stands. The above listed
activities are mainly regulated or governed by the Estate Agents Act (Chapter 27:17) and the Valuers’ Act (Chapter 27:18) in Zimbabwe.

The real estate industry mainly comprises of the following:
- registered estate agents and valuers;
- land developers and property companies;
- mortgage financiers and building societies;
- conveyancers and legal practitioners;
- surveyors (land and quantity);
- local and district authorities and
- property buyers and sellers.

In the twenty-first-century economic landscape, real estate firms must compete in a complex and challenging environment that is being transformed by many factors, such as globalization, technological development and increasingly rapid diffusion of new technology, the development and use of knowledge (Hitt, Keats, & DeMarie, 1998). This new landscape requires firms to do things differently in order to grow, survive and prosper.

Due to the liquidity constraints and other challenges, the real estate industry in Zimbabwe has been struggling to fulfill its mandate and there is a need to investigate, examine or assess the financing strategies being used by SME real estate firms under these conditions and the impact on their existence, sustained growth, success, profitability and the business viability.

According to the construction industry federation of Zimbabwe (CIFOZ), the property sector contributed 5 percent to GDP in 2011 and this has since dropped to 3 percent in 2013 as a result of the liquidity constraints as no major projects are being under-taken. Further information indicates that the property industry is only operating at 40 percent capacity according to CIFOZ report, (November 2013).
1.1 **Background to the study**

Globally, the real estate firms operate real estate businesses without any constraints or challenges as firms are large and have full boards of directors to supervise their strategy formulation and operations and have full support from the banking institutions to promote mortgage financing. Firms have highly trained and skilled personnel working as consultants and with limited competition and are listed on the various stock exchanges, thereby having access to vast amounts of capital, skills and exposure to strategies that can create competitive and comparative advantages and enhance growth and survival of the businesses. Businesses are also able to access cheap, flexible and long-term finance and are exposed to international financial strategies that promote growth and expansion into entire world. The global financial crisis (G.F.C) of 2007 to 2009 was partly caused by subprime loans given to undeserving home owners, (www.canstar.com.au/home-loans/global-financial-crisis), and thus a clear demonstration of support of the real estate industry.

In Zimbabwe, the real estate or property industry is mainly dominated by companies that have links with the developed world companies and these companies operate as subsidiary companies of multi-national enterprises (MNEs). Some of the companies such as Old Mutual Zimbabwe Limited, Pearl Properties Limited, Zimre Holdings Limited, Mashonaland Holdings Limited and Dawn Properties are listed on the Zimbabwe Stock Exchange and they control the majority of real estate business in Zimbabwe (estimated at 80 percent) according to the Estate Agents Council of Zimbabwe (E.A.C.Z) 2013 report. Small to medium sized companies that number around 230 companies (Estate Agents Council of Zimbabwe list 2013) are then left with only 20 percent of the market to compete for and share.

Table 1.1 below shows the geographical distribution of the real estate firms that are operating in Zimbabwe. The table further shows that approximately 86 percent of the real estate businesses are based in Harare, while approximately 7 percent only are based in Bulawayo and the remaining 7 percent operating in
other cities or towns in Zimbabwe. This shows that most of the small to medium sized real estate business is located in Harare.

Table 1.1: Real estate firms by geographical distribution

<table>
<thead>
<tr>
<th>Place of Operation</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harare</td>
<td>196</td>
</tr>
<tr>
<td>Bulawayo</td>
<td>15</td>
</tr>
<tr>
<td>Mutare</td>
<td>7</td>
</tr>
<tr>
<td>Gweru</td>
<td>3</td>
</tr>
<tr>
<td>Masvingo</td>
<td>2</td>
</tr>
<tr>
<td>Kadoma/Kwekwe</td>
<td>2</td>
</tr>
<tr>
<td>Ruwa/Rusape</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>227</strong></td>
</tr>
</tbody>
</table>

Source: Estate Agents Council of Zimbabwe List July 2013

Table 1.2 below shows share of business control by real estate firms that are operating in Zimbabwe. The table further shows that approximately 80 percent of the real estate business is controlled by major companies that are also based in Harare, while approximately 20 percent only is controlled by small to medium sized firms operating in various towns in Zimbabwe.

Table 1.2: Share of business control by companies

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>% of Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Mutual Properties P/L</td>
<td>35</td>
</tr>
<tr>
<td>Zimre Holdings P/L</td>
<td>15</td>
</tr>
<tr>
<td>Pearl Properties P/L</td>
<td>10</td>
</tr>
<tr>
<td>Mashonaland Holdings P/L</td>
<td>8</td>
</tr>
<tr>
<td>Dawn Properties P/L</td>
<td>7</td>
</tr>
<tr>
<td>Other companies</td>
<td>5</td>
</tr>
<tr>
<td>SME Firms (225)</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Tables 1.1 and 1.2 above can be used to conclude that the majority of the real estate business is based in Harare and further that the bulk of the business is controlled by large property firms. It is for this reason that the study wishes to assess the financing strategies employed by small real estate firms in Harare, as they join and grow in the industry under the current liquidity constraints and other challenges in Zimbabwe.

1.2 Macro environmental analysis
The macro environmental issues affecting the real estate industry in Zimbabwe include: political; economic; social; technological; ethical and legal.

1.2.1 Political Issues
The political environment in Zimbabwe has resulted in a number of legislations that have negatively impacted on real estate business. These laws have been enacted to address the imbalances that existed in the economy. Some of these laws include the Land Acquisition Act (Chapter 20:10) and the Indigenisation and Economic Empowerment Act (Chapter 14:33).

The Land Acquisition Act (Chapter 20:10 p2), allows the government to acquire land and other immovable property compulsorily in certain circumstances; to make special provision for the compensation payable for land acquired for various resettlement purposes, through a preliminary notice of compulsory acquisition in the gazette. This provision has reduced property rights and any business dealings in land or farms have to be approved by Government first and “a fair compensation for improvements” will be paid by government.

The Indigenisation and Economic Empowerment Act (Chapter 14:33 p3) Section 3 empowers the government to ensure that, at least fifty-one percent of the shares of every public company and any other business shall be owned by indigenous Zimbabweans and further restricts mergers, restructurings, acquisitions, unbundling or demergers approvals unless fifty-one percent is owned by indigenous companies. This legislation has scared away investors from Zimbabwe who would have established their businesses by acquiring real estate properties to trade their businesses. These policies have not helped to
attract foreign investors with the much needed capital to boost operations and improve the liquidity economic situation prevailing in Zimbabwe.

1.2.2 Economic Issues
The introduction of the multicurrency system in February 2009 has resulted in controlling inflation now estimated at 3.5 percent, interest rates stabilizing at around 15 percent per annum; gross domestic product (G.D.P) growth estimated around 5 percent according to the 2012 and 2013 Monetary Statements by the Reserve Bank of Zimbabwe (R.B.Z) and CIA World Factbook (www.indexmundi.com/africa.html). This has brought in the much needed foreign currency but has brought liquidity challenges as the Reserve Bank of Zimbabwe or Central Bank is no longer “a lender of last resort” and can no longer fully implement monetary controls and improve liquidity. This has resulted in financial institutions such as commercial banks, discount houses, building societies and others failing to mobilize funds from outside Zimbabwe to finance real estate and other businesses. Mortgage finance has become a real challenge and only cash buyers dominate the property market.

Most SME real estate companies are not listed on the Zimbabwe Stock Exchange and cannot mobilize funds to boost their operations as the listing requirements of the Zimbabwe Stock Exchange (ZSE) limit them, especially the Zimbabwe Stock Exchange (ZSE) Act (Chapter 24:18). Out of a total of 230 firms, only five are listed on the stock market where around seventy other companies in Zimbabwe are trading.

Further, the Banking sector has not been stable as witnessed by the closure of banks such as Time Bank of Zimbabwe Limited, Royal Bank of Zimbabwe Limited and Trust Bank Limited in 2004 and others and this has affected the public confidence in banks and eroded the saving culture which is vital to the development of mortgages or financial services sector.

1.2.3 Social Issues
Zimbabwe experienced a massive brain drain as a result of the social hardships that were experienced prior to 2007 and this has affected the level of skills in the
industry and its performance. According to Zimbabwe national human resources (ZNHR) survey of 2010, scientific industrial research and development centre (SIRDC) report of 2003 and CIA World Factbook (2013) most skilled personnel left the country to the United States, Britain, Australia, New Zealand, South Africa, Botswana, Zambia and other countries to pursue greener pastures, resulting in a net migration rate of 23.77 migrants per every 1000 population. According to the CIA World Factbook (2013), 95 percent of the country’s population is unemployed or underemployed and further 65 percent of the population is living below the poverty datum line estimated at US$550.00 per month by the central statistics office (C.S.O) of Zimbabwe.

The situation has further been worsened by the prevalence of diseases such as HIV/AIDS estimated, by the central statistics office (2013 report), to be affecting 1.2 million people in Zimbabwe. According to Ellmies, Hahn and Mufenda (2005), shortages of basic necessities such as proper basic infra-structure such as the provision of roads, electricity, and water and sewerage system in both urban and rural areas have also affected the majority of the population. This has resulted in little disposable income available for saving and investing in immovable property or real estate.

1.2.4 Technological Issues
Technological advances have greatly assisted property businesses as better analysis models can now be applied in investment appraisals of various options available on property investments. Comparisons can now be made between returns offered in different markets such as equities, bonds and property markets before investment decisions are made.

The process of sale and transfer of property has also greatly improved due to the computerization of various organizations or entities or government departments that deal with property sales, transfer and ownership such as local authorities, deeds offices and survey offices among the host of these organizations. Zimbabwe is now ranked 85 out of 185 economies in the property transfer category, according to the International Finance Corporation (I.F.C) and the World Bank (W.B), Doing Business report of 2013.
The new technology has had a negative impact on the level of employment as machines can now produce subdivision drawings with little human involvement. Accounting packages such as Pastel have also replaced the need to do manual accounting, preparation of financial statements and auditing of the financial accounts.

1.2.5 Ethical Issues
Operations in property business are mainly guided by the Estate Agents Act (Chapter 27:17), the Valuers’ Act (Chapter 27:18), the Companies Act (Chapter 24:03), the Urban Councils Act (Chapter 29:15), the Ministry of Lands Development and Public Construction together with city and district bye-laws which regulate the conduct and operations of real estate businesses. This also ensures that companies’ operations are done in an ethical manner and also with due regard to the environment and society at large.

Section 3 of the Estate Agents Act (Chapter 27:17), gives power to the council to monitor and take action against non complying real estate firms engaged in unethical and unprofessional conduct. An established compensation fund also provides relief to members of the public who suffer some loss as a result of any misconduct or unprofessional conduct by registered members in the real estate industry.

1.2.6 Legal Issues
Legal uncertainty has greatly affected real estate business in Zimbabwe as too many policy changes have resulted in weak institutions, limited rule of law and reduced property rights. Some policies such as the Land Acquisition Act (Chapter 20:10) and the Indigenous and Economic Empowerment Act (Chapter 14:33) and the Urban Councils Act (Chapter 29:15) and Housing and Building Act (Chapter 22:07), have conflicts on the land use of acquired farms for immediate urban settlement. The Urban Councils Act (Chapter 29:15), requires the land to be serviced first before any settlement or change of land use. These may need to be aligned, clarified and be operated outside the political environment and also in view of the new constitution of Zimbabwe. The Land Acquisition Act (Chapter
20:10) allows compulsory acquisition of land for resettlement, while the Indigenization and Economic Empowerment Act (Chapter 14:33) requires foreign owned companies (even in farming sector) to cede 51% of their shareholding to local Zimbabwean firms, while the Urban Councils Act (Chapter 29:15) requires certain conditions to be met before any change in land use and land ownership can be effected.

The quality of government, mainly indicated by the institutions, respect for the rule of law and the property rights need to be improved, as these affect the investment business in real estate. Political risk also affects the long-term investment policies and the ability of local businesses to mobilize international capital, according to a World Bank report (2013), on doing business in Zimbabwe. The World Bank report (2013), further noted that the absence of government decisiveness on the resolution of both the country’s domestic and international debt, estimated at $10 billion, as well as the continued less than satisfactory record regarding Zimbabwe’s adherence to the widely held virtues of upholding property rights and transparently enforcing commercial contracts is detrimental to efforts by real estate firms to grow and operate profitably.

1.3 Doing business in Zimbabwe

The Doing Business Report of 2013, compiled by the International Finance Corporation (IFC) and The World Bank (WB), shows how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations. These are levels of doing business out of a total of 185 economies ranked in different categories in the following eleven areas in the life cycle of a business: starting a business; dealing with construction permits; getting electricity; registering property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; resolving insolvency and employing workers. In almost all the categories, Zimbabwe is ranked above 100 places out of a total of 185 economies. This measure is mainly used by international investors when choosing investment destinations.
Table 1.3 below summarises ranking information.

Table 1.3: Ease of doing business category ranking.

<table>
<thead>
<tr>
<th>Category of Ranking</th>
<th>Rank out of 185</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a business</td>
<td>143</td>
</tr>
<tr>
<td>Dealing with construction permits</td>
<td>170</td>
</tr>
<tr>
<td>Getting electricity</td>
<td>157</td>
</tr>
<tr>
<td>Registering property</td>
<td>85</td>
</tr>
<tr>
<td>Getting credit</td>
<td>129</td>
</tr>
<tr>
<td>Protecting investors</td>
<td>128</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>134</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>167</td>
</tr>
<tr>
<td>Enforcing contracts</td>
<td>111</td>
</tr>
<tr>
<td>Resolving insolvency</td>
<td>169</td>
</tr>
</tbody>
</table>


Table 1.3 above shows that registering a property in Zimbabwe is fairly easy, with Zimbabwe being ranked at 85 out of the 185 economies, due to the advancement in technology in the deeds office and the highly skilled conveyancers or lawyers in the country. In terms of resolving insolvency and dealing in construction contracts, Zimbabwe is ranked 169 and 170 respectively to the detriment of the real estate industry.

Zimbabwe’s overall global ranking on the ease of doing business dropped in 2013 to 172 out of 185 countries, according to the World Bank (2013). Zimbabwe is ranked at number 172 against an average of 140 in the Sub-Saharan African region. This shows that doing business in Zimbabwe is difficult and expensive and the country’s low credit rating means it is difficult to attract foreign direct investments (F.D.I). Table 1.4 below shows Sub-Saharan African countries levels of doing business in general with South Africa ranked 39, Botswana ranked 59, Namibia ranked 87 and Zimbabwe ranked 172 out of 185 economies together with Angola.
Table 1.4: Ease of doing business country ranking.

<table>
<thead>
<tr>
<th>Country</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>39</td>
</tr>
<tr>
<td>Botswana</td>
<td>59</td>
</tr>
<tr>
<td>Namibia</td>
<td>87</td>
</tr>
<tr>
<td>Swaziland</td>
<td>123</td>
</tr>
<tr>
<td>Lesotho</td>
<td>136</td>
</tr>
<tr>
<td>Regional Average</td>
<td>140</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>172</td>
</tr>
<tr>
<td>Angola</td>
<td>172</td>
</tr>
</tbody>
</table>


The Doing Business Report summarizes the conditions under which small and medium real estate firms have to operate under the liquidity constraints prevailing in the country.

1.4 Competitive Environment

Another way of assessing the business environment and operations of the SME real estate firms operations under the liquidity constraints and other challenges is to use Porter’s five forces model (Porter, 1985). The model identifies and analyzes five competitive forces that shape every industry, and helps determine an industry's weaknesses and strengths. Once the five competitive forces are identified, strategies should be adopted to capitalise on the strengths while minimising the impact of the weaknesses.

The five forces identified by Porter (1985) look at five areas of competition in the marketplace or industry and these are as follows:

- threats of substitute products;
- threats of new entrants;
- nature of rivalry in industry;
- bargaining power of suppliers and
- bargaining power of buyers.
Figure 1.1 below is the diagrammatic presentation of the five forces that shape industry competition.

**Figure 1.1: The five forces that shape industry competition.**

![Diagram of the five forces](image)

**Source: Adapted from Porter (2008)**

1.4.1 Threat of substitute products

Porter (1985) suggested that, customers can easily switch to other competitors' products if they are not satisfied with a certain product or service offering. Thus, a company needs to be aware of substitute products that are available in the market that can compete with the company’s products or markets as well as to dilute market share. Substitute products not only limit profits in normal times but can also reduce the benefits an industry can reap, Porter (1979). In the real estate industry, the services being offered are homogeneous and companies compete on the quality of service delivery in order to gain market share. All companies offer property sales, property management, property valuation, property auctioneering and property development services. Therefore this force will not exert much pressure on the competitive environment but SME real estate firms need to be aware of its possible impact and be innovative in doing business.
1.4.2 Threat of new entrants
The large property companies such as Old Mutual Properties, Pearl Properties, Zimre Property Holdings, and Dawn Properties, listed on the Zimbabwe Stock Exchange, have tried to create barriers so that small to medium companies will struggle to enter the industry. The large property companies are aware that the entrance of a new competitor into the industry or market increases competition, brings new capacity, increases the desire to gain market share and often substantial loss of resources.

The regulatory barriers to entry into the real estate industry are low and most SME firms intending to join the industry can manage to comply with the registration and entry requirements. These include a registration fee of US$1000.00 to be paid to the Estate Agents Council of Zimbabwe (E.A.C.Z) and the need to employ a registered estate agent to operate the trust account. Section 25 of the Estate Agents Act (Chapter 27:17) sets the minimum age of 18 years, minimum qualification of passing the institute examination, practical experience of 3 years and level of honesty for a person to become a registered estate agent and be capable of operating a real estate firm.

1.4.3 Industry Rivalry
An industry’s profit potential is largely determined by the intensity of the competitive rivalry within that industry. Industry rivalry means the intensity of competition among the existing competitors in the market and depends on the number of competitors and their capabilities. Industry rivalry is high when there are a number of small or equal competitors and less when there is a clear market leader, customers have low switching costs, industry is growing, exit barriers are high and rivals stay and compete and fixed costs are high resulting in huge production and reduction in prices.

The Estate Agents Rules of professional conduct as governed by the Estate Agents Act (Chapter 27:17) regarding advertising for business, holding of sole mandates, commission to be charged and conduct towards each other, reduces the intensity of rivalry among firms and try to maintain a fair business environment for firms in the industry. The Act further provides, in Part V sections
31 to section 35, for the cancellation and suspension of registration and disciplinary powers given to the council in the event of unfair competition and dishonesty among and by members.

1.4.4 Bargaining power of suppliers
Sellers of immovable properties are not powerful as they offer different properties to an almost equal number of buyers and the laws of supply and demand at any given time will determine the price. When the supply of immovable property is high and their demand is low, then their prices will be low and conversely when the supply is low and the demand is high, the prices will be high. This results in the sellers’ market or buyers’ market respectively.

1.4.5 Bargaining power of buyers
Buyers in the real estate industry will only influence the price of immovable properties if and only if there is high supply and low demand of properties. The liquidity constraints prevailing whereby very little finance is obtainable from financial institutions means that cash buyers will determine the price of properties and sellers will have no option but to accept the terms and conditions being offered by the buyers.

The understanding of the above five forces together with government policies, will help real estate firms to develop successful financing strategies to overcome their weaknesses and threats, thereby maximize on their strengths and take advantage of opportunities in the industry.

1.5 Statement of the problem
The small to medium sized real estate firms in Zimbabwe are facing existence, growth, survival and success challenges emanating from the unfavourable external environment, industry competitive forces, difficulty and costly way of doing business and the liquidity conditions prevailing in the country resulting in low sales, high operating costs and contracting market share.

These key issues affecting the SME real estate firms can also be grouped into four: unfriendly business environment; poor funding; low management skill and
lack of access to technology (FSS 2020 SME Sector Report, 2007). Among these, shortage of finance occupies a central position. The purpose of this study was therefore to assess the financing strategies being employed or implemented by these small to medium enterprises (SMEs) real estate companies in Zimbabwe during the liquidity constrained period.

1.6 Research objectives
The study had two objectives. Firstly, to assess the financing strategies being employed by these small to medium real estate companies and their impact on the existence, growth, success or maturity and possibly decline, in view of the numerous challenges, during the life cycle of the real estate businesses in Zimbabwe. Secondly, to establish the sources, structures and uses of finances used in the SME real estate businesses.

1.7 Research questions
The study was based on the following questions:

1. What are the financing strategies being employed by small real estate companies?
2. What are the sources, uses, cost and structures of finances used by small real estate companies?
3. What are the financing challenges faced by small real estate companies in Zimbabwe?

1.8 Significance of the study.
The significance of the study was that it led to greater understanding of financing strategies of small to medium real estate firms operating under the liquidity constraints in Zimbabwe. This study eventually led to conclusions and recommendations that can be adopted by management to improve on financing strategies and enhance the growth of their businesses.

Therefore this study contributed to the understanding of the financing strategies in real estate business, the establishment of the sources of finance, cost of finance and uses of finance used in the business and recommending of strategic
initiatives to address any of these challenges in a suitable, feasible and acceptable way. (Johnson and Scholes 1992).

1.9 Scope of the study.
The study focused on small to medium sized real estate companies not listed on the Zimbabwe Stock Exchange (ZSE), operating in Harare. This was due to the fact that most of the small to medium sized real estate business is located in Harare.

1.10 Chapter Summary
The real estate business has been defined as those including: property sales; property management; property valuation; property auctioneering and property development mainly done by registered estate agents; land developers; mortgage financiers; surveyors; lawyers; conveyancers; buyers and sellers.

As at July 2013 there were 227 companies operating real estate business in Zimbabwe with 196 based in Harare. The industry was dominated by about 5 big companies which controlled approximately 80 percent of the industry.

The problem of operating challenges has resulted in contracting market share and decreasing sales volume and thus the need to assess the financing strategies employed by the small to medium real estate firms operating in Harare, Zimbabwe.

1.11 Structure of the study.
The rest of the study consists of four chapters. Chapter two reviews literature on the financing strategies used by companies in the real estate business. Chapter three describes the methodology used in the study and issues such as research methods, research tools, and sources of data, its collection and analysis. Chapter four presents and analyses the findings of the study. Finally, Chapter five concludes the study and makes specific recommendations on financing and other strategies suitable for small to medium real estate firms operating in Zimbabwe. The chapter also makes some recommendations on areas that may require further study.
Chapter Two

Literature review

2.0 Introduction
The purpose of the study was to assess whether the small to medium real estate firms have any financing strategies in place to promote the existence and growth and recommend suitable strategies that can be adopted by such firms under the current economic conditions in Zimbabwe. Secondly, the study also sought to establish the sources of finance and structure of finance, cost of finance, tenor of finance and uses of finance used in the small to medium businesses.

The purpose of this chapter is to review all the relevant literature on the financing strategies of real estate firms. The small to medium enterprise business model tends to be flexible, experimental and short term, (Johnson and Scholes (1984). They have difficulties in accessing finance and new markets due to high competition from established firms, lack the necessary skills and are faced with high administrative costs and poor supporting infrastructures (Chan et al, 2005).

The chapter brings out financing challenges that real estate companies face and ways they need to adopt in a way to improve on growth, viability and run companies in a professional manner and thereby gain market share, reduce operating costs and increase revenue.

The Governor of the Reserve Bank of Zimbabwe (RBZ), Monetary Statements of 2005 to 2012 has identified real estate as one of the areas that have capacity to grow and sustain the economy. The RBZ estimated that SMEs contribute 50% to gross domestic product (G.D.P) and 80% to employment in Zimbabwe. The small and medium enterprises sector is estimated to contribute between 65% and 95% of economic activities in developing and emerging economies, (Fan, 2003, Goriwondo, 2011). According to Schlogl (2004), small and medium-sized firms dominate economies in terms of employment and number of companies, yet their full potential remains remarkably untapped. Contribution to gross domestic product (G.D.P), employment creation, value addition, foreign currency,
improvement of local technology, output diversification, development of indigenous entrepreneurship, forward integration with large scale industries and competition are among the contributions made by SME companies.

Although the role of small to medium firms in various economic activities is widely acknowledged, they are perceived to have a very high risk profile by financial institutions resulting in firms or companies within the sector having limited access to finance and being charged higher interest rates compared to larger firms. This unnecessarily increases operating costs and reduces their competitiveness, (Kaplan and Zingales 2000). They further noted that the SMEs have inadequate or poor record keeping, lack immovable assets and collateral sufficient enough to enable them to obtain credit. Management skills in handling finances and other technical requirements are often very limited, (Johnson and Scholes (1992).

2.1 Definitions of Small to Medium Enterprises

In order to come up with a proper definition of SME, there is need to really understand the industry it is operating in, period the company has been in existence, the market being served and the country of operation, among a host of factors, McLagan (1989).

According to Schlogl (2004), broadly SME firms can be defined according to the following:

- number of employees in the company, (1-50);
- sales or turnover of the company, (below $10m per annum and
- total assets owned by company (below $100m).

There is no one widely accepted definition of SMEs (Hooi, 2006). Broadly, the definitions are solely based on a fixed quantitative measure such as the total number of workers, the total amount of capital, total assets and lately by determining sales turnover (Hashim and Abdullah, 2000). This definition by Hooi (2006) and supported by Hashim and Abdullah (2000) however fails to take into consideration other factors such as the sector of firm, the country of enterprise, the age of enterprise, the export levels, the gender of entrepreneur and other qualitative aspect such as membership to trade organisations.
According to McLagan (1989) and Saleh and Ndubisi (2006), SMEs in the real estate, manufacturing and agricultural sectors in developing and underdeveloped countries are defined as those enterprises with full time employees not exceeding 50 or annual sales turnover not exceeding US$10million whereas SMEs in the services and ICT sectors are enterprises with full time employees not exceeding 25 or annual sales turnover not exceeding $5million. These SMEs are further categorized into medium-sized enterprises, small enterprises and micro-enterprises.

A study done by Lawless et al (2012) also revealed that financial institutions classify SMEs according to loan size and income to the bank, over and above the number of employees, sales turnover and capital base criterion. This shows that there is no accepted worldwide definition of SMEs as argued by (Hooi, 2006).

Any company that employs less than 50 employees including the owner is regarded as small to medium enterprise. This definition may however not hold true in some instances where the bulk of the employees may be highly skilled or where firms are highly mechanized or computerized. Generally any companies whose sales are below $10m per annum are regarded as SME depending on the economic conditions prevailing (Hooi, 2006). In unfavourable conditions in various countries such as Zimbabwe, large companies may be operating at 40% capacity and generate less than $10m per annum, thus turnover may fail to reflect the correct categorizing of these SME firms. The total asset base is another measure that can be used to classify companies as it is generally accepted that large companies especially in agriculture, mining and manufacturing have massive capital equipment necessary to undertake their operations. However there are companies in service consultancy and real estate that do not require large equipment but generate massive sales, (Lawless et al 2012)

2.2 Definition of financing strategy
Harvey (2008), Wheellen and Hunger (2006), and David (1999), say that strategy is the plan of action an organization prepares in response to, or anticipation of, the changes in its external environment. It is differentiated tactics or operational
actions by its nature of being premeditated and well thought. It deals with three
questions: where the organization is at this moment in time; where the
organization wants to be in a particular length of time and how to get there?
Thus, strategy is designed to transform the firm from the present position to the
new position described by objectives, subject to constraints of the capabilities or
the potential.

Moore (1992) also views strategy as the unity, coherence and internal
consistency of a company’s strategic decisions that position a company in its
environment and give the firm its identity, its power to mobilize its strengths, and
its likelihood of success in the market. Andrews (1980) further outlines the
following three elements which should be present when implementing strategy:
appropriate organizational structure; organizational processes and leadership.

There are a number of definitions of financing, strategy and business financing
from various studies, (Khan and Jain 2007; Wheeler 2009; Parhter and Wert
2009 and López 2006) and they generally agree that finance strategies are
broadly about raising funds to operate businesses. Financing strategies can be
used to identify and exploit value-creating opportunities. These are strategies to
obtain funding and managing funding within an organisation and must add value
to shareholders wealth.

According to Khan and Jain (2007), finance is the art and science of managing
money and Wheeler (2009) defines business finance as that business activity
which concerns with the acquisition and conversion of capital funds in meeting
financial needs and overall objectives of a business enterprise. This view was
further consolidated by Parhter and Wert (2009), business finance deals primarily
with raising, administering and disbursing funds by privately owned business
units operating in nonfinancial fields of industry. Financial strategies are goals,
patterns or alternatives designed to improve and optimize financial management
in order to achieve corporate results (López, 2006).

According to a number of studies (Ibarra, 1995; Van Auken and Howard, 1993),
the importance of financial decisions in business is evident, since many of the
factors that contribute to small businesses failure can be managed properly with strategies and financial decisions that drive growth and the organization’s objectives. The main causes of business failures are the lack of financial planning, limited access to funding, lack of capital, unplanned growth, low strategic and financial projection, excessive fixed-asset investment and capital mismanagement.

2.3 Definition of Business Life Stages
Any business passes through the following widely agreed stages: existence stage; growth stage; maturity stage and decline stage, (Neil, Churchill and Lewis (1983). Existence, growth and survival stages are when a company is able to move through its life cycle from introduction or existence, growth and maturity stages and possibly avoid decline. These stages require different sources, uses and structures of financing to be analysed later in the chapter.

In Zimbabwe, the small to medium real estate businesses have only managed to pass through the existence stage and very few have managed to grow because of the unfavourable macroeconomic environment, industry competition and costly and difficult way of doing business. The lack of financing and marketing strategies is another possible reason which may be causing the lack of success and the decline of the real estate businesses.

2.4 Definition of the liquidity constraints.
According to Hurst (2003) and Adams (2009), a constraint is an element, factor, or subsystem that works as a bottleneck. It restricts an entity, project, or system (such as a manufacturing or decision making process) from achieving its potential (or higher level of output) with reference to its goal. Further Coleman (1996), Kiyotaki and Moore (2008), and Lagos (2007) explains that liquidity constraints is the restrictions on the use of assets or availability of capital or finance to finance any new or existing business or needs for consumption or any business capital investment. This has negative impact on the growth and survival of businesses. Moore (2008) further defines liquidity constraints as that inability to obtain adequate and reasonably priced capital needed in a business and is of the biggest hurdles to starting and growing a new business. Given the above
definition it then demonstrates that any organization operating under liquidity and financial constraint will be limited in its growth and performance.

Modigliani and Miller (1958) have also added that liquidity constraints depend on size of firm, emerging competition, internationalization and access to capital. Cosh and Hughes (1994) also supported this view. This argument will however not be pursued any further as the various assumptions used are mainly theoretical and do not apply in real world situations. Some of the assumptions such as asymmetric information, shareholder liquidity, no transaction costs, no taxes and markets being perfectly integrated and efficient are not applicable in real world, more so in Zimbabwe. Further the theory that firms can borrow can not apply as the market under examination is not liquid.

2.5 Uses of the financing

According to various studies, (Hisrich and Jankowics, 1990; Ross et al, 2000; Mallette, 2006; Barton et al, 2006; and Valencial et al, 2006); one area that has received little attention is the establishment of financing strategies, especially in the study of small and medium-sized enterprises, even though it is a determinant of business success. Financial analysis and planning, which represent basic features that support organizational strategy, are nonetheless virtually non-existent in small to medium enterprises, which impose a constraint on the kind of financial decisions businesspeople can take. Financial strategy represents a path to achieve and maintain business competitiveness and position a company as a world-class organization.

Financial strategy consists of three interrelated kinds of decisions: investment; funding and working capital decisions (Ross, Westerfield & Jordan, 2000). Investment decisions relate to the allocation of capital to carry out investment opportunities that are valuable (bring value) to the company, taking into account the magnitude, opportunity and risk of the future cash flows of investment. Funding decisions concern the specific mix of long-term debt and capital that the company uses to finance its operations, that is, optimal capital structure. Working-capital decisions include the management of short-term assets and liabilities in a way that ensures the adequacy of resources for company
operations. According to Ward and Ruth (2009) the following financing strategies are generally known and applicable to SME businesses: Working capital decisions; capital expenditure decision and investment decisions. Assuming the corporate aim is to maximize profits, setting the agency problem aside, it is important for businesses to seek the optimum combination of the three kinds of financial decisions (Holmes and Kent 1991). Mallette (2006) argues that an organization's financial strategy is so important to the company that it must be evaluated and adjusted as frequently as the operational strategy.

In general, working capital requirements are mainly financed by a mixture of long-term funds and short-term resources. Long-term sources of funds consist of capital (equity from owners) and long-term debt, which only provide for a relatively small portion of the working capital requirement. Finance theory dictates that only the permanent portion of working capital should be supported by long-term financing (Gitman, 2000). On the other hand, the short-term sources of working capital funding consist of trade credit, short-term loans, bank overdrafts, tax provisions and other current liabilities that can be used to finance temporary working capital needs.

When businesses have financial information, they are also able to analyze investment needs (considering cost-yield) to determine the optimal capital structure, to set dividend policy and to define funding strategy. It is also necessary to apply cash management techniques and establish credit policies and inventory policies through the analysis of the organization’s operating cycle, (Tyebjee & Bruno, 1984 and Hisrich & Jankowicz, 1990).

SME real estate firms’ failures can be successfully managed with suitable financing strategies developed and implemented by the organization. However, the study of financial decisions has been, for a long time, limited to large corporations, about which extensive research has been published. One of the main features of small real estate businesses is that they do not have useful financial information to make financing decisions.
2.6 Sources of financing.

There are various sources available for financing of SMEs which can be grouped into debt or equity financing (Muktar, 2009 and Ewiwile et al, 2011). The following are widely used sources of financing: owner’s capital or private equity; venture capital; loans or debt from banks or lending institutions or small business lending institutions; equity from capital markets; retained income; leasing; hire purchase and factoring. According to (López et al, 2006), the sources or categories of finance for SME growing into large companies were: own resources from entrepreneur; venture capital; loan and debt and finally equity finance as the company grows to finance working capital, capital expenditure and investment finance. Further research done by López et al (2006), noted financing strategy helps to achieve and maintain business competitiveness and these are goals, patterns or alternatives designed to improve and optimize financial management in order to achieve corporate results. The study will assess use of equity, venture capital, debt, retained income, and leasing finance as these are commonly used by SME real estate firms in Zimbabwe.

Financing strategies and decisions are critical to small firm’s competitiveness especially small businesses that are faced by financial limitations to be highly efficient in the allocation of scarce resources in order to ensure existence, survival and maturity and generate sufficient cash flow and profits.

The financial decision-making processes and techniques used by a firm to make decisions on capital budget, financing costs and sources, and dividends are closely related to funding opportunities. Companies do have an optimal debt and equity ratio that minimise costs and maximize returns at minimum risk. With regard to dividends decisions, present and future earnings represent the most relevant factors enterprises consider when deciding on dividend policy.

Several studies, (Ross, Westerfield & Jordan, (2000); Ward and Ruth (2009); Mallette (2006); Barton et al (1989); Muktar (2009); Jensen and Meckling (1976); Ewiwile et al. (2011); Lopes et al (2006) and Porter (1987) seem to agree on uses of finance. Lopes et al (2006) also brought out the main aspects of financing strategy but failed to differentiate the type of financing needed at every
stage of business development and the risk associated with type of financing. The model is applicable to large organisations only.

The quantitative methodology used in the various studies was appropriate for the type of studies as well as the analysis techniques. The sample sizes used were large enough to be reflective of the SMEs financing strategies.

2.6.1 Equity finance (private and public)
Equity finance represents a personal investment by the owner of the business and sometimes called risk capital as investors assume the risk of losing their investment if business fails. The family; friends and own resources are a major source of start up businesses. Business risk will be high thus the need to use own finance and limit the financing risk.

Use of shares in their various forms (ordinary; preference; debentures and others) is another way of financing a business but has fixed costs to be made. These sources have costs; limitations and advantages but are mainly available to large companies with low business risk and with capacity to absorb the high financing risk involved. Small firms can tap into other informal sources of finance instead of relying solely on financial institutions and government agencies for capital. A small business itself has the capacity to generate capital. This type of financing, called bootstrap financing, is available to virtually every small business and includes a combination of social and economic transactions; for example, buying low-cost equipment and having family members help during peak periods. Bootstrap financing also encompasses factoring, leasing, the use of credit cards and the frugal management of the business. (Paul et al. 2007 and Muktar, 2009)

Zimbabwe’s capital market became fully fledged with the inception of the Zimbabwe Stock Exchange (ZSE). However, most SMEs cannot take advantage of the Exchange because of listing rules regarding disclosure requirements, which require companies to provide credible information to investors. The banking sector has offered equity financing to a few successful SMEs.
SMEs may also prefer debt to equity when seeking external funding because they are much more familiar with banks and other sources of debt finance and a wide variety of debt products are available (KPMG Consulting, 2002).

In a survey done on equity financing pattern among Australian companies, Foresaith et al. (1993) concluded that SME firms have a target debt to equity ratio but use more private equity finance from restricted sources such as directors and relatives, a view shared by Scott (1972). Private equity finance is important for young, high growth and potentially high-risk enterprises.

SME real estate firms start their businesses with very low capital which then limit them to use private equity finance. This form of finance is the most appropriate one as business risk will be high thus the need to avoid financing risk. Public equity finance is used at the maturity and decline stages of business when business risk will be low. It is also used as an exit strategy by private equity shareholders.

2.6.2 Venture capital and business angel finance

Most of the literature which addresses the start-up investment decision process has focused on how venture companies make investment decisions. (Elitzur and Gavious, 2003, Keushnigg 1998 and Mason and Harrison, 2002). Venture capitalists play a critical role in reducing information asymmetries through the collection of critical and private information. In perfect financial markets, funds are always available for value creating investment projects and financing decisions can be separated from investment decisions (Modigliani and Miller, 1958).

Depending upon their stage of growth, the most appropriate form of finance for SME development is frequently venture capital rather than debt then complimented by public equity finance, (Kamath, 1997 and Jordanet al, 1998).

In Zimbabwe, venture capital has become an established investment vehicle in various sectors of the economy and is becoming increasingly popular in other developing economies too. Venture capital involves the provision of investment finance to SMEs in the form of equity or quasi-equity instruments not traded on a
recognised stock exchange. It is long-term risk finance whose primary return to the investor is capital gains rather than income. Venture capital investors actively get involved in the management of the companies that they invest in to ensure the success of the venture.

Cosh and Hughes (1994) found that venture capital provided only a small proportion of the equity funding of SMEs. Moreover, they found that business angels’ finance was concentrated on small enterprises while that from formal venture capital funds went mainly to medium sized enterprises. They show that venture capital funds are not interested in providing the small amounts of funding sought by many small enterprises. Cressy (1993) found that fewer than 1% of UK start-ups had financial input from venture capitalists with larger start-ups being more likely to use venture capital funding.

Cressy and Olofsson (1997) found that formal venture capital funds were not favoured as equity partners by SME firms. These firms felt the time horizons of these funds were too short and that their demands were unreasonable. Hence, they preferred business angels or other companies in the same industry as equity partners.

Consequently, venture capital fund investments in Latin America have been generally directed to more advanced stages of the life cycle of firms and are very cautious about potential innovations in their initial stages, where risk is substantially higher (Gombers 1995), Berger and Udell (1998) found that angel finance and venture capital were minor providers of funding to USA enterprises in the 1994 to 1998 period. In Zimbabwe, under the current conditions, SME real estate companies do not make use of such venture capital or credit schemes as the requirements to access them are stringent. The timeframes are short-term and interest rates too high for small businesses.

The methodology used during the study by Cressy and Olofsson (1997) of venture capital financing was quantitative and it applied longitudinal survey over 4 years from 1994 to 1998 with a large population of 13000 businesses. They used questionnaires to collect data through a consultant company.
2.6.3 Debt financing

These are loans from private, commercial or institutional lenders. Debt financing has negative effect on profitability since it has binding interest and capital repayments to be made regularly. This form of financing must be avoided during the early life of companies as cash flows will be negative and business risk very high. Debt financing is cheaper in that the interest payable is tax deductible. SME real estate firms fail to access this type of finance as they lack collateral security and proper records to support their loan applications. Amounts accessed are also limited as well as the duration due to the liquidity constrained environment. Interest rates are also too high for the SME real estate firms.

In Zimbabwe, the banking sector financing is low as country is operating under liquidity constraint environment. Several banks have closed due to failure to meet minimum capital requirements set by the Reserve bank of Zimbabwe. The few banks that are funding the operations tend to favour large agricultural, mining and manufacturing companies with little emphasis on construction or real estate industry. Further, SME real estate firms are not able to access this type of funding due to lack of collateral and proper accounting records.

Micro financing has proved to be a reliable delivery vehicle for financial services to SMEs. The licensed institutions such as SEDCO, NGOs, pension funds and building societies offer loans to SMEs. Their service delivery is flexible and easy for small firms to access loans. Some of the institutions rely on donor or RBZ or government funding. Most SME real estate firms have managed to access funding from these institutions. These institutions need to be capitalised fully in order for them to fully service the SME firms.

2.6.4 Retained Income

Retained income from previous year or years can be used to finance company operations during the maturity and decline stages as company would normal had accumulated some surplus income. The strategy has no financial risk as there are no charges associated with the source. Business risk will also be low as company would have matured in the industry. This is a major source of finance for SME real estate firms from the growth stages where the profits are used to finance the working capital and funding requirements of firms.
This is a major source of funding for the few real estate companies that are in the growth stage. They rely on surplus income from previous months to finance their working capital requirements.

2.6.5 Leasing finance

Worldwide, the SMEs have been accepted as the engine of economic growth and for promoting equitable development. Without finance, SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (UNCTAD June 2011). A major barrier to rapid development of the SMEs sector is a shortage of both debt and equity financing (Idol F.C 2010). Globally, leasing is another widely-used service for SMEs, although the lack of leasing law is constraining development of this sector in Zimbabwe

Leasing is another way for SMEs to expand their access to short- and medium-term financing. From an economic perspective, leasing can be defined as “a contract between two parties where one party (the lessor) provides an asset for usage to another party (the lessee) for a specified period of time, in return for specified payments” (Fletcher et. al., 2005). According to the Accounting Standard IAS 17 “a lease arrangement is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.”

Leasing is referred to as asset based financing. As lessor retains ownership of the assets they lease throughout the life of the contract, these leased assets are therefore an inherent form of collateral in such contracts, (compared to traditional bank lending), which will either be unsecured or make use of different types of collateral and typically not physical assets such as equipment; motor vehicles or computers which are inherent in leases. Conventional bank lending focuses on the loan repayment by the borrower from two sources: a primary source, the cash flow generation, and a secondary source, credit enhancements and collateral. Leasing is focused on the lessee’s ability to generate cash flows from the business operations to service the lease payments (Gallardo, 1997), as the lessor retains legal ownership of the asset. Ownership of the asset may or may not pass to the customer at the end of the lease contract.
In a “finance lease”, all the risks and rewards of ownership of the asset are transferred to the lessee, while the lessor remains owner of the asset. In comparison, an “operating lease” is essentially a rental contract for the temporary use of an asset by the lessee. The risks associated with the ownership of the asset, such as repairs, maintenance and insurance; remain with the lessor (Fletcher et. al., 2005).

Real estate firm in Zimbabwe use lease finance mainly in their working capital financing whereby they rent properties to use as business premises. They also hire computer equipment and motor vehicles to use in their businesses. The various studies above have identified the various sources of business finance which will then be used to finance three broad areas. The table below summaries the findings from the previous and the current literature review.

**Table 2.1 Summarised uses and sources of finance.**

<table>
<thead>
<tr>
<th>Uses of finance</th>
<th>Sources of finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>Equity finance</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>Venture Capital finance</td>
</tr>
<tr>
<td>Investment Purposes</td>
<td>Debt/Loan finance</td>
</tr>
<tr>
<td></td>
<td>Retained Income</td>
</tr>
<tr>
<td></td>
<td>Lease/Hire finance</td>
</tr>
</tbody>
</table>

Source: Researcher’s analysis

**2.7 Preferred capital structure**

Firms have a preferred capital structure that seeks to minimise their risk, minimise the costs, maximise their return while still maintaining control over their companies. The capital structure of firms mainly depend on age of the firm, size of the firm, asset structure, profitability, growth, firm risk, tax and ownership structure. In the case of SMEs, other factors such as industry, location of the firm, entrepreneur’s educational background and gender, form of business, and export status of the firm may explain their capital structure, (Hall et al 2000)

There is some evidence that SMEs have target debt-equity ratios (Scott et al 1972; Buckland et al 1989) although the constraints on the sources of funding available to SMEs or acceptable to their owners restricts the ability of many
SMEs to pursue target capital structures. Rather they obtain funding from the restricted and private sources that are available and that are acceptable to them. Bates (1971) reported that small enterprises in the UK are more reliant on equity financing and on own funding than large enterprises. Directors' loans were identified as an important source of funds.

An additional factor impacting on the financial structure of SMEs is the limited availability of certain sources of funding to SMEs. External equity finance in the form of venture capital is generally unavailable to SMEs without strong growth prospects. This includes both venture capital funds and wealthy individual investors known as business angels. Widespread access to external equity through public listing on the stock exchange is unavailable until the firm is relatively large and is able to meet the minimum size requirements for listing. For most SMEs, the only feasible source of external equity funding is from relatives and friends. This further constrains the applicability of the pecking order theory to SMEs.

The additional sources of finance available to growth SMEs, coupled with the different objectives and aspirations of the owners of these enterprises, may lead them to make different financing decisions from the traditional SME which has, at most, capped growth objectives. In particular, growth SMEs may take on more external equity finance and may be less highly leveraged than many non-growth enterprises. Hall et al (2000) found a significant relationship between industry sector and long-term leverage ratios and that long-term leverage was positively related to firm size as measured by assets.

Real estate firms in Zimbabwe are owner managed and directors prefer own private equity to finance the operations of their companies. They miss out on growth opportunities as they restrict themselves to internal or private financing.

2.8 Models to be reviewed in assessing financing strategies
A review of the three most applicable business models will be done to illustrate the choice and application of financing strategies being employed by SME real estate firms. The models highlight the financing preferences, levels of control,
risk aversion and the awareness of available funding initiatives by owners and
directors of the companies. These models include:

- Pecking Order Theory;
- Boston Consulting Group Model and
- The Product Life Cycle.

2.8.1 The Pecking Order Theory
Myers (1984) has tried to explain business managers' financial preferences using
a pecking order approach or hypothesis. According to Myers, (1984), business
managers prefer internal to external financing and debts to external equity. In
summary, the pecking order approach or hypothesis states that businesses
adhere to a hierarchy of financing sources and prefer internal financing when
available; if external financing is required, debt is preferred over equity.
Consistent with the pecking order approach or hypothesis, Paul et al. (2007)
found that the entrepreneurs in start-ups turn to internal sources first, that is, their
own funds.

Small firm owners try to meet their finance requirements from a pecking order of,
first, their own money (personal savings, retained earnings); second, short-term
borrowings; third, long-term debt; and, least preferred of all, from the introduction
of new equity investors, which represent the maximum intrusion (Cosh &
Hughes, 1994).

Ohanga (2005) asserts that, from the borrower’s perspective, if faced with a cost
of lending that is above the true risk-adjusted cost, the borrower will have
incentives to seek out alternative sources of funding. Bank lending theory
suggests that, where information asymmetry and moral hazard are prevalent,
firms are likely to fund themselves firstly from retained earnings and then from
bank debt rather than issuing equity. This is referred to as the pecking order
theory/hypothesis. The theory further suggests that the mix of debt and equity
should be the cumulative result of hierarchical financing decisions over time.

Studies done (Scholtens, 1999, Ohanga, 2005, Cosh & Hughes, 1994, and Cosh
& Hughes, 1994) show that firms source finances in a manner consistent with
Myers’ (1984) pecking order theory, highlighting the importance of profitability in funding in the sector. Firms with a high level of fixed assets overcome problems of asymmetric information by pledging collateral to secure debt finance. When there are insufficient firm assets to secure business loans, the personal assets of the firm owner are an important source of collateral.

The application of the pecking order theory to small and medium firms needs to be qualified by the stage of the firm’s life-cycle (Scholtens, 1999). Younger firms, which are generally smaller firms, are less able to generate sufficient retained earnings for internal sources to adequately finance an expansion of operations. This source of funding is more readily available for more mature firms. Capital structure, therefore, will vary over the life-cycle of the small enterprise (Ang 1991).

### 2.8.2 The BCG Growth-Share Matrix

The BCG Growth-Share Matrix is a portfolio planning model developed in the early 1970's by the Boston Consulting Group. The model is based on the observation that a company’s business units can be classified into four categories based on combinations of market growth and market share relative to the largest competitor, hence the name "growth-share". Market growth serves as a proxy for industry attractiveness, and relative market share serves as a proxy for competitive advantage. The growth-share matrix thus maps the business unit positions within these two important determinants of profitability.

Enterprises with growth prospects could increase their use of both debt and equity. Funding their expansion is likely to require resort to external financing and the pecking order theory indicates that their preference will be for debt rather than equity capital. However, growth firms will be more attractive to investors such as business angels and venture capital funds. Moreover, banks will require sufficient equity to be in place if they are to increase their funding of the enterprise.

The table 2.2 and figure 2.1 below illustrates the relationships between the strategies and growth level of firms and how these strategies impact on the
overall financing strategies. The financing strategies are linked to the growth stages of a firm which can then be linked to the BCG growth model. The introductory stage of a firm is the question marks in the BCG model and the financing strategy is to use borrowings from family, friends and own private equity or private capital as figure 2.2 combines them all together with risks associated at each stage.

Table 2.2 Financing strategies and growth levels of firm.

<table>
<thead>
<tr>
<th>Financing Strategy</th>
<th>Firm growth levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowings from family, friends and own capital.</td>
<td>Introductory stage</td>
</tr>
<tr>
<td>Loans from Financial Institutions or Venture Capital.</td>
<td>Growth/Survival stage</td>
</tr>
<tr>
<td>Retained Income and Equity from Capital Markets</td>
<td>Maturity stage/Success</td>
</tr>
<tr>
<td>Equity and Capital Markets/Venture finance</td>
<td>Decline Stage</td>
</tr>
</tbody>
</table>

Source: Adopted from Ward and Bender (2009)

Figure 2.1 Growth/Portfolio Matrix Model

Source: Adopted from Ward and Bender, 2009

Boston Consulting Group have identified the business stages of development and managed to match the relevant financing needs and sources in order to minimise financing risk and maximise business growth. The B.C.G. matrix was
further linked to the product life cycle showing growth is sales, profitability and liquidity of the firm over time.

A main assumption is that a growing market requires investment in assets to increase capacity and therefore results in the consumption of cash. Thus the position of a business on the growth-share matrix provides an indication of its cash generation and its cash consumption. The BCG Growth-Share Matrix show that the cash required by rapidly growing business units could be obtained from the firm's other business units that were at a more mature stage and generating significant cash. By investing to become the market share leader in a rapidly growing market, the business unit could move along the experience curve and develop a cost advantage, (Ward and Bender 2009).

Below is a figure showing the various business stages, financing risks, sources of financing, profitability and cash-flow levels in various stages of company growth.

**Figure 2.2: BCG Growth-Share Matrix**

<table>
<thead>
<tr>
<th>High Growth Rate</th>
<th>Stars</th>
<th>Question Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need development &amp; investment.</td>
<td>Have more liquidity.</td>
<td>Need to develop liquidity.</td>
</tr>
<tr>
<td>Have more liquidity.</td>
<td>Owner’s Equity financing appropriate.</td>
<td>Negative cashflows and profits.</td>
</tr>
<tr>
<td>Owner’s Equity financing appropriate.</td>
<td>Bank or Commercial loans.</td>
<td>Owner’s Equity financing appropriate.</td>
</tr>
<tr>
<td>Bank or Commercial loans.</td>
<td>Financial Risk low.</td>
<td>Venture financing can be used.</td>
</tr>
<tr>
<td>Business Risk high</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Low Growth Rate</th>
<th>Cash cows</th>
<th>Dogs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have greater liquidity.</td>
<td>Finance other activities.</td>
<td>Very Low Liquidity.</td>
</tr>
<tr>
<td>Finance other activities.</td>
<td>Can use Retained Income.</td>
<td>Use public equity finance</td>
</tr>
<tr>
<td>Business Risk low</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Adopted from Ward and Bender (2009)
The four categories are explained below:

Question marks are rapidly growing businesses or units and thus consume large amounts of cash to promote the business, but because they have low market shares they do not generate much cash. The result is large net cash consumption resulting in negative cashflows and losses. A question mark has the potential to gain market share and become a star, and eventually a cash cow when the market growth slows. If the question mark does not succeed in becoming the market leader, then after perhaps years of cash consumption it will degenerate into a dog when the market growth declines. Owners’ equity finance is the main source of finance, complimented by venture capital, as company will still be new with high business risk and credit lines will be limited.

Stars generate large amounts of cash because of their strong relative market share, but also consume large amounts of cash because of their high growth rate; therefore the cash inflows and outflows will be the same. If a star can maintain its large market share, it will become a cash cow when the market growth rate declines. The portfolio of a diversified company always should have stars that will become the next cash cows and ensure future cash generation. At this level the business can finance its operations.

Cash cows develop when business units or firm become leaders in a mature market, cash cows earn a return on assets that is greater than the market growth rate, and thus generate more cash. Such business units should be "milked", extracting the profits and investing as little cash as possible. Cash cows provide the cash required to turn question marks into market leaders, to cover the administrative costs of the company, to fund research and development, to service the corporate debt, and to pay dividends to shareholders.

Dogs have low market share and a low growth rate and thus neither generate nor consume a large amount of cash. However, dogs are cash traps because of the money tied up in a business that has little potential.

Under the growth-share matrix model, as an industry matures and its growth rate declines, a business unit will become either a cash cow or a dog, determined
solely by whether it had become the market leader during the period of high growth.

While originally developed as a model for resource allocation among the various business units in a corporation, the growth-share matrix can also be used for resource allocation or financing among products or services within a single business unit.

While its importance has diminished, the BCG matrix still can serve as a simple tool for viewing a corporation's business portfolio at a glance, and may serve as a starting point for discussing financial resource allocation among strategic business units.

The small to medium real estate businesses in Zimbabwe have great potential to rapidly growing businesses or units but consume large amounts of cash to promote the business, advertise the products, and pay other administrative costs but because they have low market shares they do not generate much cash. There is need for financing strategies to finance these activities.

2.8.3 The Growth Life Cycle Model
An assessment of financing strategies in isolation of marketing strategies will result in lost opportunities by firms. Marketing strategy and financing strategies are closely linked and major challenges of SME firms are their failure to identify and utilise the linkages. (Ward and Bender, 2009 and Watson, Hanks et al, 1993).

Figure 2.3 below shows the growth stages of sales in any organisation which then have impact on the financing strategies of any firm. At the development and introductory stages cash-flows are negative due to business risk. The financing strategy will be to raise cheap finances to promote growth.
The growth life cycle passes through a number of stages from development, introduction, growth, maturity and decline. These various stages require different financing levels as sales levels will be different. These stages can be linked to the BCG growth matrix. SME real estate firms need to identify the link between growth models and avoid the application of pecking order approach or hypothesis when sourcing for funding.

2.8.4 Other strategies
SME development strategies will necessarily be country and context specific and each country will have its own challenges, opportunities for the SME firms. Resources available for implementation will vary by country, so that results achieved will also be different. Then, emphasis changed to one of achieving international competitiveness and programs encouraging business growth, support for technology based businesses and creation of an enterprise culture
within the society started to gain in importance (Sawy, Malhotra, Gosain and Young, 1999).

The SME development strategy has to be inclusive and build on a consensus on SME challenges, goal and broad policy direction among key SME stakeholders. The strategy has to concert and coordinate efforts of institutional structures that make or affect policy (the parliament, provincial councils and political parties), the administrators of policy (line ministries, local government authorities and regulatory structures), and public support organizations (SME, export, investment, regional development, public sector education and training institutions and financial institutions). The private sector’s roles and responsibilities have to integrate into the strategy through business membership organizations, organizations of business development service and private financial service, (Khan and Khan, (1992) and Chen, (1993).

It must also be clear that inserting an arbitrary notion of “SME” into the national development framework or into an existing private sector development strategy would not be sufficient. Anti-SME biases must be assessed in detail within the context of the country: as to the legal, regulatory frameworks and administrative practices, in access to finance, in respect of entrepreneurial support structures and infrastructure, and with a genuine concern for effective use of human and natural resources (Khan and Khan, 1992; Chen, 1993).

The models applicable to the majority were the Boston Consulting Group (BCG) life Matrix, the pecking Order Matrix (POM) and the growth life cycle (GLC) model. Studies were in broad agreement on the existence of financing strategies for the SMEs and different strategies were applicable for different stages of business life.

2.9 Conclusions and recommendations
The key findings from this literature review can be summarized as follows:

- Only a small proportion of SMEs real estate firms ever undertake new equity financing, suggesting that this is not a popular financing alternative. Debt
financing appears to dominate the balance sheets of these firms at maturity and decline stages.

- Most SMEs are predominantly closely-held concerns with controlling interests in the hands of founding directors or working owners. Any new equity financing is likely to be undertaken in manner that maintains this situation (Pecking Order Theory).
- When new equity financing is undertaken by SMEs, the amounts raised seem to be significant relative to their existing equity base. Thus, when undertaken, such equity capital raisings appear to be important financing initiatives.
- Smaller enterprises tend to have a more limited equity financing base, they appear to rely more heavily on working owners for any equity financing they do have.
- Greater enterprise growth tends to be more evident amongst SMEs that are more willing and more able to employ new equity financing.

In order to make a meaningful contribution to local and national economic development and prosper, SMEs require a favourable business and regulatory environment, access to appropriate business development services and support, and easy access to finance at reasonable rates.

SMEs, however, are typically opaque and suffer from weak entrepreneurial skills while financial institutions generally display very stringent lending criteria and a low risk appetite. This situation is further exacerbated by SME support and development organisations, especially government funded organisations, whose strategies and interventions have not yielded the intended results. So, while SMEs normally complain of a lack of access to finance, financial institutions complain of a dearth of entrepreneurs. Both arguments are equally valid.

A number of recommendations need to be adopted by the SME real estate firms if they are to grow, succeed and survive in the current conditions. These recommendations include: Adoption of the BCG growth model. This model is a decision making model that allows a firm to identify its growth potential and its position in the market and formulate proper financing strategy that incorporates all business risk elements and combine them with marketing strategies to grow.
On the other hand the pecking order theory (P.O.T) limits firms’ access to various financing options available with its preference to internal sources at the expense of external sources.

2.10 Chapter Summary
This chapter has defined small and medium sized firms, liquidity constraints and impact of financing strategy on the performance of SME real estate firms in general and those operating in Zimbabwe specifically during the liquidity constrained period. The various sources of financing and their structures have been analyzed. The Pecking Order Theory, the Boston Consulting Group Matrix and the Product Life Cycle have been combined to come up with a detailed growth share matrix combining the various financing components that also include the risks and returns associated with the financing strategies. The literatures has shown that performance under liquidity constraints suffer due to the inability to properly implement financing strategy, resulting in the need to adopt various strategies or models such as:

- Pecking Order Theory;
- Boston Consulting Group Model;
- The Growth Life Cycle and
- Comprehensive Growth- Share Matrix.

These will ensure that businesses apply these strategies to obtain working capital, finance capital expenditure and undertake future investments.

The next chapter will describes the research methodology adopted in the study, the methods used in data collection and analysis in the study, the target population, the sampling procedures and sample size of the study. The data collection instruments used and issues pertaining to its validity and reliability and the statistical techniques used to analyze the data during the study.
Chapter Three

Research methodology

3.0 Introduction
The purpose of the study was to assess or investigate the financing strategies employed by small real estate firms in Zimbabwe. The study also sought to establish the sources of finance, cost of finance, tenor of finance and uses of finance used in the business. Recommendations were made regarding various challenges facing the small to medium real estate firms as a result of financing strategy assessment from the survey.

This chapter describes the research methodology, methods used in the study, target population, sampling procedures and sample size of the study. The data collection instruments used and issues pertaining to its validity and reliability and the statistical techniques used to analyze the data during the study were discussed. The study limitations and data analysis strategy will also be outlined in this chapter. A quantitative methodology was adopted in the study and relevant methods such as surveys and interviews using questionnaire and interview guides were used to collect and analyze the data.

3.1 Research Methodologies
A research methodology is a plan of how the researcher will go about answering the research question or questions, (Saunders, Lewis and Thornhill, 1997). Easterby-Smith (2002) defines a research design or methodology as the overall configuration of a piece of research. It is a model or framework applied in a research project to illustrate relationships between important variables. It can also be described as the theoretical paradigm used by the researcher in a study. Saunders et al (1997) note that there are two approaches to research, positivism and phenomenology. Two methodologies then arise from the definitions above and these are quantitative methodology and qualitative methodology.

3.1.1 Quantitative Methodology
The quantitative methodology was predominantly used in this study. Quantitative (positivist) study shows trends that explain phenomena that occur generally.
They communicate phenomena from within a sample that represent the wider population. According to Westhizen and Abraham (2002), “its structure, process and theoretical background offered the bases for the development and practice of standards for the methods of the social sciences.” Cassell and Symon (1995, p.2) states that, “the assumption behind the positivist paradigm is that there is an objective truth existing in the world which can be revealed and measuring relationships between variables systematically and statistically.”

The ideological basis of the school of thought are positivism, quantitativism and behaviourism in nature and now being supported by advanced statistical models such as statistical packages for social sciences (SPSS) and NU Dust. The positivist paradigm argues that one should be able to explain phenomena in terms of what causes the behaviour we observe. The cause and effect ideology underpins the positivist methodology. Positivism prefers working with an observable social reality and that the end product of such research can be law-like generalizations similar to those produced by the physical and natural scientists (Oppenheim, 1986). The positivist approach assumes an external world determining behaviour strives for explanation, prediction, and control by dividing into parts, and isolating them, mechanistic processes for explaining social behaviour. The researcher will be very objective in his assessment. It only allows the truth to be confined on empirical evidence; it is deductive and normally uses quantitative data (Saunders et al, 1997).

The quantitative methodology has been chosen because it is able to statistically analyse the relationships between variables and in the current study it is the relationship that exist between financing strategies in small to medium real estate firms.

3.1.2 Qualitative Methodology
The qualitative methodology (phenomenology) is done in the natural settings or field of activities thus greater communication between researcher and respondents. Process is communication based and flexible in the choice of research instruments and research procedures. Phenomenology focuses on the social process and how individuals interpret the social world. It is a research
approach where social reality is multiple, divergent and interrelated, analysis from the actor’s own perspective, human behaviour is how people define their own world and reality is the meaning attributed to experience and is not the same for everyone (Shadish et al, 2002).

3.2 Research methods, instruments and tools.
For quantitative methodology, the methods used to collect data were surveys combined with interviews and questionnaires and interview guides were used as the main instruments or tools for this study. In-depth interviews with directors or top management of small to medium sized real estate companies and the secretary or chairperson of the Estate Agents Council of Zimbabwe provided some useful information on financing strategies used by small to medium real estate firms. Others issues such as: marketing strategies; access to markets and competition; access to skills and technology; regulatory framework and supporting infrastructures in place were briefly assessed in order to come up with useful recommendations.

3.3 Study Population
Sekaran (2001:27) defines a population as “the entire group of people, events or things of interest that the researcher wishes to investigate.” The study targeted directors, managers and employees of small to medium sized real estate companies operating in Harare, Zimbabwe. These were either individuals, companies and even those banks or building societies that have ventured into in-house property sales, management, valuation, auctioneering and development.

According to the database provided by the Estate Agents Council of Zimbabwe, there are 227 companies operating in the sector as at 31 July 2013. The study concentrated with 196 SME companies operating in Harare. Below is a table showing the geographical distribution of real estate firms in Zimbabwe.
Table 3.1: Real estate firms by geographical distribution

<table>
<thead>
<tr>
<th>Place of Operation</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harare</td>
<td>196</td>
</tr>
<tr>
<td>Bulawayo</td>
<td>15</td>
</tr>
<tr>
<td>Mutare</td>
<td>7</td>
</tr>
<tr>
<td>Gweru</td>
<td>3</td>
</tr>
<tr>
<td>Masvingo</td>
<td>2</td>
</tr>
<tr>
<td>Kadoma/Kwekwe</td>
<td>2</td>
</tr>
<tr>
<td>Ruwa/Rusape</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>227</strong></td>
</tr>
</tbody>
</table>

Source: Estate Agents Council List July 2013

From the entire population of 227 real estate companies, five (5) large companies listed on the Zimbabwe Stock Exchange together with all other companies operating outside Harare were excluded from the study, because the study focused on small to medium sized real estate companies not listed on the Zimbabwe Stock Exchange (ZSE), operating in Harare. This was due to the fact that most of the small to medium sized real estate business is located in Harare.

### 3.4 Sample Size and Sampling Procedure

According to Leary (2004:10), sampling is the process by which a researcher selects a sample of participants for a study from the population of interest. The selected companies must be true representatives of the entire population so that the findings can then be applied to the entire population. They must clearly represent the small to medium sized real estate companies to a greater extend in terms of number of employees, sales turnover and also the asset base. Since the majority of the real estate companies are based in Harare, the sample included only companies in Harare, which the study believes was a true reflection of all the small to medium sized real estate companies in Zimbabwe. The operating environment is the same, the strategies are the same and challenges faced are similar and there are many companies in Harare to justify a balanced sample.

The sample size was determined using Yamane’s (Yamane, 1967) formula after deciding on a 95 percent confidence interval and maximum allowable error of 5
percent. The formula of minimum sample size determination was used and a sample size \( n \) was obtained as follows:

\[
\frac{n_0}{1 + (n_0 - 1)} = \frac{196}{1 + 196(.05)^2} = 132
\]

\[
\frac{n}{1 + (n_0 - 1)} = \frac{132}{1 + (1.31 - 1)} = 79
\]

Where  
\( N \) = Population size,  
\( n_0 \) = first approximation of \( n \),  
\( n \) = minimum required sample size,  
\( e \) = maximum allowable error (0.05%).

Sources and Application: Yamane (1967)

The scientific formula by Yamane (1967) was applicable after randomly selecting companies from a list provided by The Estate Agents Council of 196 companies doing real estate business in Harare that excludes those large companies listed on the Zimbabwe Stock Exchange (Z.S.E.).

Out of a total 196 firms in Harare, the study randomly selected 107 companies. An additional three companies comprising one building society, one developing company and one law firm was required to collect data. The sample conveniently included a building society, developing company and a law firm in order to be able to assess the banking services in the mortgage division, developers' challenges, and conveyancing requirements and probably use as a benchmark, the minimum expectations in land development and the legal expectations from real estate companies.
3.5 Data Collection Tools
The study used two main tools of collecting data namely the questionnaire which was complimented by the use of the interview guide.

3.5.1 Questionnaire
A questionnaire was designed to cover the topic so as to solicit views from directors, managers and employees. These questionnaires were used to obtain data from participating managers, directors or employees of small to medium sized real estate companies, a building society, a property development firm and law firm.

According to Bell and Ichan (1993), questionnaires are a good way of collecting certain types of information quickly and relatively cheap as long as subjects are sufficiently disciplined to abandon questions that are superfluous.

The questionnaire was then designed in such a way to enable people to choose their own responses and express their opinions. The questionnaire had both open-ended questions and closed questions. This was to enable the study to get more in-depth responses, as was planned to analyse the responses quantitatively, interpreting what people wrote with the help of the theory. The other questions required respondents to tick the relevant box in the responses. These styles of questions are considered quicker and easier for respondents to use than rating scales or visual analogue scales (Boynton & Greenhalgh, 2004).

3.5.1.1 Components of the Questionnaire
The questionnaire consisted of four sections. The first section consisted of the demographic questions about the respondents. These included name of the company, position in the company, years in position, or years of experience in the real estate industry, company size (employees), places of operation and years of operation. The second section consisted of statement compiled according to aspects that relate to the financing strategies that are in place. The third section consisted of marketing and other strategies that are being undertaken by the firms. The fourth section consists of what the directors, manager or employees think can be done to improve the situation. These are
other factors that the directors, senior management or employees are expected to adopt in order to increase profitability and viability.

The questionnaire was pretested at three real estate companies to test this research instrument. A pre-test is a trial run with a group of respondents, used to find problems with the questionnaire design (Zigmund, 2003:209). Thereafter the questionnaire was modified accordingly and used during survey and interviews with the respondents.

Once the final version of the questionnaire was completed, the questionnaires were then distributed to the respondents. Of the various method of questionnaire distribution, the research team would have preferred to use the group method, where the respondents are brought together to complete the questionnaires. The method is inexpensive and has high response rate (Whityeley, 2002 p377). However, envelops were used to cover the questionnaires and were addressed and delivered by hand with signed cover letters, to make the questionnaire more personal. Edwards et al (2001) argued that personalised questionnaires are associated with a higher response rate.

In this study the questionnaires were physically distributed to the respondents. The researcher got a database from 227 firms and extracted companies that are operating in Harare in terms of their physical address and contact numbers. The demographics were important in the final sampling process as the study targeted small to medium real estate firms in Harare.

3.5.2 Interviews
According to Wegner, (1993), interviews solicit primary data responses through direct questioning. It is the most common form of data collection in the field of marketing and market research. However, Fraenkel and Wallen (1996) pointed out that interviews consume time as compared to questionnaires. In this study, interviews were done with key stakeholders in the sector.

The Registrar of the Estate Agents Council of Zimbabwe provided very detailed data regarding the operation of real estate firms which was vital during the
conclusions and recommendations in chapter four and five. The conveyancing firm and the property developer also provided the other challenges being experienced by the small to medium sized firms.

3.6 Validity of Data
“Validity relates to the extent to which a measure, indicator or method of data collection possesses the quality of being sound or true as far as can be judged” (Jary & Jary, 1995:p714).

In this study validity and reliability was observed by adapting tools which have been successfully used before. Validity and reliability was also enhanced through pre-testing the questionnaire in the pilot study. Factors affecting reliability like clarity, specificity of items on the questionnaire and the length of the questionnaire were considered. Items were made as simple as possible and to the point. For validity, pre-testing helped to ensure the thoroughness and completeness of the questionnaire and the follow-up interview schedules.

3.7 Study Limitations
These will be discussed in the final chapter. However it is important to highlight at this stage that use of questionnaire has its own limitations.

3.8 Data Analysis
“Data processing begins with data editing and coding and data analysis is a process of inspecting, cleaning, transforming, and modelling data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making” (Zigmund, 2003:73). Once the questionnaires were picked they were screened for anomalies. The questionnaires were then coded with numbers assigned to each. The data was processed by using a statistical package called statistical package for social sciences (SPSS).

3.9 Ethical Consideration
The research was done in line with ethical guidelines to ensure that participation was voluntary, no harm or risk to accrue to participants, participants were also to derive some benefits from participating, privacy and confidentiality was
guaranteed as participants’ identity were anonymous. Richardson and Godfrey (2003); Saunders et al (2007) and Sekeran (2001) highly recommend the ethical approach in data collection. The study was done in a way that none of the participating organisations and that of the University of Zimbabwe were to be harmed. The directors, managers and employees were free to participate or not to participate. The responses were kept as confidential as possible and no names were asked for the respondents to avoid intimidation of managers or employees.

3.10 Chapter Conclusion
The chapter has restated the study objectives of assessing the financing strategies, discussed the research methodology (quantitative) used in the study, stated the reason for choice of methodology, has reviewed concepts and literature regarding study population, sampling techniques, research methods and research instruments, data collection and analysis techniques. Ethical Considerations were highly considered in the process and the chapter concluded by highlighting the research limitations.
Chapter Four
Presentation of Findings

4.0 Introduction
The study sought to assess the financing strategies implemented by SME real estate firms in Zimbabwe during the liquidity constrained period. Secondly, to establish the sources and structure of finance, cost of finance, tenor of finance and uses of finance used in the business. Data was gathered from managers of the firms or their owners or directors. The findings and conclusions of the study are presented in this chapter. The findings are presented in the sequence of the research instrument questions. The presentation format firstly highlights the question asked in the questionnaire; explains the purpose of the question; presents findings of the study as they are; deduces the meaning or implications of the findings and then discusses these.

4.1 Response rate
A total of 79 questionnaires out of 110 questionnaires distributed were returned, represents a response rate of 72%. This response rate is high enough to warrant validity and reliability of the research findings.

<table>
<thead>
<tr>
<th>Details of participants</th>
<th>Questionnaires sent</th>
<th>Questionnaires responded</th>
<th>Response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>50</td>
<td>36</td>
<td>72%</td>
</tr>
<tr>
<td>Owners</td>
<td>60</td>
<td>43</td>
<td>72%</td>
</tr>
<tr>
<td>Total</td>
<td>110</td>
<td>79</td>
<td>72%</td>
</tr>
</tbody>
</table>

4.2 Demographics Responses
A summary of the respondents obtained from owners and managers of small to medium sized firms is outlined in table 4.2 below. These responses provided very useful insights into the financing strategies, marketing strategies and other business challenges faced by the firms. The majority of the firms are owner managed with less than 5 years in the industry.
Table 4.2: Demographic Data

<table>
<thead>
<tr>
<th>Categories</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Position in the company</strong></td>
<td></td>
</tr>
<tr>
<td>Owners</td>
<td>62%</td>
</tr>
<tr>
<td>Managers</td>
<td>38%</td>
</tr>
<tr>
<td><strong>Years in that Position</strong></td>
<td></td>
</tr>
<tr>
<td>Below 5 Years</td>
<td>70%</td>
</tr>
<tr>
<td>Above 5 Years</td>
<td>30%</td>
</tr>
<tr>
<td><strong>Highest Educational Qualification</strong></td>
<td></td>
</tr>
<tr>
<td>Degree</td>
<td>20%</td>
</tr>
<tr>
<td>Diploma and Others</td>
<td>80%</td>
</tr>
<tr>
<td><strong>Total Numbers of Owners</strong></td>
<td></td>
</tr>
<tr>
<td>≤ 2 Owners</td>
<td>90%</td>
</tr>
<tr>
<td>&gt; 2 Owners</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Company Size</strong></td>
<td></td>
</tr>
<tr>
<td>&lt; 20 Employees</td>
<td>85%</td>
</tr>
<tr>
<td>20-50 Employees</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Place of Occupation</strong></td>
<td></td>
</tr>
<tr>
<td>Within CBD</td>
<td>60%</td>
</tr>
<tr>
<td>Outside CBD</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Years of Operation</strong></td>
<td></td>
</tr>
<tr>
<td>Below 5 Years</td>
<td>70%</td>
</tr>
<tr>
<td>Above 5 Years</td>
<td>30%</td>
</tr>
<tr>
<td><strong>Company Registration Status</strong></td>
<td></td>
</tr>
<tr>
<td>Private Business Corporation</td>
<td>20%</td>
</tr>
<tr>
<td>Private Limited Businesses</td>
<td>80%</td>
</tr>
</tbody>
</table>

4.2.1 Position in the company
The respondents were asked their positions in the company they revealed that 62 percent of the respondents were owners of the companies, while 38 percent were managers of real estate companies. This indicates that the companies were mainly run and managed by owners.

4.2.2 Years in that Position
The respondents were asked the number of years they had spent in the company they revealed that, 70 percent of the respondents had less than 5 years in the real estate industry, while 30 percent had over 5 years in the industry. The industry can be classified as still young and comprises of small businesses.
4.2.3 Highest Educational Qualification
The respondents were asked about their highest educational qualifications they revealed that only 30 percent of owners or managers had a degree while 70 percent had lesser qualifications, indicating that the industry is dominated by people without high academic qualifications. The real estate firms rely heavily on their real estate professional qualifications. The industry needs to engage more qualified persons especially in their accounting departments as these are vital skills for financing strategy formulation and implementation.

4.2.4 Total Numbers of Owners
The study also sought to find out the shareholding structure of the companies and the respondents indicated that 90 percent of companies are owned by 2 people (mostly husband and wife) with only 10 percent being owned by unrelated parties. Private equity finance was likely to be the source of finance as the owners wanted to be in control of their small to medium sized firm.

4.2.5 Company Size
The owners and managers of the small companies were asked how big their company saw in terms of number of employees, they indicated that 85 percent of the real estate firms employ less than 20 employees, clearly indicating they are still small firms. This may also imply that the activities done by real estate firms are not complex as they can be undertaken by few individuals with minimum computerisation of the various departments.

4.2.6 Place of Occupation
The study also sought to find out the most preferred places used for operating small to medium real estate businesses the respondents indicated that 60 percent of companies operate from rented premises in the central business district (C.B.D) and avenues areas where rentals are slightly cheaper compared to 40 percent who operated from the office parks and residential areas.

4.2.7 Years of Operation
The study also sought to find out the period the small companies have been in operations. The majority of the SME real estate firms, 70 percent have been in
operation for less than 5 years, while only 30 percent have been in operation for a period greater than 5 years.

4.2.8 Company Registration Status

The owners and managers of the small companies were asked whether their companies were registered, the respondents revealed that 80 percent of the respondents pointed out that they operate as private limited companies while 20 percent said they operate as private business corporation with just one director. This implies that there are a significant number of companies that are still very small (micro) and far from becoming public companies listed on the Zimbabwe Stock Exchange market.

4.2.9 Bank Account

The respondents were asked whether they have operational bank accounts. Eighty one percent of them pointed out that they have company bank accounts whilst 19 percent said they do not have operational bank accounts.

This implies that there are a significant number of companies with their accounts not operational. This is a sign of companies scaling down operations due to economic hardships prevailing in the country or a lack of trust in banks. The
implication of this analysis is that only 19 percent of the small to medium firms do their transaction through the formal bank sector.

4.2.10 Accounting System

The respondents were asked whether they have a manual or computerised accounting system and they revealed that 60 percent of the participating companies have their accounting system operating on manual whilst 40 percent have it computerized. This generally shows that most of the real estate firms do not have computerized systems running their accounts as they try to reduce operation costs. The firms also lack skills to operate the accounting packages.

4.3 Financing Strategies

The respondents were asked to explain the financing strategies that they used and they said that various strategies as detailed below. About 67 percent of respondents said they used less than US$5000.00 to start their business and most of it was from own savings. Those who got loan from banks were charged an average interest rate of 15 percent with an average duration of 4 years.

4.3.1 Start-up Finance of Business

The respondents were asked to explain how much they had used to start their real estate business and 67 percent of respondents said they used an amount less than US$5000.00, 28 percent had used amount above US$5000.00 but below US$10 000.00 and only 5 % to had used an amount above US$10 000.00 to start their business. This shows that the majority of organisations in this sector are small and that they do not need a lot of capital to start their business
It is interesting to note that venture capital funds are not interested in providing the small amounts of funding sought by many small enterprises. Cressy (1993) found that fewer than one percent of UK start-ups had financial input from venture capitalists with larger start-ups being more likely to use venture capital funding. In the case of Zimbabwe, real estate firms do not use venture capital as it requires formalised business operations with operational bank accounts and computerised accounting system.

4.3.2 Source of your financing start-up of company

The respondents were asked to explain the source of start up financing of their real estate business and 39 percent of respondents said they used their own savings while 28 percent used bank loans and 20 percent managed to get some lease financing. This implies that until such a time when real estate firms have established relationship with banks, they preferred to use own resources. Banks on the other hand consider small firms as too risk financing their operations during their early years of trading.
KPMG Consulting, (2002) pointed out that SMEs may also prefer debt to equity when seeking external funding because they are much more familiar with banks and other sources of debt finance and a wide variety of debt products are available.

The own source or private equity is supported by López et al, (2006), the categories of finance for SME growing into large companies were: Own resources from entrepreneur, venture capital, loan and debt and finally equity finance as the company grows to finance working capital, capital expenditure and investment finance.

For the 28 percent who used bank loans to start their businesses, the study went on to investigate the amounts of loans which they got from banks.

Figure 4.3: Source of financing start-up of company
4.3.3 Interest Charged

The study also sought to find out the interest charged on the loans and it was revealed that the average rate charged was 16 percent with minimum and maximum rates of 10 percent and 30 percent respectively. This is summarised in Table 4.2 below.

**Table 4.3: Interest Rates Charged**

<table>
<thead>
<tr>
<th>Details</th>
<th>Rate of interest (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>15.83</td>
</tr>
<tr>
<td>Minimum</td>
<td>10</td>
</tr>
<tr>
<td>Maximum</td>
<td>30</td>
</tr>
</tbody>
</table>

The analysis above shows that the average interest rate which was charged by banks was about 16 percent with a minimum of 10 percent and maximum of 30 percent.
percent. This is in-line with the prevailing interest rates in the market which is currently sitting at 15 percent.

Although the role of small to medium firms in various economic activities is widely acknowledged, they are perceived to have a very high risk profile by financial institutions resulting in firms or companies within the sector having limited access to finance and being charged higher interest rates compared to larger firms, thereby unnecessarily increasing operating costs and reducing their competitiveness.

4.3.4 Duration of the Loan

The study also sought to find out the duration of the loan advanced by banks to small firms and it was revealed that the average duration was 4 years with minimum and maximum of 1 year and 15 years respectively. This is summarised in Table 4.4 below.

<table>
<thead>
<tr>
<th>Details</th>
<th>Duration (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>3.667</td>
</tr>
<tr>
<td>Minimum</td>
<td>1.00</td>
</tr>
<tr>
<td>Maximum</td>
<td>15.00</td>
</tr>
</tbody>
</table>

The analysis above revealed that the average mean of the duration of the loan is about 4 years with a minimum of one year and a maximum of 15 years. Banks prefer to advance short-term loans to SME firms to reduce default risk. On the other hand the SME firms also prefer short-term loans in order to minimize interest charges.

4.3.5 Provision of Collateral

The respondents were asked to explain whether they were required to provide any collateral security by the banks in order to obtain loans to finance their real estate business and that 82 percent of the real estate which accessed loans from the banks was asked to provide collateral security and 18 percent did not provide that collateral. This implies that the majority of banks will require collateral.
security from small real estate firms even if they have been doing their banking with them. Banks on the other hand consider small firms as too risk financing their operations during their early years of trading. The banks in Zimbabwe request for collateral in order to provide security. Most of the collateral security provided came from the personal assets of the directors of the SME firms.

Scholtens, (1999) pointed out that those firms with a high level of fixed assets overcome problems of asymmetric information by pledging collateral to secure debt finance. When there are insufficient firm assets to secure business loans, the personal assets of the firm owner are an important source of collateral.

4.3.6 Awareness of Financing Facilities
The study also sought to find out the managers and owners were aware of financing facilities and 42 percent of the participating real estate firms are aware of financing facilities and 58 percent said they are not aware of those facilities. This analysis shows that the level of unawareness is significant enough to cause a concern. This is summarised in figure 4.5 below.

4.3.7 Aware of the Zimbabwe Stock Exchange
The study also sought to find out the managers and owners were aware of the existence and function of the Zimbabwe Stock Exchange and only 22 percent of the participants were aware of the ZSE, while 78 percent were unaware of its existence and function. This is as a result of the target population demographics which show that the majority of the targeted groups were directors of firms, while part of management team and employees were not aware. This analysis shows that the level of unawareness is significant enough to cause a concern and public equity finance will not be used by these small real estate firms. This is summarised in figure 4.5 below.
4.3.8 Plan to List on the ZSE

The study also sought to find out from the managers and owners whether they had plans to list on the Zimbabwe Stock Exchange and shows that 85 percent of the participants do not have any plans of listing on the ZSE as opposed to only 15 percent who had the plans to list on the stock exchange. Owners preferred to closely own and control their real estate firms especially if they are the registered estate agents as the issue of trust account control is crucial and can only be properly done by the owner. Figure 4.6 below illustrate the findings diagrammatically.

Figure 4.5: Awareness of ZSE

Figure 4.6: Plan to List on the ZSE
4.4 Working Capital Financing

The study also sought to find out the managers and owners had received any material or financial support to finance your day to day operations.

Figure 4.7: Financial and Material Support

Figure 4.7 above shows that 58 percent of the real estate participating in the survey indicated that they did not receive any material or financial support to finance day to day and 42 percent said they got some form of assistance. These results are consistent with the figure 4.3 which shows the sources of funds which were used to start the real estate companies operating in Zimbabwe.

Sawy, Malhotra, Gosain and Young, (1999) indicated that funding their expansion is likely to require resort to external financing and the pecking order theory indicates that their preference will be for debt rather than equity capital.
4.4.1 Type of assistance received

The study also sought to find out what type of funding the managers and owners had received any material or financial support to finance the day to day operations.

![Pie chart showing types of assistance received](image)

**Figure 4.8: Type of assistance received**

Figure 4.8 above shows that 54 percent received other assistances which are not loans or grants. The figure shows that 29 percent received bank loans and 17 percent received the assistance in the form of grants.

They have identified the business stages of development and managed to match the relevant financing needs and sources in order to minimise financing risk and maximise business growth.

4.4.2 Usage of Loan

The respondents were asked to explain what use they applied their working capital loans they obtained for their real estate business and 88 percent of the participants indicated that they used their loans to advertise, 72 percent used it to pay rentals, 52 percent used it to pay salaries and 26 percent used it to buy stationery. Loans were purely used for paying bona fide business expenses.
According to Mallette (2006), funding decisions concern the specific mix of long-term debt and capital that the company uses to finance its operations, that is, optimal capital structure. Working-capital decisions include the management of short-term assets and liabilities in a way that ensures the adequacy of resources for company operations.

4.5 Investment and Capital Expenditure Financing
The study also sought to establish the long term financing strategies of the small to medium sized firms, what immovable assets are owned, how the purchase was financed, the rate of interest charged and whether any collateral was provided.

4.5.1 Ownership status
The study also sought to find out from the managers and owners whether they owned or rented the premises they were operating from. Figure 4.10 below revealed that 62 percent of the respondents highlighted that they rent their business premises and 38 percent indicated that they actually own the premises they are using for business.
This implies that despite the fact that the small to medium sized firms’ core business was immovable property; the majority of them could not afford to buy their own business properties.

4.5.2 Loan Received

The study also sought to find out from the managers and owners of those who owned the premises they were operating from, the amount of long-term funding. Figure 4.11 below summarises the responses.
The analysis shows that for those who received loan 64 percent received loans were below US$50000.00, 28 percent received loan which was between US$50000.00 and US$100000.00 and 8 percent received loan which was above US$100000.00.

4.5.3 Use of the Loan Received
The study also sought to find out from the managers and owners of those who accessed loans, the use of long-term funding. Figure 4.20 below summarises the responses.

![Figure 4.12: Use of the Loan Received](image)

The analysis above revealed that 43 percent of the participants used their loans to buy commercial stands, 28 percent used it to buy commercial houses, 15 percent used it to buy motor vehicles, 10 percent used it to buy computer equipment and 4 percent used it for other purposes. This shows that if the small to medium sized firms are given long-term loans they use it to establish or buy a commercial building or stand to operate their businesses from and also to derive additional revenue.
4.6 Marketing Strategies

Marketing strategy and financing strategies are closely linked and major challenges of SME firms are their failure to identify and utilise the linkages. The study also sought to find out from the managers and owners the marketing strategies that they employ and whether these are properly linked to the financing strategies. Figure 4.13 below summarises the responses.

![Bar chart showing marketing strategies]

**Figure 4.13: Marketing Strategies**

The analysis above shows that 44 percent of the respondents argued that they use advertising as their marketing strategy, 31 percent use personal selling and 25 percent have other forms of payment.

4.6.1 Marketing outside Harare

The respondents were asked if they marketed any of their product or services outside Harare. Figure 4.14 shows their responses.
The analysis above shows that 61 percent of the respondents do not market outside Harare and 39 percent said they market outside Harare. This shows that the majority of the companies are operating only in Harare.

4.6.2 Major competitors.

The managers and owners were asked who their major competitors were in their real estate business and contrary to popular perception that the large companies were major competitors; other SME firms were the major competitors.
Figure 4.15: Major Competitors
The Figure 4.15 shows that 52 percent of the respondents are experiencing competition from SMEs and 48 percent are experiencing the competition from the big companies such as Old Mutual Properties, Pearl Properties, Zimre Property Holdings, and Dawn Properties, listed on the Zimbabwe Stock Exchange.

4.7 Performance Indicators
The study also sought to find out from the managers and owners of the real estate firms how their companies were performing as many companies were joining the rapidly growing real estate industry. Figure 4.16 below summarises the responses.

4.7.1 Performance of SMEs

Figure 4.16: Performance

Figure 4.16 above shows that 39 percent of the respondents indicated that their organisations have been performing very poorly, 29 percent have been performing poorly and 9 percent were not sure about the performance. The figure also shows that 8 percent said they experienced very good performance and 15 percent said it was good. This generally shows that the performance which has been coming from small real estate firms has been poor and growth prospects are low.
Table 4.5: Performance Indicator

<table>
<thead>
<tr>
<th>Performance Indicator</th>
<th>Modal Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a business is easy</td>
<td>2</td>
</tr>
<tr>
<td>Getting credit is easy</td>
<td>5</td>
</tr>
<tr>
<td>Registering property is fast</td>
<td>2</td>
</tr>
<tr>
<td>Trading across borders is easy</td>
<td>5</td>
</tr>
<tr>
<td>Enforcing contracts is easy</td>
<td>3</td>
</tr>
<tr>
<td>Getting electricity is easy</td>
<td>4</td>
</tr>
<tr>
<td>Paying taxes is easy</td>
<td>4</td>
</tr>
</tbody>
</table>

The analysis above shows that generally the performance of the real estate business in Zimbabwe is poor given that access to credit, electricity and taxes is difficult.

Small to medium firms contribution in various economic activities is widely acknowledged, they are perceived to have a very high risk profile by financial institutions resulting in firms or companies within the sector having limited access to finance and being charged higher interest rates compared to larger firms, thereby unnecessarily increasing operating costs and reducing their competitiveness.

4.8 Business Challenges

The respondents were asked what other factors were affecting the performance of their firms and what strategies they can adopt to mitigate these challenges. Figure 4.22 shows their responses.

Table 4.6: Business Challenges

<table>
<thead>
<tr>
<th>Business Challenges</th>
<th>Mean Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequacy of the financing</td>
<td>2.2</td>
</tr>
<tr>
<td>Training and development</td>
<td>2</td>
</tr>
<tr>
<td>Access to markets and competition</td>
<td>2.3</td>
</tr>
<tr>
<td>The administration regulations</td>
<td>3.1</td>
</tr>
<tr>
<td>Supporting infrastructure</td>
<td>2</td>
</tr>
<tr>
<td>Requisite skills and technology</td>
<td>4</td>
</tr>
</tbody>
</table>
The analysis above shows that small to medium real estate companies were adversely affected by the inadequacy of financing, marketing strategies, access to markets and competition, lack of training and development and supporting infrastructure. The analysis also shows that the issue of skills availability did not adversely affect real estate business in Zimbabwe.

Strategies that can be adopted in the sector to increase business viability in light of liquidity constraints are presented in the next chapter.

4.9 Conclusion
This chapter has analysed the demographic background of SME real estate firms and results show that the majority if the firms are owner managed by founding directors. The sources of funding used to start up, pay working capital expenses and other long-term requirements is internally generated with minimum bank loans, micro financing and venture capital. The directors are aware of the existence of the Zimbabwe stock exchange and the huge potential available if they access the capital markets but they are just not yet prepared to have their shareholding diluted. Their marketing strategy is still limited to advertising and personal selling, in Harare, of their real estate products. The owners have also highlighted other challenges they face due to the macro environment, business environment and industry competitive environment.
Chapter Five

Conclusions and Recommendations

5.0 Introduction
The study sought to assess the financing strategies implemented by SME real estate firms in Zimbabwe during the liquidity constrained period. This chapter provides the conclusions and recommendations based on the research findings and discussions from the preceding chapter. Data was gathered from owners and management. The conclusions and recommendations of the study are presented in this chapter. The conclusions are presented in the sequence of the research instrument questions. The presentation format highlights the question asked in the questionnaire, explains the purpose of the question; presents conclusions from the study as they are and make recommendations.

The rest of this chapter comprises of three major sections. These sections are: the conclusions from study findings; specific and general recommendations to be adopted by SME real estate firms and other SMEs in general and areas of further study.

5.1 Conclusions
Lack of financing strategies negatively affects the SME activities in real estate business and many other SME activities in general. There are other challenges faced by SME firms but are centered on financing strategies. SME firms lack financial intelligence to operate firms even where funding is provided. In view of the challenges faced in accessing funding, firms should strive to operate using own resources or internal resources before looking for external financing.

SME firms lack proper knowledge of financing requirements at every stage of business growth resulting in firms borrowing long to finance short term working capital requirements. They have also used short term finance to buy capital items or do long-term investments resulting in them failing to meet their repayment obligations. Some business funds were also used to finance personal or non core business activities.
SME firms should try to access cheap funding from government facilities or other facilities that are availed through the normal banking systems. They can also make use of private equity funds, venture capital finance or cheap funds from renaissance funds or insurance companies.

Since the listing minimum requirements of the Zimbabwe Stock Exchange are too high, SME firms need to approach the relevant authority to establish an alternative investment market (A.I.M) where they can easily list and obtain the much needed capital and unlock their business potential.

Besides lack of financing strategies, SMEs need to develop strategies for international competitiveness and programs encouraging business growth using appropriate technology and proper corporate governance culture.

In light of the above, further research on stakeholder collaboration (within the framework of improving SME access to finance) is proposed. Further research should be directed at investigating the impact of stakeholder collaboration initiatives, different stakeholder collaboration models and approaches, and the participatory experiences of various stakeholders involved in these initiatives.

SMEs in the real estate business used less than US$5000.00 to start up their businesses. It was concluded that, they do not need a lot of capital to start their business; own savings is the main source of funding for SMEs operating in this sector. Other sources were concluded to be loans or debt from banks; equity; retained income; leasing or hire purchase and factoring.

The study concluded that SMEs have got varying amounts of loans to start their businesses which start from USD5000.00 to USD10000.00. The study concluded that small to medium are perceived to have a very high risk profile by financial institutions resulting in firms or companies within the sector having limited access to finance.

The study found that the majority of real estate firms which accessed loans from the banks were asked to provide collateral security. When there are insufficient
firm assets to secure business loans, the personal assets of the firm owner are an important source of collateral.

The study found that some of the SMEs are not aware of the financing facilities available in the market. The majority are not aware of the existence of venture finance. This also contributes to the low level financing existing in the sector.

The study established that small real estate firms received other assistance in the form of loans or grants. The study established that the loans were used to advertise, to pay rentals, to pay salaries and to buy stationery. The study further concluded that real estate firms used their long-term loans to buy commercial stands, used it to buy commercial houses, used it to buy motor vehicles, used it to buy computer equipment and used it for other purposes.

The marketing strategies used by this sector were found to be limited to advertising in newspapers and personal selling as their marketing strategy. Very little knowledge of product branding is known by the real estate firm managers and owners.

The analysis above shows that small to medium real estate companies were adversely affected by the inadequacy of financing, access to markets and competition, lack of training and development and supporting infrastructure. The analysis also concluded that the issue of skills availability did not adversely affect real estate business in Zimbabwe.

5.2 Recommendations
The study recommends that there should be a specific mix of long-term debt and capital that the company uses to finance its operations such as optimal capital structure. Financing decisions include the management of short-term assets and liabilities, capital expenditure and investment decisions in a way that ensures the adequacy of resources for company operations and ensure future revenue for the firm. It is important for SMEs to identify these decisions and link them to business stages of development and manage to match the relevant financing needs and sources in order to minimise financing risk and maximise business growth.
It is recommended that SME real estate firms must ensure that their financing strategies and marketing strategy are closely linked and major challenges of SME firms are their failure to identify and utilise these linkages. The study recommends that SME’s failures can be successfully managed with financial strategies developed and implemented by the organization.

The study recommends that SMEs must consider debt to equity when seeking external funding because they are much more familiar with banks and other sources of debt finance and a wide variety of debt products are available. Public equity is difficult to obtain as the listing requirements are too numerous and too high for small to medium real estate firms.

The study recommends that since financing strategy is the major plan of action an organization prepares in response to, or anticipation of, changes in its external environment, it must be fully implemented as this strategy helps to achieve and maintain business competitiveness. These financing strategies are the goals, patterns or alternatives designed to improve and optimize financial management in order to achieve corporate results.

The following strategies or best models were recommended for adoption by SME real estate firms in order to improve their access to finance. These recommendations need to be adopted by the SME real estate firms if they are to survive in the current conditions. These recommendations include:

- Proper financing and marketing strategies formulation;
- Increase skills, technology, training and development;
- Improve information dissemination;
- Strengthening business associations,
- Promote business monitoring and development services;
- Greater access to market and avoid competition;

5.2.1 Proper financing and marketing strategies formulation
Proper strategies that are suitable to every stage of business development must be adopted. Since the majority of SMEs are still in their introductory and growth
stages, their business risk is still high so they need to minimise their finance risk by using cheap equity funding and more venture financing and retained income. Limited or no dividend payments should be made to shareholders. Issuing of debentures should be avoided as the fixed interest payments can reduce the cash-flows of a company and may result in liquidation in event of failure to repay. The use or issue of ordinary shares with discretionary dividend payment and no legal recourse should be promoted.

5.2.2 Acquisition of skills, technology, training and development

According to Schlogl (2004) small sized firms failed to improve the basic infrastructure like expanding broadband and secure servers. These factors have impacts on the small sized firms to turn to e-business approach. One of the main reasons is cost. In addition, the SMEs frequently cannot afford or find qualified e-business staff to operate the business. These major impediments for smaller firms simply lengthen the usual problems relating to trust, traction security and, crucially concerns about violations of intellectual property rights. Therefore, HRD is the solutions for training the staff to be more equipped with knowledge and skills on handling e-business.

In the current development, changes in the environment such as globalization, political, social, economic and technological occurred surrounding the organizations. The changes in environment pose a challenge to the SMEs, which limits their abilities to maintain their position against larger organizations. Accordingly Snell and Lau (1994) found that more management competencies are required for growth in small organization compared to larger organizations. In this situation, small organization failed to develop skills, knowledge and competencies among workers in the small organization. This is mainly because of financial constraints and insufficient training. According to Gupta and Cawthon (1996) argued that small organization especially managers required the most training. Therefore, training is an essential tool for developing employees and the organizations.
5.2.3 Improve information dissemination

Regulatory burdens remain a major obstacle for SMEs as these firms tend to be poorly equipped to deal with the problems arising from regulations. Access to information about regulations should be made available to SMEs at minimum cost. Policy makers must ensure that the compliance procedures associated with, research and development (R & D) and new technology are not unnecessarily costly, complex or lengthy.

Transparency is of particular importance to SMEs, and information technology has great potential to narrow the information gap. It would be of great help to set up a “one-stop-shop system”, where all the necessary information which affects firm strategies and decisions is made available in one place, as exists already in some countries.

Regulation is said to have occurred when a government exerts control over the activity of individuals and firms. It may also be defined as a government action to manipulate prices, quantities and the quality of products. Regulation provides the means by which government can manage the economy to achieve sustainable social and economic outcomes. It also serves as a means of protecting and assisting small businesses. However, for regulation to have the greatest impact possible, it should be based on careful estimates of the cost of regulation to firms.

In assessing the impact of regulation on competition and SME development, it is important to take cognisance of the fact that the impact of regulation depends on the size of a firm. Small firms require protection against unlawful behaviour of others and it is important that governments, in formulating regulatory policies should take into consideration the different size categories of firms. SMEs face unique challenges and their development path is usually different from that of large-scale enterprises. Besides, they have fewer internal resources to draw on, their operational dynamics are more personalised and their decision-making practises are less formalised. Hence, the design of intervention programmes to promote the growth and development of the SME sector should be distinctly different from those policies targeting large-scale enterprises.
SMEs are necessary engines for achieving national development goals such as economic growth, poverty alleviation, democratization and economic participation, employment creation, strengthening the industrial base and local production structure. However, the ability of SMEs to realize these economic and social objectives depends on the regulatory and policy environment within which they operate (ILO, 2000). More often than not, regulatory policies often aimed at developing other sectors of the economy have unintended negative impact on SMEs. For instance, trade liberalization intended to boost export revenue often stifles local production due to the increased imports of cheap local substitutes.

However, in assessing the impact of regulation on SMEs, it is necessary to recognize that the impact will vary according to firm size. Whereas larger firms may appoint a member of staff to perform the administrative role and compliance associated with regulation, an SME may simply not have the resources to do so. Even when they have the resources, their size puts them at a disadvantaged position. In other words, meeting regulatory requirements raises transactions costs of SMEs and puts them at a disadvantaged position as compared to large domestic enterprises and foreign firms that may not be operating under excessively restrictive regulatory regimes. In such regimes, transaction costs are high and for SMEs, they form a greater proportion of total costs than for large firms.

Regulatory compliance involves time and money, which imposes significant costs on SMEs. Besides the costs of regulatory compliance and inertia, the direct costs of payments such as licensing fees, represents a significant cost of doing business. Holden, Sobokta and Locklin (1998) argued that payments made to avoid detection of non-compliance, or payoffs to government officials are the costs of operating in the informal sector.

Requirements on collateral and security are restrictive policies that hinder SME development. Since the SME sector has generally been considered as risky, financial institutions demand collateral from entrepreneurs often in the form of landed property prior to the granting of a loan or credit facility. Whereas this serves as a form of security to the institutions, it seriously hinders SME
entrepreneurs from obtaining credit for start-up, expansion or working capital purposes.

Administrative Regulation is often instituted to control how governments collect, manage and appropriate revenue and property. The principal objective of such controls is to promote administrative efficiency of the public and private sectors. It includes taxation, patent protection for interventions, designs and products, copyright protection, trademarks protection and bankruptcy acts.

5.2.4 Strengthening business associations
Business associations offer a platform through which businesses persons can share information. Through these associations, individual business persons may be able to identify key players along its value chain economic activities such as its suppliers, complimentary, competitors and many others. This information is very critical for business growth since strategic alliances, business co-operations and clustering arrangements can be designed from these associations. Membership to associations such as Institute of Directors (I.O.D) can also promote the adoption of good corporate governance practices.

5.2.5 Promote business monitoring and development services.
Besides lack of financing strategies, SMEs need to develop strategies for international competitiveness and programs encouraging business growth using appropriate technology and proper corporate governance culture. These development strategies must be in line with the challenges, goals and broad policy direction among key SME stakeholders through business membership organizations, organizations of business development and private financial services (Khan and Khan, 1992; Chen 1993).

5.2.6 Greater access to market and avoid competition.
Competition from established firms such as Old Mutual Zimbabwe Limited, Dawn Properties Limited, FML Properties means SME real estate firms have to adopt the Blue Ocean Strategy according to Chan et al, (2005) whereby they must make competition irrelevant by creating own markets not dominated by large firms. Barriers are created in order to minimize entry by new competitors and can
take various forms such as creating high switching costs by established firms, huge capital base for entry and lack of economies of scale for newly established firms.

According to Chan et al, (2005) and his Blue Ocean Strategy model, upcoming businesses should not engage in direct competition with established businesses. They need to be guided by the value innovation which underlies the Blue Ocean Strategy to create an uncontestable market and make competition irrelevant, create and capture new demand and break the value-cost trade-off. Sarasvathy further argues that upcoming businesses need to find ways of working with the market, competitors and suppliers as part of their business development initiatives.

Sarasvathy (1998) in his model argues that SME firms should or need to avoid operating in the suicide quadrant of new product and new market if they are to grow their business, get financing and avoid competition from established firms. The model is based on the concepts/principles of experimentation, flexibility, affordable loss and pre-commitments. The Model further consolidates the need for appropriate skills to become entrepreneurs and gives advice on how to work with the market, competitors and suppliers.

5.3 Area of Further Study
The researcher proposes a further study to evaluate the other challenges being experienced by SMEs in Real Estate business in delivering efficient service. These areas include: marketing strategies of organizations; training and development; requisite skills and technology; administration regulations and power shortages challenges.
References


Building and Housing Act (Chapter 22.07).


Estate Agents Act (Chapter 27:17).
Importance of SMEs and the Role of Public Support in Promoting SME Development, World Bank.


Gono G. (2012), “Monetary Policy Statement issued in terms of Reserve Bank of Zimbabwe Act (Chapter 22:15, July”.


Indigenisation and Economic Empowerment Act (Chapter 14:33).


KPMG Consulting presentation (2002).

Land Acquisition Act (Chapter 20.10).


Reserve Bank of Zimbabwe, “Monetary Policy Statements 2005-2012”.


Valuers Act (Chapter 27:18).


Zimbabwe Stock Exchange Act (Chapter 24.18).


APPENDIX A: INTRODUCTORY LETTER

02 December 2013

No. 8 Bedford Road
Avondale
Harare.

Cell: 0772 392 288

To Whom It May Concern.

Ref: Masters Degree in Business Administration Research Study.

As part of my Masters in Business Administration Degree programme with the Graduate School of Management at the University of Zimbabwe, I am conducting a research study with the topic “an assessment of the financing strategies employed by SME real estate firms under liquidity constraint in Zimbabwe”.

I am therefore kindly appealing for your assistance by providing information through this questionnaire. It is hoped that the results of this research will be of great importance to all stakeholders operating in the real estate industry in Zimbabwe. The research will also be of great importance to the academic community. Your response will be treated as confidential and will not be used for purposes other than those intended for this research.

For any clarifications regarding this study do not hesitate to contact the researcher on the above stated contact details.

Yours faithfully

Adam Chowa
(Masters in Business Administration Degree Student)
APPENDIX B: QUESTIONNAIRE

Instructions to complete
May you please complete the following questions by ticking or putting an X in the boxes or writing in spaces provided below. Your honest view in these questions is highly appreciated.

Section A: Company Demographics

1. Name of the Company
______________________________________________________________________________

2. Position in the company
______________________________________________________________________________

3. Years in that position
______________________________________________________________________________

4. Highest Educational Qualification
______________________________________________________________________________

5. Total number of Owners?
______________________________________________________________________________

6. Company Size (Employees)
______________________________________________________________________________

7. Place of operation
______________________________________________________________________________

8. Years of operation
______________________________________________________________________________

9. Company registration Status? (Private Corporation, Private Limited or Public Company)
______________________________________________________________________________

10. Does your company have a Bank Account?
    Yes/No.

11. Do you have a manual or computerized accounting system? Manual / Computerized.

Please turn to next page
SECTION B: FINANCING STRATEGIES.

(a) START UP FINANCE OF BUSINESS.
1. How much did you use to start your business?
   - Capital <$5000
   - Capital >$5000
   - Capital >$10 000
   - Other $

2. What was the source of your financing when you started the company?
   - Own Savings
   - Bank Loan
   - Lease finance
   - Others

3. Did you get any loan from any institution?
   - Yes/No

4. If yes how much did you get as loan?
   - Loan <$5000
   - Loan >$5000
   - Loan >$10000
   - Other $

5. What was the interest charged on the loan?
   - 10%
   - 15%
   - 20%
   - 25%
   - 30%
   - other

6. What was the duration of the loan?
   - 1yr
   - 2yrs
   - 5yrs
   - 10yrs
   - 15yrs
   - other

7. Did you provide any collateral security on the loan?
   - YES/NO

8. Are you aware of any other financing facilities available?
   - YES/NO

9. If Yes which one did you use?
   - Internal/External

10. Do you know anything about the Zimbabwe Stock Exchange?
    - YES/NO

11. If Yes, do you have plans to list on the Zimbabwe Stock Exchange?
    - YES/NO

12. If Yes, do you have any idea of the listing requirements of Zimbabwe Stock Exchange?
    - YES/NO

Please turn to next page
(b) WORKING CAPITAL FINANCING.
13. Have you received any material or financial support or assistance from any institution or bank to finance your day to day operations?

Yes…………………………………… No…………………………

If yes, what type of assistance did you receive?
1. Loan ........................................................................
2. Grant ........................................................................
3. Other ........................................................................

14. If loan, what did you use the loan for?
1. Bought stationery ................................................
2. Used to advertise .............................................
3. Payment of salaries .............................................
4. Payment of rentals .............................................

(c) INVESTMENT AND CAPITAL EXPENDITURE FINANCING
15. Do you own or rent the premises you operate from?
Own .............. Rent ..............

16. If own, have you applied for any mortgage finance to buy own building?
Yes/No

17. Did you get any loan from any institution?
Yes/No

18. If yes how much did you get as loan?
19. Loan<$50 000 Loan>$50 000 Loan>$100 000 Other$

20. What was the interest charged on the loan?
10% 15% 20% 25% 30% other

21. What was the duration of the loan?
1yr  2yrs  5yrs  10yrs  15yrs other

22. Did you provide any collateral security on the loan?
YES/NO

Please turn to next page
23. If loan, what did you use the loan for?
   1. Buy a commercial stand ..............................................
   2. Buy a commercial house ...........................................
   3. Bought motor vehicles .............................................
   4. Bought computer equipment .....................................
   5. Other uses ...........................................................

24. Are you aware of any other financing facilities available?  YES/NO

SECTION C: MARKETING STRATEGIES.
   1. How do you marketing your products?
      Advertising............ Personal selling.............. Other .................

   2. Do you market any of your product or services outside Harare?
      Yes/No

   3. Who are your major competitors? .......................................

SECTION D: PERFORMANCE INDICATORS.
   1. How has been your company performing for the last 5 years?
      Very good [ ] Good [ ] Not sure [ ] Poor [ ] Very Poor [ ]

   2. Below are some of the performance indicators in the industry. May you please answer by agreeing or disagreeing as it applies in the industry?
      1=Strongly agree  2=Agree 3=Neutral 4=Disagree  5=Strongly disagree

<table>
<thead>
<tr>
<th>Performance Indicator</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a business is easy</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>Getting credit is easy</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>Registering property is fast</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>Trading across borders is easy</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>Enforcing contracts is easy</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>Getting electricity is easy</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>Paying taxes is easy</td>
<td>1 2 3 4 5</td>
</tr>
</tbody>
</table>

Please turn to next page
SECTION E: BUSINESS CHALLENGES.

1. Our company’s performance is being adversely affected by the following factors?

1=Strongly agree  2=Agree  3=Neutral  4=Disagree  5=Strongly disagree

a. Adequacy of the financing
   1  2  3  4  5

b. Training and development
   1  2  3  4  5

c. Access to markets and competition
   1  2  3  4  5

d. The administration regulations
   1  2  3  4  5

e. Supporting infrastructure
   1  2  3  4  5

f. Requisite skills and technology
   1  2  3  4  5

2. What strategies do you think can be adopted in the sector to increase business viability in light of liquidity constraints?

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

End of Questionnaire

Thank you for your effort and time.