

**A COMPARATIVE STUDY OF INDIGENOUS VERSUS FOREIGN
SMEs IN MALAWI**

GEORGE KAUDZA - MASINA

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PROMOTER: Dr. Werner Vermeulen

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BLOEMFONTEIN

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ABSTRACT

Small and Medium Enterprises play an important role in the economy of all countries over the world. In most countries it has been noted that the SMEs are the biggest employers competing with the government and creates half of the new jobs. In Malawi it has been noted that the indigenous SMEs do not perform as good as the foreign SMEs and that most of the potential clients and stakeholders at large perceive that the indigenous SMEs lack the ability to provide quality services compared to the foreign SMEs. Noting that the indigenous SMEs are failing to perform better compared to the foreign SMEs, it was felt that a comparative study of indigenous *versus* foreign SMEs in Malawi was important in order to come up with some learning points. The primary objective of the study was to determine ways to enhance the performance of the indigenous SMEs to the level of the foreign SMEs.

The definition of SMEs in most countries is based on the number of employees or capital invested and turnover whilst in other countries SMEs are defined based on the combination of both number of employees and capital invested. However Malawi's definition of SMEs is based on the number of employees and turnover.

Empirical findings show that both the indigenous SMEs and the foreign SMEs in Malawi believe that the foreign SMEs are doing better than the indigenous SMEs. It has also been noted that factors such as training, education background, and capital invested and better prices have been key factors for the success of the foreign SMEs. Important findings from the study show that foreign SME owners are better educated compared to the indigenous SMEs, that the level of investment by the foreign SMEs is far better than the indigenous SMEs and that the indigenous SMEs are lacking in capacity and support from both the government and the private sector.

The primary data also shows that the indigenous SMEs have insufficient working capital, lack of funding and access to credit facilities due to a lack of collateral and the lack of confidence by the lending institutions on the indigenous SMEs and lack of training in basic business management. Noting that the foreign SMEs are doing better than the indigenous SMEs and considering that the SME sector is the backbone of the Malawi economy it has been recommended that the government of Malawi should consider incorporating entrepreneurship into the education system of Malawi, that the Malawi government should come up with a policy of tax incentive for the

indigenous SMEs and a need for capacity building of the indigenous SMEs by both the public and the private sector. It is also recommended that the government and the private sector should make capital investments available to the indigenous SMEs by establishing a bank or a lending institution solely to cater for the needs of the indigenous SMEs. The interest rates should be minimal unlike the case presently where the commercial banks see the indigenous SMEs as risky partners and the interest rates are beyond the reach of most of the indigenous SMEs.

The research was important and it exposed the challenges the indigenous SMEs are facing and it came up with recommendations in order for them to start performing better. The study will also help those venturing into entrepreneurship to learn from the mistakes that the indigenous SMEs have been making. The study is the first of its kind in Malawi.

KEY WORDS: Small and Medium Enterprise, Entrepreneurship, Economic growth, Indigenous SMEs, Foreign SMEs, Innovation, Business sector, Business ownership, Capital investment, Degree of Competition.

OPSOMMING

Klein en medium sake-ondernemingspeel 'n belangrikerol in die ekonomie van enige land regoor die wêreld. Hoe swakker die kleinen medium sake-ondernemingspresteer hoe groter die moontlikheid dat die land se ekonomie ook swak sal wees. Dit is in meestelande waar geen dat kleinen medium sake-ondernemings die regering se grootstemededing is tov werksgeleenthede en dat hulle verantwoordelik is vir die helfte van die land se werkskepping. In Malawi is daar waar geen dat inheemse kleinen medium sake-ondernemings slegter presteer as buitelandse kleinen medium sake-ondernemings. Dit is bewys deur middel van studies waarin die meeste potensiële kliënte se belanghebbendes van mening is dat inheemse kleinen medium sake-ondernemings in teenstelling met buitelandse kleinen medium sake-ondernemings nie oor die vaardighede beskik om kwaliteit dienste te lewer nie. In ag geneem dat inheemse kleinen medium sake-ondernemings nie die mas opkom in vergelyking met buitelandse kleinen medium sake-ondernemings nie, is dit nodig gevind om 'n vergelykende studie te doen wat die belangrikeheid van die inheemse in teenstelling met die buitelandse kleinen medium sake-ondernemings in Malawi ondersoek. Die primêre doel van die studie was om maniere te vind om die inheemse kleinen medium sake-ondernemings te verbeter tot op die vlak van buitelandse kleinen medium sake-ondernemings.

In meestelands is die definisie van kleinen medium sake-ondernemings gebaseer op die getal werknemers of kapitaalbelegginge sowel as omsetterwyke en ander lande waar die definisie gebaseer is op die kombinasie van werknemers en kapitaalbelegginge. In Malawi word die definisie van kleinen medium sake-ondernemings slegs gebaseer op die getal werknemers en omset.

Empiriese bevindinge bewys dat beide die inheemse sowel as buitelandse kleinen medium sake-ondernemings in Malawi van die opinie is dat die buitelandse kleinen medium sake-ondernemings beter vaar. Dit is ook gevind dat faktore soos opleiding, opvoedkundige agtergrond, kapitaalbelegginge en beter pryse die sleutel tot sukses vir die buitelandse kleinen medium sake-ondernemings is. Sleutelpunte van die studie bewys dat buitelandse kleinen medium sake-ondernemings beter opgevoed is in vergelyking met inheemse kleinen medium sake-ondernemings, dat die vlak van beleggings deur die buitelandse kleinen medium sake-ondernemings baie beter is as die inheemse kleinen medium sake-ondernemings en dat die inheemse kleinen medium sake-ondernemings 'n gebreke aan kapasiteit sowel as

ondersteuning ondervind vanaf die regerings die privaatsektor. Van die primêre data kan afgelei word dat inheemse klein- en medium sake-ondernemings oor ontoereikende werkende kapitaal beskik, 'n gebrek ondervind aan bevondsing, geen toegang het tot kredietfasiliteite nie (te danke aan 'n gebrek aan kollateraal), 'n gebrek aan vertrouwe ondervind deur leningsinstansies sowel as 'n gebrek lei aan opleiding in basiese besigheidsbestuur.

In ag geneem dat buitelandse klein- en medium sake-ondernemings betervaar as hul inheemse mededingers end at die klein- en medium sake-ondernemings die ruggraat van Malawi se ekonomie is, word die volgende aanbevelings gemaak: toe die regering van Malawi dit moet oorweeg word om entrepreneurskap in Malawi se onderwysstelsel in te bring, die Malawiese regering moet 'n beleid skep vir belastingaanspooring vir die inheemse klein- en medium sake-ondernemings – 'n noodsaaklikheid vir kapasiteitsverbouing van inheemse klein- en medium sake-ondernemings deur albei die openbare sowel as privaatsektore. Dit word ook aanbeveel dat die regerings-privaatsektore kapitaalbeleggings beskikbaar moet stel aan die inheemse klein- en medium sake-ondernemings deur 'n bank of leningsinstansie te vestig wat slegs aan die inheemse klein- en medium sake-ondernemings se behoeftes voorsien. 'n Minimaler rentekoers moet ingestel word in teenstelling met dit wat tans deur die kommersiële bankgebied word waar hulle die klein- en medium sake-ondernemings as hoë risiko vennotes sien en die rentekoers dus buite die bereik van meeste klein- en medium sake-ondernemings is.

Die navorsing was belangrik in die opsig dat dit die uitdagings wat klein- en medium sake-ondernemings daagliks in die gesig staar, bloot lê endat daarnou aanbevelings gemaak word wat klein- en medium sake-ondernemings in staatsalstel om beter te presteer. Die studie sal ook nuwe entrepreneurs in staat stel om te leer van foute wat reeds gemaak is deur klein- en medium sake-ondernemings. Die studie is die eerste van sy soort in Malawi.

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ABBREVIATIONS

A2F	Access to Finance
A2M	Access to Market
AfDB	African Development Bank
BDS	Business Development Centre
BE	Business Environment
BESTAP	Business Environment Strengthening Assistance Programme
BSP	Bangko Sentra ng Pilipinas
COMESA	Common Market for Eastern and Southern Africa
DEMAT	Development of Malawian Entrepreneurs Trust
DFID	Department of International Development
EER	Economic Empowerment Road Map
EU	European Union
FASA	Franchise Association of South Africa
GDP	Gross Domestic Product
ILO	International Labour organization
INDEFUND	Investment and Development Fund
M&E	Monitoring and Evaluation
MCCI	Malawi Confederation of Chambers and Commerce

MCTI	Ministry of Commerce, Trade and Industry
MDC	Malawi Development Corporation
MDGS	Malawi Growth and Industry Strategy
MEDI	Malawi Enterprise Development Institute
MEPC	Malawi Export Promotion Council
MFIs	Microfinance Institutions
MIPA	Malawi Investment Promotion Agency
MIRTDC	Malawi Industrial Research and Technology Development Centre
MITC	Malawi Investment and Trade Centre
MoIT	Ministry of Industry and Trade
MPBC	Malawi Parliamentary Business Committee
MSEPS	Micro and Small Enterprise Policy Statement
MSME	Micro Small and Medium Enterprise
MSMED	Micro Small and Medium Enterprise
NABW	National Association of Business Women
NASME	National Association of Small and Medium Enterprises
NGOs	Non-Governmental Organization
OVOP	One Village One Product
P&E	Productivity and Efficiency

PSDP	Private Sector Development Programme
SED	Small Enterprise Development
SEDOM	Small Enterprise Development organization of Malawi
SEDP	Small Enterprise Development Programme
SMART	Specific, Measurable, Achievable, Relevant and Time-phased
SMME	Small Medium and Micro Enterprise
SME	Small and Medium Enterprises
SMEF	Small and Medium Enterprise Fund
SSIU	Small Scale Industrial Unit
SSPS	Statistical Package for Social Science
UNDP	United Nations Development Programmes
ZDA	Zambia Development Agency

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CHAPTER 1

INTRODUCTION AND BACKGROUND TO THE RESEARCH STUDY

1.1 INTRODUCTION

The small and micro enterprises (SMEs) play an important role in the Malawian economy. According to the Small and Medium Enterprise Development Institute's (SMEDI) survey of 2015, the SME sector contributed over 45 percent of the new jobs created in 2014. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Malawi National Statistical Office, 2012). According to Adam and Spinelli (2012), one of the most significant challenges is the negative perception towards the SMEs. Potential clients and stakeholders perceive indigenous SMEs as lacking the ability to provide quality services as compared to foreign SMEs.

Starting and operating a small business includes the possibility of success as well as failure. Lack of planning, improper financing and poor management have been posited as the main causes of the failure of SMEs (Longenecker, Moore, Petty and Palich, 2010). The lack of credit has also been identified as one of the most serious constraints SMEs are facing which hinders their development (Oketch, 2011).

Education is one of the factors that impact positively on the growth of firms (King and McGrath, 2012). The entrepreneurs with a larger human resource capital, in terms of education and/or professional training, are better positioned to adapt their enterprises to constantly changing business environments (King and McGrath, 2012).

Indigenous SMEs and entrepreneurship development in Malawi was introduced into the growth and development landscape in the late 1970's with the introduction of targeted policies and the establishment of small businesses or SME support agencies by the government of Malawi (Malawi Economic and Growth Strategy, 2011-2016). In the past ten years (2005-2015) Malawi has noticed an influx of foreign SMEs into Malawi coming from as far as Nigeria, China, India, Malaysia, the Philippines and Thailand as well as from neighboring countries such as South

Africa, Zambia, Kenya and Tanzania. Major differences have been noticed in these foreign SMEs compared to their indigenous counterparts (SMEDI, 2015).

Foreign SMEs applying their trade in Malawi develop business ventures and experience tremendous growth while the indigenous SMEs fail to do that (Kedrock and Agar, 2012). According to Bowen, Morara and Mureithi (2013) the most widely acknowledged constraints in the indigenous SME sector are input and management problems. As with many developing countries, there is limited research and scholarly studies about the SME sector in Malawi. However, Kotler and Keller (2013) observed that the health of the economy as a whole has a strong relationship with the health and nature of the micro and small enterprise sector.

Different countries have been defining Indigenous SMEs and Foreign SMEs using different criteria. According to the Commonwealth Indigenous Procurement Policy (IPP) of 2015, as adopted by the Government of Australia, an Indigenous Enterprise is a business that is 50% or more owned by the indigenous Australians. It may take the form of a company, incorporated association or trust. For clarity, a social enterprise or registered charity may also be an Indigenous enterprise if it is operating a business.

An Indigenous Small or Medium Enterprise (Indigenous SME) is an Indigenous enterprise that meets the definition of SME in the Commonwealth Procurement Rules whilst Foreign SMEs are businesses that are 100% owned by foreigners (IPP, 2015).

Malawi, being a member of the Commonwealth has adopted the Commonwealth definition in defining the Indigenous and the Foreign Enterprises and SMEs (SMEDI, 2015).

Given the importance of SMEs to the Malawi economy and the risk that most indigenous SMEs are not doing as well as the foreign owned SMEs (SMEDI, 2015), it is therefore of utmost importance to conduct a comparative study of indigenous SMEs *versus* foreign SMEs in Malawi. The study aims at finding why and how foreign owned enterprises succeed more than the indigenous owned SMEs in Malawi.

1.2 BACKGROUND OF THE STUDY

This thesis draws special attention to the field of entrepreneurship to critically investigate the reasons behind the success of foreign Small to Medium Sized Enterprises (SMEs) as compared

to the indigenous SMEs in Malawi. The thesis furthermore aims at finding out why and how foreign SMEs perform better than the indigenous SMEs in Malawi.

Copious literature exists on SMEs written by various authors in different languages and for various purposes. This fact underscores the essence, importance and relevance of this sub sector in the development of an economy.

According to SMEDI (2015), on the performance of local SMEs, it was noted that entrepreneurs in Malawi fail to grow into organizations because of management problems. It was also noted that factors such as insufficient working capital, lack of funding and access to credit, low capitalization and collateral, poor market knowledge and insufficient skills due to lack of training in entrepreneurial skills lead to customer dissatisfaction.

In addition, the research also found that local SMEs in Malawi fail to grow due to the lack of vision, innovation and creativity, determination, courage, confidence, creativity, a drive to achieve, perseverance and persistence, decisiveness, ability to plan, control of finances and books, ability to learn from mistakes, knowledge in marketing, plan and operate without business plans, poor entrepreneurial concept, poor networking skills, failure to build systems and processes and failure to execute superior strategies. Therefore international SMEs have a competitive advantage over them and perform better than their local counterparts (SMEDI, 2015).

Onugu (2014) noted in his study “Small and Medium Enterprises in Nigeria: Problems and Prospects”, that the indigenous SMEs have not been performing well due to a number of factors which included a lack of access to financing/credits, discrimination from banks on SMEs, uneven competition, unfair trade practices characterized by the dumping and importation of substandard goods by unscrupulous traders and wide spread corruption and harassment of SMEs by some agents of government over unauthorized levies and charges.

Starting and operating a small business includes the possibility of success as well as failure. Lack of planning, improper financing and poor management have been posited as the main causes of failure of SMEs (Longenecker, Moore, Petty and Palich, 2010). The lack of credit has also been identified as one of the most serious constraints facing SMEs and it hinders their development

(Oketch, 2011). Education is another factor that impact positively on the growth of firms (King and McGrath, 2012). The entrepreneurs with more educated and professionally trained workers are better off when their enterprises have to adapt to constantly changing business environments (King and McGrath, 2012). Mbuyane (2013) noted that poor planning, lack of training, lack of customer satisfaction, lack of budget management, poor location, record keeping and family interests tend to impact on the performance and successes of SMEs in the Kagiso Township in South Africa. Nkonoki (2010) investigated the internal and external factors limiting the success and/or growth of small businesses in Tanzania. On internal factors it was found that a lack of motivation and drive, lack of background and experience in the business, capital constraints, lack of a proper business plan/vision, poor management, lack of proper record keeping and inadequate education and training was the problem. As for the external factors, the following was found to limit small firm growth: corruption, competition, government policies, technological barriers, access to finances/funding, bureaucratic processes and unfavorable economic factors.

In the study by Tushabomwe-Kazooba (2014) in Uganda, he reported the causes of small business failure as a lack of capital, poor record keeping, lack of planning, lack of effective management during the early stages, increased taxing and political instability. Fjose, Grunfeld and Green (2015) noted that the access to finance, tax rates and political disorder was some of the factors impinging SMEs' growth in Sub-Sahara Africa.

From the abovementioned research it is clear that the problems SMEs face in most countries are similar. However, the most evident factor is the lack of capital and entrepreneurial skills as reported by Nkonoki (2010), Longenecker, Moore, Petty and Palich (2010), SMEDI (2015) and Tushabomwe-Kazooba (2014). Fjose, Grunfeld and Green (2015) and Tushabomwe-Kazooba (2014) also indicated political instability as another reason for the poor performance of SMEs.

Since the independence in 1964, the Government of Malawi concentrated its efforts on the development of the large enterprise sector. However, during the late 1970s and early 1980s the Government embarked on several initiatives in support of the indigenous SME sector including the establishment of several support institutions (Malawi Growth and Development Strategy, 2011-2016). In order to recognize the important role that the indigenous SME sector plays in the

economic development, the Government's commitment towards the development of this sector has been seen in the efforts of several national initiatives.

The following are some of the efforts made by the Government of Malawi in support of the SME sector; the Government of Malawi created a number of SME support institutions such as the Malawi Industrial Research and Technology Development Centre (MIRTDC), the Development of Malawian Entrepreneurs Trust (DEMAT), The Small Enterprise Development Organization of Malawi (SEDOM), Malawi Entrepreneurs Development Institute (MEDI), Malawi Export Promotion Council (MEPC) and the Malawi Investment Promotion Agency (MIPA) which has changed to Malawi Investment and Trade Centre (MITC) since 2012 to facilitate the development of the SME sector (Malawi Growth and Development Strategy, 2011-2016).

The Government also supported the establishment of SME support institutions in the private sector including several non-governmental organizations (NGOs) such as the National Association of Small and Medium Enterprises (NASME) under the Malawi Confederation of Chamber of Commerce and Industry (MCCI), National Association of Business Women (NABW), Malawi Union of Savings and Cooperatives (MUSCO), Malawi Rural Finance Company (MRFC), and several skills training centers under Non-Governmental Organizations (NGOs) (Malawi Growth and Development Strategy, 2011-2016).

The government of Malawi provides financing for SMEs through lending institutions such as the Malawi Development Corporation (MDC), Small Enterprises Development of Malawi (SEDOM), Investment and Development Fund (INDEFUND). The Government of Malawi in conjunction with the United Nations Development Programme (UNDP) established the 5th Country Programme (1992-1996) to support SME's in credit, technology, policy issues, marketing and training amongst others. It also established the Enterprise Development and Employment Creation Programme (1997-2000) to facilitate the development of the SME sector. The Government established the Small Enterprise Development Programme (SEDP) and the Small Scale Industrial Unit (SSIU) in the Ministry of Commerce and Industry; more importantly the Government also established the Small and Medium Enterprise Fund (SMEF) to finance SME activities. The Government also organized several workshops and seminars for SMEs in consultation with various stakeholders (Kedrock and Agar, 2012).

Despite the abovementioned efforts from the Government in support of the indigenous SME sector, the sector continues to decline while foreign SMEs are succeeding and performing well (Malawi Entrepreneur and Development Institute, 2010).

1.3 PROBLEM STATEMENT

From the above theoretical background the Malawi SME sector presents an interesting case in that while it remains a relatively small market compared to the rest of the SADCC region, more competitors are still interested in Malawi's private sector. Records show that Malawi's margins on the SME market are among the highest in the region (SMEDI, 2015). Consequently none of the existing competitors have mentioned exiting the market. Instead, more competitors continue to express interests in entering the market in Malawi. This poses even greater challenges to existing companies on the market.

Indigenous SMEs in Malawi create over half of the new private sector jobs. As a nation Malawi depend heavily on the strength and vitality of the SME sector. Indigenous SMEs lead the way in hiring first-time job holders, young people, old people, minorities and women. They also train many workers who re-enter the job market (SME Policy of Malawi, 2010).

Potential clients and stakeholders perceive indigenous SMEs negatively compared to foreign-owned SMEs. The problem the indigenous SMEs face is that despite their significance to the Malawi economy, the SMEs are failing in performance compared to the foreign-owned SMEs (SMEDI, 2015). This may pose challenges to the Malawi economy hence the need for a comparative study of indigenous *versus* foreign SMEs in Malawi in order to come up with some learning points.

1.4 RESEARCH QUESTIONS

The study will attempt to provide solutions to the problems that indigenous SMEs face in Malawi based on the questions stated below:

- What is the current state of the SME sector in Malawi?
- How do SMEs from countries such as South Africa, Lesotho and Rwanda, Tanzania, India and China perform?

- What are the performance trends in developing countries in comparison with those in the SME sector in Malawi?
- Why do foreign-owned SMEs succeed and perform better than the indigenous SMEs in Malawi?
- What do indigenous SMEs in Malawi need to improve their performance?
- What directives can guide the indigenous SMEs in Malawi to optimize their performance compared to the foreign-owned SMEs?

1.5 OBJECTIVES OF THE STUDY

The main objective of this research is to determine ways to enhance the performance of indigenous Malawian SMEs to the level of the foreign-owned SMEs in Malawi.

In order to attain the abovementioned aim, the study will be guided by the following secondary objectives:

- To outline international success factors of SMEs.
- To provide an overview of the SME sector in Malawi.
- To explore the performance of SMEs from other developing countries trading in Malawi (South Africa, Lesotho, Rwanda, China, India, Tanzania etc.).
- To compare the SME sector of Malawi to that of other developing countries.
- To determine why foreign SMEs are succeeding and performing better than the indigenous SMEs in Malawi.
- To identify the needs of indigenous SMEs in Malawi in order to perform better.
- To make recommendations to the indigenous SMEs in Malawi for optimal performance in the SME sector.

1.6 RESEARCH HYPOTHESIS

H₁: Foreign SMEs in Malawi are performing better as compared to the indigenous SMEs

H₀: Foreign SMEs in Malawi are not performing better as compared to the indigenous SMEs

1.7 RESEARCH DESIGN AND METHODOLOGY

1.7.1 Research Methodology

Creswell (2014) defined research methodology as a systematic and orderly procedure or process for attaining some objective, a description of a process, or may be expanded to include a philosophically coherent collection of theories, concepts or ideas as they relate to a particular discipline or field of inquiry. Saunders, Lewis, and Thornhill (2014) stated that after a research problem is identified and clear objectives identified, the research design must be defined. The research process follows a certain structural process and business research is defined as investigations aimed at discovering facts, providing information and guiding business decision-makers (Creswell, 2014).

1.7.2 Research Approach

This study will take a phenomenological approach as encouraged by Saunders, Lewis, Thornhill (2014) because it is dealing with a business and management situation; which is to a certain extent unique and complex thus it needs a deeper insight into the problem.

1.7.3 Research Design

This is an arrangement of conditions for collecting and analyzing data in a manner that aims to combine relevance to the research purpose with economy in the procedure. Decisions regarding what, where, when, how much, by what means, concerning an inquiry or a research study constitute a research design. The research design is a conceptual structure within which research is conducted. It is a blue print for collection, measurement and analysis of data. As such, research design must include an outline of what the researcher will do and its operational implications to the final analysis of data (Saunders *et al.*, 2014).

The research design is a plan that specifies the source and type of data relevant to the research problem. It is also a strategy specifying which approach will be used for gathering and analyzing data. It includes a time and cost budget since most research studies are performed under the two major constraints of time and money (Zikmund, Babin, Carr and Griffin, 2010).

Based on the purpose and objectives of this study the researcher will require the use of quantitative methods (Creswell, 2014). As the emphasis will be on studying SMEs in Malawi, the idea will be to make a comparison of the indigenous SMEs with the foreign SMEs.

1.7.3 The study Population

This study will use both indigenous and foreign SMEs as its study population. This will be done in order to make a good comparison on the performance of the indigenous SMEs and the foreign SMEs. According to the Registrar of Companies Data Bank (2014) there are over one thousand (1,000) indigenous and foreign SMEs in the City of Lilongwe-the capital city of Malawi. The researcher will focus on the 1, 000 SMEs available in the City of Lilongwe and it is where the research will be conducted. This is where the sample of the population will be drawn from.

1.7.4 The Sampling Procedure

The researcher will use unrestricted or simple random sampling for the quantitative research. According to Saunders, Lewis and Thornhill (2014) and Sekeran (2012) simple random sampling affords every member from the sample to be picked thus eliminating bias in the choice of the sample. A sample of the population will be used and not the whole population of the SMEs since it could be time consuming and expensive. It would also not be practical to use all the SMEs in Lilongwe.

The 2014 indigenous and foreign SMEs list will be used as the sampling frame. With more than one thousand (1,000) registered SMEs the researcher will take 278 as the required sample size that will be selected randomly. This will translate to 139 indigenous SMEs and 139 foreign SMEs, which will be a qualifying sample representing 278 businesses. The other reason for choosing this sample size was for the purposes of trading off between the cost of the study and the reliability of the data. It is known that the larger the number of respondents, the likelihood of duplication in terms of responses increases. In addition, by taking into consideration the costs involved in collecting the data, the sample number 278 was thought to be adequate in order to obtain credible results. In this study the probability sampling method was used because the method allowed the researcher to make inferences from information about a random sample to the population from which it was selected.

As stated earlier the research will be conducted in the City of Lilongwe. It has been chosen because this is where most indigenous and foreign SMEs have been established compared to other cities and towns in Malawi.

1.7.5 Questionnaire Design and Administration

A questionnaire will be formulated that takes into account the research objectives and the research question. Emphasis will also be on the literature that was reviewed and to accommodate the questions and the assumptions of the researcher. The demographic factors will be dealt with first followed by the research objectives. The aim of the questionnaire will be to collect the primary data and to compare the findings with the secondary data.

1.7.5.1 Primary Data

The primary data collection instrument will basically be a structured questionnaire designed to capture quantitative data. The study will use one questionnaire for both indigenous SMEs and foreign SMEs (Appendix 1). The questions will be a mixture of open ended and closed questions but more emphasis will be given to closed questions. This will help to guide the flow in the data collection process (Sekeran, 2012).

The administration of the questionnaire will be by hand delivery with a covering letter (Appendix 2) stating the purpose of the research and the ethical issues. In order to limit non-response errors, the researcher will be personally responsible for collecting the completed questionnaires (Saunders, Lewis, and Thornhill, 2014). The questionnaire will be designed to provide primary data on entrepreneurship from both the indigenous and foreign SMEs who are the main focus of the study. Though it is time consuming and costly, the advantages outweigh the disadvantages.

1.7.5.2 Pilot Study

Before research is fully commissioned it is important to conduct a pilot study (Sekeran, 2012). This gives the researcher an idea how the respondents will be answering the questions. It also helps to determine if the recording of the results will be meaningful. Based on the responses from the pilot sample this can help the researcher to either adjust the questionnaire or leave it unchanged (Bloomberg, Cooper and Schindler, 2014). It is for these reasons that the researcher

will firstly conduct a pilot study in order to have a reasonable view of how the setup will work rather than noticing challenges in the course of conducting the research; it might prove to be time wasting and costly (Sekeran, 2012).

Six respondents will be identified with an equal number of three from the indigenous SMEs and the foreign SMEs, operating in the city of Lilongwe for the pilot study. The researcher will select SMEs in sole trading, partnership and family owned businesses and also those having a secondary certificate, a college diploma and a primary certificate in equal numbers between the foreign SMEs and the indigenous SMEs. This will be done for comparative purposes. The researcher believes that if the respondents with primary, secondary and college certificates will be able to answer the questionnaire properly, it will be the case with those having a degree as well.

The pilot study will also be useful since it will be used as a way of familiarizing the researcher with the respondents (Malhorta, 2014). Another reason of the pilot study will be to use the responses, remarks and comments received during the pilot study to help with the refinement and improvement of the questionnaire, giving attention to the observed shortfalls (Sekeran and Bourgie, 2013). In addition, it enables the researcher to determine the effectiveness of the questionnaire as an instrument for collecting data but also provides feedback that will determine the direction of the research (Saunders, Lewis, and Thornhill, 2014; Simon, 2011).

After the pilot study has been conducted, a decision will be made to leave the questionnaire as it is or to make changes to it, depending on the responses from the respondents; either to compile or not to compile a post-test questionnaire. This will be proof that the questionnaire can be relied upon and that it will be valid for the study. The six respondents used in the pilot study will be excluded from the final sample.

1.7.5.3 Secondary Data Collection

Performance data for SMEs will be consulted through a literature review. This will include data specific to both indigenous and foreign SMEs. The purpose will be to establish the core of the problems through the findings from the secondary data search.

1.7.5.4 Data Analysis and Interpretation

The analysis will be guided by the research objectives and questions presented in this research. The research study is quantitative and it is an attempt to compare the performance of indigenous SMEs with foreign SMEs in Malawi. The collected primary and secondary data will be edited in order to detect errors and omissions to ensure data accuracy and consistency (Cooper and Schindler, 2011). Indigenous SMEs responses will be compared to foreign SMEs responses with the aim of highlighting any similarities and any existing differences.

The data will be statistically analyzed by using a statistical software programme namely Statistical Package for Social Science (SPSS) in order to help provide insights to the various responses. Both descriptive and inferential statistics will be used.

1.8 SIGNIFICANCE OF THE STUDY

In the past decade the indigenous SME sector has seen a fall in strategic growth such as increased profitability, market growth, increased cash flows and diversification. This was evident in the closure of some businesses and from a governmental side it has even embarked on privatization of some of its entities. This slump in growth has seen Malawi lose the strong leadership and dominant market position it once enjoyed over countries such as Zambia, Mozambique and Tanzania (Malawi Enterprise Development Institute (MEDI), 2007).

Charan and Tichy (2013) stated that if entrepreneurs are not growing sustainably and profitably, their businesses will simply die. Kotler and Keller (2014) support this view and mentioned that a nation that experiences an entrepreneurial growth has an economy that succeeds. However, unless some action is taken to reverse the continued decline of growth in small to medium sized enterprises in Malawi, this approach cannot be achieved for entrepreneurs in Malawi. This decline in performance means indigenous SMEs in Malawi should consider viable actions that will eliminate the observed decline.

The significance of the study is reflected in the fact that entrepreneurship rests at the heart of economic growth of any nation. Therefore, the study is important to help the indigenous SMEs in Malawi to strategically improve and competitively match and perform even better than the foreign SMEs. It is envisaged that the outcome of this study will make an original contribution to

the field of research. The researcher could not find studies that adequately address the problems associated with indigenous SMEs in Malawi that performs worse than foreign SMEs. The aforementioned contribution that this study intends to make will help to fill the performance gaps that exist between the indigenous SMEs and the foreign SMEs in Malawi and help the indigenous SMEs to improve on their performance from the knowledge gained from the foreign SMEs. This will also help those SMEs venturing into entrepreneurship not to fall into the same trap as is currently the case where it is believed that the indigenous SMEs tend to lack in their performance.

1.9 ETHICAL CONSIDERATION

The researcher will make sure that the respondents are not subjected to any harm during and after the research. The researcher will ensure that all the participants will take part voluntarily and that the results will be confidential (Sekeran, 2012 and Saunders, Lewis, and Thornhill, 2014). More importantly the study will be conducted after getting consent from both the indigenous SMEs and the foreign SMEs.

1.10 LAYOUT OF THE STUDY

The research layout will be as follows:

Chapter One

This chapter will introduce the research and present an overview to the research field and the research problems that will be researched. It will also highlight the research questions and objectives of the study.

Chapter Two

This chapter will provide an overview of entrepreneurship in general through a literature study and the use of documents and publications.

Chapter Three

Chapter three outlines the current state of the SME sector in Malawi.

Chapter Four

This chapter will look at the international trends and inter alia successes and reasons for failure of SMEs through a literature review. It will also review the performances of SMEs in a number of countries which are of significance to Malawi.

Chapter Five

This chapter will explain the methodology that will be used in the research which includes the sampling methods of the respondents, how data both primary and secondary will be obtained and finally how the collected data will be analyzed and presented.

Chapter Six

This chapter will give an analyses of the empirical findings based on the data collected from both the indigenous SMEs and the foreign SMEs in Malawi. A comparative analysis of the data will be made in order to determine the similarities and differences between the indigenous SMEs and the foreign SMEs.

Chapter Seven

This final chapter will present the conclusions and findings from the study. It will also outline the recommendations and the need for further research to help the indigenous SMEs to improve their performance in the sector. The limitations that will be encountered during the study will also be discussed.

1.11 CHAPTER SUMMARY

This introductory chapter has given a background to the SME sector in Malawi and the problems the indigenous SMEs face in general. It has presented the objectives that the study sought to achieve, the research questions to be investigated, the justification of the study, a brief methodology to be used during the research, the anticipated limitations of the study and finally the ethical issues to guide the study. The next chapter is a general overview of entrepreneurship. It will also provide a theoretical outline of what different authors articulate about effective principles in entrepreneurship.

CHAPTER 2

AN OVERVIEW OF ENTREPRENEURSHIP

2.1 INTRODUCTION

This chapter presents the literature review and a theoretical viewpoint that will be used as background information for this study; a comparative study of indigenous SMEs *versus* foreign SMEs in Malawi. The literature overview is the starting point of the argument between the literature review and the empirical findings of the later quantitative study. This chapter presents an introduction to general entrepreneurial theory, the development of entrepreneurship and entrepreneurial models and strategies. A discussion on the earlier empirical findings on entrepreneurship, benefits of entrepreneurship, and potential drawbacks and pitfalls of entrepreneurship is included. Finally characteristics of a successful entrepreneur, factors that influence people into entrepreneurship and marketing and financial considerations of an entrepreneur will be explored.

2.2 DEFINITION OF TERMS

After noting that indigenous SMEs are performing worse than the foreign SMEs (SMEDI, 2015), it was felt that there is a need to do a comparative study of indigenous SMEs and foreign SMEs. In order to have a complete understanding of the SMEs, it is vital to first define entrepreneurship and also an entrepreneur as articulated by different authors. A lot of the literature on entrepreneurship is dedicated to Schumpeter who is regarded as the father of entrepreneurship. Schumpeter's writing on entrepreneurship dates back as far as 1912 from the book 'The Theory of Economic Development' (Schumpeter, 1912). It is only in the 1980's when the field of entrepreneurship became a popular subject (Nieman and Nieuwenhuizen, 2012).

2.2.1 An Entrepreneur

An entrepreneur and entrepreneurship has been defined in a different way by different authors. The word entrepreneur derives from the French word '*entre*' meaning 'between' and '*prendre*' meaning 'to take'. The word entrepreneur was originally used to describe people who 'take on

risk' between buyers and sellers or who 'undertake' a task such as starting a new venture (Barringer and Ireland, 2013).

Collins and Moore (1970) defined entrepreneurs as tough and pragmatic people driven by the needs of independence and achievement. Hisrich and Peters (1998) see an entrepreneur as someone creating something new with value but at the same time devoting his/her time and effort, with assumed risks and rewards therein. McClellands' (1961) definition of an entrepreneur is different from the other authors as he sees an entrepreneur as someone who exercise control over production that is not only for his personal consumption, whilst Young (2004) sees an entrepreneur as someone with an overwhelming need for achievement and a strong urge to build. Watson (2001) perceives an entrepreneur as someone who is innovative but also has an eye to see an opportunity. Nieman and Nieuwenhuizen (2012) define an entrepreneur as someone who is able to see an opportunity in the market place and pursues that opportunity in order to accomplish his/her desire. In pursuing the opportunity he/she always has an understanding that it might work or might not work but is still a risk taker. The rewards of an entrepreneur are the profits from the venture if it succeeds. The entrepreneur is a true hero of society, is central to value creation, drives capital markets and is the heart of the economic development (Schumpeter, 1934, 1950, 1975 and Nieman and Nieuwenhuizen, 2014). It should also be noted that an entrepreneur is quite different from other business people in that they are motivated to venture into something new based on opportunity and contributes massively to the economy at large.

Looking at the different definitions of an entrepreneur, it was derived that an entrepreneur is someone who is a risk taker and who sees an opportunity, but who also has the ambition to be independent and has a drive for achievement.

2.2.2 Entrepreneurship

Entrepreneurship is defined as the process by which individuals pursue opportunities without regards to resources they currently control (Adam and Spinelli, 2012). According to Timmons and Spinelli (2009) entrepreneurship is the process of creating or seizing an opportunity and pursuing it, regardless of the resources currently controlled. Jones (2014) defines entrepreneurship as a way of thinking, reasoning and acting that is opportunity obsessed, holistic

in approach, and leadership balanced. For Kotler and Keller (2013) entrepreneurship is about taking risk.

Based on the definitions of well-known authors in entrepreneurship such as McClellands (1961), Collins and Moore (1970), Bird (1989), Hisrich and Peter (1998), Timmons (1999), Watson (2001), Wickham (2006) Timmons and Spinelli (2009) and Spinelli and Adam (2012) there is no consensus in the way they have defined entrepreneurship. Despite the different definitions, one thing is clear from all the authors; that entrepreneurship has to do with innovation and that entrepreneurs are a driving force of development in a country. It is also noted that entrepreneurs are people who see an opportunity where others see chaos. Literature on entrepreneurship has not adopted a standard definition; however a common point for most writers is that entrepreneurship relates to entrepreneur impinging activities. All said and done, what stands out is that the entrepreneur's main goal is to realize profit from his/her venture and makes sure that the business grows in order to reap more profits out of his/her innovation(s).

An entrepreneur can take different forms, from being micro, small or medium and with opportunities and success tend to graduate from one stage to the other (Scarborough, 2013). The researcher defines an entrepreneur as someone with a vision to see an opportunity and grab it in order to realize his/her dreams not taking into account the risks that might be present. For an entrepreneur to be successful in his/her venture he/she needs to hold unique characteristics which include vision, passion and risk taking (Robinson, 2013).

2.3 CHARACTERISTICS OF A SUCCEESSFUL ENTREPRENEUR

According to Barringer and Ireland (2013), there are four characteristics for successful entrepreneurs. These attributes are as follows:

- **Passion for the business**

A good entrepreneur should have the love for his/her business and make sure that it succeeds since he/she tends to enjoy the responsibility.

- **Product and customer focus**

An excellent entrepreneur is the one who regards quality highly and always makes sure that his/her customers are highly satisfied. It should be noted that quality products and services will always lead to customer satisfaction for the common good of both the entrepreneur and the customers.

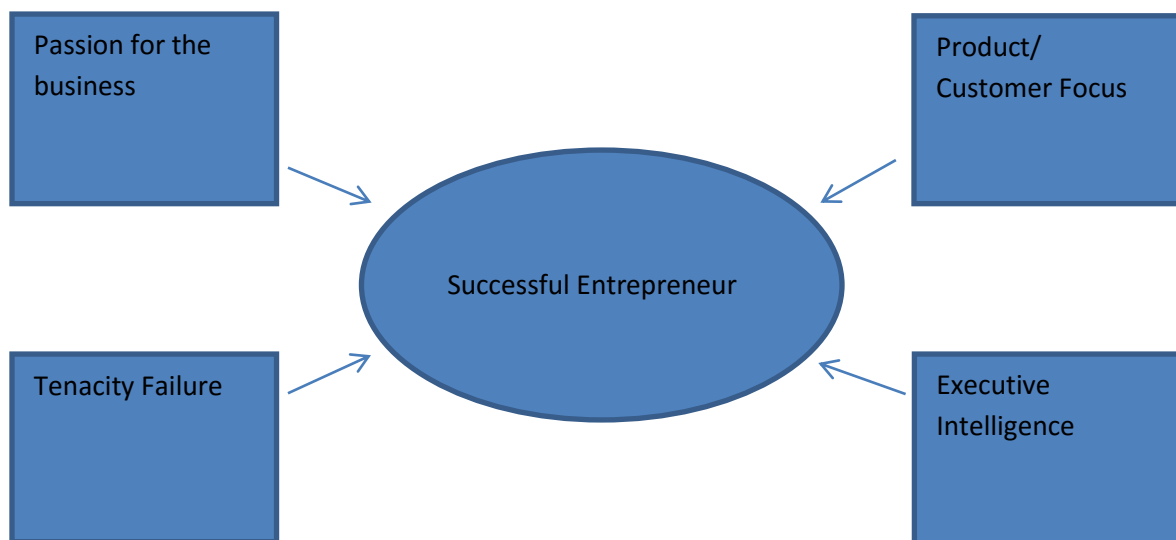
- **Tenacity despite failure**

In trying something new, the likelihood of failure is high. But a good entrepreneur will keep on trying until he/she gets it right as he/she tends to believe that failure is just part of the process of getting things right.

- **Execution intelligence**

Successful entrepreneurs believe in executing quality ideas into a viable business. Barringer and Ireland (2013) stated that the attributes of a successful entrepreneur are passion for the business, product and customer focus, tenacity despite failure and execution intelligence. It should be noted that for an entrepreneur to succeed he/she needs to be passionate about whatever he/she is doing. It is this passion that leads to being focused on the products but more so the customers who are the key if the business are to excel. A business venture can either succeed or fail. A good entrepreneur will not give up when he/she experience a failure until he/she succeeds, which includes advocating for quality ideas which culminate into business success. The four characteristics of a successful entrepreneur are summarized in Figure 2.1 below.

Figure 2.1: Four Primary Characteristics of Successful Entrepreneurs.



Source: Adopted from Barringer and Ireland (2013).

2.4 SMALL AND MEDIUM ENTERPRISES

As entrepreneurship tends to have different definitions, the same is observed on how SMEs are defined. The definition of SMEs is largely dependent on the number of employees in the sector but also the level of investment and turnover. The definitions of SMEs tend to differ from one country to the other since SMEs are defined based on a number of economic factors that tend to be different from country to country.

The Government of Malawi currently defines SMEs based on the number of employees and turnover. Micro enterprises are those employing 1 to 4 people and with a turnover of up to MK1 million, Small enterprises employ 5 to 20 people with a turnover of between MK1 to 10 million. As for the Medium enterprises, it is defined as enterprises employing 21 to 100 people and with a turnover of MK10 to 50 million whilst Large enterprises employ 100+ people and have a turnover above MK50 million. The definition is a result of the MSME survey which was conducted by the Commonwealth Secretariat in 2008 in Malawi. (Commonwealth Secretariat, Malawi: One Village One Product (OVOP) Development Programme, Draft Final Report, 2008).

The researcher will not attempt to define an SME since different countries have defined SMEs based on the economy at a particular moment. It should also be noted that different countries all over the world and institutions such as the World Bank and European Union have revised their definition of SMEs several times based on the changes in economy and also the currency fluctuations (World Bank Group, 2015).

2.5 VARIOUS FORMS OF OWNERSHIP IN ENTREPRENEURSHIP

2.5.1 Introduction

Before starting a business, it is necessary for prospective entrepreneurs to carefully decide what business ownership and business sector he/she wants to pursue. The choice of business ownership or sector is dependent on a number of factors. After analyzing these factors, an entrepreneur can make a decision. The decisions are mostly dependent on capability of the entrepreneur which might include legal factors but also capital requirements (Nieman and Nieuwenhuizen, 2014). Some of the most important issues entrepreneurs should consider when they are evaluating the various forms of ownership include tax consideration, liability exposure, start-up and future capital requirements, control, managerial ability, business goals, management succession plans and the cost of formation (Scarborough, 2013)

The next section will discuss the main legal forms of most small businesses relevant to Malawi; sole proprietorship, a partnership and a private company.

2.5.2 The Sole Proprietorship

A sole proprietorship is a business that is run by one person as the owner. The advantages of a sole proprietorship is that it is one of the easiest ways to establish a business as by law it is not a requirement to have it formally registered, although it is advisable to register it in order to protect the business name (Barringer and Ireland, 2013). It is also a less costly form of ownership to start up, easy to discontinue and has profit incentives for the owner (Scarborough, 2013).

As much as it is the most popular form of business, all the liabilities of the business tend to fall directly on the owner. However, in good times he/she tends to reap all the fruits of the business. There is also a limited access to capital, lack of continuity and a feeling of isolation (Stokes and

Wilson, 2011). However, taking into consideration the many risks involved in trading as a sole proprietorship most people tend to opt for a partnership (Kotler and Armstrong, 2012).

2.5.3 Partnership

A partnership is when more than one person trade together. According to the rules of partnership it is recommended that the number of partners do not exceed 20 unless otherwise stated. A partnership, as the name implies requires that all the partners should have a common understanding (Robinson, 2013).

Like a sole proprietorship, it is not mandatory to have the partnership registered. For the sake of future understanding when there might be a dispute, it is highly recommended to have the partnership registered and all agreements recorded and signed with the help of a legal practitioner in order to make them binding to all the partners (Nieuwenhuizen, 2011). A partnership is easy to establish and have the advantage of different skills and a large pool of capital (Scarborough, 2013). As much as it helps to put resources and expertise together, a partnership is vulnerable in that the resignation or death of one partner makes the whole partnership absolute unless agreed otherwise at the beginning of the partnership (Katz, 2010). In a partnership there is the likelihood of potential personality and authority conflict. Partners are also bound by the law of agency which means that a business deal entered by one partner tend to have an effect on all the partners despite not consenting to the deal by all the partners (Barringer and Ireland, 2013).

Three different types of partnerships can be formed, namely ordinary, universal and extra ordinary partnerships. Ordinary partnerships are the conventional type of partnership. In a universal partnership partners contribute all the property they currently own, as well as the future property to the partnership. In an extra ordinary partnership one or more partners are not made liable for debts incurred by the partnership (Peredo and McLean, 2014).

2.5.4 Private Company

Another form of business ownership is a Private Company which can either be a profit making or a nonprofit making private company. Unlike the other types of business ownerships discussed

earlier, it is compulsory to have a Private Company registered with the Registrar of Companies (Kotler and Keller, 2013).

The biggest advantage of a Private Company is that it is a legal entity on its own, separate from the owners (Robinson, 2013). Most entrepreneurs tend to intentionally disregard registering their business as a Private Company since the registration process is very long, it requires to be detailed and the associated fees tend to discourage many (Nieman and Niewenhuizen, 2014).

2.5.5 Conclusion

Based on the various forms of ownership in entrepreneurship, it is evident that each form has got its own advantages and disadvantages. The researcher is of the view that sole proprietorship is best suited to those with limited finances as it is the easiest to establish, even with minimal capital. As the business grows and with the need to go into the medium sector, partnership might be the right form based on the many advantages that outweigh the disadvantages. With enough capital and resources, closed corporation and a private company might be the way in the right direction. But it is important for each and every entrepreneur to evaluate him or herself before deciding the type of ownership to embrace by evaluating the pros and cons for each form of ownership.

2.6 ENTREPRENEURIAL STRATEGIES

2.6.1 Introduction

This section will look at various entry strategies of an entrepreneur into a business by looking at the advantages and disadvantages of each strategy. The idea is to determine if the choice of an entrepreneurial strategy had any significance in the overall success of a business. Charan and Tichy (2013) pointed out that entrepreneurial strategy can be grouped into a number of entry strategies. These strategies include the development of a new product or service, creating parallel competition by developing a new product or service, buying a franchise, finding sponsorship, acquiring a going concern and a family business.

2.6.2 Developing a new product or service

What a company needs to develop a new product or service, should be based on the needs of potential customers and also by scrutinizing the viability of the venture, taking into consideration

the potential risks. There is also a need for passion for the new product or service (Baron and Shane, 2014). When developing a new product or service, an entrepreneur ought to go through the seven stages of the product development processes (Cant, Strydom and Jooste 2013). This is important because at every stage it will be able to give the entrepreneur a feel and indication on whether to continue with the undertaking or just abandon it before more resources are wasted (Kotler and Lane, 2013).

The stages include the generation of an idea to be pursued. There are many sources of idea generation which include customers, competitors, employers, research and development, channel members and even top management (Baron and Shane, 2014). When the said idea has been conceived the next stage will be screening the idea in order to see its worthiness. If it passes, it is then appropriate to test the concept and then make an analysis to see if the business will make sense. If it passes the business analysis, the product is developed and tested on the market. If the reception is favorable, the entrepreneur can continue in full force with the intended marketing through commercialization (Kotler and Keller, 2013 and Nieman and Nieuwenhuizen, 2014). As said earlier there is a need for the critical analysis of each stage so as to make informed decisions of the whole venture (Kotler and Lane, 2013).

2.6.3 Creating parallel competition by developing a new product or service

Parallel competition is often fierce. By definition it involves firms that lack strong competitive advantages thus only competing on price, which drives margins down (Nellis and Parker, 2014). The strength of this competition will likely force the entrepreneur to manage the functions of the business well but to be unprofitable which can easily force the business to fail (Lambing and Kuehl, 2013).

2.6.4 Buying a franchise

A broad definition of a franchise is a system in which a licensor grants a license to franchisees to use the trade name and an entire or part of a business format (Wilson, 2012). The franchise concept gives an entrepreneur the opportunity to start a business that has been proven in the marketplace. The entrepreneur then becomes a franchisee. The franchisor gives the franchisee the right to operate a business using the franchisor's company's name, products and systems. In

return, the franchisee pays the franchisor's firm for this right on an ongoing basis (Robinson, 2013).

The types of franchising include trade name franchising, product distribution franchising and pure franchising (Adam and Spinelli, 2012). Trade name franchising is a system of franchising in which a franchisor licenses a franchise to sell its products under the franchisor's trade name without distributing products under the franchisor's name. Product distribution franchising is a system of franchising in which a franchisor licenses a franchise to sell its products under the franchisor's brand name and trade mark through a selective, limited distribution network whilst pure franchising is a system of franchising in which a franchisor sells a franchisee complete business format and system (Barringer and Ireland, 2013).

The advantages of franchising are that help from an already-established business can be bought through a contract that grants some sort of franchise, usually for a particular geographical territory. Thus, the already established business called the franchisor may provide training, accounting services, performance evaluations, assistance in choosing locations and arranging financing. Some franchisees have become very prosperous by obtaining franchises from franchisors that are just starting up and selling them cheaply to prove themselves, or by obtaining franchises for large territories, where it is possible to develop chains of them and earn large profits from multiple outlets (Kotler and Keller, 2013).

Despite the many advantages associated with franchising, it is important that an entrepreneur should also familiarize him or herself with the limitations of a franchising business in order to make an informed choice. It is not possible to be associated with other business opportunities as the business operations are solely limited to your principal. Lastly the franchising fees and ongoing royalties that are supposed to be paid to the franchisor might be consuming your profit margin thus only working for the franchisor (Wilson, 2012). There is also a strict adherence to standard restrictions on purchasing and a limited product line with less freedom and market saturation (Scarborough, 2013).

2.6.5 Finding sponsorship

A safer bet as an entrepreneur may be to take advantage of the willingness of someone to help sponsor the startup in some manner. A prime requisite for all types of sponsorship is that the sponsor is credible and that the entrepreneur and venture is likely to succeed (Young, 2014). The strongest basis for this is usually a track record of prior accomplishment and a demonstration that the entrepreneur possesses the capacity to perform the critical tasks of the venture (Wilson, 2012).

2.6.6 Acquiring a going concern

Another entry strategy is to acquire a going concern. This can simplify the process of getting into business. Most people cherish to start their own businesses acquiring a going concern and it is a better alternative as the advantages tends to outweigh the disadvantages (Scarborough, 2013).

The experience of the existing employees might be advantageous to the new owner but the previous owner is also likely to give operational tips to the new owner for eventual success in the business (Tabarok, 2012). Most entrepreneurs tend to buy existing businesses and manage them very well based on the goodwill of the previous owners. Thus experience is not a prerequisite to buy an existing business as it is easy to be successful even without prior knowledge of the business due to the excellent tips from the previous owners (Kotler and Keller, 2013).

There are a number of advantages when buying a business for instance it saves the new owner the hustles of establishing a new entity altogether but also because it already have experienced personnel and a good supplier relationship in place (Kotler and Armstrong, 2012). Despite the various advantages, it is also important to dig deeper into the main reason why the business is being sold as it might negatively impact on the new owner. The owner might not have disclosed the main reason(s) for selling the business which might work to your disadvantage whilst already in operation (Nieuwenhuizen, 2011). The business might have not been profitable due to inadequate sales volumes and operation costs. The other reason might be due to unethical behavior of the previous owners which can reflect badly on the new owners (Longenecker, Petty, More and Palich, 2010 and Kotler and Armstrong, 2012). According to Lambing and Kuehl (2013), it is also important to consider the disadvantage of operating in the shadow of the previous owner as a business might be successful based on the good relationship and trust

between the previous owner and his or her clients which cannot be transferred to the new owner automatically.

Looking at all these disadvantages, the researcher is of the opinion that it is important to scrutinize every relevant detail and aspect of the business in order to make an informed decision.

2.6.7 Family Business

A family business is one that is influenced by family ties in order to achieve the vision of the family over, potentially several generations (Zhang, 2010 and Nieuwenhuizen, 2011). The idea of building and running a business with your family is thrilling. In fact, most experts even recommend building a business with your family because it keeps the family together and maximum efficiency is ensured (Baron and Tang, 2011). Like any other business venture, a family business has got its own advantages and disadvantages which need to be considered if a family business is to be successful.

2.6.7.1 Advantages of running a family business

According to Adam and Spinelli (2012), some of the advantages of running a family business include the following:

- **Family members understand each other better**

The biggest advantage of running a family business is the fact that family members get along well with each other. This understanding means that the business will prosper because all the members in the business tend to have a common goal for the success of the business and they may be tolerant to each other because of such an understanding.

- **The organizational structure is simple and effective**

It is much easier to start a family business and manage it because the business hierarchy is very simple which makes decision making easier and simple so that decisions do not take long to make for the good of both the business and the customers. This is in contrast with a more formal establishment where bureaucracy works to the disadvantage of the business and the customers at large.

- **Family members are committed**

The family owning and running a business is also much more committed; in reality they are usually more committed to the family than the business. Most of the individuals in a family business want to protect the family reputation. Having an understanding that the business is part of their life; it results in the family members being committed to the business.

- **Most family members have a solid informal training**

Most of the leaders in a family business are trained by the parents or grandparents. This is why these businesses are likely to have similar leadership although some may opt to add something new to the system. Most family businesses also consider both the older and younger market because the business is usually passed from the parents to the sons and daughters, thus the needs of both the older and younger individuals are usually considered when appropriate for the business. It also suggests diversity in the products and services.

2.6.7.2 Disadvantages of running a family business

Despite the numerous advantages associated with the running of a family business, there are also a number of disadvantages which can have negative effects for the success of a family business. Hisrich, Peter and Shepherd (2014) outline some of the disadvantages of running a family business as stated below.

- **Mixed interests**

In a family business, there is a risk that the family interests would be mixed with the corporate interest for example misunderstandings at home can be brought to the office and the family expenses can be deducted from the business.

- **Poor performance**

One drawback about running a family business is that some of the family members might become too comfortable, knowing that they are in the business with the people closest to them. The result of this nonchalant attitude is poor performance, lack of formal planning and budgeting.

- **Management with sentiments**

Family businesses also tend to appoint family members even if they lack training or experience. The head of the family can appoint his first son or favorite child, even if such a person is not competent.

- **Lack of openness**

Another big disadvantage is that there is a temptation of keeping the business to the family. Most family businesses are tightly run by the family and very few outsiders are associated. Outsiders may work in the business but they won't be in the top management or have decision making rolls. It is important to note that outsiders might have ideas and skills that can be useful to the family business but their ideas won't be incorporated because they are outsiders.

- **Rivalry between family members**

Of course, not all family businesses succeed all the time. If it goes down, there is a risk that family members start to hate and blame each other. If the head of the family dies, there tend to be fighting and scrambling for the business assets among the kids. Even when the head of the family writes a will and split the assets accordingly, there still tend to be hate and rivalry.

- **Lack of business continuity or successful succession**

Most family businesses lack a continuity plan. The business is run entirely by the family that the head feels that the smooth operation of the business will continue even after his demise. Lack of a succession plan is the reason why most family businesses don't survive after the death of the founder. The founder's survivors usually lack the competence and passion to run the family business.

2.6.8 Conclusion

A family business might have several disadvantages but a tight-knit family can easily overshadow the disadvantages with positive advantages. Entrepreneurs should definitely consider this type of business if they want solidarity, simple hierarchy, commitment, internal training, and diversity.

From the various entrepreneurial strategies, the researcher is of the opinion that the choice of a particular strategy should depend on the capability and resources available. The researcher favors a family business, finding a sponsorship and a franchise due to the numerous advantages associated with these types of strategies where the advantages are more appealing compared to the other forms such as developing a new product and creating parallel competition by developing a new product or service where the risk of failure could be high.

2.7 BENEFITS OF ENTREPRENEURSHIP

Like any other undertaking, there are a number of benefits to become an entrepreneur. According to Stokes and Wilson (2011), some of the benefits of an entrepreneur are as follows:

- **Opportunity to create your own destiny**

An entrepreneur has the potential to create his/her own destiny. Entrepreneurs are mostly people with independent minds and vision. Because of independence they are free to venture into an opportunity coming their way and are able to achieve their desired goal without a hindrance from a third party.

- **Opportunity to make a difference**

The essence of becoming an entrepreneur is to be independent. Most entrepreneurs, when they take an entrepreneurial path want to be seen in a different light than their peers and different in themselves before starting as an entrepreneur.

- **Opportunity to reach their potential**

Since most of the entrepreneurs go into entrepreneurship for rewards, and the fact that some misguided people tends to look at entrepreneurs as social misfits, entrepreneurs are motivated to reach their optimal fit in order to prove people wrong. This thinking and action tend to make entrepreneurs reach their potential.

- **Opportunity to reap impressive profits**

An entrepreneur is his/her own boss and as such he/she is likely to reap the rewards of success from the business. Hardworking is always a must as he/she is assured of benefiting from the profit(s) that are to be made from the business.

- **Opportunity to contribute to society and be recognized**

One of the benefits and opportunity of an entrepreneur is their contribution to society. This could be in a form of providing services or/and the sale of goods to the community. As the business progresses, the entrepreneur can also be an employer to the society where he/she is situated. In such a case he/she can easily be recognized by the society at large for making a difference due to his/her contribution in the society.

- **Opportunity to do what you enjoy and have fun at it**

Most entrepreneurs tend to venture into businesses which they have a passion for. Therefore they tend to enjoy what they do unlike being in job where they have to follow the dictates of the organization for the sake of the job, despite not being comfortable. The researcher believes that most people attempt entrepreneurship in order to reach their destiny which is coupled with profitability. Because of independence they are free to venture into an opportunity coming their way and be able to achieve their desired goal without hindrances from a third party, this tends to be a motivating factor for their ultimate success.

2.9 THE CHALLENGES OF ENTREPRENEURSHIP

Being an entrepreneur can be rewarding but it also has its challenges. Some of the potential drawbacks of entrepreneurship are as follows (Scarborough, 2013):

- Uncertainty of income,
- Risk of losing your entire investment,
- Long hours and hard work,
- Lower quality of life until the business gets established,
- High level of stress and
- Complete responsibility.

The researcher believes that it is imperative for an entrepreneur to always come up with performance measures and control methods in order to avoid the pitfalls as outlined below.

2.9 HOW AN ENTREPRENEUR CAN AVOID PITFALLS

Having an understanding of the potential drawbacks that an entrepreneur might experience, it is important for an entrepreneur to have an understanding of how he/she can overcome those

challenges (Kautomen, Tomikoski and Kibler, 2011). Some of the ways for avoiding the mentioned pitfalls include the following:

- Knowing your business in depth,
- Developing a solid business plan,
- Managing financial resources,
- Understanding financial statements,
- Learning to manage people effectively,
- Setting business apart from the competition and
- Maintaining a positive attitude.

The researcher agrees with Kautomen, Tomikoski and Kibler (2011) that unless an entrepreneur is well conversant with the above attributes, chances of failure in a business venture are bound to be high. It is for these reasons that entrepreneurs need to be knowledgeable on the said attributes if they want to be successful in their business undertakings.

2.10 FACTORS THAT INFLUENCE PEOPLE INTO ENTREPRENEURSHIP

Different people pursue entrepreneurship for different reasons. These are called the pull and the push factors. According to Scarborough (2013) and Barringer and Ireland (2013), push factors are those influences that push individuals toward entrepreneurship. Pull factors are influences that pull people towards entrepreneurship. The same influence can be a push factor for one individual but can be a pull factor for another. Some of the reasons that tend to influence people into entrepreneurship include the following:

- **Unemployment**

Unemployment is a contributing factor for people to venture into entrepreneurship. After failing to secure employment after school, most school leavers tend to engage into business for their livelihood.

- **Personal characteristics**

Personality traits are important factors that influence entrepreneurship. In entrepreneurship studies quite a few of these traits have been found. Inner 'locus of control' and 'need for

achievement' are two examples of entrepreneurial traits. These traits are essential for entrepreneurial development but are also useful for everyone.

- **Motivation**

Motivation is an important and interesting part of an individual's start up process. It is important to give youngsters as much neutral information as possible about entrepreneurship. In this way the opportunity is given to the youngsters themselves to become interested and motivated towards entrepreneurship. Every individual must be empowered to make his/her own decision in this kind of vocational choice.

- **To be their own boss**

People also attempt entrepreneurship because of ambitions to be their own boss and be independent in their undertakings.

- **Pursue their own ideas**

In a normal working environment it is always a challenge to completely pursue your own ideas. With this in mind, people tend to go into entrepreneurship independently in order to pursue their own ideas from the opportunities they see in the marketplace.

- **Realize financial rewards**

Not all entrepreneurs go into entrepreneurship for money but it is a given fact that each and every entrepreneur wish is to be rewarded financially. It is for this reason that some people will venture into entrepreneurship for the financial rewards of their businesses.

- **Attitudes**

Most people have a very positive attitude towards entrepreneurship and form their attitude towards entrepreneurship based on feelings and emotions. From the perspective of entrepreneurial education it would be better if people had a positive attitude towards entrepreneurship based on knowledge rather than emotions.

It is for these reasons that the researcher is of the view that entrepreneurship needs to be incorporated into the education system at an early age in order to inspire people to be motivated and consider entrepreneurship as a way forward and not only regular/typical employment.

2.11 MARKETING AND FINANCIAL CONSIDERATIONS OF AN ENTREPRENEUR

The major elements of a marketing strategy are the four P's of marketing – product, price, promotion and place (Keegan and Green, 2013). These four elements are interconnected, and when properly coordinated with a solid marketing plan, increase the sales appeal of a product or service. Small businesses must integrate these elements to maximize the impact of their product or service on the consumer (Kotler and Armstrong, 2012). The four P's must reinforce the image of the product or service the company presents to the potential customer.

- **Product**

The product itself is an essential element of marketing. The product can either be goods or services. A product takes a physical form as opposed to a service which is intangible. In the marketing of goods and services, entrepreneurs should always thrive for quality if they want to be competitive.

- **Price**

Almost everyone agrees that the price of a product or service is the key factor in the decision to buy it or not. The price affects both sales volumes and profits, and without the right price both sales and profits will suffer. For small businesses, non-price competition – focusing on factors other than price – often is a more effective strategy than trying to beat larger competitors in a price war. Pricing can either be cost based or value based.

- **Promotion**

The goal of promotion is to inform and persuade customers. Advertising communicates to potential customers, through some mass medium the benefits of the goods or services. Other forms of promotions can be by word of mouth, public relations, trade shows and social media. The choice of promotion the entrepreneur chooses should always correspond with the target customers but also its finances. The wrong choice of promotion may result in failing to communicate.

- **Place**

The place or method of distribution has grown in importance as customers expect a greater service and more convenience from businesses. Entrepreneurs should always consider the

distribution channels that are most suitable for their products or services. Selling of products can either be direct from the producer to the consumer and through intermediaries. Under intermediaries, the product will move from the producer to the wholesaler, to the retailer and finally to the consumer. The focus here is on choosing the appropriate channel of distribution and using it most efficiently.

2.12 CONCLUSION

It should be noted that it is essential to balance all four P's in marketing in order to be successful, for the entrepreneurs to achieve their goals and for the consumer to be satisfied. This can also help an entrepreneur to evaluate his/her customers and to know whether the customers are satisfied or not. Customer satisfaction can be measured in terms of repeated sales, loyalty and recommendations to other customers. If an entrepreneur can embrace the four P's effectively, it is likely that he would create a competitive advantage over its competitors.

From the above discussion it has been noted that one can become an entrepreneur in a number of ways, each with its own advantages and disadvantages. The researcher is of the view that it is important to scrutinize the merits and demerits of each method before making a choice. It is therefore important that the final choice should be based on an informed decision, taking into consideration your capabilities and also your passion. Advice should also be sought from people who are very conversant and knowledgeable in the business.

2.13 CHAPTER SUMMARY

In Chapter two the different definitions of an entrepreneur and entrepreneurship have been discussed. It has also given the definition of an SME, discussed the various forms of business ownership and entrepreneurship strategies. Benefits of entrepreneurship, potential drawbacks of entrepreneurship and how an entrepreneur can avoid pitfalls have also been included. Finally characteristics of a successful entrepreneur, factors that influence people into entrepreneurship and marketing and financial considerations of an entrepreneur have been explored.

An entrepreneur and entrepreneurship have been defined in various ways by different authors. However, the researcher observed that all the authors agreed that an entrepreneur as someone who is a risk taker and who sees an opportunity, but also have the ambition to be independent

and have a drive for achievement. As entrepreneurship tends to have different definitions, quite a few definitions are given for SMEs. The definition of SMEs is largely dependent on the number of employees in the sector but also the level of investment and turnover. The definitions of SMEs tend to differ from one country to the next since SMEs are defined based on a number of economic factors which tend to be different from country to country. The Government of Malawi currently defines SMEs based on the number of employees and turnover.

It has been noted that the characteristics of successful entrepreneurs is a result of passion for the business, product and customer focus, tenacity despite failure and execution intelligence. Chapter three will give an overview of the current state of the SME sector in Malawi.

CHAPTER 3

AN OVERVIEW OF THE SME SECTOR IN MALAWI

3.1 INTRODUCTION

This chapter will give an overview of the current state of the SME sector in Malawi. It will highlight the challenges that the indigenous SMEs are facing, and will be the key to this research. It has been noted before that the indigenous SMEs are not performing as good as the foreign SMEs and therefore the researcher will try to scrutinize the efforts by the Government of Malawi in order to address these challenges the indigenous SMEs are facing. The overview will be guided by the current SME policy of Malawi.

3.2 THE SME POLICY OF MALAWI

The SME policy for the Republic of Malawi (2010) aims to create a modern and effective framework to guide the development of profitable, competitive and sustainable SMEs in Malawi. The policy is an update of the SME policy first issued in October 1998 and revised in 2000.

The SME policy is based on a thorough analysis of the SME sector in Malawi conducted in 2011 and 2012. This analysis included a series of broad and in-depth consultations with all the stakeholders that have an interest in the SME sector (government, businesses, civil society, development partners) across the country and development partners initiatives in the SME field; an examination of the latest SME policies in a number of developing countries whose policies could be relevant for Malawi (including Botswana, Lesotho, Rwanda, Tanzania, Zambia as well as the Philippines) was included.

The SME policy has been designed to operate along with Malawi's major medium and long term strategy initiatives including the Malawi Growth and Development Strategy (MDGS11), which aims to reduce poverty through sustainable economic growth and infrastructure development.

3.3 BRIEF OVERVIEW OF THE ECONOMIC CONTEXT OF MALAWI

Malawi is ranked 174 out of 187 countries on the UN's 2013 Human Development Index. The Africa Competitiveness Report 2015 ranked Malawi 132 out of 144 countries surveyed, with extremely low rankings on basic requirements (139), efficiency enhancement (122), and innovation and sophistication factors (115) (African Commission and World Economic Forum, The African Competitive Report 2015).

Despite enjoying a steady growth since 2004, partly attributable to favorable climatic conditions and significant fertilizer subsidies, the last two years, 2013 and 2014 has seen a marked showdown in Malawi economy. Malawi has a population of about 15 million people according to the 2010 census and most of them live in the rural areas. The economy of Malawi is dependent on agriculture which also happens to be the biggest employer of the country's labor force.

Of the 15 million people, 40% are the youth (The Malawi National Strategy for Financial Inclusion (2010-2014), Lilongwe, 2010). The main cash crop of Malawi is tobacco which is being threatened by the anti-smoking campaign. Of late the government is putting an emphasis on promoting tea, cotton, ground nuts, soya beans and sugar which are also doing well in the export market (ECAM/ILO Project, A MSME survey in Malawi, Constraints and Needs Identification Project, 2007).

3.4 DEFINING SMEs IN MALAWI

The definition of SMEs tends to differ from one country to the next. SMEs are defined based on a number of economic factors which tend to be different from country to country. The Government of Malawi currently defined SMEs based on the number of employees and turnover as per Table 3.1 below. The definition is as a result of the MSME survey which was conducted by the Commonwealth Secretariat in 2008 in Malawi. (Commonwealth Secretariat, Malawi: One Village One Product (OVOP) Development Programme, 2008).

Table 3.1: Official definitions of SMEs in Malawi

Enterprise size	Number of employees	Turnover (MK)
Micro	1-4	Up to MK 1million
Small	5-20	MK1 million – MK 10 million
Medium	21-100	MK 10 million – MK 50 million
Large	100+	Above MK 50 million

Source: Adapted from the SME Policy of Malawi (2010).

The above definition is in response to economic development. It should be noted that many countries have left out the turnover criteria and focused solely on then number of employees, because this permits easier data collection and it is not affected by the effects of currency fluctuations on turnover comparisons over time.

3.5 MSMEs IN THE MALAWI ECONOMY

The 2012 MSME survey found that around 41% of the country’s MSMEs collectively employed a total of 1,050,320 people, of which 255,502 work full time for their employer. Over 80% of those employed in the sector worked for micro enterprises (those employing 1-4 employees).

Due to Malawi’s highly rural population, most MSMEs in Malawi are linked in some way to agriculture and operate on small pieces of land. They are necessity driven and are established mostly from a decline in formal employment and other incomes, rather than a response to opportunities in times of economic growth. Many businesses have a short life span, and thus do not benefit from economies of scale and experience accumulated over time (BESTAP, Final Report for Small Business Consultancy for PPD Forum, 2009).

The 2012 MSME survey established that 59% of MSMEs were excluded from financial services, as opposed to 31% that are formally served by some sort of financial system, with the balance relying on informal services. Over three quarters do not borrow funds, primarily because they doubt their ability to repay the loans. Of those who borrow, informal credit systems tend to be the primary source of credit. The 2012 MSME survey found that financial exclusion decreases as the size and formality of the business increases.

Malawi has had a number of institutions specifically to assist SMEs. Some of them include the Small Enterprise Development Organization (SEDOM), Development of Malawian Enterprises Trust (DEMAT) and Malawian Entrepreneurs Development Institute (MEDI). These three organizations have recently been merged to form the Small Enterprise Development Institute (SMEDI). However, many of these institutions duplicate each other's function and are seen to be ineffective. The 2012 MSME survey showed that for instance nearly two thirds of small businesses (62%) were unaware of the institutional support.

3.6 OBJECTIVES OF THE MALAWI MSME POLICY

It is widely recognized that the MSMEs play a vital role in addressing rural and urban poverty, playing an important role in livelihood strategies, helping to diversify income sources, improving cash-flow and providing help in difficulty times, even if micro-enterprise activities are often considered a second or even third occupation. The MSME sector has the potential to promote indigenous entrepreneurship. In an ideal environment, it can absorb labor, transfer modern technological skills, foster innovation and enhance competitiveness. Successful MSMEs have the potential to uplift women, the youth and the marginalized groups from poverty. The role of MSMEs is particularly important for Malawi, with its relatively undiversified, resource-poor economy and the need to promote exports.

The MSME policy seeks to support the development of a vibrant local entrepreneurial sector and improve MSMEs, assist priority industries and improve the MSME operational and regulatory environment. The policy recognized that the government should create 'an enabling environment that combines minimum regulation with maximum openness and provides equal incentives for all enterprises' (SME Policy of Malawi, 2010). The MSME policy seeks to avoid short-comings like limited circulation, low levels of awareness and weak implementation. While the policy deals with the MSME sector as a whole, it takes into account the special characteristics, circumstances and growth needs of different-sized enterprises.

The SME policy of Malawi (2010) has a number of aims and some of them are:

- To ensure better functioning of value chains,

- To create incentives for the private sector to change behavior and become more inclusive and
- To offer differentiated approaches for strategies for micro, small and medium enterprises, as these types of firms have different needs, aspirations and expectations.

3.7 CHALLENGES OF THE SMEs GROWTH IN MALAWI

The researcher has used a number of reports on the challenges of the SME sector in Malawi as opposed to the use of scientific articles, since no scientific articles could be found to support these reports.

The 2011 Private Sector Development Programme (PSDP) and the 2009 Business Environment Strengthening Technical Assistance Programme (BESTAP) studies have identified a range of challenges to the growth of MSMEs in Malawi. Common barriers to the development and growth of MSMEs include:

- A weak institutional and regulatory framework,
- High cost of doing business,
- Weak value chain integration,
- Lack of specific policies aimed at women and the youth,
- Limited access to credit and business development services,
- Lack of a strong, coherent and organized MSME voice to represent the sector and
- Inability to meet production standards; and a few opportunities to export.

The 2011 PSDP highlights the following as key constraints to MSME growth in Malawi: a poor investment climate, a weak culture of entrepreneurship among indigenous Malawians, a lack of access to capital and the high cost of capital for MSMEs, a weak private sector support institutions, outdated policy, legal and regulatory framework and an unreliable and costly infrastructure services. The 2009 BESTAP report suggests that the main reasons for small business failure are the lack of capital for business expansion, the lack of business management skills and the lack of a level playing field that benefits the foreign over the indigenous SMEs.

Other factors include the lack of skilled labor, low support by Malawians for Malawian businesses, high interest rates, costs and customs duty and under handed business practices in SMEs.

As many players operate in the sector, competition is stiff. The report also noted difficulties in accessing credit due to the requirement for traditional forms of collateral, low awareness of the policy environment, rules and regulations, low knowledge of quality and standards requirements, unfavorable government procurement practices, difficulty accessing export markets due to complex documentation and an inability to supply large orders, a lack of export financing schemes and a lack of adequate production premises. The BESTAP report also cites the lack of a national export strategy and citizens empowerment policy as constraints (although drafts of both exist). Unpredictable policy applications such as a ban on exporting some products reserved for export increases investment risk perception and uncertainty. Lack of transparency in procurement (for example in the construction industry) creates perceptions that contracts are awarded to politically connected businesses and not on merit.

Cultural and lifestyle factors have a bearing on MSME development. Some behaviors include a poor repayment ethos, poor customer service, overcrowded markets due to copycat entrepreneurs, the difficulty of family business collaborating with others, unethical business practices tarnishing the image of the sector, risk aversion and lack of strategic thinking, a weak savings and investment culture, and the stigmatization of those operating small business as ‘failures’.

3.8 ADDRESSING THE CHALLENGES TO MSME GROWTH IN MALAWI

To address the challenges of MSME growth, the policy proposes six key development pillars as outlined below.

3.8.1 Enhance Policy Implementation and Integration

There are plenty of high-quality, thoughtful strategies, policies and blueprints in Malawi with ideas on how to develop the MSME sector. However, there appears to be a distinct lack of coordination between these efforts, poor integration and patchy implementation.

Different ministries, often using well-meaning development funding partners have commissioned many reports and strategy documents to improve the MSME support and growth that duplicate efforts and cover similar issues. While a lack of resources is often blamed for lackluster implementation, arguably weak political will is a much more important limiting factor. It results in duplication of efforts, turf battles and internal rivalries. Policy coordination within government is as much of a priority as policy coordination between the government, the private sector and the development partners. To enhance policy implementation and integration there is a need to allow business scope to drive its own development. Lessons from the MSEPS indicate that the government's ideal role is in enabling, facilitating and supporting the MSME sector through the setting and enforcing of a policy, while allowing the private sector the space that it needed for growth, in order to reduce poverty and unemployment.

The policy also recommends the need to strengthen the capacity of the Ministry of Industry and Trade to implement the policy and harmonize and align MSME development efforts across the government. This would entail filling vacancies with skilled personnel, creating an intergovernmental coordinating committee on MSMEs at Principal Secretaries' level that meets regularly to better coordinate policy and strategy implementation, improving communication about MSME policy throughout government, and firm political leadership to champion MSMEs. At present, there are too many MSME support institutions, creating inefficiency, competition and confusion. It is important that the government should consider raising the profile of MSME support, by creating a Department for MSMEs Development, a specialized ministry or even a separate statutory body with its own resources and strong leadership to implement this policy. Another way to enhance policy implementation and integration is to build capacity. Long-term endorsement of international experts to train indigenous Malawians through capacity building programmes in the MoIT should be supported, but with a clear strategy for the transfer of their skills and their timely departure in place. It is also important that a sound implementation strategy be developed with appropriate SMART (Specific, Measurable, Achievable, Relevant and Time – phased) indicators (Berkery, 2014).

Being a donor dependent country, it is also important to ensure that development partners and the private sector closely align their MSME initiatives with the country's own MSME policy and development priorities, to maximize impact and effectiveness. In order to achieve this, the

Government of Malawi should undertake to support the work of these stakeholders, provide the necessary information and facilitate communication. There should be improved donor coordination and donor support aligned to national policy priorities; and predictable aid flows and timely distribution of resources.

For the success of the policy implementation it is also recommended to convene regular political and technical working groups between government (led by MoIT), the private sector and development partners in order to discuss developments in the MSME sector, harmonization of efforts and progress towards targets. Finally rewarding excellence and the promotion of an entrepreneurship culture is recommended. Government needs to institute an annual award for various categories of indigenous entrepreneurs. This would again raise the profile of MSMEs, celebrate success and create role models. The prizes should be financial in nature or involve mentoring for these firms.

3.8.2 Improved Operations in the Value Chains

Modern development planning promotes holistic thinking about market systems and how they can be used to help the poor. This entails seeking new ways to involve and engage the private sector to act in a manner that supports systemic change while earning profits. This inclusive market development approach is demand-driven and focuses on specific market sectors identified as having substantial potential for impact, growth and profitability, while also benefiting the poor. It focuses on consultative decision-making, aligning incentives and the capacity of local institutions and a finite role for developing partners (substantial funding with a donor exit strategy) (Berkery, 2014).

Developing linkages between large and small enterprises in Malawi is paramount to future growth and poverty alleviation. To provide better market access for small producers and MSMEs, these linkages must be sustainable and beneficial to all. This then requires an integrated and harmonized approach to holistically address market constraints such as trade barriers, capacity building, access to finance and technology, developing linkages and forming small producer cooperatives, and a policy framework to regulate the activity. This means addressing shortcomings in both the public and private sectors (Berkery, 2014).

In order to enhance the operations of the value chain the policy recommends that there ought to be a need to foster business-to-business linkages and focus to support high potential value chains in export promotion and import substitution crop. Currently Malawi relies on tobacco and cotton for the export market but crops such as pigeon peas could be considered considering its demand in India.

3.8.3 Increase access to Finance

Consultations and research shows that the access to finance, including startup businesses remains a formidable obstacle to the growth in the MSME sector. For the small percentage of Malawian MSMEs that do have access to formal financial products, it has proven difficult to meet collateral requirements. High interest rates also discourage borrowing (Kocis, Bachmann, Long and Nickels 2012). Another important constraint has been politicization of credit programmes. Research shows that nonpayment due to political interference has caused several credit programmes to collapse. Resources were misused for patronage and political campaigns. Borrowers were discouraged from repaying, affecting the funding available to genuine MSMEs to start and expand businesses (Kocis, Bachmann, Long and Nickels 2012).

However, while some banks and other financial institutions are beginning to recognise MSMEs as a viable sector, and lower interest rates and reduced government borrowing have increased lending, existing institutions lack sufficient funds to lend to MSMEs. In order to increase access to finance and credit, the policy recommends to support an MSME Venture Capital Fund, support a Financial Innovation Challenge Fund, provide tax incentives and issue national identity documents in order to make lending and loan tracking easier (Kocis, Bachmann, Long and Nickels 2012).

3.8.4 Improve Business Development Services (BDS)

Although the Micro and Small Enterprise Policy Statement (MSEPS) emphasized the need for government to create MSME support institutions, research suggests that these organizations have had limited impact. The proliferation of government-run institutions to provide business development services for the MSME sector has led to duplicated efforts and unhealthy competition.

Over the years there has been a proliferation of diverse business associations representing the MSME sector such as the national associations like National Association of Small and Medium Enterprise (NASME), National Association of Business Women (NABW), and Indigenous Businesses Association of Malawi (IBAM) have been formally incorporated under the Trust Act, governed by the board of trustees. Others, particularly at the local level are less formal and fragmented and are often involved in ‘turf wars’ to attract membership. Although they aim to represent the MSME sector, these organizations are poorly resourced and lack the capacity to represent, support and advocate their members’ needs so their contribution is limited.

To improve the provision of the BDS, the policy recommends the merge of support bodies such as DEMAT, SEDOM and MEDI which was finally concluded in the 2013/14 financial year to become Small and Medium Enterprise Development Institute (SMEDI). There is also a need to provide more mentoring and counselling. The absence of effective role models is cited as a reason that struggling MSMEs often collapse. Banks would be more likely to lend if there were counselling and mentoring services to improve financial management and cooperate governance practices but also to decentralize support services.

3.8.5 Improve Information, Skills, Standards and Technology

There is a considerable latent entrepreneurial ability in Malawi, but it will require coaching to set up and start businesses, which in turn will need stable training institutions. Technical colleges do not have sufficient, experienced entrepreneurship trainers, so graduates only acquire technical and vocational skills. Nor is entrepreneurship taught at schools. In rural areas, not enough training in business, management and financial literacy skills is supplied, with poor knowledge of available opportunities or the benefits of such skills by many rural entrepreneurs. There is little usage of email and internet, despite growing mobile phone penetration. With new productions and with technologies not readily available in Malawi, MSMEs still tend to engage in traditional manufacturing practices. There is scant attention paid to quality, branding, packaging and aggressive marketing.

In order to improve technology, skills, standards and technology, there is a need to create an effective communication and information strategy, to regularly provide the latest information to

MSME stakeholders. It is also important to change the mindset in Malawi that often sees those operating their own businesses as failures. Publicity efforts need to be made to build an enterprise culture and raise the profile of entrepreneurship and self-development and more so to develop a coherent and practical policy for technology transfer to MSMEs.

3.8.6 Develop Gender differentiated Policy

Many recent analyses revealed that women remain disadvantaged in virtually every economic dimension, and government has not been equipped to deal with their specific needs. They note that the MoIT lacks sufficient staff trained in gender issues to provide guidance on women's issues in relation to SME business management, and for young people, including girls forced into trading due to death of parents (SME Policy of Malawi, 2010).

Small trading has mainly been carried out by women in Malawi. However, the greater the levels of formality businesses show, the fewer women are involved. This can be attributed to competition from established, male-run businesses, market support and finance, risk aversion and domestic commitment and stereotyping. Research also emphasizes the difficulties faced by women to raise capital, despite a strong culture of repayment due to a combination of the varied productive and reproductive roles women play in the family, men being primary decision makers over the use of household funds, linking of credit to collateral, and a lack of a savings culture. Other factors affecting female entrepreneurs include high taxes to operate businesses, exploitative rent-charging, lack of information on business issues, poor networking and business linkages among women, and low education levels hampering repayment and debt collection (SME Policy of Malawi, 2010).

To implement gender differential policy there is a need to remove barriers to equal access. There is a need to design loan products specifically for women and disadvantaged groups. Information relevant to MSMEs should be offered in local languages as many female small traders are illiterate and struggle with information and forms only available in English (Kocis, Bachmann, Long and Nickels 2012).

3.8.7 Promote an Enabling Environment

Extensive evidence shows that an appropriate regulatory environment is the single most important element of a country's economic growth strategy. Recent research, including the World Bank's Doing Business survey, shows that Malawi suffers from a poor legal and institutional regulatory framework for private sector growth and development, and in particular for micro, small and medium enterprises (SME Policy of Malawi, 2010). For these reasons it will be appropriate for the government to put in place legislations that will focus on the assessment of the proposed legislation, with a specific focus on the likely impacts for MSMEs.

3.9 CONCLUSION

The researcher believes that the SME policy of Malawi is a very rich document and that if implemented to its fullest Malawi can change from being labelled as a poor country to a developing country. SMEs are the backbone of the economy for almost all countries in the world. Whether it is a developed, developing or poor country it has proved that SMEs tends to play a major role in the development of a country.

It has been noted that SMEs are the biggest employers in the world as the government cannot be able to absorb all the people eligible for employment. It is also noted that unless there is a political will from the leadership of Malawi, the SME policy will remain just a blue print. It has also been noted that most support groups helping the SME sectors have always been politicized thus only benefiting a group of people connected to the politicians in the ruling party for that particular time and that these organizations always get substantial funding from the government during political election campaign periods as a bet to win more votes. As such it is not the deserving people who tend to benefit from such loans. Even if the few 'connected' people have been given the loans, the repayment rate is very low as most of them are reluctant to repay the loans with the belief that it was a *'thank you'* for being loyal to the party. This trend has been seen in all four the governments at the end of the ruling of one party in Malawi. Another challenge that the researcher has noted is that most of the people are given these loans without proper training which makes it difficult for them to succeed.

The researcher is of the view that the government of Malawi should de-politicize the SME loans and that access to the loans should be on merit. This will be after the beneficiaries have been trained in basic business skills but also after producing a workable plan. As such institutions such as SMEDI should be well empowered financially and with manpower. There is also the need to have good communication from all the organizations implementing the loan schemes with a data base that can easily be accessible by all in order to detect those who already benefited but also those who are not faithful in repaying the loans. Since most of these funds are from the donors, knowing how Malawian politicians behave, the researcher recommends that in the loan disbursement committee, the donor community should be fully represented for oversight purposes. If the policy is fully implemented it will increase the contribution of SMEs to the economic growth, employment creation and poverty alleviation in Malawi and empower the women and the youth and the rural areas.

3.10 CHAPTER SUMMARY

Chapter three has provided an over view of the current state of the SMEs sector in Malawi. It has highlighted the challenges that face the sector with an emphasis on the indigenous SMEs who are the main players in this study. It has been noted that the indigenous SMEs are not performing better in the SME sector and therefore the researcher has scrutinized the efforts being taken by the Government of Malawi in order to address the said challenges facing the indigenous SMEs. The overview is based on the current SME policy of Malawi.

The next chapter will highlight the international trends in entrepreneurship with an interest in the successes and failures in a number of countries but also addressing the issues of foreign entrepreneurs in these countries, which are more significant to Malawi.

CHAPTER 4

INTERNATIONAL TRENDS IN ENTREPRENEURSHIP DEVELOPMENT

4.1 INTRODUCTION

Several reports analyzing SME development in Malawi draw experiences in from other countries and regions, particularly Asia (BESTAP, 2009). The report (BESTAP, 2009) states that the Asian experience indicates that most SMEs perform poorly in the world market, while those that grow into efficient medium-sized firms are most likely to survive. The 2007 ECAM study noted that most big companies in Japan and China with the support of their governments arrange contracts with SMEs for the supply of inputs, with SMEs acting as satellites for large central companies. Companies in Malawi like the Private Sector Initiative, the Corporate Working Group on the demand side and the Business Bridge Malawi on the supply side have sought to emulate these practices (ECAM/ILO Project, 2007).

Many developing countries have recently formulated or revised their MSME policies. They potentially hold lessons for Malawi, particularly from small, land-locked states dependent on larger neighbors.

4.2 INTERNATIONAL TRENDS: SUCCESSES AND FAILURES OF SMEs

Experiences of other countries will be explored in order to give a comparative analysis of the SMEs in different regions and beyond. Foreign entrepreneurs' activities in the selected countries will be reviewed in order to compare the trends in terms of similarities and differences. For the purposes of this study a number of countries which are more significant and visible in Malawi will be looked at and include Lesotho, Rwanda, Zambia, Tanzania, the Philippines, India and China. South Africa will be looked at in a special way due to its significance to the economy of Malawi since most of the products sold in Malawi are from South Africa. These countries have been chosen because of their significance to the economy of Malawi. There are a lot of Philippines, Indians and Chinese nationals plying their trade in Malawi and also at government level, these three countries are also trading partners with Malawi. As for Lesotho, Rwanda,

Zambia, Tanzania and South Africa -they are all in the COMESA region, have a lot in common with Malawi and are also the most visible in Malawi.

4.2.1 Lesotho

4.2.1.1 Introduction

According to the 2008 report of the state of small enterprises in Lesotho, a large majority of SME's are survivalists with limited potential for growth and expansion.

4.2.1.2 The state of Small Enterprises in Lesotho

Lesotho's White Paper on Development and Promotion of Small Business developed in November 2002 provides some important insights for Malawi, given the similarities between the countries. It stresses the need for more and better linkages between small and large businesses and the need for businesses to allow the country to take advantage of international trade deals. It also notes that smaller firms are often more flexible and quicker to respond to market conditions, helping them to generate employment, pioneer niche markets and develop investment capital.

4.2.1.3 The key characteristics of the SME sector in Lesotho

Most businesses in Lesotho are sole-proprietors with remote chances for growth.

4.2.1.4 Challenges of the SME sector in Lesotho

The Lesotho Review 2008 and The White Paper list key constraints to small business in Lesotho (with many similarities to the Malawi situation):

- Access to finance (including limited availability and enforceability of collateral, restricted property rights, and underdeveloped risk management),
- Gender inequality where women are regarded as inferior despite the fact that there are more women than men in Lesotho,
- Human capital development (high rates of expatriate management, mismatch of education provided and skills needs, shortfall of information and experience, stifling legislation),

- High cost of doing business (high import, storage and transport costs, expensive and hard-to-access utilities such as water, electricity and telephones, poor road and rail transport infrastructure),
- Tax and customs administration (higher taxes on services and trading, over-centralized tax bureaucracy in the capital city),
- Land ownership (costly, time consuming and opaque procures to obtain title, unnecessary red tape, problematic use of land as collateral, difficulties lending and recovering debts),
- Licensing (overly complex procedures, high non-compliance, confusing where to apply, and ineffective indigenization schemes), and
- Public procurement (unfair playing fields for local companies, slow payment by government).

4.2.1.5 Conclusion

The White Paper proposes a strategy to remedy these deficiencies, mainly focusing on creating an enabling environment in the areas of regulation, licensing, tax and customs administration, policy and legislation through regulatory impact assessment. It also summarizes current thinking on institutional support which recommends that small business development should be market-driven, the government must not crowd out the private sector and the profit motive allows for Business Development Services. The government's main role is facilitating and providing information, but not directly providing SME finance. Other important related areas requiring policy reform include finance, sectorial development, and human capital.

4.2.2 Rwanda

4.2.2.1 Introduction

The SMEs in Rwanda are defined based on the World Bank Report of 2004 as reported in the SME policy of Rwanda published in June 2010 as per the below table.

Table 4.1: Definitions of SMEs in Rwanda

Size of the Enterprise	Net capital investment (000,000 Rwandan Franc)	Annual Turn over (000,000 Rwandan Franc)	No. of Employees
Micro	Below 0.5	Below 0.3	1 – 3
Small	0.5 – 15	0.3 – 12	4 – 30
Medium	15 – 75	12 – 50	31 – 100
Large	Above 75	Above 50	Above 100

Source: Rwanda SME Policy (2010)

4.2.2.2 *Overview of the SME sector in Rwanda*

The Republic of Rwanda’s Small and Medium Enterprise (SMEs) Development Policy was published in June 2010 and therefore is very up-to-date. Rwanda has also taken tremendous strides in reforming its business environment in recent years, having been named as the most improved in the 2010 Doing Business Survey Report. Like Malawi, most of the Rwandese lives in rural areas and agriculture is there main source of livelihood.

4.2.2.3 *Key challenges of SME growth in Rwanda*

The structure of finance schemes also makes it hard for SMEs to access financial help coupled by the low quality and undifferentiated business development services. Regulatory environment geared to large companies due to onerous compliance needs and also the inadequate infrastructure for rural SME development is key challenges. The policy recognizes that many previous SME development efforts have been disparate and uncoordinated, so it stresses the importance of sector and business ‘cluster development’ as an effective way to foster inter-firm collaboration, institutional development and industry-wide growth. The policy also emphasizes the need to coordinate efforts by donors. It proposes five clear sequenced steps that reflect the business cycle stages to deal with these challenges: promoting a culture of entrepreneurship, facilitation of SME access to development services, including Business Development Services Centre (BDS), local, regional and international markets, market information, and promoting innovation and technological capacity for competitiveness, promoting access to appropriate business financing for SMEs, simplifying the fiscal and regulatory framework for SME growth and developing an appropriate institutional framework for SME development.

The 2010 SME policy of Rwanda furthermore notes key factors enabling success, including time-bound activities, clear benchmarks to measure success over time, active Monitoring and Evaluation (M&E) of performance, sustainable dialogue with the private sector and a high-level political oversight and ownership of the policy implementation process. The detailed programmes include elements such as mentoring for youth and small businesses, encouraging entrepreneurship training and education from primary school level, instituting co-payment for Business Development Services (BDS) by SMEs, training and motivating BDS officers and fostering links with research institutions to commercialize research products to strengthen the value chain in agri-business and eco-tourism. Other areas include consolidating the complex and competitive SME financing arena, introducing new lending components (credit lines, guarantee funds, capacity building fund, innovation fund, and matching grants) and increasing the tax net to include more SMEs by simplifying procedures and education about the benefits of tax compliance.

4.2.2.4 *Conclusion*

The government of Rwanda is developing its SME sector based on the international best practices with references to South Africa, Tanzania, New Zealand and Malaysia (SME Policy June 2010). Like in the case with Malawi, it will take political will by leadership of Rwanda in order to achieve the set goals in the country's SMEs policy. Most African countries tend to have good policies on paper but the implementation has always been a challenge.

4.2.3 Tanzania

4.2.3.1 *Introduction*

SMEs all over the world are known to play a major role in social economic development. This is apparently the case of Tanzania, where SMEs contribute significantly to employment creation, income generation and stimulation of growth in both rural and urban areas. SMEs, important as they are to the economy of Tanzania, have been facing a number of problems despite the ongoing reform programmes. This is due to a number of factors, one of which is a persistent culture that has not recognized the value of entrepreneurial initiatives in improving the lives of people. Other factors include complex, bureaucratic and costly legal, regulatory and administrative

environments where SMEs are at a greater disadvantage than their counterparts that are larger in size (Tanzania SME Policy 2002).

The definition of SMEs varies from one country to the next, based on a number of factors such as the economy of the country as there is no universally accepted definition. The SME sector in Tanzania is based on the number of employees and the capital investment in machinery as per the table below.

Table 4.2 Definitions of SME's in Tanzania

Category	Employees	Capital Investment in Machinery (Tshs.)
Micro enterprise	1 – 4	Up to 5 million
Small enterprise	5 – 49	Above 5 million to 200 million
Medium enterprise	50 – 99	Above 200 million to 800 million
Large enterprise	100 +	Above 800 million

Source: Tanzania SME Policy 2002

4.2.3.2 The importance of SMEs to Tanzania

It is estimated that about a third of the GDP originates from the SME sector. According to the Informal Sector Survey of 1991, micro enterprises operating in the informal sector alone consisted of more than 1.7 million businesses engaging about 3 million persons that adds up to about 20% of the Tanzania labor force.

The Informal Sector Survey revealed the lessons of relevance for Malawi from the Tanzanian experience. One is that political commitment at the highest level is essential, due to the cross-cutting nature of the private sector development. Government attitudes must be harmonized around the importance of the issue, and the need to create an enabling environment and reduce the costs of doing business. The private sector development reforms can be married to empowerment activities and that a strong investment center or promoting agency needs to be at the center of the reform agenda. Reforms should attempt to ensure that the informal economy can be accommodated within the formal sector economy and the ministry of finance needs to be fully committed to the removal of nuisance taxes and other impediments to entrepreneurial development (such as business licensing).

4.2.3.3 Challenges of the SME sector in Tanzania

The Tanzania Development Vision foresees that by the year 2025, ‘Tanzania should have created a strong, diversified, resilient and competitive economy, which can effectively cope with development and, which can also easily and confidently adapt to the changing market and technological conditions in the regional and global economy’ (Tanzania SME Development Policy 2012).

Economic Reform Programmes implemented by the Tanzanian Government has been based on the philosophy that Tanzania is committed to a market economy whereby the private sector will take the lead in creating incomes, employment and growth. The SMEs, important as they are to the economy, have been facing a number of problems despite the on-going reform programmes. This is due to a number of factors, one of which is a persistent culture that has not recognized the value of entrepreneurial initiatives in improving the lives of the people (Tanzania’s SME Development Policy 2012). Other factors include complex, bureaucratic and costly legal, regulatory and administrative environments where SMEs are at a greater disadvantage than their counterparts that are larger in size. Also due to insufficient competition and inadequate information on the credit markets of Tanzania, banks are discouraged and not willing to lend money to SMEs.

4.2.3.4 Conclusion

In order to address the various challenges of the SMEs in Tanzania, the government has put in place a number of strategies and policies aiming at addressing some of the major constraints. Such programmes and strategies include the Rural Development Strategy, Agricultural Sector Development Strategy, Strategic Trade Policy, Micro-finance Policy and Poverty Alleviation Strategy.

4.2.4 Zambia

4.2.4.1 Introduction

There is no doubt that most African countries depend on their Micro, Small and Medium Enterprise (SMEs) in driving their economies forward. However, most of these SMEs receive lukewarm support from their governments. Nevertheless, a few competitive SMEs are thriving

and contributing to economic growth, employment creation and local development in combating poverty.

4.2.4.2 Micro, Small and Medium Enterprises in Zambia

There is no universally accepted definition of Micro, Small and Medium Enterprises (SMEs). Each country defines SMEs in a different way according to its economic position, amongst others. Zambia is in the process of revising its SME definitions to make them more effective in addressing the emerging challenges that the sector faces. Nevertheless, the Small Enterprise Development (SED) Act of 1996 defines SMEs as follows:

Firstly an enterprise is defined as an undertaking engaged in the manufacture or provisions of services or any undertaking carrying out business in the field of manufacturing, construction and trading services but does not include mining or the recovery of minerals. Micro: an enterprise whose total investment excluding land and buildings does not exceed 50 million Zambian Kwacha; annual turnover does not exceed 20 million Kwacha and employing up to 10 persons (note that the current exchange rate is 1USD=10,689.99ZMK at 25.09.2015). Small: an enterprise whose total investment excluding land and buildings does not exceed 50 million Zambian Kwacha, in case of manufacturing and processing enterprise and 10 million Zambian Kwacha in case of trading and service enterprise; an annual turnover that does not exceed 80 million Zambian Kwacha and employing up to 30 people. The act does not provide a definition for medium enterprises.

4.2.4.3 Significance of SMEs in Zambia

SMEs are the engine of every nation's economy as they occupy a prominent position in the development of many countries in the world be it least developed, developing or developed countries. Contributions of SMEs can be well noted in a number of aspects including labor absorption, creation of entrepreneurial spirit and innovation, promotion of linkages and complimentary roles to large companies and wealth creation, among others.

In 'The Theory of Economic Development', Schumpeter (1912) emphasized the role of the entrepreneur as a prime cause of economic development, being development achieved through innovation. In Zambia SMEs adds up to 95 percent of all firms, yet most of them are marginalized. Furthermore, the number of employees by SMEs also highlights the significance

of the SMEs in the economy. It is estimated that only 500,000 (12.5%) of the potential labor force of 4,000,000 Zambians are in formal employment. The remaining 3,500,000 (87.5%) are engaged in informal employment (SMEs). There is also some evidence that SMEs have generated skills transfer among themselves, especially in the few available clusters such as in the garment sector (Chisala, 2012). According to the Ministry of Commerce, Trade and Industry (MCTI) survey of 2011, 2% of the SMEs contributed to the foreign exchange as they exported their goods mainly to the neighboring countries which included Malawi.

4.2.4.4 Status of SMEs in Zambia

Most SMEs in Zambia have been at micro level since inception some years ago. This stagnation is not only caused by the lack of effective public policy to support SMEs but also the entrepreneur's characteristics such as poor educational backgrounds. Chisala (2012) determined that only 13.4% of micro entrepreneurs in Zambia have at least completed vocational training, which is regarded an important tool for the growth of their firms. Some entrepreneurs in Zambia prefer not to grow because they try to evade tax, which becomes difficult once they are formalized. As a consequence, most of them prefer establishing other micro companies instead of expanding the existing ones, hence missing out on the advantages of scale economies.

Other reasons that discourage SMEs to formalize include administrative barriers, corruption in public places, social-cultural attitudes and criminality as some of them are involved in some illegal activities such as selling of smuggled goods, dealing in stolen goods, employing under age workers which are prohibited under the Zambian law (Mbuta, 2013). This explains why 55% of micro enterprises in Zambia are unregistered (MCTI Survey, 2011).

4.2.4.5 Constraints faced by Zambian SMEs

Despite the macroeconomic reforms undertaken by the government of Zambia, the SME sector has not yet significantly benefited from them. There have been a number of constraints that have hindered the growth of SMEs in Zambia. According to the report of the Task Force on SMEs in Zambia (2006), it identified some of the constraints as inadequate policy frame. Although in Zambia's industrial policy, the existence of the informal SME sector is recognized, the reference made to the promotion and development of SMEs mainly refer to improving goods and services in the formal sector and not those found in the micro and informal sub-sector. There is no stand-

alone policy framework to give direction to efforts and plans aimed at supporting this huge sector.

The Zambia Development Agency (ZDA) Act of 2006, which is the current statute covering the promotion and facilitating of investment in Zambia, is far beyond the reach of most SMEs, because under this Act, incentives are granted to only those investors with qualifying assets of US\$500,000 and above. The other problems of SMEs in Zambia relate to an attitude of dependency and always expecting handouts from the government and donors, poor work culture, corruption and lack of credit facilities (MCTI Survey 2011).

4.2.4.6 Conclusion

Empirical studies have shown that the manufacturing sector in Africa of which more than 80% consists of SMEs, is stagnant. The issue at hand for Africa, and Zambia in particular, is to come up with mixed policies and strategies for unlocking this very important sector so that it performs at the frontier and in return contribute to poverty reduction and economic growth. Zambia has not yet experienced an economic take off, however some pre-conditions needed for taking off seem to be good as it is currently enjoying a favorable and stable political and macroeconomic environment evidenced by an economic growth of more than 5% for the past 6 years, a stable exchange rate and a single digit inflation rate for the first time in more than 40 years (UNCTAD, 2012).

4.2.5 The Philippines

4.2.5.1 Introduction

The Philippines' Micro, Small and Medium Enterprise Development Plan 2011-2016 builds on an earlier five-year plan, and 'envision the implementation of measures to create an enabling business environment and provide government support not only to improve SME access to finance and expand market access but also to strengthen SME productivity and competitiveness and their linkage with large enterprises and value chain networks.'

Significantly, this plan consolidates the three development approaches and eight key strategies of the previous plan into just four simple, focused major outcome or result portfolios: Business Environment (BE), Access to Finance (A2F), Access to Markets (A2M) and Productivity and Efficiency (P&E).

4.2.5.2 Definitions of MSMEs

The Philippines has two operational definitions of SMEs which are based on employment and in terms of assets as per the tables below.

Table 4:3 Definition of MSMEs in the Philippines based on employees.

Enterprise	No. of Employees
Micro	1 – 9
Small	10 – 99
Medium	100 – 199
Large	200 or more

Source: The Philippines' Micro, Small and Medium Enterprise Development Plan 2011-2016

Table 4:4 Definition of MSMEs in the Philippines based on Assets.

Enterprise	Philippines Peso (000,000)
Micro	P3 or less
Small	3 – 15
Medium	15 – 100
Large	100 or more

Source: The Philippines' Micro, Small and Medium Enterprise Development Plan 2011-2016

4.2.5.3 Sources of Funding of MSMEs in the Philippines

SMEs in the Philippines are well funded through Thrift Banks and Rural Banks which have been granted incentives like reduced capital requirements, lower reserve requirements and access to rediscount facilities from the Central Bank for relocating outside the capital Manila and providing banking services in the provinces particularly to small enterprises (Nangia and Vaillancourt, 2014). As of September 2010, the Bangko Sentra ng Pilipinas (BSP) reported that the total bank's allocation of credit resources to MSMEs amounted to P289.1 billion of which P152.5 billion went to micro and small enterprises and P136.6 to medium enterprises.

4.2.5.4 Conclusion

Like Malawi, the plan mentions a missing or hollowed middle, with large firms and micro enterprises, but few SMEs. It is also noted that SMEs in the Philippines are defined based on the number of employees but also based on assets.

4.2.6 China

4.2.6.1 Introduction

After the start of the open-door policy in 1978 moving towards a more market-oriented economy, China has experienced a decline in state-owned enterprises and an important expansion of small businesses. The role of small and medium enterprises (SMEs) in economic development is well documented for advanced economies and has been crucial in China's process of economic reform. It has been pivotal in China's impressive economic growth during the last few decades. Nevertheless, some bottlenecks and obstacles are present that hinders further growth of SMEs, especially with respect to financing.

4.2.6.2 The definition of SMEs in China

SMEs in China are defined based on sector specific allocations and they are divided between Small and Medium segments. In the industry sector, small enterprises are those employing between 200 – 2000 people with sales of between 30 – 300 million Yuan or assets in the range of 40 – 400 million Yuan. Everything above these categories are considered medium enterprises. For the construction industry, 600 -3000 employees, sales of between 30 -300 million Yuan and assets levels of 40 – 400 million Yuan are considered small and those having more than that are considered medium in size (Shan and Pang, 2014).

4.2.6.3 The development of SMEs in China

According to the World Bank Investment Climate Survey for China, SMEs in China face important credit constraints, and have limited access to private finance compared to other Asian countries. According to the survey, SMEs in China obtain only 12 percent of their working capital from bank loans, while SMEs obtain 21 percent in Malaysia, 24 percent in Indonesia, 28 percent in the Philippines and 26 percent in Korea and Thailand (Shan and Pang, 2014).

4.2.6.4 Conclusion

The survey showed that the use of formal finance declines as the firm size decrease. SMEs use less formal financing than large firms in all countries, since they are younger and subject to more growth uncertainty than large firms, but in China the difference is bigger, even if we compare it with other Asian countries (Shan and Pang, 2014).

4.2.7 India

4.2.7.1 Introduction

According to the Small and Medium Business Development Chamber of India – SME Chamber of India, India's small-scale industries are defined as units in the manufacturing, processing or preservation of goods industry with investments in plant and machinery not exceeding Rupees 10 million.

4.2.7.2 Definition of SMEs in India

Under section 7 of the Micro, Small and Medium Enterprise Development (MSMED) Act, 2006, the Government of India defines MSMEs based on two categories, manufacturing or production of goods and those providing or rendering services. In the case of those in the manufacturing or production of goods, micro enterprises are those having an investment of plant and machinery in value not exceeding 25 Lakh Rupees, small enterprises having plant and machinery in value of more than 25 Lakh Rupees but not more than 5 Crore Rupees whilst medium enterprises are those having plant and machinery of a value not more than 5 Crore Rupees but not exceeding 10 Crore Rupees. For those in the provision and rendering of services industry, micro enterprises are those not exceeding 10 Lakh Rupees, small enterprises are those having an investment of more than 10 Lakh Rupees but not exceeding 2 Crore Rupees with medium enterprises those having an investment of not more than 2 Crore Rupees but not exceeding 5 Crore Rupees.

The SMEs in India are considered the backbone of the economy contributing 45% of industrial output, 40% of India's exports employing 60 million people and creating 1.3 million jobs every year and produce 800 quality products for the Indian and international markets. With approximately 30 million SMEs in India, 12 million people are expected to join the market force in the next 3 years and with the sector gaining 8% per year, the government of India is taking different measures to increase their competitiveness in the international market (SME Chamber of India 2012).

4.2.7.3 Factors that have contributed to the growth of India's SMEs

According to the survey conducted by the SME Chamber of India in January to March 2013 there are several factors that have contributed to the growth of India's SMEs. A few of these include funding of SMEs by local and foreign industries, the new technology that is used in the

market in assisting SMEs add considerable value to their business, various trade directories and trade portals help facilitate trade between buyer and supplier and thus reduce the barrier to trade.

4.2.7.4 Conclusion

With this huge potential, backed up by strong government support, Indian SMEs continue to post their growth stories. Despite this strong growth, there is huge potential amongst Indian SMEs that remain untapped. Once this untapped potential becomes the source for growth of these units, there would be no stopping to India posting a GDP higher than that of the USA and China and becoming the world's economic power house (Das K, 2014).

4.2.8 Comparison of the SME sector in Lesotho, Rwanda, Tanzania, Zambia, the Philippines, China and India

The researcher noted that the above countries under investigation defines SMEs differently but there problems are almost the same, apart from India. It is noted that the majority of SMEs in Lesotho are survivalist with limited potential for growth and expansion. The definition of the SMEs is largely dependent on the number of employees as is the case with Tanzania and Zambia who apart from the number of employees also use the level of investment to define the SMEs. In India the SMEs are defined based on two factors; of those in the manufacturing or production business and those in the provision of services or rendering of services, being different categories but all based on the total investment. In the case of China the definition of SMEs are based on the number of employees, sales and assets level whilst in the Philippines, the definition of SMEs is based on the number of employees and the value of assets.

The problems that the SMEs are facing are almost similar in all the countries with the main problem being access to finances in Lesotho, Rwanda, Tanzania, Zambia, the Philippines and China. Apart from finances, gender inequality, human capital development and high cost of doing business are quite common in these countries. Compared to the countries mentioned above, the situation of India is quite different with the SMEs sector doing much better (Das K, 2014 and Ghatak, 2011). The success of the SME sector in India is contributed to the funding of the SMEs by local and foreign industries, new technology used in the market in assisting SMEs add considerable value to their businesses, various trade directories and portals that help to

facilitate trade between buyers and sellers and therefore reduce the barrier to trade (SME Chamber of India, 2013).

Some of the problems affecting SMEs in Zambia is related to the attitude of dependency and always expecting handouts from the government and donors, poor work culture, corruption and lack of credit facilities (Chisala, 2012 and MCTI Survey, 2011). Most of the SMEs in Zambia are failing to formalize their existence due to their own making (Mbuta, 2013).

China is also thriving in the SME sector. With the support of the Chinese government, big companies do arrange contracts with the SMEs for the supply of input with SMEs acting as satellites for large central companies (ECAM, 2012 and Padmadinata, 2013). If Lesotho, Rwanda, Tanzania, Zambia, the Philippines, China, and Malawi are to make positive strides in the SME sector they need to borrow a leaf in the success story of India.

A summary of the above countries are tabulated in table 4.5 below:

Table 4:5 A summary definitions, characteristics and challenges of the SMEs

COUNTRY	DEFINITION OF SMEs	CHARACTERISTICS	CHALLENGES
Lesotho	Number of employees and capital investment	Most of the businesses are sole proprietors Majority of the SMEs are survivalist	Access to finance High cost of doing business Limited potential for growth
Rwanda	Net capital invested, annual turnover and number of employees	The most improved sector	The structure of the finance scheme
Tanzania	Number of employees and capital invested in machinery	A third of the GDP originated from the SMEs	Complex, beauracatic and costly legal, regulatory and administrative environment
Zambia	Capital invested excluding land and machinery	The highest employer	Lack of support from the government
The Philippines	Based on the number of employees and also based on assets	The sector is well funded for those ready to relocate outside the capital	A few SMEs as compared to the larger firms and micro enterprises
China	Number of employees, sales turnover and asset levels	Decline in state owned enterprises and important in the expansion of small businesses	Credit constraints
India	Based on the amount of investment	Considered as the backbone of the economy	Untapped potential

4.3 OPERATIONS OF FOREIGN SMEs IN SOUTH AFRICA

4.3.1 Introduction

South Africa will also be looked at but in a special way due to its significance to the economy of Malawi as most of the products sold in Malawi are from South Africa. The other reason is that there are a lot of South Africans with well established businesses in Malawi. South Africa has also been chosen as it is a powerhouse in trade in the SADC and COMESA region of which Malawi is also a member.

Globalization has led to the influx of foreign SMEs into different countries in search of greener pastures. Despite the success of these entrepreneurs in these countries there have also been challenges of operating in a foreign country. Most SME's are attracted to come and invest in South Africa due to the health of the South African economy which currently only competes with that of Nigeria (Newberry, 2012). The strength of the South African currency as compared to most countries in Africa is also another factor attracting SMEs to come and invest in South Africa (Botha and Estherhuyzen, 2013). These include but are not limited to Somalians, Ethiopians, Nigerians, Zimbabweans and Malawians. Currently an influx of Chinese SMEs has also been noticed (Masocha and Charamba, 2014).

The definition of SMMEs in South Africa is based on the National Small Business Act 102 of 1996. The definition uses the number of employees per enterprise size category combined with the annual turnover categories, the gross assets excluding fixed property (Abor and Quarty, 2010) as per the table below.

Table 4.5: Definitions of MSMEs in South Africa.

Enterprise size	Number of Employees	Annual Turn Over	Gross Assets, excluding Fixed Property
Medium	Fewer than 100 to 200	Less than R4 million to R50 million, depending on industry	Less than R2 million to R18 million, depending on industry
Small	Fewer than 50	Less than R2 million to R25 million depending on industry	Less than R2 million to R4.5 million, depending on industry
Very Small	Fewer than 10 to 20, depending on industry	Less than R200,000 to R500,000, depending on industry	Less than R150,000 to R500,000 depending on industry
Micro	Fewer than 5	Less than R150,000	Less than R100,000

Source: National Small Business Act 102 of 1996 as amended in 2004

This section will look at the operations of foreign SME's in South Africa with an emphasis on its successes and failures.

4.3.2 Challenges of foreign SMEs in South Africa

In order to appreciate the challenges of foreign SMEs in South Africa, the researcher conducted an informal survey in Sunnyside and Thembisa in the Gauteng province. During the survey, this researcher had an informal conversation with the foreign SMEs regarding their operations. Their successes and challenges were discussed. Most of the SMEs agreed that their main challenge is not having the proper permits and therefore operating illegally. The next challenge is that due to the lack of proper visas it is difficult for them to register their businesses and at the same time open bank accounts which could be used as collateral for getting loans. For those with proper documentation to run their businesses, the challenge has been a lack of trust from the banks and other lending institutions to borrow the money. It is also noted that the Black Empowerment being advocated by the South African government is mostly for the native citizens of South Africa.

The foreign SMEs noted that despite conducting their businesses legally, the government and the communities at large look at the foreign SMEs with suspicion. They suspect them of dealing in other illegal businesses such as selling drugs, child trafficking and money laundering, allegations that are made without proof. The Minister responsible for SMEs, Lindiwe Zulu announced on 18 April 2015 that the government will conduct an audit on all the foreign businesses, after noting that they are performing better than the indigenous SMEs (Sowetan Newspaper, 20 April 2015). During late 2014 and early 2015 there has been an influx of attacks on foreign owned SMEs which has been attributed as an act of xenophobia and criminality. It is believed that most South Africans are lazy in terms of running their own businesses compared to foreigners which has led to the idea that the indigenous SMEs are jealous and therefore orchestrated the attacks on the foreign owned SMEs (Sowetan Newspaper, 20 April 2015). According to the indigenous SMEs, most foreign SMEs do not register their businesses thus avoiding paying tax. Since the foreign SMEs do not usually pay tax, their goods are sold at relatively cheaper prices compared to the indigenous SMEs which eventually then force the indigenous SMEs out of business as they fail to compete on price.

The researcher is of the view that the government should put in place the registration of a minimum investment capital for all the foreign investors coming to South Africa. In the case of large investments there should be a deliberate policy to partner them with an indigenous business if they want to establish a business in South Africa. There should also be defined types of businesses that the foreign SMEs should be allowed to venture into, unlike currently where foreign SMEs can operate any type of business like Spaza shops, barber shops and hair salons. This should also be the case with specific areas where the foreign SMEs can invest. At this stage the foreigners are all over the locations competing side by side with the indigenous SMEs. Certain types of businesses and specific areas should solely be left for the indigenous SMEs. Foreign SMEs should only be allowed to invest in businesses that will add value to the economy of the country. This should also be the case with all other African countries where there is a huge influx of foreign traders.

That is why the researcher believes that when a foreign enterprise wants to enter another country, there is a need to study the market first and have a good understanding of a number of factors like competition, legal issues and cultural factors as advocated by Kotler and Armstrong (2012).

4.3.3 Conclusion

In all the countries it was noted that the indigenous SMEs failed to survive due to a number of factors such as the education system which has been largely job oriented, unwillingness to become an entrepreneur and take risks, opting for paid jobs and lack of drive and passion. Also most indigenous SMEs are more inclined to trading rather than the manufacturing and service industry.

4.4 CHAPTER SUMMARY

From the above discussion it is clear that SMEs are defined differently from country to country. In most of the countries there are a lot of similarities like the large workforce in the SMEs industry. The problems affecting SMEs in Malawi tend to be the same for most African countries and other developing countries, which include poor work culture, corruption, lack of credit facilities and lack of an entrepreneur spirit.

In this chapter the foreign SMEs in South Africa has also been discussed with specific interest to the challenges and problems faced by the foreign SMEs and also the key success factors which have made the foreign SMEs to thrive in a rather hostile South African market. It has been noted in South Africa, like in most African countries that the foreign SMEs seem to be performing better than the indigenous SMEs. A lot of similarities have been seen in Malawi and South Africa that indicate that the foreign SMEs have an upper hand in terms of performance as compared to the indigenous enterprises. The reasons for this seem to be almost the same for both countries. Chapter five will give a detailed outline of the methodology that was used in this thesis.

CHAPTER 5

RESEARCH DESIGN AND METHODOLOGY

5.1 INTRODUCTION

In order to appreciate the nature of the research and the manner in which the study was designed and conducted, as this has implications for reliability and validity of survey findings, this chapter is structured around describing the research approach, research strategy and design, the study population, justification of sample size and sample selection method, data collection instruments, questionnaire design and administration, data analysis and interpretation methods used. It concludes by outlining the ethical issues.

5.2 RESEARCH DESIGN

Simon (2011) stated that research design is a specific plan for studying the research problem. Creswell (2014) stressed that before any research study can be conducted, an appropriate research design must be crafted and the research design constitutes the blueprint for the collection, measurement, and analysis of data and the structure of the investigation to obtain answers to the research questions.

5.2.1 Types of research designs

According to Zikmund, Babin, Carr and Griffin (2010) and Churchill (2011), there are two types of research designs - qualitative and quantitative research designs.

5.2.1.1 *Qualitative research design*

Qualitative research is a process of building a complex and holistic picture of the phenomenon of interest, conducted in a natural setting. The goal of qualitative research is to examine and interpret observations for the purpose of discovering underlying meanings and patterns of relationships. Qualitative researchers aim to study things in their natural setting, attempting to make sense of, or interpret phenomena in terms of meanings people bring to them (Bryman and Bell, 2014). The aim of qualitative research is to achieve an in-depth

understanding of a situation and is ideal in extracting feelings, emotions, motivations, perceptions, attitudes and experiences (Sekeran and Bourgie, 2013 and Creswell, 2014). Qualitative data draws from a variety of sources, including people (individuals or groups), businesses or institutions, texts, settings, environments, events and happenings. Qualitative research explains to the researcher how and why things happen as they do, and enables understanding of the different meanings that people place on their experiences and delves more deeply into people's hidden interpretations and understandings. During analysis, the qualitative researcher uses content analysis of written or recorded materials drawn from personal expressions by participants, behavioral observations, debriefing of observers, and trace evidence from the physical environment (Cooper and Schindler, 2011).

According to Saunders (2012), the qualitative research design is subjective. The subjectivity arises from the fact that qualitative data is analyzed through conceptualization rather than through statistics and mathematics. Conceptualization assumes subjectivity so the use of numbers which is used in the quantitative design eliminates subjectivity. Data are susceptible to human error and bias in data collection and interpretation.

5.2.1.1 Quantitative research

Quantitative data often consist of participant responses that are coded, categorized, and reduced to numbers so that these data may be manipulated for statistical analysis (Creswell, 2014). Easterby-Smith (2015) concurs that quantitative research involves the numerical representation and manipulation of observations for the purpose of describing and explaining the phenomena that the observations reflect and is categorized with descriptive research. Simon (2011) pointed out that the advantage of quantitative research design is that there are well established statistical methods for analysis of data. The use of numbers ensures precision in measurement and quantitative methods allow for opportunities to assess the measurements with some degree of confidence. Data can be easily summarized which gives meaning and facilitates communication of findings. Quantitative methods facilitate comparison as data can be collected from large numbers of respondents, settings and times.

Cooper and Schindler (2011) further pointed out that quantification, not only allows for more precision in analysis but also ease in summarizing data and making inferences. The results

are presented in tables, graphs or other forms of statistics and these methods of data presentation allow for objectivity. Saunders (2012) asserts that quantitative research generates statistics through the use of large-scale survey research, using methods such as questionnaires or structured interviews.

Due to the afore-mentioned advantages, the quantitative research design was used in this study where participants' responses were coded, categorized, and reduced to numbers. The researcher was able to collect data from a large number of respondents. The quantitative design that uses numbers also enabled the researcher to analyze the data statistically using well established statistical methods, with appropriate software to run the data (SPSS).

5.3 RESEARCH APPROACH

This research employed both explanatory and descriptive designs to best answer the research questions and meet the objectives with a view to narrow down the research focus so that the research problem should be identified and concentrated upon in the descriptive stage (Cooper and Schindler, 2011). With the multi-method approach, it helped to easily make comparisons between the indigenous SME's and the foreign SME's in Malawi.

5.4 RESEARCH PHILOSOPHY

A research philosophy is a belief about the way in which data about a phenomenon should be gathered, analyzed and used. The term epistemology (what is known to be true) as opposed to doxology (what is believed to be true) encompasses the various philosophies of research approaches. A research paradigm on the other hand, is simply a belief system (or theory) that guides the way we do things, or more formally establishes a set of practices. This can range from thought patterns to actions (Creswell, 2014).

There are several research philosophies and amongst them is phenomenology and positivism (Churchill, 2011). Phenomenology is a research philosophy that sees the social phenomena as socially construed, and it is particularly concerned with generating meanings and getting insights into those phenomena. Positivism is a school of thought employing deductive laws and quantitative methods to get to the truth. For a positivist, the world operates by laws of cause and

effect that one can discern if one uses a scientific approach to research (Sekeran and Bourgie, 2013).

This research took a phenomenological approach as advocated by Saunders (2012) and Churchill (2011) because it is dealing with a business and management situation, which to a certain extent is unique and complex thus it needs a deeper insight into the problem. On the other hand phenomenology has been advocated on the known fact that foreign SMEs are performing better than the indigenous SMEs. The researcher will try to find reasons behind this scenario.

5.5 RESEARCH HYPOTHESIS

The following hypotheses were tested:

H₁. Foreign SMEs in Malawi are performing better as compared to the indigenous SMEs

H₀. Foreign SMEs in Malawi are not performing better as compared to the indigenous SMEs

5.6 RESEARCH METHODOLOGY

Research methodology is generally influenced by the type of data collection and the specific kind of research that is conducted (Creswell, 2014). This can be grouped into two categories namely quantitative or qualitative research (Zikmund, Babin, Carr and Griffin, 2010). Quantitative research involves the collection of data from a large number of individuals, frequently with the intention of projecting results to a larger number of populations while qualitative research is an unstructured exploratory method, which is generally based on small samples intended to provide insights and understanding of the problem setting (Sekeran and Bourgie, 2013). The extent to which a study is qualitative or quantitative in nature is normally determined by the relevant research design.

For the purposes of this research, in order to build confidence and ensure that all relevant issues are discussed, quantitative research was used as earlier stated. Research designs can be complicated due to the methods, techniques, procedures and sampling plans at disposal. The functionality of a research design is to ensure that the evidence obtained enables one to answer initial questions as unambiguously as possible (Sekeran and Bourgie 2013). Creswell (2014)

further stated that there are several types of research designs some of which includes exploratory and descriptive research.

5.6.1 Exploratory Research Designs

Creswell (2014) believes that exploratory research focuses on the why questions. An example of this is that it is difficult to develop explanations to why the crime rate is quite high, why some types of crimes are higher than others or why crime is high in other countries. Sekeran and Bourgie (2013) claimed that exploratory studies help researchers to develop concepts very clearly, establish priorities and develop operational strategies or definitions while trying to improve the final research.

5.6.2 Descriptive Research Designs

Cooper and Schindler (2011) explained that descriptive research uses a set of scientific methods and procedures for collecting raw data and creates data structures, which describe existing characteristics of a defined target population. Creswell (2014) emphasized that the data should be evaluated and the ideas synthesized from it.

As the emphasis was on studying SMEs in Malawi, the idea was to make a comparison of the indigenous SMEs with the foreign SMEs. Based on the purpose and objectives of this study and in order to build confidence and ensure that all relevant issues are discussed, both exploratory and descriptive research designs were used (Zikmund, Babin, Carr and Griffin, 2010).

5.7 THE STUDY POPULATION

According to Churchill (2011), a population represents every possible item that contains a data value of the random variable in a study. Cooper and Schindler (2011) defined a population as elements about which we wish to make some inferences and a target population as those people, events, records or elements that contain the desired information and can answer the measurement questions, and then determine whether a sample or a census is desired.

This study used both indigenous and foreign SMEs as its study population. This was done in order to make a good comparative analysis between the indigenous SMEs and the foreign SMEs in term of their performance. According to the Registrar of Companies Data Bank (2013) there are over one thousand (1,000) indigenous and foreign SMEs in the City of Lilongwe, the capital

City of Malawi. The researcher focused on the 1,000 SMEs available in the City of Lilongwe as the study population because it is where the research was conducted. This is also where the sample population has been drawn from.

5.8 THE SAMPLING PROCEDURE

Sampling is the process of selecting some elements from a population to represent that population. The idea is that by sampling, conclusions about the entire population can be drawn (Cooper and Schindler, 2011). Sekeran and Bourgie (2013) concurs that it is not always possible to gather data from every possible member in a population for cost and time reasons. Therefore, a sample is drawn and data is gathered from these selected members on the random variable in the study. A sample must be representative of all the members of the target population if it is to produce valid and precise statistical inferences of population parameters. In measurement terms, the sample must be valid. Validity depends on two considerations, accuracy and precision. A large sample size decreases the value of the standard error, resulting in narrower confidence intervals, and more precise estimates of the population parameter. On the other hand, a small sample size increases the standard error and results in wider confidence intervals, and less precise estimates of the population parameter (Saunders, 2012). Easterby- Smith, 2015 agrees that if a sample is too small, the data will be invalid and results will be affected by the influence of the skewed sample.

Reasons for sampling in this study included the need for lower cost, greater accuracy of results, greater speed of data collection, and availability of population elements. Conducting a census (count of all the elements in a population) of all indigenous SMEs and the foreign SMEs would have been impossible due to the financial costs and time restraints that would have been involved (Bryman and Bell, 2014).

5.8.1 Types of sampling design

According to Saunders, 2012 and Easterby-Smith, 2015, there are two basic types of sampling design, non-probability and probability sampling.

5.8.1.1 *Non-probability (Non-Random) Sampling*

Cooper and Schindler (2011) defined non-probability sampling as an arbitrary and subjective procedure in which each population element does not have a known nonzero chance of being included; no attempt is made to generate a statistically representative sample. Saunders (2012) also points out that with non-probability sampling; criteria other than random selection are used as the basis for choosing the sample members from the population. The main non-random selection criteria used are the personal judgment of the researcher and or/convenience. Creswell (2014) further asserted that in non-probability sampling, there are a variety of other ways to choose persons to be included in the sample. Often field workers are allowed to choose subjects on the scene. These views are also supported by Easterby-Smith, 2015. When this occurs, there is a better chance for bias to enter the sample selection procedure and to distort the findings of the study. However, non-probability sampling procedures are used when they satisfactorily meet the sampling objectives. Also, when there is no desire or need to generalize to a population parameter, there is less concern about whether the sample fully reflects the population.

Additional reasons for choosing non-probability sampling are cost and time. Non-probability sampling is cheaper than probability sampling. Probability sampling calls for more planning and repeated callbacks to ensure that each selected sample member is contacted and these activities are expensive. In addition, non-probability sampling may be the only feasible alternative when the total population may not be available for study in certain cases (Easterby-Smith, 2015). Therefore, carefully controlled non-probability sampling may give acceptable results. According to Saunders (2012), there are four types of non-probability based sampling methods: convenience sampling, judgment sampling, quota sampling and snowball sampling.

5.8.1.2 *Probability Sampling (Random-based Sampling)*

On the other hand, probability-based sampling includes any selection method where the sample members (sampling units) are selected from the target population on a purely random (chance) basis. Under probability sampling, every member of the target population has an equal known chance of being selected for the sample (Churchill, 2011). According to Cooper & Schindler (2011), probability sampling has the following advantages: it is a controlled procedure, only probability sampling provides estimates of precision and the opportunity to generalize the findings to the population of interest from the sample population. Simon (2011) further points

out more advantages of probability sampling (random-based sampling) methods compared to non-probability (non-random) sampling methods. Random sampling methods, which fall under probability sampling, reduce the likelihood of selection bias as large samples are used; hence the sample statistics are likely to be unbiased estimates of their population parameters. However, Bryman and Bell (2014) argued that probability sampling, although technically superior to non-probability sampling, may experience breakdowns in its application because of the human element.

In this study the probability sampling method was used because the method allowed the researcher to make inferences from information about a random sample to the population from which it was selected. The other reason was that with probability sampling, each population element is given a known chance of selection (Cooper and Schindler, 2011) thus eliminating selection bias and giving confidence that the sample is representative of the population from which it was drawn. Bias exists in non-probability sampling, for example, in judgment sampling, where the researcher uses personal judgment alone to select whom he or she considers to be the most appropriate sampling units to include in the sample. In this case, some elements of the population are more likely to be selected than others, hence introducing bias and distorting the results. This study eliminated bias by using probability sampling. According to Sekeran and Bourgie (2013), there are four probability-based sampling methods. These are simple random sampling, systematic random sampling, stratified random sampling and cluster random sampling.

The researcher opted for simple random sampling because it was easy to implement as the respondents were selected from all the elements of the population of both the foreign SMEs and the indigenous SMEs available in the database of SMEs in the Capital City of Malawi, Lilongwe in no particular order. Every member in the target population had an equal chance of being selected thus reducing or eliminating the element of bias. Creswell (2014) states that random sampling methods make it possible to measure the sampling error which is the difference between the calculated sample statistic and the population parameter in attempting to estimate. Being able to measure the sampling error makes it feasible and valid to apply inferential statistical methods to the randomly drawn sample data as it is used to quantify the precision of the estimates. Simple random sampling is used when the population is assumed to be relatively

homogenous with respect to the random variable under study. The primary objective of this study was to do a comparative analysis between the indigenous SMEs and the foreign SMEs in order to determine why the foreign SMEs are performing better than the indigenous SMEs. Therefore, the assumption was that since the study was for the SMEs, in the same business environment and in the same setting, the respondents were likely to provide similar responses. Data obtained was most likely to be representative to both the indigenous and the foreign SMEs.

This researcher used an unrestricted or simple random sampling technique where the sample was selected from the sampling frame using a computer. According to Churchill (2011) and Sekeran and Bourgie (2013) the advantage of this strategy is that it gives every individual in the population an equal opportunity to be selected thus eliminating bias in the choice of the sample. A sample of the population was used unlike using the whole population of the SMEs since it could have been time consuming and expensive but also not practical to use all the SMEs in Lilongwe.

The final sample size of the research was based on the probability sampling method because the method allowed the researcher to make inferences from information about a random sample to the population from which it was selected as advocated by Cooper and Schindler (2011). The 2014 indigenous and foreign SMEs list from the Registrar of Companies Data Bank was used as the sampling frame. With a population of one thousand (1,000) registered SMEs the researcher chose 278 as the required sample size, which was randomly selected for the quantitative research. The number 278 was considered to be adequate taking into account the sample population. This translated to 139 indigenous SMEs and 139 foreign SMEs, which were qualifying samples representing 278 businesses. The number 278 was deliberately chosen for the purposes of obtaining a fair view of the prevailing entrepreneurial practices of the indigenous and foreign SMEs. The other reason for choosing this sample size was for the purposes of trading off between the cost of the study and reliability sought. As stated earlier the research was conducted in the City of Lilongwe. Lilongwe was chosen because this is where most indigenous and foreign SMEs have been established as compared to other cities and towns in Malawi.

5.9 QUESTIONNAIRE DESIGN AND ADMINISTRATION

A carefully crafted but wide-ranging questionnaire aimed at eliciting accurate responses was constructed and piloted in order to detect any ambiguities or inherent problems. The questionnaire was designed to capture detailed profile of the respondents in addition to what was considered as the key issues for both the indigenous and the foreign SMEs. The questionnaire was designed using a number of elements which included demographic factors, customer satisfaction and marketing issues amongst the other factors.

In demographic profile, the elements which were captured included country of birth, nationality, age, marital status, gender and highest educational qualifications for both the indigenous SMEs and the foreign SMEs. The idea behind using these elements was to determine if it had any significance on the performance of the SMEs. Factors such as business sector, business ownership, motivation to start a business, capital invested how one became the owner of the business and the numbers of years in the business have been included in order to determine their significance and how they have impacted on the success of the indigenous and foreign SMEs.

Apart from these, elements of customer satisfaction and market issues were included for comparative purposes. It should also be noted that most questions were closed questions and a few were open ended. This was done for easy responses in the closed questions and those using the Likert scale but also for ease in analyzing the data. As for the open ended questions, the idea was to give the respondents more freedom in order to express themselves completely.

5.9.1 Primary Data

A questionnaire was used in order to collect quantitative data. This study used the same questionnaire for both indigenous SMEs and foreign SMEs. It was designed to provide primary data on indigenous and foreign SMEs who are the main focus of this study. The same questionnaire was also used in order to easily help in the comparative analysis. The questions were a mix of open ended and closed questions that helped to guide the flow in the data collection process with an emphasis on more closed questions. The administration of questionnaires involved hand delivery with a covering letter stating when the questionnaire is likely to be collected. Responses were obtained through the same modes.

More closed questions were opted as they help respondents to make a quick decision to choose among the several alternatives in front of them. The closed questions also helped the researcher to code the information easily for subsequent analysis (Simon, 2011). Out of the thirty one questions, twenty nine were close ended whilst only two were open ended (refer to Appendix 1). The design of the questionnaire was designed by the researcher and it was guided by research objectives and research questions coupled with the literature associated with it.

5.9.2 Secondary Data Collection

Data specific to both indigenous and foreign SMEs and entrepreneurship in general was analyzed through a literature search. The purpose was to establish the core of the problems through the use of findings from the secondary data search. The secondary data also helped in giving an insight to the operations of SMEs in different countries by looking at their similarities and differences. Books, journals and various publications in entrepreneurship were used in order to have a fair view of studies already done on the SMEs. The researcher relied on library and desk research, study of various books, magazines, journals, reports, newspapers and publications on the subject matter and related topics for the secondary data. Vast literature (in scattered forms) exists on the subject matter even though the researcher was not able to identify or locate any past formal similar studies on the subject matter. This notwithstanding, copious literature exist which facilitated the researcher's literature review. Despite a wide search on the secondary data, the researcher did not find any studies that have been conducted in Malawi comparing the indigenous SMEs and the foreign SMEs.

5.10 PILOT STUDY

A pilot study was conducted in order to ascertain the validity and reliability of the questionnaire but also in order to ascertain and detect any ambiguities, questions that were not easily understood or poorly constructed and even those that were irrelevant or scary to the respondents (Saunders, Lewis and Thornhill, 2014 and Saunders 2012). Six respondents were identified with an equal number of three from the indigenous and foreign SMEs operating in the city of Lilongwe. The pilot study was useful as it was used as a way of familiarizing the researcher with the respondents (Malhorta, 2014 and Saunders, 2012). The other reason for the pilot study was to use the responses, remarks and comments received during the pilot study to help in the refining and improving of the questionnaire, taking care of the observed shortcomings (Sekeran and Bourgie, 2013).

The respondents were asked not to put their names and that of their businesses on the questionnaire in order for them to answer freely and truthfully. After the pilot study no significant changes were made to the original questionnaire. Some factors in certain questions were changed and at least two questions were deleted because respondents had difficulties responding to it and they caused difficulties in analyzing. Therefore, no post-test questionnaire was compiled. This was proof that the questionnaire could be relied upon and that it was valid for the study.

5.11 DATA ANALYSIS AND INTERPRETATION

The Statistical Package for Social Sciences (SPSS) was used in the analysis of the data collected in this research as the researcher deemed it the most appropriate, given its versatility and considering the nature of the data collected. The SPSS has the incredible capabilities and flexibilities of analyzing huge data volumes within seconds and generating an unlimited range of simple and sophisticated statistical results including simple frequency distribution tables, polygons, graphs, pie charts, percentages, cumulative frequencies, binomial and other distributions (Saunders, 2012). The Package has the capabilities of executing high-level analysis like analysis of variance (ANOVA), chi-square tests, multivariate analysis, correlation and regression analysis, tests of statistical hypotheses, time series analysis, estimations, confidence

interval estimation, comparison of several means, goodness of fit tests and analysis of contingency tables amongst others. Considering that the data collected are largely categorical in form, the chosen SPSS package was ideal for use in the data processing and analysis (Easterby-Smith, 2015).

The analysis was guided by the research objectives and questions presented in chapter 1 of this thesis. The collected data was first edited in order to detect errors and omissions in order to ensure data accuracy and consistency (Cooper and Schindler, 2011). Indigenous SMEs responses were compared with foreign SMEs responses with the aim of highlighting any similarities and differences. Data was analyzed using the Statistical Package for Social Science (SPSS) due to its reliability in analyzing various kinds of data (Saunders, 2012). This was done in order to help in providing insights to the various responses. Both descriptive and inferential statistics was used like means and correlation calculations, chi-square tests and cross tabulations for comparative purposes between the indigenous SMEs and foreign SMEs in order to determine the differences and similarities.

5.12 ACCESS AND ETHICAL ISSUES

Ethics is a body of principles or standards of human conduct that govern the behavior of individuals and groups (Creswell, 2014). Ethics arise not simply from the human's creation but from human nature itself making it a natural body of laws from which humans' laws follow (Sekeran, 2012). Saunders, Lewis and Thornhill (2014) claimed that ethics refers to moral principles, norms and standards of behavior guiding moral choices on behavior and relationships amongst human beings which guided the conduct of this research and was adhered to.

5.12.1 Access

Access is a critical aspect for the conduct of any type of research (Saunders 2012). It is for this reason that the researcher realized the problems that were likely to be faced in gathering the data for this study. In order for the researcher not to have difficulties in accessing information, the first step was to deal with the physical entry (which was the seeking of permission) (Bryman and Bell, 2014). After dealing with physical entry issues, the researcher allowed sufficient time to seek permission of access (Easterby-Smith, 2015). Another method was using the existing

contacts as advocated by Saunders (2012) and Creswell (2014) or to provide to the indigenous and foreign SMEs the clear account of the researcher's requirements in a clear introductory letter (Appendix 2) where the benefits of the study were indicated (Saunders, 2012). The researcher used diplomacy and the appropriate language, taking into account the sensitivity of the information, but more emphasis was articulated to the benefits that would be gained from this study (Sekeran and Bourgie, 2013).

5.12.2 Ethical Issues

It was the objective of this research study to abide to ethical issues and follow the general issues as advocated by Saunders (2012) and Sekeran and Bourgie (2013). The research was conducted upon getting consent from both the indigenous and foreign SMEs (refer to Appendix 2).

5.12.3 Absence of Harm to participants

Therefore, the researcher concluded and assured the participants that they will not be harmed. The letter of consent reiterated that the questionnaire was not a compulsory exercise. Therefore participants were well-informed that their involvement in the research study was voluntary. The results of the pilot questionnaire revealed that participants were not holding back any information. They were willing to take part in the research study. The response rate indicated that the participants were aware of the presence of all the possible dangers, to the knowledge of the researcher. The aims, methods, anticipated benefits and potential hazards of the research were mentioned (Saunders, 2012). The respondents were also informed of the confidential and anonymity nature of their responses. Those who were uncomfortable were not forced in any way to participate in the study against their wish and were replaced with a suitable participant. At the end of the questionnaire a vote of thanks was given to all those that participated in the study.

5.13 CHAPTER SUMMARY

The technical approach that was taken to address the research objectives and questions has been discussed in this chapter. Specifically, the research approach guiding this study, research design, the population of the study, sampling procedures, data collection and analysis has been discussed in addition to ethical issues employed. The next chapter will be the presentation and analysis of the data. The analysis of data will be guided by the research questionnaire.

CHAPTER 6

EMPIRICAL RESULTS

6.1 INTRODUCTION

This chapter presents and discusses findings that were captured during the study. In order to provide answers to the research questions raised and to meet the research objectives, relevant data were obtained and analyzed to bring forward the underlying points for this research. The responses of the 195 participants representing 101 indigenous SMEs and 94 foreign SMEs to the 31 questions (refer to Appendix 1) were analyzed with the help of the statistical package for social sciences (SPSS). Basic statistics such as frequency and means and correlation calculations, a chi-square test, factor analysis, and cross tabulations to some key variables have been used in order to answer the research questions and the research objectives in order to have a good comparative analysis between the indigenous SMEs and the foreign SMEs. The results of the findings from the analyses are outlined below.

6.2 RESPONSE RATE

Churchill (2011) and Saunders (2012) outlined the importance of response rates in research and stated that low response rate contributes highly to the marginal error of the results. While no specific guideline is available, response rates of above 60% are desirable according to Saunders (2012). The primary research in this investigation set a sample number of 278 for its sample elements. It is seen that the research managed to get 101 responses of the 138 for the indigenous SMEs and 94 responses of the 138 for the foreign SMEs. This translates to a response rate of 73% for the indigenous SMEs and 68% for foreign SMEs, with both rates exceptionally high. This indicates that the results could be reliable as the marginal error from the non-responses is relatively small with a total response rate of 70%.

Chapter six focuses on three aspects mainly Demographic Information, Customer satisfaction and Marketing variables.

6.3 DEMOGRAPHIC INFORMATION

6.3.1 Gender Profile of the Research Sample

The research sample was both male and female comprising the indigenous SMEs and foreign SMEs.

Table 6.1: Gender profile by nationality

	Male	Female	Total
Indigenous SMEs	54%	46%	100%
Foreign SMEs	68%	32%	100%

Table 6.1 illustrates the gender profile of the indigenous SMEs and foreign SMEs. In terms of gender profile of the respondents, 54% of the indigenous SMEs were owned by male and 46% by female compared to 68% of the foreign SMEs that were male with 32% female. The result above, indicate that women still lag behind in terms of ownership of SMEs but much work has been done in Malawi in empowering women. Table 6.2 below shows the total responses which is a combination of both indigenous and foreign SMEs.

Table 6.2: Gender profile Frequency distribution (N = 195).

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	119	61.0	61.0	61.0
	Female	76	39.0	39.0	100.0
	Total	195	100.0	100.0	

6.3.2 Age group of the research sample

In order to eliminate bias in the study this research had respondents of different age groups with those from below 20 years up to those above 36 years. This was done in order to capture all age groups, which had various experiences.

Table 6.3: Age group by nationality

	Age bracket				
	Below 20	21 - 25	26 - 30	31 – 35	Above 36
Indigenous SMEs	3%	24%	20%	20%	33%
Foreign SMEs	1%	7%	11%	30%	51%

Table 6.3 shows that most of the indigenous SMEs and the foreign SMEs are above the age of 36 years with the indigenous comprising 33% and the foreign SMEs at 51%. In the 21 to 25 years old age group there are more indigenous SMEs as compared to the foreign SMEs with a difference of 17%. This is the same in the age bracket between 26 and 30 years. The statistics are quite different in the age bracket between 31 and 35 years where there are more foreign SMEs compared to the indigenous SMEs representing 30% and 20% respectively.

6.3.2.1 Period in the business by nationality

Performance and success of an enterprise is sometimes equated to the experience of an entrepreneur. The researcher was interested to establish how long the SMEs understudies have been in the business as per Table 6.4 below.

Table 6.4: Nationality by period in business.

	Period in business (Years)					Total
	0 – 3	4 – 6	7 – 9	10 – 12	Longer than 12	
Indigenous SMEs	33.7%	27.7%	16.8%	11.9%	9.9%	100.0%
Foreign SMEs	22.3%	41.5%	26.6%	4.3%	5.3%	100.0%
Total	28.2%	34.4%	21.5%	8.2%	7.7%	100.0%

From the table above it shows that most of the indigenous SMEs fall within the 0 to 3 years of experience whilst a lot of foreign SMEs are in the 4 to 6 years of business experience group. This is the case again with the 7 to 9 years' experience category which has got more foreign SMEs as compared to the indigenous SMEs at 26.6% and 16.8% respectively. As for the 10 to 12 years and the longer than 12 years' experience groups, there are more indigenous SMEs as compared to the foreign SMEs at 11.9% and 9.9% for the indigenous SMEs and 4.3% and 5.3% for the foreign SMEs respectively. Considering that between 0 to 9 years of business experience there are more foreign SMEs at 90.4% as compared to 78.2% for the local SMEs might be the reason why foreign SMEs are doing better compared to the foreign SMEs.

The total numbers of both the indigenous and foreign SMEs in terms of the number of years in the trade is summarized in Table 6.5 below. It is noted that there are more entrepreneurs with 4 to 6 years' experience followed by those in the 0 to 3 years and the 7 to 9 years group.

Table 6.5: Period in the business Frequency distribution (N = 195).

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0 – 3 years	55	28.2	28.2	28.2
	4 – 6 years	67	34.4	34.4	62.6
	7 – 9 years	42	21.5	21.5	84.1
	10 – 12 years	16	8.2	8.2	92.3
	Longer than 12years	15	7.7	7.7	100.0
	Total	195	100.0	100.0	

6.3.2.2 Business Sector by nationality

In order to involve a larger sector of businesses the researcher had to involve a number of different SMEs from the different business sector by nationality. As per Table 6.6 below it shows that most of the respondents are in trading as a business sector with 79% indigenous SMEs and 57% foreign SMEs translating to a total of 68%. There are also a lot of foreign SMEs in the export and tourism industry at 12% and 19% respectively as compared to 4% and 3% for the indigenous SMEs. There is not a big difference in the manufacturing sector with a change of only 2%.

Table 6.6: Nationality by Business Sector.

		Business sector					Total
		Manufacturing	Trading	Tourism	Export	Other business	
	Indigenous SMEs	9.2%	78.6%	4.1%	3.1%	5.1%	100.0%
	Foreign SMEs	7.4%	57.4%	11.7%	19.1%	4.3%	100.0%
Total		8.3%	68.2%	7.8%	10.9%	4.7%	100.0%

As per the table above it shows that most of the SMEs are in the trading sector with 68.2% followed by the export sector with a combined total of 10.9% with manufacturing and tourism at 8.3% and 7.8% respectively. This is also summarized in Table 6.7 below that indicates the actual numbers of each sector by both the indigenous and foreign SMEs combined.

Table 6.7: Business sector Frequency distribution (N = 195)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manufacturing	16	8.2	8.3	8.3
	Trading	131	67.2	68.2	76.6
	Tourism	15	7.7	7.8	84.4
	Export	21	10.8	10.9	95.3
	Other (Please specify)	9	4.6	4.7	100.0
	Total	192	98.5	100.0	
Missing	System	3	1.5		
Total		195	100.0		

6.3.2.3 Age by business ownership

Age by business sector was analyzed in order to see whether age has any significance in the choice of a business ownership by an entrepreneur as per Table 6.8 below.

Table 6.8: Age by business ownership.

			Business ownership				Total
			Sole Trader	Partnership	Family owned business	Others	
Indigenous	Age	Below 20	33.3%	33.3%	33.3%		100.0%
		21 - 25	48.0%	20.0%	32.0%		100.0%
		26 - 30	80.0%	5.0%	15.0%		100.0%
		31 - 35	50.0%	10.0%	40.0%		100.0%
		Above 36	63.6%	6.1%	30.3%		100.0%
	Total		59.4%	10.9%	29.7%		100.0%
Foreign SMEs	Age	Below 20			100.0%		100.0%
		21 - 25	42.9%	28.6%	28.6%		100.0%
		26 - 30	50.0%	20.0%	30.0%		100.0%
		31 - 35	60.7%	14.3%	25.0%		100.0%
		Above 36	66.7%	18.8%	12.5%	2.1%	100.0%
	Total		60.6%	18.1%	20.2%	1.1%	100.0%
Total	Age	Below 20	25.0%	25.0%	50.0%		100.0%
		21 - 25	46.9%	21.9%	31.3%		100.0%
		26 - 30	70.0%	10.0%	20.0%		100.0%
		31 - 35	56.3%	12.5%	31.3%		100.0%
		Above 36	65.4%	13.6%	19.8%	1.2%	100.0%
	Total		60.0%	14.4%	25.1%	.5%	100.0%

Table 6.8 above shows that the indigenous SMEs in the age group below 20 years are evenly distributed in terms of business ownership at 33.3% unlike the foreign SMEs who happen to be 100% in family owned business. There are more of the indigenous SMEs operating as sole traders between the ages of 26 and 30 years as compared to only 50% of the foreign SMEs. With the age group of between 31 and 35 years there are more indigenous SMEs as compared to the foreign SMEs in sole trading but the case is different in the 36 years and above group where there are more foreign SMEs as compared to the indigenous SMEs. In the case of partnership there are more foreign SMEs as compared to the indigenous SMEs in almost all the age groups except for those below 20 years where there are none in the case of the indigenous SMEs. In case of family business it is dominated by the indigenous SMEs in almost all the age groups except those below the age of 20 years and those in the age group of 26 to 30 years which is dominated by the foreign SMEs. On average it is noted that there are more SMEs operating as sole traders at 60% followed by family owned businesses at 25.1% and partnership at 14.4%.

This confirms that sole trading is the easiest form of starting a business opted by many enterprises but that age has no significance in the choice of business ownership by both the indigenous and foreign SMEs.

6.3.2.4 Age by business sector by nationality

Age was also used in order to ascertain if it had any significance in the choice of the business sector by the indigenous SMEs and the foreign SMEs as per Table 6.9 below.

Table 6.9: Age by business sector.

			Business Sector					Total
			Manufacturing	Trading	Tourism	Export	Other Businesses	
Indigenous	Age	Below 20		100.0%				100.0%
		21 - 25	8.3%	79.2%	8.3%	4.2%		100.0%
		26 - 30	5.0%	95.0%				100.0%
		31 - 35	10.0%	75.0%		5.0%	10.0%	100.0%
		Above 36	12.5%	68.8%	6.3%	3.1%	9.4%	100.0%
		Total	9.2%	78.6%	4.1%	3.1%	5.1%	100.0%
Foreign SMEs	Age	Below 20		100.0%				100.0%
		21 - 25		85.7%		14.3%		100.0%
		26 - 30		50.0%	10.0%	30.0%	10.0%	100.0%
		31 - 35	3.6%	50.0%	14.3%	28.6%	3.6%	100.0%
		Above 36	12.5%	58.3%	12.5%	12.5%	4.2%	100.0%
		Total	7.4%	57.4%	11.7%	19.1%	4.3%	100.0%
Total	Age	Below 20		100.0%				100.0%
		21 - 25	6.5%	80.6%	6.5%	6.5%		100.0%
		26 - 30	3.3%	80.0%	3.3%	10.0%	3.3%	100.0%
		31 - 35	6.3%	60.4%	8.3%	18.8%	6.3%	100.0%
		Above 36	12.5%	62.5%	10.0%	8.8%	6.3%	100.0%
		Total	8.3%	68.2%	7.8%	10.9%	4.7%	100.0%

In terms of age by business sector it is noted that most of the indigenous SMEs are into trading at 78.6% with a few into manufacturing (9.2%) followed by tourism and export at 4.1% and 3.1%. As for the foreign SMEs there are 57.4% into trading followed by export at 19.1% and tourism at 11.7%. All the indigenous SMEs and foreign SMEs below 20 years old are into trading and with over 50% of the SMEs in the age groups 21 to 35 years and 36 years and above are into trading. On average it is noted that 68.2% are in trading, 10.9% into export, 8.3% into manufacturing and 7.8% into tourism.

The analysis above shows that age has no significance in the choice of a business sector by the indigenous and foreign SMEs. Most of the SMEs are in the trading sector as it is the easiest business sector to operate as compared to the manufacturing, tourism and export industries which also requires a huge capital to operate.

6.3.2.5 Age by capital invested

It was also looked at if age had any basis for the capital which an entrepreneur may invest into a business as per Table 6.10 below.

Table 6.10: Age by capital invested.

			Capital invested (MK000,000)					Total
			Less than MK 1	Between MK 2 and MK5	Between MK 6 and MK 10	More than MK 10	None (Please specify)	
Indigenous SMEs	Age	Below 20	66.7%			33.3%		100.0%
		21 - 25	75.0%	8.3%	4.2%	12.5%		100.0%
		26 - 30	70.0%	25.0%	5.0%			100.0%
		31 - 35	52.6%	21.1%	26.3%			100.0%
		Above 36	54.8%	32.3%	3.2%	9.7%		100.0%
	Total		62.9%	21.6%	8.2%	7.2%		100.0%
Foreign SMEs	Age	Below 20	100.0%					100.0%
		21 - 25	14.3%	28.6%	28.6%	14.3%	14.3%	100.0%
		26 - 30	10.0%	50.0%	30.0%	10.0%		100.0%
		31 - 35	17.9%	28.6%	28.6%	25.0%		100.0%
		Above 36	2.1%	20.8%	39.6%	37.5%		100.0%
	Total		9.6%	26.6%	34.0%	28.7%	1.1%	100.0%
Total	Age	Below 20	75.0%			25.0%		100.0%
		21 - 25	61.3%	12.9%	9.7%	12.9%	3.2%	100.0%
		26 - 30	50.0%	33.3%	13.3%	3.3%		100.0%
		31 - 35	31.9%	25.5%	27.7%	14.9%		100.0%
		Above 36	22.8%	25.3%	25.3%	26.6%		100.0%
	Total		36.6%	24.1%	20.9%	17.8%	.5%	100.0%

In case of age by capital invested the indigenous SMEs who are below 20 years of age, 66.7% invested less than MK1, 000,000.00 and 33.3% invested more than MK10,000,00.00 whilst 100% of foreign SMEs below the age of 21 years invested less than MK1,000,000.00. It is noted that between the ages 21 years to 25 years and above 36 years most of the indigenous SMEs invested less than MK1, 000,000.00. As for the foreign SMEs most of them invested between MK2, 000,000.00 and MK5, 000,000.00 and more than MK10, 000,000.00.

It is believed that the more you invest the more the returns are. The high levels of investment by the foreign SMEs as compared to the indigenous SMEs might be the reason why the foreign SMEs are performing better than the indigenous SMEs. It is also noted that age had a factor in the investment by the foreign SMEs which might be as a result of exposure on the understanding that the more you invest the more you might harvest but also regulatory conditions by the Malawi Government on foreign investment policies.

6.3.2.6 Age by motivation to start the business

Entrepreneurs tend to go into business for a number of different reasons. The researcher looked at age as a motivation factor for the starting of a business as per Table 6.11 below.

Table 6.11: Age by motivation to start the business.

			Motivation				Total
			To create jobs	For recognition	For money	Other (please specify)	
Indigenous SMEs	Age	Below 20			100.0%		100.0%
		21 - 25	16.0%	12.0%	72.0%		100.0%
		26 - 30	25.0%		75.0%		100.0%
		31 - 35	10.0%		85.0%	5.0%	100.0%
		Above 36	30.3%		69.7%		100.0%
	Total		20.8%	3.0%	75.2%	1.0%	100.0%
Foreign SMEs	Age	Below 20			100.0%		100.0%
		21 - 25	42.9%		57.1%		100.0%
		26 - 30	10.0%		90.0%		100.0%
		31 - 35	7.1%		92.9%		100.0%
		Above 36		2.1%	97.9%		100.0%
	Total		6.4%	1.1%	92.6%		100.0%
Total	Age	Below 20			100.0%		100.0%
		21 - 25	21.9%	9.4%	68.8%		100.0%
		26 - 30	20.0%		80.0%		100.0%
		31 - 35	8.3%		89.6%	2.1%	100.0%
		Above 36	12.3%	1.2%	86.4%		100.0%
	Total		13.8%	2.1%	83.6%	.5%	100.0%

As per Table 6.11 above it shows that all the indigenous SMEs and foreign SMEs started their enterprises for money. This is almost the same for all the other age groups for both the indigenous and foreign SMEs at 75.2% and 92.6%. In the case of starting a business in order to create jobs, it is dominated by the indigenous SMEs at 20.8% as compared to 6.4% of the foreign

SMEs. Despite the average values above there are 42.9% of the foreign SMEs as compared to the indigenous SMEs between 21 and 25 years who were motivated to start a business in order to create jobs. It is noted from the above table that most of the SMEs were motivated by money to start their businesses with creating jobs being secondary. Not many were motivated to start their business for recognition as it is only 12% of the indigenous SMEs and 2.1% of the foreign SMEs between 21 and 25 years who started their businesses for recognition.

A total of 83.6% of indigenous SMEs and foreign SMEs between the ages below 20 years and above 36 years started their businesses for money with 13.8% in order to create jobs and 2.1% having started their businesses for recognition. This shows that all age groups tend to venture into entrepreneurship for money but as they grow older realize that it is the money that creates jobs and this might be the reason.

6.3.2.7 Gender by period in business

Another factor that was analyzed was gender by period in the business as per Table 6.12 below.

Table 6.12: Gender by period in the business

			Period in business (Years)					Total
			0 – 3	4 – 6	7 – 9	10 – 12	Longer than 12	
Indigenous SMEs	Gender	Male	27.2%	36.4%	7.3%	16.4%	12.7%	100.0%
		Female	41.3%	17.4%	28.3%	6.5%	6.5%	100.0%
	Total		33.7%	27.7%	16.8%	11.9%	9.9%	100.0%
Foreign SMEs	Gender	Male	20.3%	42.2%	25.0%	6.3%	6.3%	100.0%
		Female	26.7%	40.0%	30.0%		3.3%	100.0%
	Total		22.3%	41.5%	26.6%	4.3%	5.3%	100.0%
Total	Gender	Male	23.5%	39.5%	16.8%	10.9%	9.2%	100.0%
		Female	35.5%	26.3%	28.9%	3.9%	5.3%	100.0%
	Total		28.2%	34.4%	21.5%	8.2%	7.7%	100.0%

According to Table 6.12 above it shows that there are more indigenous female entrepreneurs who have been in the business for a period of less than 3 years as compared to the foreign female entrepreneurs. Most of the foreign females are within the 4 to 6 years and 7 to 9 years bracket. In the case of foreign male entrepreneurs most of them have been in the business between 4 to 9 years.

The longer you are in the business the more experience you acquire. This can be a reason why the foreign entrepreneurs might be performing better as compared to their indigenous counterparts. Overall in term of gender by period in business it is noted that both the indigenous and foreign SMEs females mostly fall within the 0 to 9 year's period. As such it is seen that gender has a bearing in the period one stays in a business as it is noted that there are more male entrepreneurs both indigenous and foreign SMEs who have been in the business for 10 to 12 years and longer than 12 years.

6.3.2.8 Period in the business by business ownership

It is believed that the longer you stay in the business the more experienced you become which eventually result in success. To this vain the researcher made a comparative analysis on the period in the business by business ownership. The aim was to see how long the enterprises have been in the business as compared to the business ownership. The idea was to see if there is any significance in the period one has been in the business to performance as illustrated in Table 6.13 below.

Table 6.13: Period in the business by business ownership

			Business ownership				Total
			Sole Trader	Partnership	Family owned business	Others	
Indigenous SMEs	Period in business (Years)	0 – 3	61.8%	11.8%	26.5%		100.0%
		4 – 6	60.7%	10.7%	28.6%		100.0%
		7 – 9	52.9%	5.9%	41.2%		100.0%
		10 – 12	50.0%	25.0%	25.0%		100.0%
		Longer than 12	70.0%		30.0%		100.0%
	Total		59.4%	10.9%	29.7%		100.0%
Foreign SMEs	Period in business (Years)	0 – 3	47.6%	14.3%	33.3%	4.8%	100.0%
		4 – 6	56.4%	23.1%	20.5%		100.0%
		7 – 9	80.0%	12.0%	8.0%		100.0%
		10 – 12		50.0%	50.0%		100.0%
		Longer than 12	100.0%				100.0%
	Total		60.6%	18.1%	20.2%	1.1%	100.0%
Total	Period in business (Years)	0 – 3	56.4%	12.7%	29.1%	1.8%	100.0%
		4 – 6	58.2%	17.9%	23.9%		100.0%
		7 – 9	69.0%	9.5%	21.4%		100.0%
		10 – 12	37.5%	31.3%	31.3%		100.0%
		Longer than 12	80.0%		20.0%		100.0%
	Total		60.0%	14.4%	25.1%	.5%	100.0%

Table 6.13 above shows that most of the indigenous SMEs have stayed longer as sole traders. There are 61.8% for those who have been in business for 0 to 3 years. In case of 4 to 6 years and 7 to 9 years sole traders are at 60.7% and 52.9% respectively. Those longer than 12 years in the business standing at 70% and 50% for those in the business for a period of 10 to 12 years. This is in contrast with the foreign sole traders who are 80% in the 7 to 9 years and 100% for those longer than 12 years and with more SMEs in partnership and family owned business. On the age groups it is noted that 18.1% of the foreign SMEs are in partnership as compared to the indigenous SMEs who are at 10.9%. It is noted that the foreign SMEs have been longer in the sole trading business and partnership as compared to the indigenous SMEs whilst indigenous SMEs have been longer in family owned business as compared to the foreign SMEs. Finally it shows that most of the SMEs have stayed longer in sole trading followed by family owned businesses.

This clearly confirms that the period in the business has a bearing with the business sector as partnership is not easy to maintain since the death or resignation of one partner results in the termination of the business unlike sole trading which can easily be inherited and the business can continue.

6.3.2.9 Period in the business by business sector

Another area of comparison was period in the business by business sector as per Table 6.14 below.

Table 6.14: Period in the business by business sector

			Business sector					Total
			Manufacturing	Trading	Tourism	Export	Other business	
Indigenous SMEs	Period in business	0 – 3 years	3.0%	93.9%	3.0%			100.0%
		4 – 6 years	11.1%	81.5%		3.7%	3.7%	100.0%
		7 – 9 years	11.8%	70.6%	11.8%		5.9%	100.0%
	Total	10 – 12 years	8.3%	66.7%	8.3%	8.3%	8.3%	100.0%
		Longer than 12years	22.2%	44.4%		11.1%	22.2%	100.0%
			9.2%	78.6%	4.1%	3.1%	5.1%	100.0%
Foreign SMEs	Period in business	0 – 3 years	4.8%	76.2%	9.5%	4.8%	4.8%	100.0%
		4 – 6 years	5.1%	48.7%	12.8%	28.2%	5.1%	100.0%
		7 – 9 years	16.0%	60.0%	8.0%	16.0%		100.0%
		10 – 12 years			50.0%	25.0%	25.0%	100.0%
		Longer than 12years		80.0%		20.0%		100.0%
Total	Period in business		7.4%	57.4%	11.7%	19.1%	4.3%	100.0%
		0 – 3 years	3.7%	87.0%	5.6%	1.9%	1.9%	100.0%
		4 – 6 years	7.6%	62.1%	7.6%	18.2%	4.5%	100.0%
		7 – 9 years	14.3%	64.3%	9.5%	9.5%	2.4%	100.0%
		10 – 12 years	6.3%	50.0%	18.8%	12.5%	12.5%	100.0%
		Longer than 12years	14.3%	57.1%		14.3%	14.3%	100.0%
	Total		8.3%	68.2%	7.8%	10.9%	4.7%	100.0%

Table 6.14 above shows that most of the indigenous SMEs have been longer in trading at 78.6% followed by the manufacturing sector. On the period in business by sector it shows that 93.9% of the indigenous SMEs have been in trading for a period of 0 to 3 years followed by those in the 4 to 6 years group at 81.5%, 7 to 9 years at 70.6%, 10 to 12 years at 66.7% and longer than 12 years at 44.4%. In tourism there are more indigenous SMEs in the 7 to 9 years bracket with

11.1% in the export business who have been in the business longer than 12 years. The case is the same for the foreign SMEs with 80% having been in trading for more than 12 years followed by 0 to 3 years at 76.2% and 60% in the case of those who have been in the business for 4 to 6 years at 48.7%. There are 50% in tourism for those in the business for 10 to 12 years and 28% and 25% for those in the export business for a period of 4 to 6 years and 10 to 12 years respectively.

This shows that the period in the business has a bearing with the business sector as it is seen that the majority of both the indigenous SMEs and foreign SMEs have been in trading longer than any other business sector which is seen to be easier to run than the other business sectors.

6.3.2.10 *Period in business by capital invested*

The researcher was also interested to see if the period in the business had any significance to the capital invested into the business as per the Table 6.15 below.

Table 6.15 below shows that most of the indigenous SMEs within 0 to 3 years in the trade did invest less than MK1, 000,000.00 as compared to the foreign SMEs. It is also noted that overall the indigenous SMEs capital contribution was minimal as most of them at 62.9% invested just below MK1, 000,000.00 with only 21.6% investing between MK2, 000,000.00 and MK5, 000,000.00. Those who invested between MK6, 000,000.00 and MK10, 000,000.00 and more than MK10, 000,000.00 were just 8.2% and 7.2% respectively. In the case of the foreign SMEs, most of them invested in the ranges of MK2, 000,000.00 to more than MK10, 000,000.00. But for those who have been in the business between 4 to 6 years it is seen that the indigenous SMEs invested more capital than their foreign counterparts.

Table 6.15: Period in business by capital invested.

			Capital invested (MK000,000.00)					Total
			Less than MK 1	Between MK 2 and MK5	Between MK 6 and MK 10	More than MK 10	None (Please specify)	
Indigenous SMEs	Period in business (Years)	0 – 3	75.0%	15.6%	6.3%	3.1%		100.0%
		4 – 6	61.5%	23.1%	7.7%	7.7%		100.0%
		7 – 9	52.9%	29.4%	5.9%	11.8%		100.0%
		10 – 12	58.3%	16.7%	16.7%	8.3%		100.0%
		Longer than 12	50.0%	30.0%	10.0%	10.0%		100.0%
	Total		62.9%	21.6%	8.2%	7.2%		100.0%
Foreign SMEs	period in business (Years)	0 – 3	14.3%	42.9%	33.3%	9.5%		100.0%
		4 – 6	7.7%	30.8%	35.9%	23.1%	2.6%	100.0%
		7 – 9	4.0%	12.0%	32.0%	52.0%		100.0%
		10 – 12	25.0%		75.0%			100.0%
		Longer than 12	20.0%	20.0%		60.0%		100.0%
	Total		9.6%	26.6%	34.0%	28.7%	1.1%	100.0%
Total	Period in business (Years)	0 – 3	50.9%	26.4%	17.0%	5.7%		100.0%
		4 – 6	29.2%	27.7%	24.6%	16.9%	1.5%	100.0%
		7 – 9	23.8%	19.0%	21.4%	35.7%		100.0%
		10 – 12	50.0%	12.5%	31.3%	6.3%		100.0%
		Longer than 1	40.0%	26.7%	6.7%	26.7%		100.0%
	Total		36.6%	24.1%	20.9%	17.8%	.5%	100.0%

Overall, based on the period in business by the capital invested it shows that the foreign SMEs have had substantial investments into their business as compared to the indigenous SMEs, thus their success in the market place. It is also noted that the capital invested mainly by the foreign SMEs tend to be on the higher side within the same period in the business. As such it is apparent that the longer you stay in the business the higher the levels of capital invested.

6.3.2.11 Business sector by age by nationality

Another area of interest was to look at how age had a bearing on the choice of a business sector as per Table 6.16 below.

Table 6.16: Business sector by age

			Business sector					Total
			Manufacturing	Trading	Tourism	Export	Other business	
Indigenous SMEs	Age	Below 20		100.0%				100.0%
		21 - 25	8.3%	79.2%	8.3%	4.2%		100.0%
		26 - 30	5.0%	95.0%				100.0%
		31 - 35	10.0%	75.0%		5.0%	10.0%	100.0%
		Above 36	12.5%	68.8%	6.3%	3.1%	9.4%	100.0%
	Total		9.2%	78.6%	4.1%	3.1%	5.1%	100.0%
Foreign SMEs	Age	Below 20		100.0%				100.0%
		21 - 25		85.7%		14.3%		100.0%
		26 - 30		50.0%	10.0%	30.0%	10.0%	100.0%
		31 - 35	3.6%	50.0%	14.3%	28.6%	3.6%	100.0%
		Above 36	12.5%	58.3%	12.5%	12.5%	4.2%	100.0%
	Total		7.4%	57.4%	11.7%	19.1%	4.3%	100.0%
Total	Age	Below 20		100.0%				100.0%
		21 - 25	6.5%	80.6%	6.5%	6.5%		100.0%
		26 - 30	3.3%	80.0%	3.3%	10.0%	3.3%	100.0%
		31 - 35	6.3%	60.4%	8.3%	18.8%	6.3%	100.0%
		Above 36	12.5%	62.5%	10.0%	8.8%	6.3%	100.0%
	Total		8.3%	68.2%	7.8%	10.9%	4.7%	100.0%

From Table 6.16 above it shows that all the indigenous SMEs and foreign SMEs who are below 20 years of age are in the trading sector. This might be as a result of a lack of experience and capital in order for them to venture into the other sectors of manufacturing, tourism and export which besides being demanding needs a substantial capital. Trading is also very popular with the other age groups of indigenous SMEs at an average of 78.6%. As for the foreign SMEs they are also very dominant in the trading sector but also very visible in tourism and export. Overall most of the SMEs understudies are into trading followed by export, manufacturing and tourism.

It is noted that despite the foreign SMEs in terms of age being highly found in trading, they are also into tourism and export which are very profitable ventures. This might be the reason why foreign SMEs are performing better than the indigenous SMEs who unlike the foreign SMEs are visible in the other sectors in good numbers. Therefore the choice of a business sector might not be very important but more exposure and opportunities must be made available in a particular country. As with the case of Malawi it is seen that both the indigenous and foreign SMEs of all

age groups are into trading as a business sector despite the fact that foreign SMEs are into tourism and export as a result of their exposure and financial muscle.

6.3.2.12 Business sector by period in business

The business sector was also compared to the period in the business for both the indigenous SMEs and the foreign SMEs to see if it has any bearing as per Table 6.17 below.

Table 6.17: Business sector by period in the business

			Period in business					Total
			0 – 3	4 – 6	7 – 9	10 – 12	Longer than 12	
Indigenous SMEs	Business sector	Manufacturing	11.1%	33.3%	22.2%	11.1%	22.2%	100.0%
		Trading	40.3%	28.6%	15.6%	10.4%	5.2%	100.0%
		Tourism	25.0%		50.0%	25.0%		100.0%
		Export		33.3%		33.3%	33.3%	100.0%
		Other business		20.0%	20.0%	20.0%	40.0%	100.0%
	Total		33.7%	27.6%	17.3%	12.2%	9.2%	100.0%
Foreign SMEs	Business sector	Manufacturing	14.3%	28.6%	57.1%			100.0%
		Trading	29.6%	35.2%	27.8%		7.4%	100.0%
		Tourism	18.2%	45.5%	18.2%	18.2%		100.0%
		Export	5.6%	61.1%	22.2%	5.6%	5.6%	100.0%
		Other business	25.0%	50.0%		25.0%		100.0%
	Total		22.3%	41.5%	26.6%	4.3%	5.3%	100.0%
Total	Business sector	Manufacturing	12.5%	31.3%	37.5%	6.3%	12.5%	100.0%
		Trading	35.9%	31.3%	20.6%	6.1%	6.1%	100.0%
		Tourism	20.0%	33.3%	26.7%	20.0%		100.0%
		Export	4.8%	57.1%	19.0%	9.5%	9.5%	100.0%
		Other business	11.1%	33.3%	11.1%	22.2%	22.2%	100.0%
	Total		28.1%	34.4%	21.9%	8.3%	7.3%	100.0%

In terms of the period in the business by business sector it is noted that most of the indigenous SMEs in the 0 to 3 years group are into trading followed by tourism. In the case of export there are no indigenous SMEs within the 0 to 3 years group but the 4 to 6 years, 10 to 12 years and

longer than 12 years brackets are evenly distributed at 33.3%. As for tourism which is currently a booming business in Malawi there are 25% of the SMEs within the 0 to 3 years and 50% at 7 to 9 years followed by 25% at the 10 to 12 years group. Manufacturing is also well distributed with 11% for the 0 to 3 years and the 10 to 12 years age group, 33.3% for the 4 to 6 years group and 22.2% for the 7 to 9 years and those longer than 12 years group. Overall there are more SMEs in the period 0 to 3 years at 33.7% followed by 4 to 6 years and 7 to 9 years at 27.6% and 17.3% respectively. As for the case of the foreign SMEs most of them are in the 4 to 6 years and 7 to 9 years group therefore they have been in the business longer than the indigenous SMEs.

The longer the period in the business the more experience you might have and this clearly demonstrates that the foreign SMEs are more experienced than the indigenous SMEs thus contributing to their success in the trade.

6.3.3.13 Gender by business sector

Another area that was examined was gender by business sector. This was done to see if gender has any significance on the choice of the business sector by the indigenous and foreign SMEs as per Table 6.18 below.

Table 6.18: Business sector by gender

			Business sector					Total
			Manufacturing	Trading	Tourism	Export	Other business	
Indigenous SMEs	Gender	Male	14.8%	68.5%	3.7%	5.6%	7.4%	100.0%
		Female	2.3%	90.9%	4.5%		2.3%	100.0%
	Total		9.2%	78.6%	4.1%	3.1%	5.1%	100.0%
Foreign SMEs	Gender	Male	7.8%	56.3%	10.9%	21.9%	3.1%	100.0%
		Female	6.7%	60.0%	13.3%	13.3%	6.7%	100.0%
	Total		7.4%	57.4%	11.7%	19.1%	4.3%	100.0%
Total	Gender	Male	11.0%	61.9%	7.6%	14.4%	5.1%	100.0%
		Female	4.1%	78.4%	8.1%	5.4%	4.1%	100.0%
	Total		8.3%	68.2%	7.8%	10.9%	4.7%	100.0%

Table 6.18 above shows that both indigenous SMEs and foreign SMEs are in the trading industry. Tourism and export businesses which are money spinners in most countries and are the

main source of foreign currency even in Malawi are dominated by the foreigners. This might be another reason why the foreign SMEs are seen as better performing compared to the indigenous SMEs as they are in a business sector that is not over crowded and that has less competition but good returns. This however does not show that gender has a bearing in the choice of a business sector as both are seen to be more into trading.

6.3.2.14 Business sector by business ownership

The researcher also looked at the business sector by business ownership in order to see any similarities and differences regarding performance.

Table 6.19: Business sector by business ownership

			Business ownership				Total
			Sole Trader	Partnership	Family owned business	Others	
Indigenous SMEs	Business sector	Manufacturing	55.6%	22.2%	22.2%		100.0%
		Trading	62.3%	5.2%	32.5%		100.0%
		Tourism		75.0%	25.0%		100.0%
		Export	66.7%	33.3%			100.0%
		Other business	100.0%				100.0%
	Total		61.2%	10.2%	28.6%		100.0%
Foreign SMEs	Business sector	Manufacturing	85.7%		14.3%		100.0%
		Trading	66.7%	14.8%	18.5%		100.0%
		Tourism	36.4%	36.4%	27.3%		100.0%
		Export	50.0%	27.8%	22.2%		100.0%
		Other business	50.0%		25.0%	25.0%	100.0%
	Total		60.6%	18.1%	20.2%	1.1%	100.0%
Total	Business sector	Manufacturing	68.8%	12.5%	18.8%		100.0%
		Trading	64.1%	9.2%	26.7%		100.0%
		Tourism	26.7%	46.7%	26.7%		100.0%
		Export	52.4%	28.6%	19.0%		100.0%
		Other business	77.8%		11.1%	11.1%	100.0%
	Total		60.9%	14.1%	24.5%	.5%	100.0%

Table 6.19 above shows that there are more indigenous SMEs trading as sole traders with 55.6% in manufacturing, 22.2% in partnership and 22.2% in family owned business. Trading and export is also high as sole traders. Tourism as a business sector is dominant in partnership at 75% followed by family owned businesses at 25%. As for the foreign SMEs it is also dominated by

sole trading which is high in manufacturing (85.7%) followed by trading (66.7%) and export (50%). This shows that the business sector has significance on the choice of a business ownership.

6.3.2.14 *Business sector by capital invested*

The researcher was also interested to see how the indigenous SMEs and the foreign SMEs look at a business sector and the capital investment as per Table 6.20.

Table 6.20: Business sector by capital invested.

			Capital Invested (MK000,000.00)					Total
			Less than MK 1	Between MK 2 and MK5	Between MK 6 and MK 10	More than MK 10	None (Please specify)	
Indigenous SMEs	Business sector	Manufacturing	77.8%	11.1%	11.1%			100.0%
		Trading	68.5%	21.9%	6.8%	2.7%		100.0%
		Tourism	25.0%			75.0%		100.0%
		Export			33.3%	66.7%		100.0%
		Other business		80.0%	20.0%			100.0%
	Total		61.7%	22.3%	8.5%	7.4%		100.0%
Foreign SMEs	Business sector	Manufacturing			28.6%	71.4%		100.0%
		Trading	14.8%	25.9%	29.6%	27.8%	1.9%	100.0%
		Tourism		36.4%	36.4%	27.3%		100.0%
		Export		33.3%	44.4%	22.2%		100.0%
		Other business	25.0%	25.0%	50.0%			100.0%
	Total		9.6%	26.6%	34.0%	28.7%	1.1%	100.0%
Total	Business sector	Manufacturing	43.8%	6.3%	18.8%	31.3%		100.0%
		Trading	45.7%	23.6%	16.5%	13.4%	.8%	100.0%
		Tourism	6.7%	26.7%	26.7%	40.0%		100.0%
		Export		28.6%	42.9%	28.6%		100.0%
		Other business	11.1%	55.6%	33.3%			100.0%
	Total		35.6%	24.5%	21.3%	18.1%	.5%	100.0%

Table 6.20 shows that the capital invested by the foreign SMEs was overall higher compared to the indigenous SMEs. It is noted that foreign SMEs invested mostly between MK2, 000,000.00 and more than MK10, 000,000.00. In trading the foreign SMEs invested 25.9% as compared to 21.9% for the indigenous SMEs between MK2, 000,000.00 and MK5, 000,000.00. This was also the case in export and tourism. It is also noted that between MK6, 000,000.00 and MK10, 000,000.00 the foreign SMEs invested more in all the business sectors as compared to the

indigenous SMEs. Despite investing in export in the more than MK10, 000,000.00 categories, overall it is the foreign SMEs who had a substantial investment at 28.7% as compared to 7.4% for the indigenous SMEs. Though it is noted that the indigenous SMEs invested more in the less than MK1, 000,000.00 business sectors, the investment was not significant to compete with the foreign SMEs. The high investment by the foreign SMEs in the different business sectors confirms their good performance due to the higher margins of returns.

Looking at the pattern of capital investment by the foreign SMEs it proves the fact that the business sector in which one is operating should be in tandem with the capital invested as it is seen that the foreign SMEs invested more in the manufacturing sector, tourism and export as they are more involved and in need of a substantial capital if they are to succeed in the market place. This is also demonstrated by the indigenous SMEs with a good capital investment in tourism and export. Overall it is noted that most of the SMEs both indigenous and foreign are into trading which is seen to be easy to establish as compared to the other business sectors (Table 6.21).

Table 6.21: Business Sector for both the Indigenous and Foreign SMEs (N = 195)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manufacturing	16	8.2	8.3	8.3
	Trading	131	67.2	68.2	76.6
	Tourism	15	7.7	7.8	84.4
	Export	21	10.8	10.9	95.3
	Other (Please specify)	9	4.6	4.7	100.0
	Total	192	98.5	100.0	
Missing	System	3	1.5		
Total		195	100.0		

6.3.2.15 Highest education qualification by business ownership

Table 6.22 below shows that all the indigenous SMEs who have never attended school are operating as sole traders as compared to 50% of the foreign SMEs. This might be because sole trading is easy to start without legal complications.

Table 6.22: Highest qualification by business ownership.

			Business ownership				Total
			Sole Trader	Partnership	Family owned business	Others	
Indigenous SMEs	Highest educational qualification (Certificate)	Never attended school	100%				1000%
		Primary	52.9%	11.8%	35.3%		1000%
		Secondary	57.1%	10.2%	32.7%		100%
		Diploma	65.2%	8.7%	26.1%		100%
		Degree	66.7%	22.2%	11.1%		100%
		Master's			100.0%		100%
		Doctorate	100.0%				100%
	Total		59.4%	10.9%	29.7%		100%
Foreign SMEs	Highest educational qualification	Never attended school	50.0%	50.0%			100%
		Primary	33.3%	33.3%	33.3%		100%
		Secondary	79.2%	8.3%	12.5%		100%
		Diploma	59.1%	13.6%	22.7%	4.5%	100%
		Degree	50.0%	21.9%	28.1%		100%
		Master's	75.0%	25.0%			100%
	Total		60.6%	18.1%	20.2%	1.1%	100%
Total	Highest educational qualification	Never attended school	66.7%	33.3%			100%
		Primary	47.8%	17.4%	34.8%		100%
		Secondary	64.4%	9.6%	26.0%		100%
		Diploma	62.2%	11.1%	24.4%	2.2%	100%
		Degree	53.7%	22.0%	24.4%		100%
		Master's	66.7%	22.2%	11.1%		100%
		Doctorate	100%				100%
	Total		60.0%	14.4%	25.1%	.5%	100%

It is also noted that both foreign and indigenous SMEs of different educational qualifications are into sole trading. Of significance is also that there are more foreign SMEs in partnership but with indigenous of bachelor's degree at 22.2% as compared to 21.9% of the foreign SMEs though the difference is very minimal. In the case of college diploma, foreign SMEs are dominating the same for those having a primary school certificate. In family owned businesses, the indigenous SMEs tend to dominate despite the foreign SMEs having an upper hand for those with bachelor's degree. Overall sole trading tend to dominate with 60% followed by family owned business and

partnership. From the analysis it does not clearly show that highest educational qualification has any bearing with the choice of a business ownership.

6.3.2.16 Business Ownerships by Nationality

In order to have more impact from the SMEs, the type of ownership of the enterprises was seriously looked at. As such the researcher looked at the different types of ownership of the SMEs from sole traders, partnership and family business owned businesses as per Table 6.23 below on nationality by business ownership.

Table 6.23: Business ownership by nationality.

		Business ownership				Total
		Sole Trader	Partnership	Family owned business	Others	
	Indigenous SMEs	59.4%	10.9%	29.7%		100.0%
	Foreign SMEs	60.6%	18.1%	20.2%	1.1%	100.0%
Total		60.0%	14.4%	25.1%	.5%	100.0%

Table 6.23 above shows that most of the entrepreneurs both indigenous SMEs and foreign SMEs are sole traders with the indigenous at 59.4% and the foreign SMEs at 60.6%. This confirms the belief that sole trading is the easiest form of establishing a business for most SMEs. There are more of the foreign SMEs in partnership as compared to the indigenous SMEs, which stand at 18.1% and 10.1% though the difference is minimal. With more than one owner, the ability to raise funds may be increased, both because two or more partners may be able to contribute more funds and because their borrowing capacity may be bigger. There are various reasons contributing to the above results. In the case of family owned businesses there are a lot of indigenous SMEs (29.7%) as compared to the foreign SMEs (20.2%). This can be as result of the fact that the indigenous SMEs are operating in their own country unlike the foreign SMEs who might come alone to trade in a foreign country leaving their wives and children in the home country to take other business interests.

As for the total numbers for both the indigenous and foreign SMEs it is noted that most of the SMEs are into sole trading. This proves the fact that of all the types of business ownerships, sole trading is the easiest to establish as per Table 6.24 below.

Table 6.24: Business ownership - Frequency distribution (N=195)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Sole Trader	117	60.0	60.0	60.0
	Partnership	28	14.4	14.4	74.4
	Family owned business	49	25.1	25.1	99.5
	Other (Please specify)	1	.5	.5	100.0
	Total	195	100.0	100.0	

6.3.2.17 Business ownership by gender

Table 6.25 below on business ownership by gender shows that there are more female entrepreneurs who are operating as sole traders unlike their male counter parts for both the indigenous and foreign SMEs. It is noted that 63% of female indigenous SMEs are operating as sole traders with indigenous male SMEs at 56.4%. The case is also the same with foreign SMEs where female owned SMEs are 66.7% compared to male owned SMEs at 57.8%. As for partnership it is noted that there are more male counterparts at 14.5% unlike 6.5% for female counterparts for the indigenous SMEs. This is quite different for the foreign SMEs where there are more females than males operating as partnerships at 20% and 17.2% respectively. Indigenous family owned businesses are also dominated by females (30.4%) with males at 29.1% though the difference is minimal. As for the foreign SMEs, 25% are males as opposed to 10% for females. This might be due to cultural factors. As such gender has an impact on the type of business ownership.

Table 6.25: Business ownership by gender

			Business ownership				Total
			Sole Trader	Partnership	Family owned business	Others	
Indigenous SMEs	Gender	Male	56.4%	14.5%	29.1%		100.0%
		Female	63.0%	6.5%	30.4%		100.0%
	Total		59.4%	10.9%	29.7%		100.0%
Foreign SMEs	Gender	Male	57.8%	17.2%	25.0%		100.0%
		Female	66.7%	20.0%	10.0%	3.3%	100.0%
	Total		60.6%	18.1%	20.2%	1.1%	100.0%
Total	Gender	Male	57.1%	16.0%	26.9%		100.0%
		Female	64.5%	11.8%	22.4%	1.3%	100.0%
	Total		60.0%	14.4%	25.1%	.5%	100.0%

6.3.2.18 *Business ownership by business sector*

Another area of interest was to look at the business ownership by business sector of the indigenous SMEs and foreign SMEs as per Table 6.26.

Table 6.26: Business ownership by business sector.

			Business sector					Total
			Manufacturing	Trading	Tourism	Export	Other business	
Indigenous SMEs	Business ownership	Sole Trader	8.3%	80.0%		3.3%	8.3%	100.0%
		Partnership	20.0%	40.0%	30.0%	10.0%		100.0%
		Family owned business	7.1%	89.3%	3.6%			100.0%
	Total		9.2%	78.6%	4.1%	3.1%	5.1%	100.0%
Foreign SMEs	Business ownership	Sole Trader	10.5%	63.2%	7.0%	15.8%	3.5%	100.0%
		Partnership		47.1%	23.5%	29.4%		100.0%
		Family owned business	5.3%	52.6%	15.8%	21.1%	5.3%	100.0%
		Others					100.0%	100.0%
	Total		7.4%	57.4%	11.7%	19.1%	4.3%	100.0%
Total	Business ownership	Sole Trader	9.4%	71.8%	3.4%	9.4%	6.0%	100.0%
		Partnership	7.4%	44.4%	25.9%	22.2%		100.0%
		Family owned business	6.4%	74.5%	8.5%	8.5%	2.1%	100.0%
		Others					100.0%	100.0%
	Total		8.3%	68.2%	7.8%	10.9%	4.7%	100.0%

Table 6.26 above shows that in terms of business ownership by business sector most of the indigenous SMEs are in trading as a business sector. This is also the case with the foreign SMEs. It is also noted that most of the indigenous SMEs are in family owned businesses (89.3%) followed by sole trade (80%) and partnership (40%). This is followed by tourism and partnership at 30% and manufacturing at 20%. Export as a partnership is only at 10%. Most of the foreign SMEs are in trading followed by export and tourism with manufacturing in fourth place. The case is the same as most of the foreign SMEs business ownership is dominated by sole trade at 63.2% followed by family owned business and partnership at 52.6% and 47.1%. Export as a business sector is high in partnership followed by family owned business and sole trading whilst tourism is dominating with partnership followed by family owned business. Overall the foreign SMEs are dominating in tourism and export and it shows that business ownership has a bearing on business sector.

6.3.2.19 *Business ownership by period in the business by nationality*

Another area that was looked at was to see if business ownership has any impact on the period in the business sector by the indigenous SMEs and the foreign SMEs as per Table 6.27 below.

Table 6.27 on business ownership by period in the business shows that most of the indigenous SMEs have been in operation 0 to 3 years followed by 4 to 6 years. It is noted that within 0 to 3 year's partnership as a business ownership is dominating by 36.4% followed by sole trade at 35% and family owned business at 30%. It is also seen that sole trading as a business ownership is evenly distributed over the period in business followed by partnership and family owned business. As for the foreign SMEs they are very much concentrated in 0 to 3 years up to 7 to 9 years. There are more sole traders within a period of 4 to 6 years and 7 to 9 years but very much dominant in partnership and family owned business in the 4 to 6 years bracket. The period 10 to 12 years and longer than 12 years is dominated by the indigenous SMEs. This is not surprising as they are from within the country unlike the foreign SMEs who had to come from far away to invest in Malawi. On average it is the 4 to 6 years who are in large numbers (34.4%) followed by the 0 to 3 years (28.2%) and the 7 to 9 years (21.5%) group. With the foregoing in mind there is not much of a correlation between business ownership and the period in the business.

Table 6.27: Business ownership by period in the business

			Period in business (Years)					Total
			0 – 3	4 – 6	7 – 9	10 – 12	Longer than 12	
Indigenous SMEs	Business ownership	Sole Trader	35.0%	28.3%	15.0%	10.0%	11.7%	100.0%
		Partnership	36.4%	27.3%	9.1%	27.3%		100.0%
		Family owned business	30.0%	26.7%	23.3%	10.0%	10.0%	100.0%
		Total	33.7%	27.7%	16.8%	11.9%	9.9%	100.0%
Foreign SMEs	Business ownership	Sole Trader	17.5%	38.6%	35.1%		8.8%	100.0%
		Partnership	17.6%	52.9%	17.6%	11.8%		100.0%
		Family owned business	36.8%	42.1%	10.5%	10.5%		100.0%
		Others	100.0%					100.0%
	Total		22.3%	41.5%	26.6%	4.3%	5.3%	100.0%
Total	Business ownership	Sole Trader	26.5%	33.3%	24.8%	5.1%	10.3%	100.0%
		Partnership	25.0%	42.9%	14.3%	17.9%		100.0%
		Family owned business	32.7%	32.7%	18.4%	10.2%	6.1%	100.0%
		Others	100.0%					100.0%
	Total		28.2%	34.4%	21.5%	8.2%	7.7%	100.0%

6.3.2.20 Business ownership by number of employees

With different types of ownerships such as sole traders, partnership and family owned businesses the researcher was interested to see if there is any relationship between the business ownership and the number of employees as per Table 6.28 below.

Table 6.28 below on business ownership by number of employees' shows that in the one to two employees category, indigenous SMEs sole traders are employing more as compared to the foreign SMEs. This is also the case with partnership and family owned businesses. It is different in the three to four employees category where it is noted that the foreign SMEs are employing more than the indigenous SMEs in all the business ownerships. Even the five to six employees category is dominated by the foreign SMEs and the same is seen in the seven to eight and more than 10 employees' category. The number of employees employed might mean that the business is performing very well since the high number of employees is a sign of growth and success of

the enterprise. Therefore the foreign SMEs are doing better than the indigenous SMEs. The number of employees does not necessarily correspond with the business sector but has more to do with the demands and profitability of the business.

Table 6.28: Business ownership by number of employees

			No. of Employees							Total
			One to two	Three to four						
Indigenous SMEs	Business ownership	Sole Trader	50.0%	17.2%	8.6%	1.7%		8.6%	13.8%	100.0%
		Partnership	27.3%	9.1%	18.2%			9.1%	36.4%	100.0%
		Family owned business	33.3%	13.3%	13.3%			6.7%	33.3%	100.0%
Foreign SMEs	Total		42.4%	15.2%	11.1%	1.0%		8.1%	22.2%	100.0%
	Business ownership	Sole Trader	15.8%	24.6%	22.8%	8.8%	1.8%	21.1%	5.3%	100.0%
		Partnership	11.8%	29.4%	23.5%	11.8%	17.6%	5.9%		100.0%
		Family owned business	10.5%	21.1%	15.8%	15.8%	5.3%	15.8%	15.8%	100.0%
		Others				100.0%				100.0%
	Total		13.8%	24.5%	21.3%	11.7%	5.3%	17.0%	6.4%	100.0%
Total	Business ownership	Sole Trader	33.0%	20.9%	15.7%	5.2%	.9%	14.8%	9.6%	100.0%
		Partnership	17.9%	21.4%	21.4%	7.1%	10.7%	7.1%	14.3%	100.0%
		Family owned business	24.5%	16.3%	14.3%	6.1%	2.0%	10.2%	26.5%	100.0%
		Others				100.0%				100.0%
	Total		28.5%	19.7%	16.1%	6.2%	2.6%	12.4%	14.5%	100.0%

6.3.2.21 Business ownership by capital invested

It is believed that the more you invest the more the returns are. It is based on this belief that the researcher looked at the business ownership based on the capital invested to see the similarities and differences as per the Table 6.29 below.

Table 6.29: Business ownership by capital invested.

			Capital Invested (MK000,000.00)					Total
			Less than MK 1	Between MK 2 and MK5	Between MK 6 and MK 10	More than MK 10	None (Please specify)	
Indigenous SMES	Business ownership	Sole Trader	61.0%	25.4%	6.8%	6.8%		100.0%
		Partnership	45.5%	27.3%	9.1%	18.2%		100.0%
		Family owned business	74.1%	11.1%	11.1%	3.7%		100.0%
	Total		62.9%	21.6%	8.2%	7.2%		100.0%
Foreign SMEs	Business ownership	Sole Trader	7.0%	28.1%	29.8%	35.1%		100.0%
		Partnership		35.3%	41.2%	23.5%		100.0%
		Family owned business	26.3%	15.8%	36.8%	15.8%	5.3%	100.0%
	Total		9.6%	26.6%	34.0%	28.7%	1.1%	100.0%
Total	Business ownership	Sole Trader	34.5%	26.7%	18.1%	20.7%		100.0%
		Partnership	17.9%	32.1%	28.6%	21.4%		100.0%
		Family owned business	54.3%	13.0%	21.7%	8.7%	2.2%	100.0%
	Total		36.6%	24.1%	20.9%	17.8%	.5%	100.0%

Table 6.29 above shows that most of the indigenous SMEs invested less than MK1, 000,000.00. There were 61% of sole traders, 45.5% of partnership and 74.1% of family owned business in this category as compared to only 7% of sole traders and 26.3% of family owned business in case of the foreign SMEs. As for the MK2, 000,000.00 to MK5, 000,000.00 foreign sole traders were 28.1% as compared to 25.4% for the indigenous SMEs. Partnership was 35.3% for the foreign SMEs whilst the indigenous SMEs it was 27.3%. Even in family owned business there were 15.8% of the foreign SMEs as compared to 11.1% for the indigenous SMEs. The case was the same in the MK6, 000,000.00 to MK10, 000,000.00 category and the more than MK10, 000,000.00 category at 34% and 28.7% for the foreign SMEs compared to 8.2% and 7.2% for the indigenous SMEs.

This shows that the investment by the foreign SMEs based on business ownership was much higher than the foreign SMEs, thus the better performance of the foreign SMEs over the indigenous SMEs.

6.3.2.22 *Educational levels of the Indigenous and Foreign SME owners*

In order to make a good comparison on the performances of the SMEs both indigenous and foreign SMEs, educational background of the owners of the SMEs was considered. Entrepreneurs with varied educational background from those with only a primary school certificate up to those with a doctorate degree formed part of the sample and not forgetting those that had no formal education.

Table 6.30: Educational background by nationality

	Educational qualification							Total
	Primary	Secondary	Diploma	Degree	Master's	Doctorate	Never Attended School	
Indigenous SMEs	17%	49%	22%	9%	1%	1%	1%	100%
Foreign SMEs	6%	26%	23%	34%	9%		2%	100%

Table 6.30 above shows that most of the foreign SMEs are highly educated as compared to the indigenous SMEs. There are 34% of foreign SMEs owners with a university degree as compared to 9% of the indigenous SMEs. This clearly demonstrates that education is significant in the success of a business. It has been noted that the foreign SMEs are doing better than the indigenous SMEs and this can attribute to a larger extent to the educational levels of the business owners. It is also noted that most of the indigenous SMEs have to a larger extent only a secondary certificate (49%), primary school certificates (17%) and just a few having college diplomas (23%) and a small 9% having a university degree. This also shows that most educated Malawians prefer getting employed than engaging in business. Those without formal education constituted only to 1% for the indigenous SMEs and 2% in the case of the foreign SMEs (Table 6.31).

Overall for both the indigenous and foreign SMEs it is noted that most of the entrepreneurs are better qualified with the majority having attained a secondary certificate followed by bachelors and master's degrees. Better education qualifications for entrepreneurs can be a key factor to the better understanding of running a business venture.

Table 6.31: Educational qualifications of both indigenous and foreign SMEs (N = 195).

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary school certificate	23	11.8	11.8	11.8
	Secondary certificate	73	37.4	37.4	49.2
	College diploma	45	23.1	23.1	72.3
	Bachelor's degree	41	21.0	21.0	93.3
	Master's degree	9	4.6	4.6	97.9
	Doctorate degree	1	.5	.5	98.5
	Never attended school	3	1.5	1.5	100.0
	Total	195	100.0	100.0	

6.3.2.23 *Highest educational qualification by type of business sector by nationality*

Highest education qualification was also examined, if it had any relationship for the choice of a business sector by the indigenous SMEs and foreign SMEs as per Table 6.32 below.

Table 6.32 below shows that most of the indigenous SMEs based on their highest education qualification by business sector are into trading, 100% for those who have never attended school and with a master's degree. This is followed by those with secondary certificate (89.4%), primary school certificate (75%), college diploma (69.6%) and bachelor's degree (55.6%). Only a few (9.2%) are into manufacturing, tourism (4.1%) and export (3.1%). It is also the same with the foreign SMEs with the majority of them into trading. It is noted that 100% are those with only a primary certificate, secondary certificate (66.7%), college diploma (54.5%), bachelor's degree (53.1%) and 50% for those who have never attended school. Those in export and tourism are well distributed. In export there are 37.5% of those having a master's degree unlike none for the indigenous SMEs, 18.8% in possession of a bachelor's degree as compared to 11.1% for the indigenous SMEs and 18.2% and 16.7% having college diploma and secondary certificate respectively as compared to 4.3% and 0% for the indigenous SMEs.

Table 6.32: Highest educational qualification by business sector

			Business sector					Total
			Manufacturing	Trading	Tourism	Export	Other business	
Indigenous SMEs	Highest educational qualification (Certificate)	Never attended school		100.0%				100.0%
		Primary	12.5%	75.0%			12.5%	100.0%
		Secondary	8.5%	89.4%	2.1%			100.0%
		Diploma	8.7%	69.6%	4.3%	4.3%	13.0%	100.0%
		Degree	11.1%	55.6%	22.2%	11.1%		100.0%
		Master's		100.0%				100.0%
		Doctorate				100.0%		100.0%
	Total		9.2%	78.6%	4.1%	3.1%	5.1%	100.0%
Foreign SMEs	Highest educational qualification	Never attended school		50.0%		50.0%		100.0%
		Primary		100.0%				100.0%
		Secondary	4.2%	66.7%	8.3%	16.7%	4.2%	100.0%
		Diploma	13.6%	54.5%	4.5%	18.2%	9.1%	100.0%
		Degree	9.4%	53.1%	15.6%	18.8%	3.1%	100.0%
		Master's		25.0%	37.5%	37.5%		100.0%
	Total		7.4%	57.4%	11.7%	19.1%	4.3%	100.0%
Total	Highest educational qualification	Never attended school		66.7%		33.3%		100.0%
		Primary	9.1%	81.8%			9.1%	100.0%
		Secondary	7.0%	81.7%	4.2%	5.6%	1.4%	100.0%
		Diploma	11.1%	62.2%	4.4%	11.1%	11.1%	100.0%
		Degree	9.8%	53.7%	17.1%	17.1%	2.4%	100.0%
		Master's		33.3%	33.3%	33.3%		100.0%
		Doctorate				100.0%		100.0%
	Total		8.3%	68.2%	7.8%	10.9%	4.7%	100.0%

The case is the same in tourism with the foreign SMEs averaging 11.7% to 4.1% for the indigenous SMEs. Much as highest education qualification is not seen as a determinant for the choice of a business sector it is noted that the foreign SMEs are well represented in all their sectors, much more than the indigenous SMEs. With most of the foreign SMEs in the lucrative export and tourism but also well represented in trading it is not a surprise that they are performing better than the indigenous SMEs confirming that education is key to the success of an enterprise.

6.3.2.24 Ownership of the Businesses

Performance of a business is sometimes dependent on how it was established. In this regard the researcher looked at how different owners both indigenous and foreigners founded their businesses. This was evaluated on the basis of whether they purchased, inherited or founded it.

Table 6.33: Nationality by ownership of the business

	Ownership of the business				Total
	Purchased	Inherited	Founded	Other (Please specify)	
Indigenous SMEs	19.8%	8.9%	71.3%		100.0%
Foreign SMEs	9.6%	11.7%	77.7%	1.1%	100.0%
Total	14.9%	10.3%	74.4%	.5%	100.0%

Table 6.33 above shows that most of the SMEs owners both indigenous and foreigners founded the businesses themselves. The table shows that there are 71.3% of indigenous SMEs and 77.7% foreign SMEs representing 75% of the total. It also shows that most indigenous SMEs did purchase their businesses as compared to the foreign SMEs at 19.8% and 9.6% respectively but more foreign SMEs operating in Malawi are as a result of inheritance as compared to those inherited by the indigenous SMEs. Based on both the indigenous and foreign SMEs it is noted that most of the entrepreneurs founded the business ventures themselves as opposed to purchasing and inheritance as indicated in Table 6.34 below.

Table 6.34: Ownership of the business by both the indigenous and foreign SMEs (N=195)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	I purchased it	29	14.9	14.9	14.9
	I inherited it	20	10.3	10.3	25.1
	I founded it	145	74.4	74.4	99.5
	Other (Please specify)	1	.5	.5	100.0
	Total	195	100.0	100.0	

6.3.2.25 *Businesses ownership by age*

Business ownership was also evaluated by age in order to see if age has any significance with the business ownership as per Table 6.35 below.

Table 6.35: Business ownership by age.

			Ownership of the business				Total
			Purchased	Inherited	Founded	Other (Please specify)	
Indigenous SMEs	Age	Below 20	66.7%		33.3%		100.0%
		21 - 25	20.0%	12.0%	68.0%		100.0%
		26 - 30	15.0%	10.0%	75.0%		100.0%
		31 - 35		15.0%	85.0%		100.0%
		Above 36	30.3%	3.0%	66.7%		100.0%
	Total		19.8%	8.9%	71.3%		100.0%
Foreign SMEs	Age	Below 20			100.0%		100.0%
		21 - 25	14.3%		71.4%	14.3%	100.0%
		26 - 30	10.0%	30.0%	60.0%		100.0%
		31 - 35	10.7%	17.9%	71.4%		100.0%
		Above 36	8.3%	6.3%	85.4%		100.0%
	Total		9.6%	11.7%	77.7%	1.1%	100.0%
Total	Age	Below 20	50.0%		50.0%		100.0%
		21 - 25	18.8%	9.4%	68.8%	3.1%	100.0%
		26 - 30	13.3%	16.7%	70.0%		100.0%
		31 - 35	6.3%	16.7%	77.1%		100.0%
		Above 36	17.3%	4.9%	77.8%		100.0%
	Total		14.9%	10.3%	74.4%	.5%	100.0%

Table 6.35 above shows that 66.7% of the indigenous SMEs below the age of 20 years purchased their businesses with 33.3% having founded them. This is in contrast to 100% of the foreign SMEs who founded their business in the same age group. Between the 21 to 25 years up to those above 36 years most of them founded their businesses for both the indigenous SMEs and foreign SMEs although it is found that more foreign SMEs founded their businesses unlike the indigenous SMEs with a difference of 6.4%. It is also noted that most of the indigenous SMEs overall purchased their businesses as compared to the foreign SMEs.

With most of the foreign SMEs having founded their businesses this might prove the reason for their successes over the indigenous SMEs as they might have a good understanding of their business, having founded it themselves, having followed all the stages of establishing the business and they had a good concept. It is also noted that more indigenous SMEs (19.8%)

purchased their businesses as compared to foreign SMEs (9.6%) who purchased their businesses which might be a challenge.

6.3.2.26 Business ownership by Gender

Table 6.36 below on business ownership by gender, shows that 23.6% of the male indigenous SMEs purchased their businesses as compared to 10.9% of the male foreign SMEs. The case is the same with 15.2% female indigenous SMEs who purchased their businesses compared to 6.7% of the female foreign SMEs. Most male indigenous SMEs inherited their businesses unlike their female counterparts. This might be as a result of cultural factors whilst the case is different with the foreign SMEs. 13.3% of the female foreign SMEs inherited their businesses as compared to 10.9% male respondents. It is seen that 80% of the female foreign SMEs and 76.1% of the female indigenous founded their businesses. This is higher than their male counterparts (76.6% and 67.3%) respectively. This might be as a result of the United Nations policy on female empowerment which has been adopted by most of the countries in the world including Malawi.

Table 6.36: Business ownership by gender.

			Ownership of the business				Total
			Purchased	Inherited	Founded	Other (Please specify)	
Indigenous SMEs	Gender	Male	23.6%	9.1%	67.3%		100.0%
		Female	15.2%	8.7%	76.1%		100.0%
	Total		19.8%	8.9%	71.3%		100.0%
Foreign SMEs	Gender	Male	10.9%	10.9%	76.6%	1.6%	100.0%
		Female	6.7%	13.3%	80.0%		100.0%
	Total		9.6%	11.7%	77.7%	1.1%	100.0%
Total	Gender	Male	16.8%	10.1%	72.3%	.8%	100.0%
		Female	11.8%	10.5%	77.6%		100.0%
	Total		14.9%	10.3%	74.4%	.5%	100.0%

6.3.2.26 Business ownership by highest educational qualification by nationality

As per the Table 6.37 below it is noted that 100% of both the indigenous and foreign SMEs who have never attended school founded their businesses. Basically most of the indigenous and foreign SMEs founded their businesses. It is seen that 11.7% of the foreign SMEs and 8.9% of

the indigenous SMEs inherited their businesses whilst 19.8% of the indigenous SMEs and 9.6% of the foreign SMEs purchased their businesses.

From the analysis it can be said that the level of education do have an impact on ownership of their businesses as most of the foreign SMEs founded their businesses as compared to the indigenous SMEs.

Table 6.37: Business ownership by highest educational qualification.

			Ownership of the business				Total
			Purchased	Inherited	Founded	Other (Please specify)	
Indigenous SMEs	Highest educational qualification (Certificate)	Never attended school			100.0%		100.0%
		Primary	17.6%		82.4%		100.0%
		Secondary	24.5%	14.3%	61.2%		100.0%
		Diploma	4.3%	8.7%	87.0%		100.0%
		Degree	33.3%		66.7%		100.0%
		Master's			100.0%		100.0%
		Doctorate	100.0%				100.0%
	Total		19.8%	8.9%	71.3%		100.0%
Foreign SMEs	Highest educational qualification	Never attended school			100.0%		100.0%
		Primary			100.0%		100.0%
		Secondary	12.5%	8.3%	79.2%		100.0%
		Diploma	9.1%	18.2%	72.7%		100.0%
		Degree	12.5%	12.5%	71.9%	3.1%	100.0%
		Master's		12.5%	87.5%		100.0%
	Total		9.6%	11.7%	77.7%	1.1%	100.0%
Total	Highest educational qualification	Never attended school			100.0%		100.0%
		Primary	13.0%		87.0%		100.0%
		Secondary	20.5%	12.3%	67.1%		100.0%
		Diploma	6.7%	13.3%	80.0%		100.0%
		Degree	17.1%	9.8%	70.7%	2.4%	100.0%
		Master's		11.1%	88.9%		100.0%
		Doctorate	100.0%				100.0%
	Total		14.9%	10.3%	74.4%	.5%	100.0%

6.3.2.27 *Motivation factors of the Indigenous and Foreign owners of the SMEs to start their businesses*

The reasons why an entrepreneur will start a particular business can have an impact on its success or failure. For this reason, the researcher had the indication to explore the various reasons that motivated the SMEs to start their own business and how that impacted on the overall success or failure.

Table 6.38: Nationality by motivation to start business

		Motivation				Total
		To create jobs	For recognition	For money	Other	
	Indigenous SMEs	20.8%	3.0%	75.2%	1.0%	100.0%
	Foreign SME	6.4%	1.1%	92.6%		100.0%
Total		13.8%	2.1%	83.6%	.5%	100.0%

Table 6.38 above shows that most entrepreneurs enter into business to make a living. This is demonstrated by the fact that 92.6% of the foreign SMEs and 75.2% of the indigenous SMEs did indicate that they were motivated to start their businesses for money. This proves the fact that most SMEs do not go into business for recognition and respect, which just falls within 2.1% of the respondents. In the case of going into business in order to create jobs had a combined total of only 13.8% for both the indigenous and the foreign SMEs.

6.3.2.28 *Motivation to start business by gender*

As the reasons why an entrepreneur will start a particular business can have an impact on its success or failure, the researcher also looked at how age can influence the reasons for an entrepreneur in starting a business. Table 6.39 below shows that most of the entrepreneur's motive of starting a business was for money. This is evident in looking at the high percentages by both the indigenous SMEs (75.2%) and the foreign SMEs (92.6%) who indicating money as a motivating factor. It is also seen that indigenous SMEs above 36 years (30%) and foreign SMEs between 21 and 25 years were motivated to start their businesses in order to create jobs. Recognition as a motivating factor is very obsolete. This show that age is not necessarily a motivating factor to start a business as it is shown that almost all the age groups are generally motivated by money in order to start a business.

Table 6.39: Motivation to start a business by age

			Motivation				Total
			To create jobs	For recognition	For money	Other (please specify)	
Indigenous SMEs	Age	Below 20 years			100.0%		100.0%
		Between 21 and 25 years	16.0%	12.0%	72.0%		100.0%
		Between 26 and 30 years	25.0%		75.0%		100.0%
		Between 31 and 35 years	10.0%		85.0%	5.0%	100.0%
		Above 36 years	30.3%		69.7%		100.0%
		Total	20.8%	3.0%	75.2%	1.0%	100.0%
Foreign SMEs	Age	Below 20 years			100.0%		100.0%
		Between 21 and 25 years	42.9%		57.1%		100.0%
		Between 26 and 30 years	10.0%		90.0%		100.0%
		Between 31 and 35 years	7.1%		92.9%		100.0%
		Above 36 years		2.1%	97.9%		100.0%
		Total	6.4%	1.1%	92.6%		100.0%
Total	Age	Below 20 years			100.0%		100.0%
		Between 21 and 25 years	21.9%	9.4%	68.8%		100.0%
		Between 26 and 30 years	20.0%		80.0%		100.0%
		Between 31 and 35 years	8.3%		89.6%	2.1%	100.0%
		Above 36 years	12.3%	1.2%	86.4%		100.0%
		Total	13.8%	2.1%	83.6%	.5%	100.0%

6.3.2.28 Motivation to start a business by gender

As with the case with the motivation to start a business by age, the same is noted for the motivation to start a business by gender, for money. From Table 6.40 below it is noted that 70.9% of the male indigenous SMEs and 92.2% of the male foreign SMEs all started their businesses for money. This is also the same with their female counter parts as 80.4% of the indigenous SMEs and 93.3% of the foreign SMEs had the same motivation of money for starting their businesses. This shows that money is the main factor for starting a business for most entrepreneurs and that creating jobs and for recognition is all secondary for both the indigenous SMEs and foreign SMEs.

Table 6.40: Motivation to start business by gender

			Motivation				Total
			To create jobs	For recognition	For money	Other (please specify)	
Indigenous SMEs	Gender	Male	25.5%	1.8%	70.9%	1.8%	100.0%
		Female	15.2%	4.3%	80.4%		100.0%
	Total		20.8%	3.0%	75.2%	1.0%	100.0%
Foreign SMEs	Gender	Male	7.8%		92.2%		100.0%
		Female	3.3%	3.3%	93.3%		100.0%
	Total		6.4%	1.1%	92.6%		100.0%
Total	Gender	Male	16.0%	.8%	82.4%	.8%	100.0%
		Female	10.5%	3.9%	85.5%		100.0%
	Total		13.8%	2.1%	83.6%	.5%	100.0%

6.3.2.29 Motivation by nationality by highest education qualification

Table 6.41 below shows that 100% of those who have never attended school and those with primary school certificate both indigenous and foreign SMEs were motivated to start their businesses for money. This is also the case with those with secondary school certificates and college diplomas at 69.4% and 84.6% and 91.9% and 95.5% of the indigenous and foreign SMEs respectively, were motivated for money to start their businesses. It is also noted that 55.6% of the indigenous SMEs with bachelor's degrees as compared to 90.6% of the foreign SMEs were motivated for money but 100% of the indigenous SMEs with master's and doctorate degree were motivated to start their businesses in order to create jobs unlike the foreign SMEs with master's degree (87.5%) who were motivated for money. Based on the analysis above where 75.5% of the indigenous SMEs and 92.6% of the foreign SMEs being motivated for money in starting their business justifies that entrepreneurs go into business mainly for money in order to make a living. As such the highest education attained is not necessarily a determining factor for starting a business as almost all entrepreneurs despite levels of education started their businesses for money.

Table 6.41: Motivation to start a business by highest educational qualification

			Motivation				Total
			To create jobs	For recognition	For money	Other (please specify)	
Indigenous SMEs	Highest educational qualification (Certificate)	Never attended school			100.0%		100.0%
		Primary			100.0%		100.0%
		Secondary	26.5%	4.1%	69.4%		100.0%
		Diploma	17.4%		82.6%		100.0%
		Degree	22.2%	11.1%	55.6%	11.1%	100.0%
		Master's	100.0%				100.0%
		Doctorate	100.0%				100.0%
	Total		20.8%	3.0%	75.2%	1.0%	100.0%
Foreign SMEs	Highest educational qualification	Never attended school			100.0%		100.0%
		Primary			100.0%		100.0%
		Secondary	8.3%		91.7%		100.0%
		Diploma	4.5%		95.5%		100.0%
		Degree	9.4%		90.6%		100.0%
		Master's		12.5%	87.5%		100.0%
	Total		6.4%	1.1%	92.6%		100.0%
Total	Highest educational qualification	Never attended school			100.0%		100.0%
		Primary			100.0%		100.0%
		Secondary	20.5%	2.7%	76.7%		100.0%
		Diploma	11.1%		88.9%		100.0%
		Degree	12.2%	2.4%	82.9%	2.4%	100.0%
		Master's	11.1%	11.1%	77.8%		100.0%
		Doctorate	100.0%				100.0%
	Total		13.8%	2.1%	83.6%	.5%	100.0%

6.3.2.31 *Levels of Investment of the Indigenous SMEs and Foreign SMEs*

In order to ascertain the success of the businesses for both the indigenous SMEs and the foreign SMEs the level of investment in the business was considered. This was done to ascertain whether the level of investment had any bearing on the success of the business. Consideration was made for those who had invested less than MK1,000,000 up to those who had an investment of more than MK10,000,000 (1 Rand = MK40).

Table 6.42: Nationality by capital invested

	Capital Invested (MK000,000.00)					Total
	Less than MK 1	Between MK 2 and MK5	Between MK 6 and MK 10	More than MK 10	None (Please specify)	
Indigenous SMEs	62.9%	21.6%	8.2%	7.2%		100.0%
Foreign SMEs	9.6%	26.6%	34.0%	28.7%	1.1%	100.0%
Total	36.6%	24.1%	20.9%	17.8%	.5%	100.0%

An analysis of Table 6.42 above shows that the level of investment had a significant bearing on the businesses. Most of the indigenous SMEs invested less than MK1,000,000 (63%) with 22% investing between MK2,000,000 and MK5,000,000 while only 8% invested between MK6,000,000 and MK10,000,000 and 7% investing more than MK10,000,000. There were no respondents who indicated that they did not invest any amount in running an SME business. As compared to the foreign SMEs most of their investment in the businesses were more significant with 27% having invested between MK2,000,000 and MK5,000,000, 34% between MK6,000,000 and MK10,000,000, 29% investing more than MK10,000,000, 10% having invested less than MK1,000,000. It can be deduced that the more the investment the more the returns and this seems to be one of the reasons why the foreign SMEs are doing better as compared to the indigenous SMEs. Overall it is seen that both indigenous and foreign SMEs invested less than MK1, 000,000.00 followed by those in the MK 2,000,000 and MK5, 000,000 and MK 6,000,000 and MK 10,000,000 bracket (Table 6.43).

Table 6.43: Investment levels by both the indigenous and foreign SMEs (N = 195)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than MK 1,000,000	70	35.9	36.6	36.6
	Between MK 2,000,000 and MK5, 000,000	46	23.6	24.1	60.7
	Between MK 6,000,000 and MK 10,000,000	40	20.5	20.9	81.7
	More than MK 10,000,000	34	17.4	17.8	99.5
	None	1	.5	.5	100.0
	Total	191	97.9	100.0	
Missing	System	4	2.1		
Total		195	100.0		

6.4 OVERVIEW AND THE CURRENT STATE OF THE SME SECTOR IN MALAWI

The SMEs sector in Malawi is very diverse in terms of the participation by nationality, level of education background of SMEs players and period in business. In order to analyze the indigenous and foreign SMEs in Malawi, this researcher used basic statistics such as frequency and means and correlation calculations, chi-square tests and cross tabulations for some key variables.

6.4.1 Correlation for demographic factors

A correlation (Spearman's correlation) is useful when you want to see the relationship between two (or more) normally distributed interval variables. It was therefore applied in this study and the correlation matrix in Table 6.44 below depicts the relationships that exist among various demographic variables. For instance, at ** Correlation is significant at the 0.01 level (2-tailed) and *. Correlation is significant at the 0.05 level (2-tailed). A demographic variable 'Nationality' is significantly correlated with highest educational qualification, motivation, capital invested, age and business sector and capital invested. From the correlation matrix below, it clearly shows that there is strong correlation between nationality and capital invested at $r=.569^{**}$ and also highest educational qualification and capital invested $r=.422$. This implies that the amount in investments increases with highest education qualification attained.

Table 6.44: Spearman's Correlation for Demographic Factors

	Nationality	Age	Gender	Business sector	Business ownership	Highest Educational Qualification	Period in business	Motivation	Number of employees	Capital invested
Nationality	1									
Age	.273** 0	1								
Gender	-0.14 0.052	-0.131 0.067	1							
Business sector	.225** 0.002	0.033 0.646	-0.041 0.576	1						
Business ownership	-0.039 0.586	-0.109 0.131	-0.062 0.392	0.081 0.264	1					
Highest educational qualification	.356** 0	.217** 0.002	-.211** 0.003	.231** 0.001	-0.026 0.72	1				
period in business	0.012 0.865	.350** 0	-0.094 0.19	0.096 0.183	-0.07 0.334	0.08 0.265	1			
Motivation	.208** 0.004	0.111 0.123	0.028 0.694	0.05 0.491	-0.002 0.98	-0.036 0.618	0.063 0.383	1		
Number of employees	.152* 0.034	0.1 0.169	-.183* 0.011	0.136 0.061	.163* 0.023	0.04 0.58	.152* 0.035	0.088 0.222	1	
Capital invested	.569** 0	.304** 0	-.300** 0	.241** 0.001	-0.081 0.264	.422** 0	.171* 0.018	0.103 0.156	.307** 0	1

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

6.5 MARKETING FACTORS THAT CONTRIBUTE TO PERFORMANCES OF THE SMEs

Different marketing factors were analysed to explain the performance gaps that may seem to exist between indigenous SMEs and international SMEs in Malawi due to marketing approaches

which enabled the researcher to explore the prevailing reasons behind the success of foreign enterprises in Malawi.

6.5.1 Marketing Factors that contribute to performances of the SMEs

The study collected the data to explain performance gaps that may exist between indigenous SMEs and foreign SMEs in Malawi due to marketing approaches and also enabled the researcher to explore the prevailing reasons behind the success of the foreign SMEs in Malawi.

6.5.2 Factor analysis

Factor analysis was employed as a form of exploratory multivariate analysis to reduce the number of variables in a model and to detect relationships among variables. It was used because all variables were assumed to be normally distributed. In this study therefore, the goal of the analysis was to try to identify factors that are underlying to the variables. A principal components extraction was used to retain significant factors whose eigen values were above 1.

6.5.3 Factors or Reasons that contributes indigenous SMEs fail to perform better than the foreign SMEs

The factor analysis technique was used to determine the factors that really contribute to the failing of indigenous SMEs to perform better than the foreign SMEs

Table 6.45: Descriptive Statistics.

		Std. Deviation	Analysis N
Lack of planning	3.8444	.91433	180
Poor management	3.8611	.89545	180
Lack of support	4.2000	.95952	180
Lack of credit facility	3.7667	.87229	180
People's belief that anything foreign is superior	4.2833	1.12003	180
Improper financing	3.8000	.91786	180

From Table 6.45 above on Total Variance Explained, the variables with Eigen values above 1 are the ones retained and their Total variation accounts for over 75%. In this case therefore, Lack of planning, poor management and Lack of support are major factors that contribute to indigenous SMEs' failing to perform better than the foreign SMEs. This is also the case in Table 6.46 below, of the extraction method using the principal component analysis as the extraction sums of

squared loadings. Table 6.46 supports Table 4.45 above that indicates that lack of planning, poor management and lack of support are also the major factors that contribute indigenous SMEs fail to perform better than the foreign SMEs.

Table 6.46: Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
Lack of planning	1.939	32.320	32.320	1.939	32.320	32.320
Poor management	1.515	25.248	57.568	1.515	25.248	57.568
Lack of support	1.053	17.552	75.120	1.053	17.552	75.120
Lack of credit facility	.609	10.155	85.275			
People's belief that anything foreign is superior	.459	7.646	92.921			
Improper financing	.425	7.079	100.000			

Extraction Method: Principal Component Analysis.

6.5.4 The factors that are seriously considered by the SMEs when starting business

The factor analysis technique was used to determine which factors are considered by the SMEs when starting a business. The extraction method using the principal component analysis was used.

Table 6.47: Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
Competitor analysis	2.636	65.906	65.906	2.636	65.906	65.906
Customer analysis	.642	16.054	81.960			
Market analysis	.417	10.422	92.382			
Environmental analysis	.305	7.618	100.000			

Extraction Method: Principal Component Analysis.

From Table 6.47 above of Total Variance Explained, the variable with an Eigen value above 1 is the one that was retained as its total variation accounts for over 65%. In this case therefore it is

only Competitors' analysis which is considered highly as a key factor by both the indigenous and foreign SMEs when starting a business. It should be noted that for a success of a business, the other factors of customer analysis and market analysis should also be considered seriously. The case should also be the same with environmental analysis. It is the belief of the researcher that all the factors above are of significance for the success of an enterprise.

6.5.5 The key Factors that impacting the operations of SMEs business in Malawi

The study also explored the factors that are impacting the operations of SMEs in Malawi. The Factor analysis technique was used to do that.

Table 6.48: KMO and Bartlett's Test.

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.497
Bartlett's Test of Sphericity	Approx. Chi-Square	94.965
	Df	10
	Sig.	.000

Based on the KMO and Bartlett's test .497, and $p < 0.000$, this implies that the test was significant. To retain the variables/factors that really affect operations of SMEs in Malawi, the study based on Total Variance Explained and as a rule of thumb, all factors with Eigen values above 1 are considered as key factors. Based on Table 6.49 below of total variance explained, high cost of doing business and tax and customs administration have Eigen values above 1, as these are considered as factors affecting the operations of SMEs in Malawi.

Table 6.49: Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
High cost of doing business	1.748	34.962	34.962	1.748	34.962	34.962
Tax and customs administration	1.174	23.472	58.434	1.174	23.472	58.434
Unfair playing field	.978	19.554	77.988			
Licensing	.670	13.408	91.396			
Competition	.430	8.604	100.000			

Extraction Method: Principal Component Analysis.

6.5.6 Principal Component Analysis (PCA) for factors affecting operations of SMEs

Principle Component Analysis is appropriate when you have variables and wish to develop a smaller number of artificial variables (called principal components) that will account for most of the variables observed. The principal component may then be used as a predictor or criterion variable in subsequent analyses. This researcher had a number of variables as in Table 6.50 below. The first principal component (pc1) in Table 6.50 below can be regarded as a measure of the competition, and it is positively related to licensing, high cost of doing business, unfair playing field. This implies therefore, to have improved competition we need to improve on the licensing and unfair playing field. The second principal component (pc2) in Table 6.50 below can be regarded as a measure of the impact of tax and customs, and it is negatively related to competition and unfair playing field. This implies therefore, the increase in impact of tax and customs in pc2, leads to decreases competition and unfair playing field. This suggests that for Malawi to improve performance of SMEs operations, high cost of doing business and the impact of tax and customs should be considered seriously.

Table 6.50: The First Principal Component (pca).

	Component	
	1	2
Competition	.806	-.231
Licensing	.709	.237
Unfair playing field	.659	-.320
High cost of doing business	.389	.356
Impact of tax and customs		.914

6.5.7 The correlation matrix for all significant factors

A correlation (Spearman's correlation) is useful when you want to see the relationship between two (or more) normally distributed interval variables. It was therefore applied in this study and the correlation matrix in table 6.51 below depicts the relationships that exist among various demographic variables.

Table 6.51: Spearman's rho Correlations Matrix for all key Factors affecting SMEs in Malawi

	Lack of planning	Poor management	Lack of credit facility	Lack of support	Competitor analysis	Vision	Determination	High cost of doing business	Impact of tax and customs
Lack of planning	1								
Poor management	.550**	1							
Lack of credit facility	0.102	0.031	1						
Lack of support	0.166	0.677	.301**	1					
Competitor analysis	0.05	0.021	0	.502	1				
Vision	.273**	.230**	0.094	0.108	.264**	1			
Determination	0	0.002	0.211	0.151	0	.404**	1		
High cost of doing business	0.143	0.006	0.122	0.903	.297**	0	0.083	1	
Impact of tax and customs	.197**	0.128	0.115	-0.01	0	0	0.28	.259**	1
	0.01	0.096	0.133	0.895	0.085	0.245	-0.056	0	.
	0.106	0.14	0.092	.164*	0.257	-0.087	0.462		
	0.16	0.066	0.219	0.029	0.076				
	0.104	0.079	0.003	0.102	0.308				
	0.166	0.299	0.969	0.172					

** . Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

For instance, at ** Correlation is significant at the 0.01 level (2-tailed) and *. Correlation is significant at the 0.05 level (2-tailed). A demographic variable “Nationality” is significantly correlated with highest educational qualification, motivation, capital invested, age and business sector and capital invested. From the above correlation matrix, it clearly shows that there is strong correlation between nationality and capital invested at $r=.569^{**}$ and also highest educational qualification and capital invested $r=.422$. This implies that amount in investments increases with highest education qualification educations attained.

6.5.8 The various Marketing and Selling Promotional methods used by SMEs in Malawi

The researcher analyzed the various marketing and sales promotions employed by the various SMEs. This also helped in determining the impact of those methods on the success of the various SMEs, both indigenous and foreign. For the survival of any business it is important that there should be some sort of advertising in order to communicate to both the existing customers and potential customers. It is imperative that there has to be some sort of marketing/selling

promotion. The type of promotion will always depend on the size and capacity of the business, but more also the type of audience that is being targeted.

Table 6.52 shows that 48.5% of the indigenous SMEs and 55.3% of the foreign SMEs make use of word of mouth. In case of in store promotions it was 13.8% for the foreign SMEs as compared to 7.8% in the case of the indigenous SMEs. The use of leaflets as a method of promotion by the foreign SMEs was 67% as compared to the indigenous SMEs, which was 17.8%. Printed advertising and radio advertising was not the preferred method by both the foreign SMEs and the indigenous SMEs as they are believed to be expensive. The totals do not add up to 100% as some of the indigenous and foreign SMEs had more than one method of marketing/selling promotion. For both the indigenous and foreign SMEs, it is noted that word of mouth is the most preferred method of promotion as per Table 6.53 below. This proves the fact that word of mouth is regarded as the most effective and cheap method.

Table 6.52: Marketing/selling promotion methods by nationality.

	Word of mouth	In store Promotion	Trade shows	Leaflets	Print	Radio	None
Indigenous SMEs	48.5%	7.9%	21.8%	17.8%	12.9%	6.9%	10.9%
Foreign SMEs	55.3%	13.8%	5.3%	67%	13.8%	2.1%	6.4%
Average	51.8%	10.8%	13.8%	41.5%	13.3%	4.6%	8.7%

Table 6.53: Promotion methods by both the indigenous and foreign SMEs (N = 195)

	Frequency	Percent	Valid Percent	Cumulative Percent
Word of mouth	100	51.3	51.3	51.3
In store promotion	11	5.6	5.6	56.9
Trade shows	27	13.8	13.8	70.8
Leaflet advertising	28	14.4	14.4	85.1
Print advertising	8	4.1	4.1	89.2
Radio advertising	4	2.1	2.1	91.3
None	17	8.7	8.7	100.0
Total	195	100.0	100.0	

6.5.9 Marketing and selling promotion by gender

In Table 6.54 below on marketing and selling promotion by gender, most of the female SMEs both foreign and indigenous opts for word of mouth and leaflets. This is not surprising as most of the business ladies are free to approach and express themselves to their prospective customers unlike men who are known to be shy. This is also the case with trade shows. Both indigenous and foreign SMEs men are more dominant in print and radio as it does not require physical contact so too with in store promotion. This proves that gender has an impact on the choice of the type of marketing/selling promotion method. This could be the reason why most businesses opt for the female employee when they want to promote their businesses or products by the use of word of mouth and the distribution of leaflets and trade shows but it is also seen that there are more foreign SMEs using word of mouth as compared to the indigenous SMEs.

Table 6.54: Marketing and selling promotion by gender

			Word of mouth	In store promotion	Trade shows	Leaflet advertisement	Print advertisement	Radio advertisement	None
Indigenous SMEs	Gender	Male	41.8%	10.9%	18.2%	18.2%	16.4%	12.7%	12.7%
		Female	56.5%	4.3%	26.1%	17.4%	8.7%		8.7%
	Total		48.5%	7.9%	21.8%	17.8%	12.9%	6.9%	10.9%
Foreign SMEs	Gender	Male	50.0%	15.6%	4.7%	62.5%	15.6%	3.1%	9.4%
		Female	66.7%	10.0%	6.7%	76.7%	10.0%		
	Total		55.3%	13.8%	5.3%	67.0%	13.8%	2.1%	6.4%
Total	Gender	Male	53.8%	13.4%	10.9%	42.0%	16.0%	7.6%	10.9%
		Female	39.5%	6.6%	18.4%	40.8%	9.2%		5.3%
	Total		48.2%	10.8%	13.8%	41.5%	13.3%	4.6%	8.7%

6.5.10 Marketing/selling promotions by highest educational qualification by nationality

Table 6.55 below on highest educational qualification it is seen that most of the SMEs both indigenous and foreign use the word of mouth as a means of promotion. This is followed by leaflets and printed advertising for the indigenous SMEs. Radio advertising is least used and may be due to it being an expensive means of advertising and the less impact it may have. Leaflet advertising is also very popular with the foreign SMEs at 67% followed by in store and printed advertising at 13.8% for each. Radio advertising and trade shows are least used by the foreign SMEs. The differences and similarities by the indigenous and foreign SMEs on the advertising media used are as a result of their target groups. It is surprising though for the indigenous SMEs who have never attended school to opt for trade shows and for the foreign SMEs to opt for in store promotions. It is believed that the choice of an advertising method do correspond with the level of education as the SMEs do have an understanding of the impact of the method used and

its financial implication. It is noted that most of the SMEs are using the word of mouth method which has a very high impact followed by leaflets. Radio and printed advertising are not very popular since they are expensive in nature, the same with trade shows.

Table 6.55: Marketing and selling promotion method by highest educational qualification

Indigenous SMEs	Highest educational qualification	Never attended school	Word of mouth	In store promotion	Trade shows	Leaflet advertisement	Print advertisement	Radio advertisement	None
					100.0%				
Foreign SMEs	Total Highest educational qualification	Primary school certificate	52.9%		29.4%	23.5%			17.6%
		Secondary certificate	40.8%	6.1%	28.6%	10.2%	10.2%	8.2%	12.2%
		College diploma	52.2%	17.4%	8.7%	21.7%	30.4%	8.7%	4.3%
		Bachelor's degree	77.8%	11.1%		44.4%	11.1%		11.1%
		Master's degree	100.0%					100%	
		Doctorate degree		7.9%	21.8%	17.8%	12.9%	6.9%	10.9%
		Never attended school		100.0%					
Total	Total Highest educational qualification	Primary school certificate	66.7%			83.3%			16.7%
		Secondary certificate	50.0%	12.5%	16.7%	58.3%	12.5%		12.5%
		College diploma	68.2%	13.6%		68.2%	4.5%	9.1%	4.5%
		Bachelor's degree	62.5%	15.6%	3.1%	71.9%	12.5%		3.1%
		Master's degree	12.5%			75.0%	62.5%		
		Doctorate degree		13.8%	5.3%	67.0%	13.8%	2.1%	6.4%
		Never attended school		66.7%	33.3%				
		Primary school certificate	56.5%		21.7%	39.1%			17.4%
		Secondary certificate	43.8%	8.2%	24.7%	26.0%	11.0%	5.5%	12.3%
		College diploma	60.0%	15.6%	4.4%	44.4%	17.8%	8.9%	4.4%
		Bachelor's degree	65.9%	14.6%	2.4%	65.9%	12.2%		4.9%
		Master's degree	22.2%			66.7%	55.6%	100.0%	
	Total	Doctorate degree	51.8%	10.8%	13.8%	41.5%	13.3%	4.6%	8.7%

6.5.11 Marketing Plan(s) by the Indigenous SMEs and Foreign SMEs

The success of any undertaking will be very dependent on how well the planning is. Even in a business, planning is of paramount importance. The success or failure will result mostly on how well the foundation is. In this regard it is important for a business venture to have a plan. A marketing plan is used as a guide to direct an entrepreneur on what is expected of the business. It is also used as a guide to direct an entrepreneur on the running of the business. The indigenous SMEs and the foreign SMEs were asked whether they had a marketing plan in the running of their businesses as per the Table 6.56 below.

Table 6.56: Possession of Marketing Plan by nationality

		Marketing Plan		Total
		Yes	No	
Nationality	Indigenous SMEs	80.2%	19.8%	100.0%
	Foreign SMEs	94.7%	5.3%	100.0%
Total		87.4%	12.6%	100.0%

Table 6.57: Marketing plan for both the indigenous and foreign SMEs (N = 195).

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	166	85.1	87.4	87.4
	No	24	12.3	12.6	100.0
	Total	190	97.4	100.0	
Missing	System	5	2.6		
Total		195	100.0		

Table 6.56 shows that both the foreign SMEs and the indigenous SMEs had clear marketing plans in the running of their business. In the case of the indigenous SMEs, 80.2% have a marketing plan with 94.7% of the foreign SMEs having a marketing plan. This outcome demonstrates that both the indigenous SMEs and the foreign SMEs have marketing plans with only 19.8% and 5.3% respectively operating without a marketing plan. From Table 6.57 it's clear that 166 indigenous and foreign SMEs tend to have a clearly thorough marketing plan as

opposed to those not having a marketing plan. This just shows how important a marketing plan is for the success of a business venture.

6.5.12 Marketing plan by business ownership

The importance of a marketing plan for the success of a business for both the indigenous and the foreign SMEs were embraced (Table 6.58). For indigenous SMEs there are 74.6% of sole traders with a marketing plan as compared to 25.4% who do not have a marketing plan. This is also the case with the foreign SMEs where 96.5% of them had a marketing plan. As for family owned businesses there are 94.7% of the foreign SMEs and 88.5% of the indigenous SMEs with a marketing plan. In the case of partnerships it is noted that 90.9% of the indigenous SMEs and 88.2% of the foreign SMEs had a marketing plan. This shows that both the indigenous and foreign SMEs appreciate the importance of a marketing plan for the success of a business as both of them tend to have a business plan, though there are more foreign SMEs as compared to the indigenous SMEs.

Table 6.58: Business ownership by marketing plan

			Marketing plan		Total
			Yes	No	
Indigenous SMEs	Business ownership	Sole Trader	74.6%	25.4%	100.0%
		Partnership	90.9%	9.1%	100.0%
		Family owned business	88.5%	11.5%	100.0%
		Total	80.2%	19.8%	100.0%
Foreign SMEs	Business ownership	Sole Trader	96.5%	3.5%	100.0%
		Partnership	88.2%	11.8%	100.0%
		Family owned business	94.7%	5.3%	100.0%
		Others	100.0%		100.0%
		Total	94.7%	5.3%	100.0%
Total	Business ownership	Sole Trader	85.3%	14.7%	100.0%
		Partnership	89.3%	10.7%	100.0%
		Family owned business	91.1%	8.9%	100.0%
		Others	100.0%		100.0%
		Total	87.4%	12.6%	100.0%

6.5.13 Marketing plan by business sector by nationality

Despite the fact that both the indigenous SMEs and the foreign SMEs generally have a business plan, the researcher was also interested to look at a marketing plan by business sector as per table 6.59 below.

Table 6.59: Business sector by marketing plan

			Marketing Plan		Total
			Yes	No	
Indigenous SMEs	Business sector	Manufacturing	66.7%	33.3%	100.0%
		Trading	80.6%	19.4%	100.0%
		Tourism	100.0%		100.0%
		Export	100.0%		100.0%
		Other business	60.0%	40.0%	100.0%
	Total		79.6%	20.4%	100.0%
Foreign SMEs	Business sector	Manufacturing	100.0%		100.0%
		Trading	96.3%	3.7%	100.0%
		Tourism	81.8%	18.2%	100.0%
		Export	94.4%	5.6%	100.0%
		Other business	100.0%		100.0%
	Total		94.7%	5.3%	100.0%
Total	Business sector	Manufacturing	81.3%	18.8%	100.0%
		Trading	87.3%	12.7%	100.0%
		Tourism	86.7%	13.3%	100.0%
		Export	95.2%	4.8%	100.0%
		Other business	77.8%	22.2%	100.0%
	Total		87.2%	12.8%	100.0%

Table 6.59 above shows that 100% of those in tourism, and export for the indigenous SMEs and manufacturing for the foreign SMEs had a marketing plan. It is also noted that 66.7% and 80.6% for those in the manufacturing and trading sector for the indigenous SMEs had a marketing plan. As for the foreign SMEs the case was the same with 96.3% in trading, 81.8% in tourism and 94.4% in export. This shows that the success of a business is very much dependent on a well written and executed plan.

6.5.14 Competitive advantages of Indigenous SMEs and Foreign SMEs

The success of a business is largely dependent on its competitive advantage(s). The indigenous SMEs and the foreign SMEs were asked what they thought were their competitive advantages. Some of the SMEs did indicate more than one area which they thought were better than the others as per Table 6.60 below.

Table 6.60: Nationality by competitive advantage

	Competitive advantage	Price	Quality	Speed to market	Technical	Service	Total
Foreign SMEs		50.0%	33.0%	6.4%	2.1%	8.5%	100.0%
Indigenous SMEs		78.7%	14.9%	1.1%	1.1%	4.3%	100.0%
Total		64.4%	23.9%	3.7%	1.6%	6.4%	100.0%

Table 6.60 above shows that most of the foreign SMEs have price and quality as their competitive advantages in the market place at 79% and 34% respectively as compared to the indigenous SMEs who have price at 50% and quality at 14%. The foreign SMEs have been selling their products at a reasonable price and at the same time offering quality products and gaining on turnover as compared to the indigenous SMEs. Both indigenous and foreign SMEs did indicate more than one competitive advantage thus the totals were less than 100% and more than 100% in some instances. By using price as a competitive advantage they have been able to sell many products and despite the marginal profits the turnover has been working to their advantage. As a result they have been successful in their businesses as compared to the indigenous SMEs who are after maximizing their profits resulting in the slow movement of their products thus tying capital to the business. According to Table 6.61 below it is evident that most of the SMEs both indigenous and foreign regard pricing as a competitive advantage followed by quality. This is from the perception that most buyers tend to think of price before making a decision to either buy or not.

Table 6.61: Competitive advantages for both the indigenous and foreign SMEs (N = 195)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Price	121	62.1	64.4	64.4
	Quality	45	23.1	23.9	88.3
	Speed to market	7	3.6	3.7	92.0
	Technical	3	1.5	1.6	93.6
	Service	12	6.2	6.4	100.0
	Total	188	96.4	100.0	
Missing	System	7	3.6		
Total		195	100.0		

6.5.15 Age by competitive advantage by nationality

Table 6.62 below, on age by competitive advantage shows that the indigenous SMEs below 20 years used price (66.7%) and quality (33.3%) as a competitive advantage while the foreign SMEs of the same age group had quality (100%) as a competitive advantage. As for those between 21 and 25 years indigenous SMEs had price (39.1%) followed by quality (30.4%) and speed to market and service (13%) whilst the foreign SMEs used quality (42.9%) followed by price (28.6%). It is noted that the other age groups are also dominated by price and quality for both the indigenous SMEs and foreign SMEs.

This proves the fact that price and quality are the most sought competitive advantages especially price for most of the customers. It should be noted that for most products and services price denotes quality and *vice versa* and at the same time price plays a psychological factor for the customer's decision to purchase. It is seen that more of the foreign SMEs (50%) are using price as a competitive advantage as compared to the indigenous SMEs (78.7%) based on age by competitive advantage.

Table 6.62: Competitive advantage by age.

			Competitive advantage					Total
			Price	Quality	Speed to market	Technical	Service	
Indigenous SMEs	Age	Below 20	66.7%	33.3%				100.0%
		21 - 25	39.1%	30.4%	13.0%	4.3%	13.0%	100.0%
		26 - 30	41.2%	52.9%	5.9%			100.0%
		31 - 35	31.6%	42.1%	5.3%	5.3%	15.8%	100.0%
		Above 36	71.9%	18.8%	3.1%		6.3%	100.0%
	Total		50.0%	33.0%	6.4%	2.1%	8.5%	100.0%
Foreign SMEs	Age	Below 20		100.0%				100.0%
		21 - 25	28.6%	42.9%		14.3%	14.3%	100.0%
		26 - 30	70.0%	20.0%			10.0%	100.0%
		31 - 35	89.3%	7.1%			3.6%	100.0%
		Above 36	83.3%	12.5%	2.1%		2.1%	100.0%
	Total		78.7%	14.9%	1.1%	1.1%	4.3%	100.0%
Total	Age	Below 20	50.0%	50.0%				100.0%
		21 - 25	36.7%	33.3%	10.0%	6.7%	13.3%	100.0%
		26 - 30	51.9%	40.7%	3.7%		3.7%	100.0%
		31 - 35	66.0%	21.3%	2.1%	2.1%	8.5%	100.0%
		Above 36	78.8%	15.0%	2.5%		3.8%	100.0%
	Total		64.4%	23.9%	3.7%	1.6%	6.4%	100.0%

6.5.16 Gender by competitive advantage by gender

Gender was also used to see how it is used for competitive advantage for both the indigenous SMEs and the foreign SMEs as per Table 6.63 below. In terms of gender by competitive advantage it is shown that 73.4% of the male foreign SMEs are using price as a competitive advantage as compared 44.2% of the indigenous SMEs. A larger percentage of women foreign SMEs (90%) are also using price as a competitive advantage while for the women indigenous SMEs using price as a competitive advantage the percentage is 57.1%. Quality is second and service third for both the indigenous and foreign SMEs. This proves the importance of price and quality as a competitive advantage in the market place. In some instances the figures are not adding up to 100% since some respondents chose only one attribute and some more than one. From the analysis it is seen that there are more foreign SMEs using price as a competitive advantage than the indigenous SMEs.

Table 6.63: Competitive advantage by gender

			Competitive advantage					Total
			Price	Quality	Speed to market	Technical	Service	
Indigenous SMEs	Gender	Male	44.2%	34.6%	5.8%	1.9%	13.5%	100.0%
		Female	57.1%	31.0%	7.1%	2.4%	2.4%	100.0%
	Total		50.0%	33.0%	6.4%	2.1%	8.5%	100.0%
Foreign SMEs	Gender	Male	73.4%	20.3%		1.6%	4.7%	100.0%
		Female	90.0%	3.3%	3.3%		3.3%	100.0%
	Total		78.7%	14.9%	1.1%	1.1%	4.3%	100.0%
Total	Gender	Male	60.3%	26.7%	2.6%	1.7%	8.6%	100.0%
		Female	70.8%	19.4%	5.6%	1.4%	2.8%	100.0%
	Total		64.4%	23.9%	3.7%	1.6%	6.4%	100.0%

6.5.17 Competitive advantage by business sector by nationality

The data on business sector by competitive advantage shows that in the manufacturing sector quality is mostly used as competitive advantage by the indigenous SMEs (62.5%) while foreign SMEs are using both price (57.1%) and quality (42.9%). As for trading, tourism and export the indigenous SMEs are using mostly price and quality for trading and tourism with speed to market (66.7%) and price (33.3%) for export. The case is the same for the foreign SMEs who are using price as a competitive advantage for trading (83.3), tourism (81.8%) and export (77.8%). The data is presented in Table 6.64 below.

Table 6.64: Competitive advantage by business sector.

			Competitive advantage					Total
			Price	Quality	Speed to market	Technical	Service	
Indigenous SMEs	Business sector	Manufacturing		62.5%	12.5%		25.0%	100.0%
		Trading	56.9%	29.2%	4.2%	2.8%	6.9%	100.0%
		Tourism	50.0%	50.0%				100.0%
		Export	33.3%		66.7%			100.0%
		Other business	25.0%	50.0%			25.0%	100.0%
	Total		49.5%	33.0%	6.6%	2.2%	8.8%	100.0%
Foreign SMEs	Business sector	Manufacturing	57.1%	42.9%				100.0%
		Trading	83.3%	11.1%		1.9%	3.7%	100.0%
		Tourism	81.8%	9.1%	9.1%			100.0%
		Export	77.8%	22.2%				100.0%
		Other business	50.0%				50.0%	100.0%
	Total		78.7%	14.9%	1.1%	1.1%	4.3%	100.0%
Total	Business sector	Manufacturing	26.7%	53.3%	6.7%		13.3%	100.0%
		Trading	68.3%	21.4%	2.4%	2.4%	5.6%	100.0%
		Tourism	73.3%	20.0%	6.7%			100.0%
		Export	71.4%	19.0%	9.5%			100.0%
		Other business	37.5%	25.0%			37.5%	100.0%
	Total		64.3%	23.8%	3.8%	1.6%	6.5%	100.0%

6.5.18 Competitive advantage by business ownership

The researcher also used business ownership to see the competitive advantages used by both the foreign SMEs and the indigenous SMEs as per the Table 6.65 below. Most of the sole traders both indigenous SMEs and foreign SMEs as using price and quality as a competitive advantage. Indigenous SMEs who are in partnership are using mostly quality, speed to market and price in that order unlike the foreign SMEs who still regard price and quality as a competitive advantage. As for the family owned businesses most of the foreign SMEs (73.7%) are using price as a competitive advantage as compared to 37.9% of the indigenous SMEs who are using price with most of the indigenous SMEs (41.4%) using quality as a competitive advantage. Based on business ownership it is seen that the foreign SMEs are using price more as a competitive advantage than the foreign SMEs while the indigenous SMEs are using quality more than the foreign SMEs. The high use of price as a competitive advantage by the foreign SMEs could be the reason why the foreign SMEs are performing better than the indigenous SMEs.

Table 6.65: Competitive advantage by business ownership.

			Competitive advantage					Total
			Price	Quality	Speed to market	Technical	Service	
Indigenous SMEs	Business ownership	Sole Trader	61.8%	27.3%	3.6%		7.3%	100.0%
		Partnership	20.0%	40.0%	30.0%	10.0%		100.0%
		Family business owned	37.9%	41.4%	3.4%	3.4%	13.8%	100.0%
		Total	50.0%	33.0%	6.4%	2.1%	8.5%	100.0%
Foreign SMEs	Business ownership	Sole Trader	86.0%	14.0%				100.0%
		Partnership	64.7%	29.4%	5.9%			100.0%
		Family business owned	73.7%	5.3%		5.3%	15.8%	100.0%
		Others					100.0%	100.0%
		Total	78.7%	14.9%	1.1%	1.1%	4.3%	100.0%
Total	Business ownership	Sole Trader	74.1%	20.5%	1.8%		3.6%	100.0%
		Partnership	48.1%	33.3%	14.8%	3.7%		100.0%
		Family business owned	52.1%	27.1%	2.1%	4.2%	14.6%	100.0%
		Others					100.0%	100.0%
		Total	64.4%	23.9%	3.7%	1.6%	6.4%	100.0%

6.5.19 Competitive advantage by highest educational qualification

Highest educational qualification by competitive advantage was also used to compare the performance of both the foreign SMEs and the indigenous SMEs as illustrated in Table 6.66 below. Highest educational qualification by competitive advantage shows that indigenous SMEs who have never attended school are using quality as a competitive advantage while their foreign counterparts are using price and quality as a competitive advantage. The indigenous SMEs with primary school certificates, school certificates, college diplomas and bachelor's degrees are using price and quality. This is also the case with the foreign SMEs. As such it is price (64.4%) and quality (23.9%) that is dominant based on highest education qualification as a competitive advantage. This shows that educational qualification has a bearing on the choice of competitive advantage for an entrepreneur. From the analysis it also shows that most of the foreign SMEs are using price as a competitive advantage based on highest educational qualification as compared to the indigenous SMEs with the indigenous SMEs using quality as a competitive advantage more than the foreign SMEs.

Table 6.66: Competitive advantage by highest education qualification.

			Competitive advantage					Total
			Price	Quality	Speed to market	Technical	Service	
Indigenous SMEs	Highest educational qualification	Never attended school		100.0%				100.0%
		Primary school certificate	50.0%	28.6%			21.4%	100.0%
		Secondary certificate	54.3%	37.0%	4.3%	2.2%	2.2%	100.0%
		College diploma	50.0%	27.3%	9.1%	4.5%	9.1%	100.0%
		Bachelor's degree	44.4%	33.3%	11.1%		11.1%	100.0%
		Master's degree					100.0%	100.0%
		Doctorate degree			100.0%			100.0%
	Total		50.0%	33.0%	6.4%	2.1%	8.5%	100.0%
Foreign SMEs	Highest educational qualification	Never attended school	50.0%	50.0%				100.0%
		Primary school certificate	83.3%				16.7%	100.0%
		Secondary certificate	75.0%	20.8%		4.2%		100.0%
		College diploma	72.7%	18.2%			9.1%	100.0%
		Bachelor's degree	84.4%	12.5%			3.1%	100.0%
		Master's degree	87.5%		12.5%			100.0%
	Total		78.7%	14.9%	1.1%	1.1%	4.3%	100.0%
Total	Highest educational qualification	Never attended school	33.3%	66.7%				100.0%
		Primary school certificate	60.0%	20.0%			20.0%	100.0%
		Secondary certificate	61.4%	31.4%	2.9%	2.9%	1.4%	100.0%
		College diploma	61.4%	22.7%	4.5%	2.3%	9.1%	100.0%
		Bachelor's degree	75.6%	17.1%	2.4%		4.9%	100.0%
		Master's degree	77.8%		11.1%		11.1%	100.0%
		Doctorate degree			100.0%			100.0%
	Total		64.4%	23.9%	3.7%	1.6%	6.4%	100.0%

6.5.20 Sales Performance Ratings of the Indigenous SMEs and Foreign SMEs

In order to have a good comparative analysis for the indigenous and foreign SMEs, total sales performance was analyzed as per Table 6.67 below. Table 6.67 shows that the foreign SMEs are rating the performance of their businesses higher than the indigenous SMEs with 34% of the foreign SMEs rating their sales performance as excellent and 57% as good as compared to the indigenous SMEs who have 20% for excellent and 31% for good. Most of the indigenous SMEs at 36% believe that that their sales performance is just average and 9% as fair and 4% as bad.

The foreign SMEs who regard their sales performance as average and fair are just 7% and 1% respectively with none rating the sales as bad.

Table 6.67: Nationality by sales performance of the business

	Performance of the business in terms of sales					Total
	Excellent	Good	Average	Fair	Bad	
Indigenous SMEs	19.2%	31.3%	36.4%	9.1%	4.0%	100.0%
Foreign SMEs	34.0%	57.4%	7.4%	1.1%		100.0%
Total	26.4%	44.0%	22.3%	5.2%	2.1%	100.0%

From the analysis it shows that the foreign SMEs in Malawi are enjoying dominance. The implication of this finding is that indigenous SMEs in Malawi should seriously consider executing superior strategies to enable the indigenous SMEs to compete successfully and have an edge over its rivals.

6.5.21 Age by business performance in terms of sales

Table 6.68 below shows that the indigenous SMEs below the age of 20 years are rating their performance in terms of sales as good (66.7%) and average (33.3%) while the foreign SMEs rate their performance as good (100%). As for those between 21 and 25 years, most of the indigenous SMEs rate their performance as good (29.2%) and average (25%) and fair (35%) while 12.5% is rating it excellent. The foreign SMEs rate their performance as good (57.1%) and average (28.6%). On average the foreign SMEs rate their performance in terms of sales as good while the indigenous SMEs rate their performance as average. With 34% of the foreign SMEs rating their performance as excellent as compared to 19.2% for the indigenous SMEs, this justifies the reason why the foreign SMEs are performing better than the indigenous SMEs. But also looking at the pattern of performance it can be said that age has a bearing of performance of the business in terms of sales. This might be as a result of experience over time.

Table 6.68: Business performance in terms of sales by age

			Performance of the business in terms of sales					Total
			Excellent	Good	Average	Fair	Bad	
Indigenous SMEs	Age	Below 20		66.7%	33.3%			100.0%
		21 - 25	12.5%	29.2%	25.0%	25.0%	8.3%	100.0%
		26 - 30	36.8%	21.1%	42.1%			100.0%
		31 - 35	25.0%	25.0%	40.0%	5.0%	5.0%	100.0%
		Above 36	12.1%	39.4%	39.4%	6.1%	3.0%	100.0%
		Total	19.2%	31.3%	36.4%	9.1%	4.0%	100.0%
Foreign SMEs	Age	Below 20		100.0%				100.0%
		21 - 25	14.3%	57.1%	28.6%			100.0%
		26 - 30	30.0%	60.0%	10.0%			100.0%
		31 - 35	42.9%	53.6%		3.6%		100.0%
		Above 36	33.3%	58.3%	8.3%			100.0%
		Total	34.0%	57.4%	7.4%	1.1%		100.0%
Total	Age	Below 20		75.0%	25.0%			100.0%
		21 - 25	12.9%	35.5%	25.8%	19.4%	6.5%	100.0%
		26 - 30	34.5%	34.5%	31.0%			100.0%
		31 - 35	35.4%	41.7%	16.7%	4.2%	2.1%	100.0%
		Above 36	24.7%	50.6%	21.0%	2.5%	1.2%	100.0%
		Total	26.4%	44.0%	22.3%	5.2%	2.1%	100.0%

6.5.22 Gender by performance of the business in terms of sales

Gender was used to see if it has any impact on performance of a business in terms of sales as per Table 6.69. Table 6.69 below indicates that 26.7% of female indigenous SMEs and 36.7% of female foreign SMEs are rating their performance as excellent as compared to 13% and 32.8% of their male counterparts. 60% of the female foreign SMEs and 56.3% of the male foreign SMEs rate their performance as good compared to 35.2% and 26.7% of the male and female indigenous SMEs. 36.4% of the indigenous SMEs rate their performance as average as compared to 7.4% of the international SMEs. From the analysis it is seen that most of the foreign SMEs rate their performance as excellent and good with the female respondents on the higher side. This shows that gender has an impact in the performance of a business as female SMEs are generally seen to be performing better than their male counterparts with female foreign SMEs performing much better.

Table 6.69: Business performance in terms of sales by gender

			Performance of the business in terms of sales					Total
			Excellent	Good	Average	Fair	Bad	
Indigenous SMEs	Gender	Male	13.0%	35.2%	33.3%	13.0%	5.6%	100.0%
		Female	26.7%	26.7%	40.0%	4.4%	2.2%	100.0%
	Total		19.2%	31.3%	36.4%	9.1%	4.0%	100.0%
Foreign SMEs	Gender	Male	32.8%	56.3%	9.4%	1.6%		100.0%
		Female	36.7%	60.0%	3.3%			100.0%
	Total		34.0%	57.4%	7.4%	1.1%		100.0%
Total	Gender	Male	23.7%	46.6%	20.3%	6.8%	2.5%	100.0%
		Female	30.7%	40.0%	25.3%	2.7%	1.3%	100.0%
	Total		26.4%	44.0%	22.3%	5.2%	2.1%	100.0%

6.5.23 Degree of Competition between the Indigenous SMEs and the Foreign SMEs

The indigenous SMEs and the foreign SMEs were asked how they regard competition as per Table 6.70 below.

Table 6.70: Degree of competition in the market place

		Competition in the market place			Total
		High	Moderate	Limited	
Total	Indigenous SMEs	64.9%	25.8%	9.3%	100.0%
	Foreign SMEs	21.3%	66.0%	12.8%	100.0%
		43.5%	45.5%	11.0%	100.0%

One of the determinants of success in the marketing place is a good understanding of the degree of competition (Kotler and Armstrong, 2012). It is for this reason that an entrepreneur has to be competitive, if he or she is to succeed, and also be able to measure the degree of competition before considering any venture. There are a number of factors that an entrepreneur can use in order to fight competition, which might include price, quality and the level of service.

Table 6.70 above shows that 65% the indigenous SMEs feel that the degree of competition is very high as compared to 21% of the foreign SMEs. In the case of the foreign SMEs, 66% feel that the competition is moderate whilst 26% of the indigenous regard competition as moderate;

13% of the foreign SMEs and 9% of the indigenous SMEs regards competition as limited. On average 44% feel that the degree of competition in the market place is high as compared to 46% and 11% who regard the degree of competition as moderate and limited respectively. From the analysis it demonstrates that the indigenous SMEs are finding it more difficult in the market place as compared to the foreign SMEs and this might be one of the reasons why the foreign SMEs are performing better than the indigenous SMEs. It is therefore important for the indigenous SMEs to come up with strategies that can be used in order for them to fight the competition and be level with the foreign SMEs or even better.

6.5.24 Age by degree of competition in the market place by nationality

The degree of competition in the market place was also examined based on age to determine if age has any significance to competition.

Table 6.71: Degree of competition in the market place by age

			Degree of competition in the market place			Total
			High	Moderate	Limited	
Indigenous SMEs	Age	Below 20	33.3%		66.7%	100.0%
		21 - 25	54.2%	29.2%	16.7%	100.0%
		26 - 30	94.7%	5.3%		100.0%
		31 - 35	65.0%	30.0%	5.0%	100.0%
		Above 36	58.1%	35.5%	6.5%	100.0%
	Total		64.9%	25.8%	9.3%	100.0%
Foreign SMEs	Age	Below 20		100.0%		100.0%
		21 - 25	57.1%	42.9%		100.0%
		26 - 30	30.0%	50.0%	20.0%	100.0%
		31 - 35	28.6%	64.3%	7.1%	100.0%
		Above 36	10.4%	72.9%	16.7%	100.0%
	Total		21.3%	66.0%	12.8%	100.0%
Total	Age	Below 20	25.0%	25.0%	50.0%	100.0%
		21 - 25	54.8%	32.3%	12.9%	100.0%
		26 - 30	72.4%	20.7%	6.9%	100.0%
		31 - 35	43.8%	50.0%	6.3%	100.0%
		Above 36	29.1%	58.2%	12.7%	100.0%
	Total		43.5%	45.5%	11.0%	100.0%

As per Table 6.71 above it shows that 33.3% of the indigenous SMEs below 20 years felt competition to be on the higher side while 66.7% felt competition to be limited. As for the foreign SMEs below the age of 20 years, all of them (100%) felt competition as moderate with most of the other age groups also felt competition in the market place to be moderate. With the indigenous SMEs rating competition to be high and the foreign SMEs rating the degree of competition to be moderate justifies the reasons behind the better performance of the foreign SMEs as compared to the indigenous SMEs. Therefore age tend to favor the foreign SMEs in terms of the degree of competition as compared to the indigenous SMEs.

6.5.25 Gender by degree of competition in the market place

Gender was also analyzed by degree of competition in order to see if there is any impact on degree of competition in the market place based on gender for the indigenous SMEs and the foreign SMEs as per the Table 6.72 below.

Table 6.72: Degree of competition in the market place by gender

			Degree of competition in the market place			Total
			High	Moderate	Limited	
Indigenous SMEs	Gender	Male	64.2%	28.3%	7.5%	100.0%
		Female	65.9%	22.7%	11.4%	100.0%
	Total		64.9%	25.8%	9.3%	100.0%
Foreign SMEs	Gender	Male	21.9%	64.1%	14.1%	100.0%
		Female	20.0%	70.0%	10.0%	100.0%
	Total		21.3%	66.0%	12.8%	100.0%
Total	Gender	Male	41.0%	47.9%	11.1%	100.0%
		Female	47.3%	41.9%	10.8%	100.0%
	Total		43.5%	45.5%	11.0%	100.0%

Table 6.72 above on gender by degree of competition in the market place shows that male and female indigenous SMEs rate competition as high (64.9%) and moderate (25.8%) as compared to the foreign SMEs who are rating degree of competition as mostly moderate (66%) and high (21.3%). It is noted that the female foreign SMEs (70%) rated competition as moderate as compared to 22.7% of the indigenous SMEs. 20% of the female foreign SMEs rated competition as high with 65.9% of the indigenous SMEs rating competition as high. From the analysis it is

showing that the female and male foreign SMEs are performing better than the indigenous SMEs based on their rating of competition in the market place.

6.5.26 Business sector by degree of competition

The researcher was also interested to do a comparative analysis on the degree of competition by business sector in order to see if the degree of competition does differ from one sector to the next and also what the differences are between the indigenous SMEs and the foreign SMEs as per Table 6.73 below.

Table 6.73: Degree of competition in the market place by business sector

			Competition in the market place			Total
			High	Moderate	Limited	
Indigenous SMEs	Business sector	Manufacturing	44.4%	44.4%	11.1%	100.0%
		Trading	70.3%	18.9%	10.8%	100.0%
		Tourism	25.0%	75.0%		100.0%
		Export	100.0%			100.0%
		Other business	40.0%	60.0%		100.0%
	Total		65.3%	25.3%	9.5%	100.0%
Foreign SMEs	Business sector	Manufacturing		28.6%	71.4%	100.0%
		Trading	24.1%	68.5%	7.4%	100.0%
		Tourism	9.1%	81.8%	9.1%	100.0%
		Export	27.8%	61.1%	11.1%	100.0%
		Other business	25.0%	75.0%		100.0%
	Total		21.3%	66.0%	12.8%	100.0%
Total	Business sector	Manufacturing	25.0%	37.5%	37.5%	100.0%
		Trading	50.8%	39.8%	9.4%	100.0%
		Tourism	13.3%	80.0%	6.7%	100.0%
		Export	38.1%	52.4%	9.5%	100.0%
		Other business	33.3%	66.7%		100.0%
	Total		43.4%	45.5%	11.1%	100.0%

As per Table 6.73 above it is noted that 44.4% of the indigenous SMEs in the manufacturing sector rated degree of competition as high and moderate with only 11.1% rating degree of competition as limited. This is in contrast with the foreign SMEs who are rating degree of competition as moderate (28.6%) and limited (71%). In trading it is the foreign SMEs who are performing better than the indigenous SMEs and who are rating degree of competition as high (24.1%) and moderate (68.5%) compared to 70.3% and 18.9% for high and moderate for the

indigenous SMEs. In tourism most of the SMEs both foreign and indigenous are rating degree of competition as moderate. The indigenous SMEs are struggling in the export sector as 100% of the enterprises rate degree of competition as high while only 27.8% of the foreign SMEs feel the same. This shows that the degree of competition do vary per business sector with the indigenous SMEs struggling in almost all the sectors except for tourism while the foreign SMEs find the degree of competition to be generally moderate, therefore their better performance as compared to the indigenous SMEs.

6.5.27 Business ownership by degree of competition in the market place

Degree of competition in the market place by business ownership was also looked at as per Table 6.74 below.

Table 6.74: Degree of competition in the market place by business ownership

			Competition in the market place			Total
			High	Moderate	Limited	
Indigenous SMEs	Business ownership	Sole Trader	72.9%	23.7%	3.4%	100.0%
		Partnership	54.5%	36.4%	9.1%	100.0%
		Family owned business	51.9%	25.9%	22.2%	100.0%
	Total		64.9%	25.8%	9.3%	100.0%
Foreign SMEs	Business ownership	Sole Trader	17.5%	66.7%	15.8%	100.0%
		Partnership	29.4%	64.7%	5.9%	100.0%
		Family owned business	21.1%	68.4%	10.5%	100.0%
		Others	100.0%			100.0%
	Total		21.3%	66.0%	12.8%	100.0%
Total	business ownership	Sole Trader	45.7%	44.8%	9.5%	100.0%
		Partnership	39.3%	53.6%	7.1%	100.0%
		Family owned business	39.1%	43.5%	17.4%	100.0%
		Others	100.0%			100.0%
	Total		43.5%	45.5%	11.0%	100.0%

It is noted that the indigenous SMEs operating as sole traders rated competition as high (72.9%) with the foreign SMEs sole traders rating the degree of competition as moderate (66.7%). The case is also the same with partnership and family owned businesses. With the foregoing in mind it is seen that the foreign SMEs are performing better than the indigenous SMEs in all the

business ownerships as they generally rate competition to be moderate compared to the indigenous SMEs who rate competition as high. It should also be noted that the rating of the degree of competition is also different from one business ownership to the next by both the indigenous SMEs and the foreign SMEs.

6.5.28 Measurement of success by the Indigenous SMEs and the Foreign SMEs

There are a number of ways an enterprise can determine its success. The SMEs were asked to give an impression of how they measure the success of their businesses using a number of parameters as indicated in Table 6.75.

Table 6.75: Measurement of success by nationality

	Profit	Growth	Cash Balance	Growth in Market Share
Indigenous SMEs	67.3%	27.7%	9.9%	10.9%
Foreign SMEs	94.7%	75.5%	7.4%	13.8%
Total	80.5%	50.8%	8.7%	12.3%

An entrepreneur should always device parameters that can be used to measure the success of a business. Table 6.75 above shows that 94.7% of the foreign SMEs are using profit as a measure of success as compared to 67.3% of the indigenous SMEs which regard profit as a measure of success. In the case of growth as a measure of success there are 75.5% of the foreign SMEs and 27.7% of the indigenous SMEs that regards growth as a measure of success. Cash balance is least used by both the foreign SMEs and the indigenous SMEs as a measure of business success as only 7.4% of the foreign and 9.9% of the indigenous SMEs are using it.

From Table 6.76 it is evident that most the SMEs both indigenous and foreign tend to measure the success of their businesses by the profit margins followed by the growth of the business.

Table 6.76: Measure of business success by the indigenous and foreign SMEs (N = 195).

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Profits	156	80.0	83.0	83.0
	Growth	18	9.2	9.6	92.6
	Cash balance	7	3.6	3.7	96.3
	Growth in market/market share	6	3.1	3.2	99.5
	Other (Please specify)	1	.5	.5	100.0
Missing	Total	188	96.4	100.0	
	System	7	3.6		
Total		195	100.0		

Measure of success was also analyzed using a chi-square using a number of variables such as age, gender, educational qualification, business ownership and business sector as in Table 6.77 below. The idea was to measure if there is any significance on the success of a business with such factors as the age, educational qualifications of an entrepreneur. Business ownership and sector was also used.

Table 6.77: Measurement of success – Chi-square

	Profit			Growth			Cash balance			Growth in market share		
	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total
Age	12.799	1.905	12.210	10.060	9.616	26.334	2.632	6.600	3.088	7.055	7.505	3.135
	<i>0.012</i>	<i>0.753</i>	<i>0.016</i>	<i>0.039</i>	<i>0.047</i>	<i>0.000</i>	<i>0.621</i>	<i>0.159</i>	<i>0.543</i>	<i>0.133</i>	<i>0.111</i>	<i>0.535</i>
Gender	8.968	1.917	1.995	1.509	0.115	3.740	0.138	0.039	0.106	1.662	0.298	0.366
	<i>0.003</i>	<i>0.166</i>	<i>0.158</i>	<i>0.219</i>	<i>0.734</i>	<i>0.053</i>	<i>0.711</i>	<i>0.844</i>	<i>0.745</i>	<i>0.197</i>	<i>0.585</i>	<i>0.545</i>
Highest educational qualification	13.863	4.948	17.652	5.611	11.135	29.904	13.629	6.795	7.912	15.456	6.686	20.309
	<i>0.031</i>	<i>0.422</i>	<i>0.007</i>	<i>0.468</i>	<i>0.049</i>	<i>0.000</i>	<i>0.034</i>	<i>0.236</i>	<i>0.245</i>	<i>0.017</i>	<i>0.245</i>	<i>0.002</i>
Business ownership	2.533	20.272	8.609	1.458	2.813	5.239	1.945	1.855	1.103	1.191	8.078	7.204
	<i>0.282</i>	<i>0.000</i>	<i>0.035</i>	<i>0.482</i>	<i>0.421</i>	<i>0.155</i>	<i>0.378</i>	<i>0.603</i>	<i>0.776</i>	<i>0.551</i>	<i>0.044</i>	<i>0.066</i>
Business sector	4.538	4.798	5.629	1.450	2.816	13.065	1.557	7.752	5.185	43.660	7.430	32.157
	<i>0.338</i>	<i>0.309</i>	<i>0.229</i>	<i>0.836</i>	<i>0.589</i>	<i>0.011</i>	<i>0.817</i>	<i>0.101</i>	<i>0.269</i>	<i>0.000</i>	<i>0.115</i>	<i>0.000</i>
How did you become the owner of this business	4.589	1.519	5.198	2.392	2.558	3.624	0.018	0.911	0.269	0.908	2.865	1.386
	<i>0.101</i>	<i>0.678</i>	<i>0.158</i>	<i>0.302</i>	<i>0.465</i>	<i>0.305</i>	<i>0.991</i>	<i>0.823</i>	<i>0.966</i>	<i>0.635</i>	<i>0.413</i>	<i>0.709</i>
Period in business	2.267	4.532	6.137	2.560	0.702	5.586	2.566	3.612	2.115	11.325	1.374	6.485
	<i>0.687</i>	<i>0.339</i>	<i>0.189</i>	<i>0.634</i>	<i>0.951</i>	<i>0.232</i>	<i>0.633</i>	<i>0.461</i>	<i>0.715</i>	<i>0.023</i>	<i>0.849</i>	<i>0.166</i>
Note - top value is the Chi-square statistic and value in italics is the p-value												

From Table 6.77 above it shows that there is a significant difference between the indigenous SMEs and the foreign SMEs in terms of profit by age as a success factor with the indigenous SMEs ($p=0.012$) as compared to the foreign SMEs ($p=0.733$). The case is the same with gender where the indigenous SMEs have $p=0.003$ whilst the foreign SMEs have $p=0.166$. As with business ownership there is a significant difference between the indigenous SMEs ($p=0.282$) and foreign SMEs ($p=0.000$). With growth by age there is a significant difference and the case is the same with growth by highest educational qualification. In terms of growth in market share by business sector there is a significant difference between the indigenous SMEs ($p=0.000$) and the foreign SMEs ($p=0.115$). There is no significance differences in how one become the owner of the business and the period in the business. From the above analysis, it shows that age and educational levels of an entrepreneur has significance on the success of an entrepreneur as demonstrated in Table 6.77 above. As with the business type and ownership, it shows that there isn't much difference in its success.

6.5.29 Problems that Indigenous SMEs and Foreign SMEs faced when starting their Businesses

The establishment of a business is likely to face a number of obstacles, which might have either positive or negative effects on the business as a whole. Problems might vary from country to country and from area to area depending on a number of factors including legislation and cultural beliefs. Based on the above notion, both the indigenous SMEs and the foreign SMEs were asked what problems they encountered when starting their businesses in Malawi.

Table 6.78: Problems faced by SMEs when starting a business

	Accessing finance	Sourcing suppliers	Accessing customers	Recruiting staff
Indigenous SMEs	68.3%	15.8%	36.6%	1.0%
Foreign SMEs	21.3%	34.0%	71.3%	4.3%
Total	54.4%	24.6%	53.3%	2.6%

Table 6.78 shows that 68.3% of the indigenous SMEs had problems in accessing finance when starting their businesses as compared to 21.3% of the foreign SMEs. This also explains why most of the indigenous SMEs had low investment levels at the start of their businesses. In the case of sourcing suppliers, 34% of the foreign SMEs faced difficulties whilst 15.8% of the indigenous SMEs had the same problem. It was the same with accessing customers, recruiting staff and obtaining a trading license, the international SMEs had difficulties unlike the indigenous. In the case of accessing customers 71.3% of the foreign SMEs and 36.6% of the indigenous SMEs had difficulties. Approximately 4.3% of the foreign SMEs found it tough in the recruitment of staff as compared to only 1% of the indigenous SMEs.

As most indigenous SMEs have problems in accessing finance, this might be due to a lack of sureties as demanded by the lending institutions. Thus the indigenous SMEs are performing worse compared to the foreign SMEs who happen to have the financial strength. Based on both the indigenous and foreign SMEs it is noted that accessing finance was the biggest problem for both the indigenous and foreign SMEs, this might be as a result of lack of trust by the lending institutions. Accessing of customers comes second and this might be as a result of competition but also the fact that most of the SMEs are into trading. This is well illustrated in Table 6.79 below.

Table 6.79: Indigenous and Foreign SMEs challenges when starting a business (N = 195)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Accessing finance	87	44.6	45.5	45.5
	Sourcing suppliers	38	19.5	19.9	65.4
	Accessing customers	59	30.3	30.9	96.3
	Recruiting staff	3	1.5	1.6	97.9
	Getting a licence	4	2.1	2.1	100.0
	Total	191	97.9	100.0	
Missing	System	4	2.1		
Total		195	100.0		

Below in Table 6.80 is a chi-square analysis of the problems faced by both the indigenous SMEs and the foreign SMEs when starting a business are reported. As with the problems the indigenous SMEs and foreign SMEs faced when starting their businesses it is noted from the chi-square analysis below that there is a significant difference in terms of accessing finances by highest educational qualification ($p=0.262$ and $p=0.875$), business ownership ($p=0.262$ and $p=0.875$), business sector ($p=0.392$ and $p=0.016$) and period in the business ($p=0.568$ and $p=0.077$) for the indigenous and foreign SMEs respectively.

The case is the same with sourcing suppliers by gender with indigenous SMEs ($p=0.481$) and foreign SMEs ($p=0.921$); business sector the indigenous SMEs ($p=0.491$) and foreign SMEs ($p=0.0044$) and the same with the recruitment of staff with indigenous SMEs ($p=0.708$) and foreign SMEs ($p=0.000$). This means that the foreign SMEs and the indigenous SMEs had different problems when starting their business due to a number of factors. What comes out clearly is that each group had its own unique problems. What were problems to the foreign SMEs were not necessarily problems to the indigenous SMEs and *vice versa*. For example, the recruitment of staff for the foreign SMEs was not a problem which might have been as a result of better salaries and privileges offered by the foreign SMEs as compared to the indigenous SMEs and the belief that anything foreign is superior.

Table 6.80: Problems faced by SMEs when starting a business – Chi-square

	Accessing finance			Sourcing suppliers			Accessing customers			Recruiting staff		
	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total
Age	8.735	6.265	5.622	1.802	4.949	7.181	4.807	1.506	2.612	2.081	1.301	3.609
	<i>0.068</i>	<i>0.180</i>	<i>0.229</i>	<i>0.772</i>	<i>0.293</i>	<i>0.127</i>	<i>0.308</i>	<i>0.826</i>	<i>0.625</i>	<i>0.721</i>	<i>0.861</i>	<i>0.462</i>
Gender	1.222	0.764	4.647	0.496	0.010	0.852	0.227	0.091	0.025	0.845	0.629	0.002
	<i>0.269</i>	<i>0.382</i>	<i>0.031</i>	<i>0.481</i>	<i>0.921</i>	<i>0.356</i>	<i>0.634</i>	<i>0.763</i>	<i>0.875</i>	<i>0.358</i>	<i>0.428</i>	<i>0.962</i>
Highest educational qualification	4.099	4.808	16.133	1.127	1.925	1.880	5.080	6.103	16.322	10.324	3.353	7.213
	<i>0.663</i>	<i>0.440</i>	<i>0.013</i>	<i>0.980</i>	<i>0.859</i>	<i>0.930</i>	<i>0.534</i>	<i>0.296</i>	<i>0.012</i>	<i>0.112</i>	<i>0.646</i>	<i>0.302</i>
Business ownership	2.678	0.694	1.539	0.797	2.013	3.095	0.509	5.323	5.765	0.690	23.381	38.791
	<i>0.262</i>	<i>0.875</i>	<i>0.673</i>	<i>0.671</i>	<i>0.570</i>	<i>0.377</i>	<i>0.775</i>	<i>0.150</i>	<i>0.124</i>	<i>0.708</i>	<i>0.000</i>	<i>0.000</i>
Business sector	4.109	12.200	1.144	3.415	9.788	6.508	2.257	6.248	7.645	9.991	5.140	4.793
	<i>0.392</i>	<i>0.016</i>	<i>0.887</i>	<i>0.491</i>	<i>0.044</i>	<i>0.164</i>	<i>0.689</i>	<i>0.181</i>	<i>0.105</i>	<i>0.041</i>	<i>0.273</i>	<i>0.309</i>
How did you become the owner of this business?	3.235	3.409	10.536	0.198	1.020	0.335	1.596	1.563	4.332	4.091	1.202	0.665
	<i>0.198</i>	<i>0.333</i>	<i>0.015</i>	<i>0.906</i>	<i>0.796</i>	<i>0.953</i>	<i>0.450</i>	<i>0.668</i>	<i>0.228</i>	<i>0.129</i>	<i>0.753</i>	<i>0.881</i>
Period in business	2.942	8.419	5.376	3.731	2.963	2.522	3.834	1.795	0.609	2.633	2.108	1.122
	<i>0.568</i>	<i>0.077</i>	<i>0.251</i>	<i>0.444</i>	<i>0.564</i>	<i>0.641</i>	<i>0.429</i>	<i>0.773</i>	<i>0.962</i>	<i>0.621</i>	<i>0.716</i>	<i>0.891</i>
Note - top value is the Chi-square statistic and value in italics is the p-value												

6.5.30 Performance of Foreign SMEs in comparison with Indigenous SMEs

With the belief that foreign SMEs are performing better as compared to the indigenous SMEs in the Malawian market, both the indigenous and foreign SMEs were asked their opinions on their performances as per Table 6.81 below.

Table 6.81: Performance of Foreign SMEs as compared to the Indigenous SMEs

	Good performance	Poor performance
Indigenous SMEs	87%	13%
Foreign SMEs	95%	5%
Total	91%	9%

Table 6.80 shows that both the foreign and indigenous SMEs felt that the foreign SMEs were performing better than the indigenous SMEs in the marketplace with 91% in agreement compared to 9% who had a different view. Overall 169 indigenous and foreign SMEs were of the opinion that the foreign SMEs' performance is better as compared to that of the indigenous SMEs as per Table 6.82 below.

Table 6.82: Indigenous and foreign SMEs performance Frequency distribution (N = 195)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	169	86.7	90.9	90.9
	No	17	8.7	9.1	100.0
	Total	186	95.4	100.0	
Missing	System	9	4.6		
Total		195	100.0		

6.5.31 Factors or Reasons that contribute to Indigenous SMEs performing worse than foreign SMEs

From the analysis on the people's perception why the indigenous SMEs fail to perform better as compared to the foreign SMEs, it was noted that 85.9% of both the indigenous and foreign SMEs under study believed that lack of support was the major factor which was an obstacle to the performance of the indigenous SMEs. This was followed by the mentality of many Malawians that anything foreign is superior and lack of planning which were at 81.5% and 81.1% respectively. This is followed by poor management at 77.3% and improper financing at 71.1% with lack of credit facility as the lowest factor.

6.5.32 Factors for the success and failures of SMEs

A chi-square analysis was conducted on factors that might affect operations of SMEs as per Table 6.83 below. From the chi-square analysis it is noted that there are no significant differences on marketing plan by age, gender, highest education qualification, business ownership and sector and the period in the business. This shows that both the indigenous SMEs and the foreign SMEs regard a marketing plan as an essential tool in their businesses.

Competitions by age, gender, and business sector and business ownership have significant differences. As for age the following is noted: the indigenous SMEs ($p=0.302$) and foreign SMEs ($p=0.018$); competitive advantage by business ownership, indigenous SMEs ($p=0.006$) and foreign SMEs ($p=0.000$); business sector indigenous SMEs ($p=0.008$) and foreign SMEs ($p=0.003$). In the case of performance in the business by sale by age, indigenous SMEs ($p=0.181$) and foreign SMEs ($p=0.521$); gender $p=0.206$ for the indigenous and $p=0.657$ for the foreign SMEs; by business sector it is $p=0.667$ and $p=0.000$ for the indigenous SMEs and foreign SMEs respectively. The degree of competition in the market place by age is noted as indigenous SMEs ($p=0.003$) and foreign SMEs ($p=0.136$) and finally business sector $p=0.088$ for the indigenous SMEs and $p=0.001$ for the foreign SMEs. This signifies that age, gender, business sector and business ownership do have a significant impact on the performance of a business for both the indigenous and foreign SMEs.

Table 6.83: Factors that contribute to the successes and failures of SMEs –Chi-square

	Marketing plan			Competitive advantage			Performance of the business in terms of sales			Degree of competition in the market place		
	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total
Age	3.591	5.025	3.253	18.386	30.097	29.874	20.929	11.093	29.044	23.453	12.353	26.341
	<i>0.464</i>	<i>0.285</i>	<i>0.516</i>	<i>0.302</i>	<i>0.018</i>	<i>0.019</i>	<i>0.181</i>	<i>0.521</i>	<i>0.024</i>	<i>0.003</i>	<i>0.136</i>	<i>0.001</i>
Gender	0.064	0.159	0.638	4.313	7.356	5.202	5.905	1.609	3.624	0.679	0.407	0.769
	<i>0.801</i>	<i>0.690</i>	<i>0.424</i>	<i>0.365</i>	<i>0.118</i>	<i>0.267</i>	<i>0.206</i>	<i>0.657</i>	<i>0.459</i>	<i>0.712</i>	<i>0.816</i>	<i>0.681</i>
Highest educational qualification	1.981	2.861	4.100	36.049	23.759	48.852	27.465	14.171	44.202	19.126	12.788	21.137
	<i>0.852</i>	<i>0.721</i>	<i>0.663</i>	<i>0.054</i>	<i>0.253</i>	<i>0.002</i>	<i>0.283</i>	<i>0.513</i>	<i>0.007</i>	<i>0.086</i>	<i>0.236</i>	<i>0.048</i>
Business ownership	3.088	1.830	1.239	21.495	44.527	43.374	16.787	13.516	25.681	9.123	5.742	4.528
	<i>0.214</i>	<i>0.609</i>	<i>0.744</i>	<i>0.006</i>	<i>0.000</i>	<i>0.000</i>	<i>0.032</i>	<i>0.141</i>	<i>0.012</i>	<i>0.058</i>	<i>0.453</i>	<i>0.606</i>
Business sector	3.940	4.513	2.438	32.563	36.209	31.253	13.076	40.613	26.668	13.774	25.660	24.170
	<i>0.414</i>	<i>0.341</i>	<i>0.656</i>	<i>0.008</i>	<i>0.003</i>	<i>0.012</i>	<i>0.667</i>	<i>0.000</i>	<i>0.045</i>	<i>0.088</i>	<i>0.001</i>	<i>0.002</i>
How did you become the owner of this business	0.249	1.277	0.338	8.217	16.989	12.052	8.970	12.824	18.892	6.974	7.511	6.674
	<i>0.883</i>	<i>0.735</i>	<i>0.953</i>	<i>0.413</i>	<i>0.150</i>	<i>0.442</i>	<i>0.345</i>	<i>0.171</i>	<i>0.091</i>	<i>0.137</i>	<i>0.276</i>	<i>0.352</i>
Period in business	2.852	5.211	3.511	5.899	21.146	9.187	23.904	29.793	44.202	3.078	3.609	6.696
	<i>0.583</i>	<i>0.266</i>	<i>0.476</i>	<i>0.989</i>	<i>0.173</i>	<i>0.906</i>	<i>0.092</i>	<i>0.003</i>	<i>0.000</i>	<i>0.929</i>	<i>0.891</i>	<i>0.570</i>
Note - top value is the Chi-square statistic and value in italics is the p-value												

6.5.33 Factors that the indigenous SMEs and the foreign SMEs considered when starting business

When starting a business there are a number of factors that one has to consider. These may include competitor analysis, customer analysis, market analysis and environmental analysis. Therefore both the indigenous SMEs and the foreign SMEs were asked to what extent they regarded the said factors as they were starting their businesses (Table 6.84).

Table 6.84: Factors that SMEs consider when starting a business.

		Less serious	Not serious	Neutral	Serious	Extremely serious	Totals %
Competitor analysis	Indigenous SMEs	4.5%	12.4%	11.2%	50.6%	21.3%	100%
	Foreign SMEs			1.1%	54.3%	44.7%	100%
Customer analysis	Indigenous SMEs	2.2%	9.0%	14.6%	48.3%	25.8%	100%
	Foreign SMEs			2.1%	62.8%	35.1%	100%
Market analysis	Indigenous SMEs	2.2%	7.9%	21.3%	51.7%	16.9%	100%
	Foreign SMEs		1.1%	3.2%	64.9%	30.9%	100%
Environmental analysis	Indigenous SMEs	12.2%	7.8%	20.0%	34.4%	25.6%	100%
	Foreign SMEs	1.1%	13.8%	22.3%	40.4%	22.3%	100%

Based on Table 6.84 above it shows that both the indigenous SMEs and the foreign SMEs took competitor analysis, customer analysis and market analysis seriously when starting their businesses as compared to environmental analysis.

6.5.34 Factors that were considered by both the indigenous SMEs and the foreign SMEs when starting a business

When starting a business there are a number of factors that one has to consider. These may include competitor analysis, customer analysis, market analysis and environmental analysis. A chi-square analysis was used on the factors above using a number of parameters to determine if there is a significant difference in the way the indigenous SMEs and the foreign SMEs regard the said factors. In Table 6.85 below it is noted that there is a significant difference on competitor analysis by highest education qualification with the indigenous SMEs ($p=0.001$) and the foreign SMEs ($p=0.029$) giving a total of $p=0.000$. The case is also the same with competitor analysis by the period in the business with indigenous SMEs ($p=0.031$) and foreign SMEs ($p=0.360$) with a total value of $p=0.005$. There is also significant differences on customer analysis by business

sector with indigenous SMEs ($p=0.026$) and foreign SMEs ($p=0.017$) and on market analysis by age with indigenous SMEs ($p=0.868$) and foreign SMEs ($p=0.000$) and $p=0.000$ for indigenous and $p=0.446$ for the indigenous and foreign SMEs respectively with a total of $p=0.000$. The case is the same on market analysis by business ownership and period in the business.

Table 6.85: Factors SMEs considered when starting a business – Chi-square

Factors when starting your business	Competitor analysis			Customer analysis			Market analysis			Environmental analysis	
	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs
Age	23.776	11.494	18.136	8.211	13.127	11.738	9.970	52.003	20.778	14.070	23.495
	<i>0.095</i>	<i>0.175</i>	<i>0.316</i>	<i>0.942</i>	<i>0.108</i>	<i>0.762</i>	<i>0.868</i>	<i>0.000</i>	<i>0.187</i>	<i>0.594</i>	<i>0.101</i>
Gender	9.592	0.534	7.498	3.022	1.632	3.208	4.364	2.062	3.400	5.927	0.918
	<i>0.048</i>	<i>0.766</i>	<i>0.112</i>	<i>0.554</i>	<i>0.442</i>	<i>0.524</i>	<i>0.359</i>	<i>0.560</i>	<i>0.493</i>	<i>0.205</i>	<i>0.922</i>
Highest educational qualification	50.632	19.998	84.466	19.848	13.562	33.948	81.897	15.079	121.692	28.411	22.798
	<i>0.001</i>	<i>0.029</i>	<i>0.000</i>	<i>0.705</i>	<i>0.194</i>	<i>0.086</i>	<i>0.000</i>	<i>0.446</i>	<i>0.000</i>	<i>0.243</i>	<i>0.299</i>
Business ownership	8.314	7.003	14.747	7.411	4.143	7.129	8.357	18.509	14.082	7.491	10.191
	<i>0.403</i>	<i>0.321</i>	<i>0.256</i>	<i>0.493</i>	<i>0.657</i>	<i>0.849</i>	<i>0.399</i>	<i>0.030</i>	<i>0.296</i>	<i>0.485</i>	<i>0.599</i>
Business sector	24.152	13.147	25.810	28.713	18.596	24.630	24.175	10.591	20.004	14.011	23.892
	<i>0.086</i>	<i>0.107</i>	<i>0.057</i>	<i>0.026</i>	<i>0.017</i>	<i>0.077</i>	<i>0.086</i>	<i>0.564</i>	<i>0.220</i>	<i>0.598</i>	<i>0.092</i>
How did you become the owner of this business?	7.725	2.044	11.824	10.468	5.144	11.146	16.072	7.837	24.481	6.130	9.405
	<i>0.461</i>	<i>0.916</i>	<i>0.460</i>	<i>0.234</i>	<i>0.525</i>	<i>0.516</i>	<i>0.041</i>	<i>0.551</i>	<i>0.017</i>	<i>0.633</i>	<i>0.668</i>
Period in business	28.073	8.794	34.295	15.834	11.608	22.946	20.130	19.384	27.150	15.800	11.734
	<i>0.031</i>	<i>0.360</i>	<i>0.005</i>	<i>0.465</i>	<i>0.170</i>	<i>0.115</i>	<i>0.214</i>	<i>0.080</i>	<i>0.040</i>	<i>0.467</i>	<i>0.762</i>
Note - top value is the Chi-square statistic and value in italics is the p-value											

6.5.35 Key Factors that impacting the operations of SMEs business in Malawi

There are a number of factors that tend to affect the operations of a business. This researcher looked at factors such as high cost of doing business, tax and customs administration and licensing. Therefore the indigenous SMEs and the foreign SMEs were asked how these factors impact on their operations as per Table 6.86 below.

Table 6.86 shows that both the indigenous SMEs and the foreign SMEs felt that high cost of doing business had in impact in the operations of their businesses. The indigenous SMEs at

51.1% and 38.6% felt serious and extremely serious respectively whilst the foreign SMEs indicated 67% and 33% respectively. This was followed by tax and custom administration at 36.7% serious and 43.3% extremely serious respectively for the indigenous SMEs whilst the foreign SMEs felt serious and extremely serious at 28.7% and 64.9% respectively. Licensing was more of a relief for both the indigenous SMEs and the foreign SMEs.

Table 6.86: Factors impacting on the operations of the indigenous and foreign SMEs

How the following factors impact the operation of the indigenous and foreign SMEs						
Factors		Less serious	Not serious	Neutral	Serious	Extremely serious
High cost of doing business	Indigenous SMEs	1.1%	5.7%	3.4%	51.1%	38.6%
	Foreign SMEs				67.0%	33.0%
Tax and customs administration	Indigenous SMEs	4.4%	7.8%	7.8%	36.7%	43.3%
	Foreign SMEs	1.1%	2.1%	3.2%	28.7%	64.9%
Licensing	Indigenous SMEs	7.9%	32.6%	12.4%	31.5%	15.7%
	Foreign SMEs	11.7%	39.4%	4.3%	33.0%	11.7%

6.5.36 Performance of foreign SMEs over indigenous SMEs

The study further explored if the foreign enterprises are more successful than the indigenous SMEs. Based on the mere perception of the respondents, 90.9% of the respondents accepted that the foreign SMEs are successful where 87.1% and 94.6% of the indigenous and foreign SMEs respectively felt as such (Table 6.87).

Table 6.87: Performance of foreign SMEs as compared to the indigenous SMEs

	Do you think that foreign enterprises are performing better than indigenous enterprises		Total
	Yes	No	
Indigenous SMEs	87.1%	12.9%	100.0%
Foreign SMEs	94.6%	5.4%	100.0%
Total	90.9%	9.1%	100.0%

6.5.37 Better performance of the foreign SMEs over the indigenous SMEs by business sector

After 90.9% of the respondents felt that the foreign SMEs are doing better than the indigenous SMEs, performance of the foreign SMEs over the indigenous SMEs by business sector was also examined as per Table 6.88 below.

Of indigenous enterprises by business sector all of them acknowledged that the foreign SMEs are performing better than the indigenous SMEs with 100% in tourism and 91.3% in trading felt as such. This was also the case in the manufacturing sector as 66.7% acknowledged the same but those in the export sector did not agree that the foreign SMEs were performing better than the indigenous SMEs. 66.7% of those in tourism had different views but overall 87.8% of the indigenous SMEs by business sector were in agreement that the foreign SMEs were performing better than the indigenous SMEs. With the foreign SMEs, 100% in the manufacturing, 94% in the trading, 94.4% in export and 90.0% in the tourism sector felt the same.

Table 6.88: Better performance of foreign SMEs over the indigenous SMEs by business sector

			Do you think that foreign SMEs are performing better than indigenous SMEs		Total
			Yes	No	
Indigenous SMEs	Business sector	Manufacturing	66.7%	33.3%	100.0%
		Trading	91.3%	8.7%	100.0%
		Tourism	100.0%		100.0%
		Export	33.3%	66.7%	100.0%
		Other business	100.0%		100.0%
	Total		87.8%	12.2%	100.0%
Foreign SMEs	Business sector	Manufacturing	100.0%		100.0%
		Trading	94.3%	5.7%	100.0%
		Tourism	90.9%	9.1%	100.0%
		Export	94.4%	5.6%	100.0%
		Other business	100.0%		100.0%
	Total		94.6%	5.4%	100.0%
Total	Business sector	Manufacturing	81.3%	18.8%	100.0%
		Trading	92.6%	7.4%	100.0%
		Tourism	93.3%	6.7%	100.0%
		Export	85.7%	14.3%	100.0%
		Other business	100.0%		100.0%
	Total		91.3%	8.7%	100.0%

6.5.38 Better performance of the foreign SMEs over the indigenous SMEs by business ownership

Better performance of the foreign SMEs was also examined based on business ownership as per Table 6.89 below. It shows that better performance of the foreign enterprises by business ownership is given an approval on the entire business ownership category as 87.1% and 94.6% of the indigenous and foreign SMEs felt the same. It is also noted that in case of the indigenous SMEs 89.3% of the sole traders, 81.8% partnership and 84.6% of family owned business acknowledged the same with 96.5%, 88.2% and 94.4% of sole traders, partnership and family owned business of the foreign SMEs acknowledging the same. This shows that both the indigenous SMEs and foreign SMEs acknowledged that the foreign SMEs were doing better than the indigenous SMEs by business ownership.

Table 6.89: Better performance of foreign SMEs over the indigenous SMEs by business ownership

			Do you think that foreign enterprises are performing better than indigenous enterprises		Total
			Yes	No	
Indigenous SMEs	Business ownership	Sole Trader	89.3%	10.7%	100.0%
		Partnership	81.8%	18.2%	100.0%
		Family owned business	84.6%	15.4%	100.0%
		Total	87.1%	12.9%	100.0%
Foreign SMEs	Business ownership	Sole Trader	96.5%	3.5%	100.0%
		Partnership	88.2%	11.8%	100.0%
		Family owned business	94.4%	5.6%	100.0%
		Others	100.0%		100.0%
		Total	94.6%	5.4%	100.0%
Total	Business ownership	Sole Trader	92.9%	7.1%	100.0%
		Partnership	85.7%	14.3%	100.0%
		Family owned business	88.6%	11.4%	100.0%
		Others	100.0%		100.0%
		Total	90.9%	9.1%	100.0%

6.5.39 Better performance of the foreign SMEs over the indigenous SMEs by gender

Better performance of the foreign SMEs was also examined based on gender as per Table 6.90 below. Better performance of the foreign SMEs is also supported by both male and female entrepreneurs both foreign and indigenous SMEs. On indigenous SMEs 83% of male and 92.5% of female entrepreneurs believe that the foreign SMEs are performing better. As for the foreign SMEs 95.2% and 93.3% of the male and female respondents feel the same. This shows that both the indigenous SMEs and foreign SMEs acknowledged that the foreign SMEs were doing better than the indigenous SMEs by gender.

Table 6.90: Better performance of the foreign SMEs over the indigenous SMEs by gender

			Do you think that foreign SMEs are performing better than indigenous SMEs		Total
			Yes	No	
Indigenous SMEs	Gender	Male	83.0%	17.0%	100.0%
		Female	92.5%	7.5%	100.0%
	Total		87.1%	12.9%	100.0%
Foreign SMEs	Gender	Male	95.2%	4.8%	100.0%
		Female	93.3%	6.7%	100.0%
	Total		94.6%	5.4%	100.0%
Total	Gender	Male	89.7%	10.3%	100.0%
		Female	92.9%	7.1%	100.0%
	Total		90.9%	9.1%	100.0%

6.5.40 Better performance of the foreign SMEs over the indigenous SMEs by age

Better performance of the foreign SMEs was also examined based on age as per Table 6.91 below. Based on age group both the indigenous SMEs and the foreign SMEs felt that the foreign SMEs are performing better than the indigenous SMEs. This is evident with the high percentages of acknowledgement shown.

Table 6.91: Better performance of the foreign SMEs over the indigenous SMEs by age

			Do you think that foreign SMEs are performing better than indigenous SMEs		Total
			Yes	No	
Indigenous SMEs	Age	Below 20 years	66.7%	33.3%	100.0%
		Between 21 and 25 years	81.8%	18.2%	100.0%
		Between 26 and 30 years	94.1%	5.9%	100.0%
		Between 31 and 35 years	90.0%	10.0%	100.0%
		Above 36 years	87.1%	12.9%	100.0%
		Total	87.1%	12.9%	100.0%
Foreign SMEs	Age	Below 20 years	100.0%		100.0%
		Between 21 and 25 years	83.3%	16.7%	100.0%
		Between 26 and 30 years	90.0%	10.0%	100.0%
		Between 31 and 35 years	100.0%		100.0%
		Above 36 years	93.8%	6.3%	100.0%
		Total	94.6%	5.4%	100.0%
Total	Age	Below 20 years	75.0%	25.0%	100.0%
		Between 21 and 25 years	82.1%	17.9%	100.0%
		Between 26 and 30 years	92.6%	7.4%	100.0%
		Between 31 and 35 years	95.8%	4.2%	100.0%
		Above 36 years	91.1%	8.9%	100.0%
		Total	90.9%	9.1%	100.0%

6.6 HYPOTHESES TESTING USING INFERENTIAL STATISTICS

6.6.1 Introduction

Hypothesis testing is a procedure, based on sample evidence and probability theory, used to determine whether the hypothesis is a reasonable statement and should not be rejected, or is unreasonable and should be rejected.

For the purposes of this research, the following hypotheses were stated:

H₁. Foreign SMEs in Malawi are performing better as compared to the indigenous SMEs

H₀. Foreign SMEs in Malawi are not performing better as compared to the indigenous SMEs

6.6.2 Hypotheses testing

In testing the research hypotheses, a number of tests were used. These included Chi-Square, Binary Logistic model and Omnibus Test of Model Coefficient. This researcher used a Chi-Square to compare the measurement of success by both the indigenous SMEs and the foreign SMEs as per table 6.92 below.

Table 6.92: Measurement of success – Chi-square

	Profit			Growth			Cash balance			Growth in market share		
	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total
Age	12.799	1.905	12.210	10.060	9.616	26.334	2.632	6.600	3.088	7.055	7.505	3.135
	<i>0.012</i>	<i>0.753</i>	<i>0.016</i>	<i>0.039</i>	<i>0.047</i>	<i>0.000</i>	<i>0.621</i>	<i>0.159</i>	<i>0.543</i>	<i>0.133</i>	<i>0.111</i>	<i>0.535</i>
Gender	8.968	1.917	1.995	1.509	0.115	3.740	0.138	0.039	0.106	1.662	0.298	0.366
	<i>0.003</i>	<i>0.166</i>	<i>0.158</i>	<i>0.219</i>	<i>0.734</i>	<i>0.053</i>	<i>0.711</i>	<i>0.844</i>	<i>0.745</i>	<i>0.197</i>	<i>0.585</i>	<i>0.545</i>
Highest educational qualification	13.863	4.948	17.652	5.611	11.135	29.904	13.629	6.795	7.912	15.456	6.686	20.309
	<i>0.031</i>	<i>0.422</i>	<i>0.007</i>	<i>0.468</i>	<i>0.049</i>	<i>0.000</i>	<i>0.034</i>	<i>0.236</i>	<i>0.245</i>	<i>0.017</i>	<i>0.245</i>	<i>0.002</i>
Business ownership	2.533	20.272	8.609	1.458	2.813	5.239	1.945	1.855	1.103	1.191	8.078	7.204
	<i>0.282</i>	<i>0.000</i>	<i>0.035</i>	<i>0.482</i>	<i>0.421</i>	<i>0.155</i>	<i>0.378</i>	<i>0.603</i>	<i>0.776</i>	<i>0.551</i>	<i>0.044</i>	<i>0.066</i>
Business sector	4.538	4.798	5.629	1.450	2.816	13.065	1.557	7.752	5.185	43.660	7.430	32.157
	<i>0.338</i>	<i>0.309</i>	<i>0.229</i>	<i>0.836</i>	<i>0.589</i>	<i>0.011</i>	<i>0.817</i>	<i>0.101</i>	<i>0.269</i>	<i>0.000</i>	<i>0.115</i>	<i>0.000</i>
How did you become the owner of this business	4.589	1.519	5.198	2.392	2.558	3.624	0.018	0.911	0.269	0.908	2.865	1.386
	<i>0.101</i>	<i>0.678</i>	<i>0.158</i>	<i>0.302</i>	<i>0.465</i>	<i>0.305</i>	<i>0.991</i>	<i>0.823</i>	<i>0.966</i>	<i>0.635</i>	<i>0.413</i>	<i>0.709</i>
Period in business	2.267	4.532	6.137	2.560	0.702	5.586	2.566	3.612	2.115	11.325	1.374	6.485
	<i>0.687</i>	<i>0.339</i>	<i>0.189</i>	<i>0.634</i>	<i>0.951</i>	<i>0.232</i>	<i>0.633</i>	<i>0.461</i>	<i>0.715</i>	<i>0.023</i>	<i>0.849</i>	<i>0.166</i>
Note - top value is the Chi-square statistic and value in italics is the p-value												

Based on Table 6.92 above it shows that there is a significant difference between the indigenous SMEs and the foreign SMEs in terms of profit by age as a success factor with the indigenous SMEs (p=0.012) as compared to the foreign SMEs (p=0.733). The case is the same with gender where the indigenous SMEs have p=0.003 whilst the foreign SMEs have p=0.166. As with

business ownership there is a significant difference between the indigenous SMEs ($p=0.282$) and foreign SMEs ($p=0.000$). With growth by age there is a significant difference and the case is the same with growth by highest educational qualification. In terms of growth in market share by business sector there is a significant difference between the indigenous SMEs ($p=0.000$) and the foreign SMEs ($p=0.115$). From the above analysis, it shows that age and educational levels of an entrepreneur has significance on the success of an entrepreneur as demonstrated in Table 6.77 above. Noting that most of the foreign SMEs are better educated as compared to the indigenous SMEs, it justifies the importance of education on the performance of the foreign SMEs. This also justifies the fact that the foreign SMEs are performing better than the indigenous SMEs.

6.6.3 Factors for the success and failures of SMEs

This researcher also did an analysis on the factors that contribute to the success of and failures of the foreign and indigenous SMEs using a Chi-Square below. From the chi-square analysis it is noted that there are no significant differences on marketing plan by age, gender, highest education qualification, business ownership and sector and the period in the business. This shows that both the indigenous SMEs and the foreign SMEs regard a marketing plan as an essential tool in their businesses.

Competitions by age, gender, and business sector and business ownership have significant differences. As for age the following is noted: the indigenous SMEs ($p=0.302$) and foreign SMEs ($p=0.018$); competitive advantage by business ownership, indigenous SMEs ($p=0.006$) and foreign SMEs ($p=0.000$); business sector indigenous SMEs ($p=0.008$) and foreign SMEs ($p=0.003$). In the case of performance in the business by sale by age, indigenous SMEs ($p=0.181$) and foreign SMEs ($p=0.521$); gender $p=0.206$ for the indigenous and $p=0.657$ for the foreign SMEs; by business sector it is $p=0.667$ and $p=0.000$ for the indigenous SMEs and foreign SMEs respectively. The degree of competition in the market place by age is noted as indigenous SMEs ($p=0.003$) and foreign SMEs ($p=0.136$) and finally business sector $p=0.088$ for the indigenous SMEs and $p=0.001$ for the foreign SMEs. This signifies that age, gender, business sector and business ownership do have a significant impact on the performance of a business for both the indigenous and foreign SMEs.

Table 6.93: Factors that contribute to the successes and failures of SMEs –Chi-square

	Marketing plan			Competitive advantage			Performance of the business in terms of sales			Degree of competition in the market place		
	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total
Age	3.591	5.025	3.253	18.386	30.097	29.874	20.929	11.093	29.044	23.453	12.353	26.341
	<i>0.464</i>	<i>0.285</i>	<i>0.516</i>	<i>0.302</i>	<i>0.018</i>	<i>0.019</i>	<i>0.181</i>	<i>0.521</i>	<i>0.024</i>	<i>0.003</i>	<i>0.136</i>	<i>0.001</i>
Gender	0.064	0.159	0.638	4.313	7.356	5.202	5.905	1.609	3.624	0.679	0.407	0.769
Highest educational qualification	<i>0.801</i>	<i>0.690</i>	<i>0.424</i>	<i>0.365</i>	<i>0.118</i>	<i>0.267</i>	<i>0.206</i>	<i>0.657</i>	<i>0.459</i>	<i>0.712</i>	<i>0.816</i>	<i>0.681</i>
	1.981	2.861	4.100	36.049	23.759	48.852	27.465	14.171	44.202	19.126	12.788	21.137
Business ownership	<i>0.852</i>	<i>0.721</i>	<i>0.663</i>	<i>0.054</i>	<i>0.253</i>	<i>0.002</i>	<i>0.283</i>	<i>0.513</i>	<i>0.007</i>	<i>0.086</i>	<i>0.236</i>	<i>0.048</i>
	3.088	1.830	1.239	21.495	44.527	43.374	16.787	13.516	25.681	9.123	5.742	4.528
	<i>0.214</i>	<i>0.609</i>	<i>0.744</i>	<i>0.006</i>	<i>0.000</i>	<i>0.000</i>	<i>0.032</i>	<i>0.141</i>	<i>0.012</i>	<i>0.058</i>	<i>0.453</i>	<i>0.606</i>
Business sector	3.940	4.513	2.438	32.563	36.209	31.253	13.076	40.613	26.668	13.774	25.660	24.170
	<i>0.414</i>	<i>0.341</i>	<i>0.656</i>	<i>0.008</i>	<i>0.003</i>	<i>0.012</i>	<i>0.667</i>	<i>0.000</i>	<i>0.045</i>	<i>0.088</i>	<i>0.001</i>	<i>0.002</i>
How did you become the owner of this business	0.249	1.277	0.338	8.217	16.989	12.052	8.970	12.824	18.892	6.974	7.511	6.674
Period in business	<i>0.883</i>	<i>0.735</i>	<i>0.953</i>	<i>0.413</i>	<i>0.150</i>	<i>0.442</i>	<i>0.345</i>	<i>0.171</i>	<i>0.091</i>	<i>0.137</i>	<i>0.276</i>	<i>0.352</i>
	2.852	5.211	3.511	5.899	21.146	9.187	23.904	29.793	44.202	3.078	3.609	6.696
	<i>0.583</i>	<i>0.266</i>	<i>0.476</i>	<i>0.989</i>	<i>0.173</i>	<i>0.906</i>	<i>0.092</i>	<i>0.003</i>	<i>0.000</i>	<i>0.929</i>	<i>0.891</i>	<i>0.570</i>
Note - top value is the Chi-square statistic and value in italics is the p-value												

6.6.4 Factors that were considered by both the indigenous SMEs and the foreign SMEs when starting a business

When starting a business there are a number of factors that one has to consider. These may include competitor analysis, customer analysis, market analysis and environmental analysis. A chi-square analysis was used on the factors above using a number of parameters to determine if there is a significant difference in the way the indigenous SMEs and the foreign SMEs regard the said factors. In the table below it is noted that there is a significant difference on competitor analysis by highest education qualification with the indigenous SMEs ($p=0.001$) and the foreign SMEs ($p=0.029$) giving a total of $p=0.000$.

The case is also the same with competitor analysis by the period in the business with indigenous SMEs ($p=0.031$) and foreign SMEs ($p=0.360$) with a total value of $p=0.005$. There is also significant differences on customer analysis by business sector with indigenous SMEs ($p=0.026$) and foreign SMEs ($p=0.017$) and on market analysis by age with indigenous SMEs ($p=0.868$) and foreign SMEs ($p=0.000$) and $p=0.000$ for indigenous and $p=0.446$ for the indigenous and foreign SMEs respectively with a total of $p=0.000$. The case is the same on market analysis by business ownership and period in the business.

Table 6.94: Factors SMEs considered when starting a business – Chi-square

Factors when starting your business											
	Competitor analysis			Customer analysis			Market analysis			Environmental analysis	
	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs	Total	Indigenous SMEs	Foreign SMEs
Age	23.776	11.494	18.136	8.211	13.127	11.738	9.970	52.003	20.778	14.070	23.495
	<i>0.095</i>	<i>0.175</i>	<i>0.316</i>	<i>0.942</i>	<i>0.108</i>	<i>0.762</i>	<i>0.868</i>	<i>0.000</i>	<i>0.187</i>	<i>0.594</i>	<i>0.101</i>
Gender	9.592	0.534	7.498	3.022	1.632	3.208	4.364	2.062	3.400	5.927	0.918
	<i>0.048</i>	<i>0.766</i>	<i>0.112</i>	<i>0.554</i>	<i>0.442</i>	<i>0.524</i>	<i>0.359</i>	<i>0.560</i>	<i>0.493</i>	<i>0.205</i>	<i>0.922</i>
Highest educational qualification	50.632	19.998	84.466	19.848	13.562	33.948	81.897	15.079	121.692	28.411	22.798
	<i>0.001</i>	<i>0.029</i>	<i>0.000</i>	<i>0.705</i>	<i>0.194</i>	<i>0.086</i>	<i>0.000</i>	<i>0.446</i>	<i>0.000</i>	<i>0.243</i>	<i>0.299</i>
Business ownership	8.314	7.003	14.747	7.411	4.143	7.129	8.357	18.509	14.082	7.491	10.191
	<i>0.403</i>	<i>0.321</i>	<i>0.256</i>	<i>0.493</i>	<i>0.657</i>	<i>0.849</i>	<i>0.399</i>	<i>0.030</i>	<i>0.296</i>	<i>0.485</i>	<i>0.599</i>
Business sector	24.152	13.147	25.810	28.713	18.596	24.630	24.175	10.591	20.004	14.011	23.892
	<i>0.086</i>	<i>0.107</i>	<i>0.057</i>	<i>0.026</i>	<i>0.017</i>	<i>0.077</i>	<i>0.086</i>	<i>0.564</i>	<i>0.220</i>	<i>0.598</i>	<i>0.092</i>
How did you become the owner of this business?	7.725	2.044	11.824	10.468	5.144	11.146	16.072	7.837	24.481	6.130	9.405
	<i>0.461</i>	<i>0.916</i>	<i>0.460</i>	<i>0.234</i>	<i>0.525</i>	<i>0.516</i>	<i>0.041</i>	<i>0.551</i>	<i>0.017</i>	<i>0.633</i>	<i>0.668</i>
Period in business	28.073	8.794	34.295	15.834	11.608	22.946	20.130	19.384	27.150	15.800	11.734
	<i>0.031</i>	<i>0.360</i>	<i>0.005</i>	<i>0.465</i>	<i>0.170</i>	<i>0.115</i>	<i>0.214</i>	<i>0.080</i>	<i>0.040</i>	<i>0.467</i>	<i>0.762</i>
Note - top value is the Chi-square statistic and value in italics is the p-value											

6.6.5 Prevailing reasons behind the success of the foreign SMEs

Based on the mere perception of the respondents, 90.9% of the respondents accepted that the foreign SMEs are successful. Having established that the foreign SMEs are more successful, the study employed the Binary Logistic Model to determine the success factors of foreign SMEs.

The Binary Logistic Regression, by design, overcomes many of the restrictive assumptions of linear regressions. For example, linearity, normality and equal variances are not assumed, nor is it assumed that the error term variance is normally distributed.

The major assumptions are that the outcome must be discrete, otherwise explained as, the dependent variable should be dichotomous in nature (e.g., presence *vs.* absent). There should be no outliers in the data, which can be assessed by converting the continuous predictors to standardized, or z scores, and remove values below -3.29 or greater than 3.29. There should be no high inter-correlations (multi-collinearity) among the predictors. This can be assessed by a correlation matrix among the predictors. Tabachnick and Fidell (2012) suggest that as long as correlation coefficients among independent variables are less than 0.90 the assumption is met. Also, there should be a linear relationship between the odds ratio, or EXP (B), and each independent variable. Linearity with an ordinal or interval independent variable and the odds ratio can be checked by creating a new variable that divides the existing independent variable into categories of equal intervals and running the same regression on these newly categorized versions as categorical variables. Linearity is demonstrated if the beta coefficients increase or decrease in linear steps (Garson, 2009). A larger sample is recommended in fitting with the maximum likelihood method; using discrete variables requires that there are enough responses in each category.

The Binary Logistic Model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \mu$$

From the model, determinants of SMEs success (Y) are as follows:

Training = X_1 , Educational background = X_2 , Capital = X_3 , Commitment = X_4 , Longer working hours = X_5 , Better prices = X_6 , Error term = μ

Factors such as training, education background, capital, and commitment, working hours and better prices were tested using the Omnibus Test of Model Coefficient to see if they contribute towards better success of SMEs in Malawi.

Table 6.95: Factors determining success of SMEs in Malawi

	B	S.E.	Wald	Df.	Sig.
Training	-4.977	1.467	11.511	1	.001
Educational background	-4.353	1.493	8.504	1	.004
Capital	-4.659	1.167	15.944	1	.000
Commitment	-18.772	3449.330	.000	1	.996
Longer working hours	-21.122	8176.522	.000	1	.998
Better prices	-19.980	3229.146	.000	1	.995
Constant	2.406	1.044	5.312	1	.021

The results above shows the factors training, educational background, and capital are all significant at 5% ($p. > 0.001$) ($p. > 0.004$) ($p. > 0.000$) respectively. The result also show longer working hours and commitment are not significant both at 1% or 5%. The results suggest that if SME are to be successful in the industry these factors that were proved to be significant need to be considered seriously.

The above findings are also supported by the Table 6.96 below.

Table 6.96: Prevailing factors behind the success of foreign SMEs in Malawi

	Training	Educational background	Capital	Commitment	Longer working hours	Better prices
Indigenous SMEs	21.0%	13.6%	70.4%	22.2%	6.2%	24.7%
Foreign SMEs	45.5%	8.0%	63.6%	52.3%	8.0%	63.6%
Total	33.7%	10.7%	66.9%	37.9%	7.1%	45.0%

The table above shows that most foreign SMEs felt that their success was as a result of offering better prices in the marketplace which resulted in a good turnover as a result of fast selling. Another prevailing factor was the capital invested and commitment to the business followed by training in the running of the enterprises. Most of the indigenous SMEs attributed the success of the foreign SMEs to capital invested, better prices, commitment and training. Longer working

hours was less significant to both the foreign and indigenous SMEs as a factor to the success of the foreign SMEs with capital being rated highly amongst all the factors.

6.6.6 Conclusion

The above results justifies that the foreign SMEs are performing better as compared to the indigenous SMEs. From the analysis it is noted that the foreign SMEs invested more than the indigenous SMEs. It is believed that the more you invest the more the returns are. The high level of investment by the foreign SMEs as compared to the indigenous SMEs has proved to be a success factor of the foreign SMEs as compared to the indigenous SMEs. The case is also the same with the educational levels of the foreign SMEs as compared to that of the indigenous SMEs. Another prevailing factor was the capital invested and commitment to the business followed by training in the running of the enterprises. Most of the indigenous SMEs attributed the success of the foreign SMEs to capital invested, better prices, commitment and training.

Based on the research findings from chapter 6 above, it has been proved that indeed the foreign SMEs are performing better as compared to the indigenous SMEs. From the responses, 90.9% of the respondents felt that the foreign SMEs are doing better than the indigenous SMEs; performance of the foreign SMEs over the indigenous SMEs by business sector was also examined as per Table 6.88 above.

Of indigenous enterprises by business sector all of them acknowledged that the foreign SMEs are performing better than the indigenous SMEs with 100% in tourism and 91.3% in trading felt as such. This was also the case in the manufacturing sector as 66.7% acknowledged the same but those in the export sector did not agree that the foreign SMEs were performing better than the indigenous SMEs and 66.7% of those in tourism had different views but overall 87.8% of the indigenous SMEs by business sector were in agreement that the foreign SMEs were performing better than the indigenous SMEs. With the foreign SMEs, 100% in the manufacturing, 94% in the trading, 94.4% in export and 90.0% in the tourism sector felt the same. As such this researcher accepts the H_1 hypothesis that foreign SMEs are performing better as compared to the indigenous SMEs. This is both from the mere perceptions of the SMEs and also from the tests conducted.

6.7 CHAPTER SUMMARY

This research had a sample size of 278 as its sample elements with an equal number of 138 for both the indigenous SMEs and foreign SMEs. From the sample there were 101 responses out of 138 from the indigenous SMEs and 94 responses out of 138 for the foreign SMEs. This translates to a response rate of 73% for the indigenous SMEs and 68% for foreign SMEs giving an average total response rate of 70% which the researcher regarded as adequate.

From the analysis it is noted that the foreign SMEs invested more than the indigenous SMEs. It is believed that the more you invest the more the returns are. The high levels of investment by the foreign SMEs as compared to the indigenous SMEs might be the reason why the foreign SMEs are performing better than the indigenous SMEs. It is also noted that most of the SMEs were motivated by money to start their businesses with creating of jobs being secondary.

Overall based on the period in business by the capital invested it shows that the foreign SMEs have had substantial investments into their businesses as compared to the indigenous SMEs thus their success in the market place. It is also noted that the capital invested mainly by the foreign SMEs tend to be higher combined with the period in the business. As such it is apparent that the longer you stay in the business the higher the levels of capital invested. It also shows that most of the foreign SMEs are highly educated as compared to the indigenous SMEs. This clearly demonstrates that education is significant in the success of a business. It has been noted that the foreign SMEs are doing better than the indigenous SMEs and this can be attributed to a larger extent to the educational levels of the business owners.

In terms of promotions, it is clear from the analysis that both the indigenous SMEs and the foreign SMEs make use of word of mouth followed by the use of leaflets and in store promotions. Printed advertising and radio advertising was not the preferred method for both the foreign SMEs and the indigenous SMEs as they are deemed to be expensive. It has also been noted that both the indigenous and foreign SMEs appreciated the importance of a marketing plan for the success of a business as both tend to have a business plan though more foreign SMEs than indigenous SMEs are listed. The foreign SMEs have price and quality as their competitive advantages in the market place. The foreign SMEs have been selling their products at a reasonable price and at the same time offering quality products and gaining on turnover as compared to the indigenous SMEs. From the analysis it demonstrates that the indigenous SMEs

are finding it difficult in the market place compared to the foreign SMEs and this might be one of the reasons why the foreign SMEs are performing better than the indigenous SMEs. It is therefore important for the indigenous SMEs to come up with strategies that can be used to fight the competition and be level with the foreign SMEs or even better.

Both the indigenous and foreign SMEs understudy believed that lack of support was the major factor which was an obstacle to the performance of the indigenous SMEs. This was followed by the mentality of many Malawians that anything foreign is superior and lack of planning followed by poor management, improper financing and lack of credit facility. It is also noted that both the indigenous SMEs and the foreign SMEs took competitor analysis, customer analysis and market analysis seriously when starting their businesses as compared to environmental analysis.

It has also been noted that both the foreign and indigenous enterprises are of the belief that the foreign SMEs are more successful than the indigenous SMEs. Most foreign SMEs felt that their success was as a result of offering better prices in the marketplace which resulted in a good turnover as a result of fast selling. Another prevailing factor was the capital invested and commitment to the business followed by training in the running of the enterprises. Most of the indigenous SMEs attributed the success of the foreign SMEs to capital invested, better prices, commitment and training. Longer working hours was less significant to both the foreign and indigenous SMEs to the success of the foreign SMEs with capital rated high amongst all the factors. Overall it is noted that the foreign SMEs are performing better than the indigenous SMEs.

In summary, chapter six has examined the reasons for the poor performance of the indigenous SME compared to the foreign SMEs in Malawi and looked at ways of improving and changing the status-quo. The implication that could arise from the suggestions for improving the performance of the indigenous SMEs sector has also been exposed in the chapter. The findings in chapter six will therefore be the basis for the next chapter, which outlines recommendations that have been derived from survey findings to provide a basis on which indigenous SMEs can formulate strategies with a view to competitively match and perform better than the foreign SMEs.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

The study was aimed at identifying why and how the foreign SMEs have more success than the indigenous SMEs. This was after noticing that the foreign SMEs perform better than the indigenous SMEs. Therefore a comparative study of indigenous *versus* foreign SMEs was conducted. It is clear from the findings that the foreign SMEs are indeed performing better than the indigenous SMEs. Based on these findings various recommendations have been put forward in order to address the said problems that the indigenous SMEs are facing. There is a need for the indigenous SMEs to improve on their performance. In developing these recommendations, special consideration was given to the dynamic expectations of the indigenous SMEs in Malawi.

7.2 OVERVIEW OF THE LITERATURE STUDY

Primary data reveals a perception gap that exists between indigenous SME and foreign SME on the elements that make a firm succeed in a competitive environment. What arises clearly is that due to insufficient working capital, lack of funding and access to credit, low capitalization and collateral, poor market knowledge and insufficient skills due to a lack of training in entrepreneurial skills lead to customer dissatisfaction with respect to service quality delivery, speed, dependability, reliability, efficiency and flexibility. In addition, the research also determined that indigenous SMEs in Malawi fail to perform better compared to the foreign SMEs due to a poor entrepreneurial concept, poor networking skills, failure to build systems and processes, failure to execute superior strategies and therefore foreign SMEs have a competitive advantage over them and perform better as a result of the aforementioned weaknesses. This justifies that the foreign SMEs perform better than the indigenous SMEs in Malawi. This is a call for change to enhance the SME sector development in Malawi.

An overview of the current state of the SMEs sector in Malawi has been explored. It has highlighted the challenges the sector are facing with an emphasis on the indigenous SMEs who

are the main players in this research. It has been noted that the indigenous SMEs are not performing better in the SME sector; as such the researcher has scrutinized the problems and efforts being taken by the Government of Malawi in order to address the said challenges based on the current SME policy of Malawi. It has been noted that the problems the SMEs are facing are almost similar in all the countries with accessing finances as a major problem in Lesotho, Rwanda, Tanzania, Zambia, the Philippines and China. Apart from finances, gender inequality, human capital development and high cost of doing business are quite common in these countries. Of the above countries it is noted that the story is quite different with India where the SMEs sector seem to be doing much better. As for the success of the SME sector in India, funding of the SMEs by the indigenous and foreign industries, new technology used in the market in assisting SMEs add considerable value to their businesses, various trade directories and portals that help to facilitate trade between buyers and sellers and reduces the barrier to trade are seen as the success factor (SME Chamber of India, 2013).

With Zambia the problems affecting SMEs is related to the attitude of dependency and always expecting the government and donors for handouts, poor work culture, corruption and lack of credit facilities (Chisala, 2012 and MCTI Survey, 2011). Therefore most of the SMEs in Zambia are failing to formalize their existence due to their own making (Mbuta, 2013). China is also thriving in the SME sector. With the support of the Chinese government, big companies do arrange contracts with the SMEs for the supply of input with SMEs acting as satellites for large central companies (ECAM, 2012 and Padmadinata, 2013). If Lesotho, Rwanda, Tanzania, Zambia, the Philippines, China, and Malawi are to make positive strides in the SME sector they need to borrow a leaf in the success story of India.

Most foreign SMEs felt that their success was as a result of offering better prices in the marketplace which resulted in a good turnover as a result of fast selling. Another prevailing factor was the capital invested and commitment to the business followed by training in the running of the enterprises. Most of the indigenous SMEs attributed the success of the foreign SMEs to capital invested, better prices, commitment and training. Longer working hours was less significant to both the foreign and indigenous SMEs as a factor of the success of the foreign SMEs. In all the countries it was noted that the indigenous SMEs failed to survive due to a number of factors such as the education system which has been largely job oriented,

unwillingness to become an entrepreneur and take risks, opting for paid jobs and lack of drive and passion. Most indigenous SMEs are more inclined to trading rather than manufacturing and service industry.

The problems affecting SMEs in Malawi tend to be similar for most African countries and other developing countries that which include poor work culture, corruption, lack of credit facilities and lack of an entrepreneurial spirit.

7.3 RESEARCH OBJECTIVES REVISITED

7.3.1 Primary objectives revisited

The main objective of the research was to determine ways to enhance the performance of indigenous Malawian SMEs to the level of the foreign SMEs in Malawi. This objective was attained after noticing that the indigenous SMEs' performance was worse compared to the foreign SMEs. Based on the research done it has indeed been proved that the foreign SMEs have been performing better than the indigenous SMEs. From the foregoing, the researcher has come up with practical ways of enhancing the performance of the indigenous SMEs (Paragraph 7.7) that if followed will help to improve the performance of the indigenous SMEs to the level of the foreign SMEs and even surpassing them.

7.3.2 Secondary objectives revisited

Apart from the above main objective which was to determine ways to enhance the performance of indigenous Malawian SMEs to the level of the foreign owned SMEs in Malawi, the research was also supported by a number of secondary objectives in order to attain the main objective.

The secondary objectives were to outline international success factors of SMEs, to provide an overview of the SME sector in Malawi, to explore the performance of SMEs from other developing countries trading in Malawi, to compare the SME sector of Malawi to that of other developing countries, to determine why foreign SMEs are succeeding and performing better than the indigenous SME's in Malawi, to identify the needs of indigenous SMEs in Malawi to perform better and finally to make recommendations to the indigenous SMEs in Malawi for optimal performance in the SME sector.

On the outline international success factors of SMEs, it has been noted an education background and financial support has been very key to their success. An overview of the SME sector in Malawi has been explored taking into account the success and challenges of the sector and the possible action(s) being taken by the government and the private sector (Refer Chapter 3).

The performances of SMEs from other developing countries trading in Malawi (South Africa, Lesotho, Rwanda, China, India and Tanzania) have been explored. From the analysis it is clear that the foreign SMEs are performing better than the indigenous SMEs despite their own challenges in their countries. The summary of the said SMEs is tabulated in table 4.5 of Chapter 4. The reasons why foreign SMEs are succeeding and performing better than the indigenous SMEs in Malawi have also been explored. Finally recommendations to the indigenous SMEs in Malawi for optimal performance in the SME sector have been put forward (Refer 7.8 below). From the above, this researcher notes that all the above secondary objectives have been addressed adequately.

7.4 HYPOTHESIS REVISITED

The research was to do a comparative analysis between the indigenous SMEs and the foreign SMEs in Malawi. It was believed that the foreign SMEs performance was better as compared to that of the indigenous SMEs. Based on the research findings from chapter 6 above, it has been proved that indeed the foreign SMEs are performing better as compared to the indigenous SMEs.

From the tests conducted in 6.6 above and the responses of the SMEs under study, 90.9% of the respondents felt that the foreign SMEs are doing better than the indigenous SMEs; performance of the foreign SMEs over the indigenous SMEs by business sector was also examined as per Table 6.88 above.

Of indigenous enterprises by business sector all of them acknowledged that the foreign SMEs are performing better than the indigenous SMEs with 100% in tourism and 91.3% in trading felt as such. This was also the case in the manufacturing sector as 66.7% acknowledged the same but those in the export sector did not agree that the foreign SMEs were performing better than the indigenous SMEs. 66.7% of those in tourism had different views but overall 87.8% of the indigenous SMEs by business sector were in agreement that the foreign SMEs were performing

better than the indigenous SMEs. With the foreign SMEs, 100% in the manufacturing, 94% in the trading, 94.4% in export and 90.0% in the tourism sector felt the same. As such this researcher accepts the H_1 hypothesis that foreign SMEs are performing better as compared to the indigenous SMEs. This calls for measures to improve the performance of the indigenous SMEs if they are to match their foreign counterparts, thus the recommendations in 7.8 below.

7.5 CONTRIBUTION TO THE SCIENCE

The most practical contribution of the research is the understanding of establishing and operating an SME successfully. The research will also help those venturing into entrepreneurship to have a good understanding of the best practices of running an SME. From the mistakes that the indigenous SMEs in Malawi experienced and the remedies given, this will be very helpful to those intending to venture into entrepreneurship as they will be able to learn from the mistakes that the indigenous SMEs in Malawi have been making. It will also be of importance to the owners of the SMEs as it will help them improve on their operations by following the best practices as elaborated in this study and avoid a repeat of the mistakes by other indigenous SMEs in Malawi. This research will help the indigenous SMEs to be competitive and be able to have a competitive advantage over their rivals.

This study not only extends existing knowledge about SMEs and entrepreneurship in general, but it has also tackled an area of comparing the performance of indigenous SMEs and foreign SMEs which has not been looked at previously in the Malawi context in depth. The study has unlocked problems facing the SME sector in Malawi which will be used by both the entrepreneurs and scholars in the field of entrepreneurship and marketing in order to have a better understanding of the sector. The problems SMEs are facing seems to be the same in general, but the researcher did not find any studies in Malawi that compared the indigenous SMEs and the foreign SMEs. Therefore this study is the first of its kind which has shown that some of the problems the indigenous SMEs are facing are unique to Malawi. This is going to contribute significantly to the available literature on SMEs in Malawi.

7.6 IMPLICATION TO THE THEORY AND PRACTICE

The researcher also looked at the implication on theory and the practice. It was the desire of the researcher to determine what the literature says and what happens in practice. Based on the various forms of ownership in entrepreneurship, it is evident that each form has got its own merits and demerits. Literature has shown that most SMEs tend to opt for sole trading as a means of business ownership. From the research findings it has also shown that most of the SMEs in Malawi, both indigenous and foreign are operating as sole traders, thus proving the theory with the practice. As the business grows and with the need to go into the medium sector, it has shown that partnership is the preferred way as it tends to increase the capital base of the business but also the increased expertise of the partners.

A family business might have several disadvantages but a tight-knit family can easily overshadow it with advantages. Entrepreneurs should definitely consider this type of business if they want solidarity, simple hierarchy, commitment, internal training, and diversity. From the various advantages by the different authors as articulated in the literature, it has proved that the family business, finding a sponsorship and a franchise are the most preferred means of business strategies amongst the indigenous and foreign SMEs in Malawi. It has also been proved from the analysis that most people go into entrepreneurship in order to reach their destiny which is coupled with profitability. And because of independence they are free to venture into an opportunity coming their way and be able to achieve their desired goal without a hindrance from a third party, this tends to be a motivating factor for their ultimate success.

According to Scarborough (2013) some of the potential drawbacks of entrepreneurship include uncertainty of income, risk of losing your entire investment, long hours and hard work, lower quality of life until the business gets established, high levels of stress and complete responsibility. This proves that it is imperative for an entrepreneur to always come up with performance measures and control methods in order to avoid the pitfalls as outlined below. Having an understanding of the likely potential drawbacks that an entrepreneur might experience, it is therefore important for an entrepreneur to have an understanding of how he/she can overcome such challenges (Kautomen, Tomikoski and Kibler, 2011). This has proved to be a

challenge for most of the indigenous SMEs in Malawi thus resulting in poor performance as compared to the foreign SMEs.

Kautomen, Tomikoski and Kibler (2011) indicated that some of the ways for avoiding pitfall include knowing your business in depth, developing a solid business plan, managing financial resources, understanding financial statements, learning to manage people effectively, setting business apart from the competition and maintaining a positive attitude. From the research findings, it has shown that most of the indigenous SMEs tend to lack the above attributes, thus their failure to perform at the same level as the foreign SMEs.

Barringer and Ireland (2013) noted that the characteristics of a successful entrepreneur include passion for the business, product and customer focus, tenacity despite failure and execution intelligence. It should be noted that for an entrepreneur to succeed he/she needs to be passionate with whatever he/she doing. It is the passionate which leads to being focused on the products but more so the customers who are key if the business are to excel. When one goes into a business venture, there is a likelihood of either success or failure. As such when one experiences a failure, a good entrepreneur will not give up until he/she gets it right which includes advocating for quality ideas which culminate into business success. This seems to lack in most of the indigenous SMEs which has resulted in a high rate of business failure by the indigenous SMEs (SMEDI, 2015).

According to Scarborough (2013) and Barringer and Ireland (2013), some of the reasons that tend to influence people into entrepreneurship include unemployment, personal characteristics, motivation, to be their own boss, pursue their own ideas, realize financial rewards and attitudes. From the research, it is noted that both the indigenous and foreign SMEs have mentioned the same reasons for their venture into business.

The major elements of the marketing strategy are the four P's of marketing – product, place, and promotion (Keegan and Green, 2013). These four elements are interconnected, and, when properly coordinated with a solid marketing plan, increase the sales appeal of a product or services. Small business must integrate these elements to maximize the impact of their product or services on the consumer (Kotler and Armstrong, 2012). It should be noted that there is a need to balance the four P's if marketing is to be a success, the entrepreneurs to achieve their goals and

the consumer to be satisfied. This can also help an entrepreneur to evaluate his/her customers and have an understanding as to whether the customers are being satisfied or not. Customer satisfaction can be in form of repeat sales, loyalty and recommendations to other customers. If an entrepreneur can embrace the four P's effectively there is a likelihood of creating a competitive advantage over its competitors. It has been noted that all the SMEs are of the above views in order to make their businesses a success thus proving the importance of carefully embracing the four P's if success is to be achieved.

From the above discussion, it has proved that there is a good relationship with what the literature on entrepreneurship advocate and what happens in practice in Malawi but also in the other countries mentioned in the study. If the indigenous SMEs in Malawi are to register success, there is a need to follow what the different authors have been advocating. The indigenous SMEs will continue playing second fiddle to the foreign SMEs if they don't become more knowledgeable in the running of SMEs.

7.7 LIMITATION OF THE STUDY

Like any other research study, this study was limited in the following ways: firstly, there was a breakdown of communication during the study as some indigenous and foreign SMEs owners who could provide information were not available during the agreed time, and as such there was a need to reschedule. This delayed the data collection process. Secondly, in some cases, cooperation of respondents' especially foreign SMEs proved to be more difficult as some of them were suspicious and not willing to provide information. Finally bureaucracy in getting accessibility to some enterprises was a challenge to the whole process but patience was a virtue in addressing these challenges.

7.8 RECOMMENDATIONS AND FURTHER RESEARCH

7.8.1 Recommendations

To enhance the performance of indigenous SMEs in Malawi the following recommendations are suggested:

7.8.1.1 Incorporate entrepreneurship into the education system

From the literature and research findings it is noted that education is a key factor in entrepreneurship. It is noted that most of the foreign SMEs are better educated as compared to the indigenous SMEs which attributes to the success of the foreign SMEs as compared to the indigenous SMEs. Entrepreneurship as a subject is mostly available at master's level in the educational system of Malawi and just recently at a first degree level. It is therefore recommended that entrepreneurship be introduced right from primary school up to the university level on each and every course in order to teach the spirit of entrepreneurship amongst Malawians but also for them to appreciate that not everybody will have an opportunity of getting a white collared job as is the case with Rwanda where mentoring for youth and small businesses, encouraging entrepreneurship training and education from primary school level is being practiced. Currently well educated people who are in full time businesses are seen as social misfits as running a business in Malawi is regarded as a failed attempt to secure a formal employment.

7.8.1.2 Tax incentives for the indigenous SMEs

It is noted from the research findings that one of the factors that impacted heavily on the operation of the indigenous SMEs businesses was tax and customs duty. It is therefore recommended that the government of Malawi should reduce the tax rate of the indigenous SMEs to 0% within the first three years of doing business as an incentive and 5 and 10% in the fourth and fifth years respectively. Those indigenous SMEs operating in the rural areas should have even lower tax rates. This can help the indigenous SMEs to go into small scale businesses but at the same time increase their capital base due the tax rebate over the years.

7.8.1.3 Capacity building of indigenous SMEs by both the public and private sector

The government and the private sector need to introduce a deliberate policy of training indigenous SMEs to have a better understanding of running their businesses. Institutions responsible for the SME sector such as SMEDI have to be fully empowered financially and with manpower in order to meet these obligations.

7.8.1.4 Government and the private sector to make available capital investment for the indigenous SMEs

It is noted from the literature and the analysis that the indigenous SMEs investment levels are low compared to the foreign SMEs. Government should consider encouraging and support the indigenous private sector associations and enterprises by making available a capital base and a deliberate policy of supporting the indigenous SMEs and also helping the indigenous SMEs with capital at a reasonable interest rate unlike the case now where interest rates by the private and public sector are very exorbitant and with collateral which most of the indigenous SMEs cannot afford. Government with the support of other players from the private sector should seriously consider the establishment of a bank or a lending institution solely for the indigenous SMEs as most of the current commercial banks in Malawi sees the indigenous SMEs are risky partners. The continued low levels of capital investment by the indigenous SMEs poses as a challenge to their operations which gives the foreign SMEs an upper hand over the indigenous SMEs.

7.8.1.5 Support services for the indigenous SMEs

Government of Malawi need to provide support services to the indigenous SMEs through qualified service providers such as SMEDI in order to allow growth amongst the indigenous SMEs. Enough funding for SMEDI as a training institution for the SMEs will be vital. Training of indigenous SMEs should be highly subsidized in order to train a lot of SMEs which might be vital for the success of the indigenous SMEs and for them to start performing better than the foreign SMEs. Indigenous SMEs need to have basic knowledge of bookkeeping and customer services if they are to be successful.

7.8.1.6 Deliberate policy support for the indigenous SMEs by the Government of Malawi

The government of Malawi needs to introduce a deliberate policy in order to support the indigenous SMEs. In Malawi Government is the biggest buyer of goods and services. As such if the government is to buy goods or procure services, the first priority should be to engage the indigenous SMEs. Since most foreign SMEs uses price as a competitive advantage, the government of Malawi should introduce a 15% preference on price for the indigenous SMEs. This will help to promote the indigenous SMEs and at the same time see them grow and be able

to compete and perform even better than the foreign SMEs. The 15% preference is already being practiced in the pharmaceutical industry in Malawi but this should go to all the other sectors.

7.8.1.7 Civic educating the Malawian consumers that not everything foreign is superior

From the literature and the analysis it has been noted that most of the Malawian consumers have an idea that anything foreign is superior. As such there is a need for the Malawian government and the non-governmental organisations to embark on a programme to publicly educate the Malawian consumers that not everything foreign is superior; that locally produced goods are even better than the foreign produced good. Most goods produced locally tend to be fresh unlike foreign goods that take a long time to reach the country. There is a need for the Malawian consumers to be careful with the foreign products which come in cheaply as most of the African countries including Malawi are used as a dumping ground for the foreign goods and products. It should also be educated that locally produced goods are specifically meant to meet the needs of the local conditions unlike most of the foreign produced goods and products.

7.8.1.8 Foreign SMEs to be used as mentors for the indigenous SMEs

Since the foreign SMEs are performing better than the indigenous SMEs, the foreign SMEs felt their success was due to offering better prices in the marketplace which resulted in a good turnover as a result of fast selling. Another prevailing factor was the capital invested and commitment to the business followed by training in the running of the enterprises. In the same vein most of the indigenous SMEs attributed the success of the foreign SMEs to capital invested, better prices, commitment and training. It is recommended that a deliberate policy be put in place in order to use the foreign SMEs as mentors for the indigenous SMEs. This might be a challenge for the foreign SMEs who are direct competitors of the indigenous SMEs but in order to interest the foreign SMEs in this scheme the government of Malawi must use incentives to attract the foreign SMEs into this venture. The incentives could be in the form of decreased tax rates for the foreign SMEs.

7.8.2 Future research needs

Good research is sometimes supposed to generate more and better questions than were available when the research commenced. With this knowledge and from experience gained during this

research, a number of particularly interesting proposals for future research projects can be envisaged. Ideas in this respect include:

- **The impact of benchmarking the indigenous SMEs against foreign SMEs in Malawi.** This is important and it will help the indigenous SMEs to learn the success factor from their foreign SME counterparts as they will be seen as their role models therefore striving to reach the heights of the foreign SMEs.
- **Economic perspectives on entrepreneurial action.** It has been noted from the research that there is lack of support from the Government of Malawi in supporting the SME sector. Various researchers have shown that SMEs are the backbone on many countries' economies all over the world. This research will help to underline the importance of SMEs as the engine of the country's economic growth. The said findings might help to invigorate both the public and the private sector to give a better helping hand to the SMEs as partners in the economic growth of the country.
- **Managing entrepreneurial growth – a case of indigenous SMEs in Malawi.** From the research it has been noted that most indigenous SMEs have failed to succeed due to a number of factors. These include lack of formal training for the SMEs, lack of entrepreneurial spirit etc. As such it will be essential to conduct research on how well SMEs can grow beyond start up. These factors will help the SMEs in developing their businesses to become successful ventures as is the case with the foreign SMEs in Malawi.
- **The future of indigenous SMEs in Malawi.** With the current trends, the future of the SME sector in Malawi tends to be unfavorable but most of this is based on mere hypotheses. It will be vital to conduct a research study on the future of the indigenous SMEs in Malawi in order to create a clear picture. The findings will help to determine where our SME sector stands. This will help the government and all the other stakeholders to come up with ways and means of reversing it. It should be noted that a country's economy is supposed to be in the hands of the indigenous if you are to be economically independent.
- **How to launch a new business venture.** Most of the indigenous SMEs have failed to grow just because of the way they started their venture. Such a study will help to determine how most of the indigenous SMEs started and where they have been going

wrong. This will help in determining the best ways to launch a new business venture with clear guidelines for the benefit of the indigenous SMEs.

- **Promoting indigenous SMEs for development in Malawi.** This research will be important in that it will show the benefits of promoting indigenous SMEs for the development of the country, Malawi. From the research it has shown that countries such as India and China are what they are today because of the support that have been receiving from their governments but also from the private sector. These findings will form the basis for the SMEs to include both the public and private sector for their support as partners in the economic growth of the country.

Such studies would not only enhance intellectual environment of scholars but also assist entrepreneurs improve competitiveness and stay in business longer.

7.9 SUMMARY AND CONCLUSION

The problem the indigenous SMEs is facing despite their significance to the Malawi economy, is that SMEs are failing in performance compared to the foreign SMEs. This may pose challenges to the Malawi economy hence the need for a comparative study on indigenous *versus* foreign SMEs in Malawi in order to come up with some learning points. The main objective of the research was to determine ways to enhance the performance of indigenous Malawian SMEs to the level of the foreign owned SMEs in Malawi and the research was guided by secondary objectives which were to outline international success factors of SMEs, to provide an overview of the SME sector in Malawi and to explore the performance of SMEs from other developing countries trading in Malawi. Other secondary objectives included the comparison of Malawi with other countries for similarities and differences, to determine why foreign SMEs are succeeding and performing better than the indigenous SMEs in Malawi, to identify the needs of indigenous SMEs in Malawi in order to perform better and finally make recommendations to the indigenous SMEs in Malawi for optimal performance in the SME sector. Based on the findings from this research, the following conclusions came out clearly regarding these research questions.

It has been established that overall the foreign SMEs owners are better educated compared to the indigenous SMEs in Malawi. This finding reveals one of the reasons why the foreign SMEs are

performing better than the indigenous SMEs who seem to have a better understanding of the dynamics in the marketplace therefore performing better than the indigenous SMEs. Training and education has always been the primary tool for skills development. Beyond the education systems (schools and universities) and vocational training, long life learning of companies' employees (continuous education) has an immediate impact on existing employee's skills improvement. Continuous education has increased its importance due to the time reduction of product life cycle and, therefore, to fast obsolescence of acquired skills and it becomes SMEs survival element since the human capital is the critical success factor for SMEs. This is why SMEs must focus on continuous education and training of SMEs.

From the analysis of data, it has been observed that the indigenous SMEs investment into the business was minimal as compared to the foreign SMEs. A lot of foreign SMEs' investment was between MK6, 000,000 to MK10, 000,000 whilst most of the indigenous SMEs' investment was below MK5, 000,000. This can be attributed as to why the foreign SMEs are doing much better compared to the indigenous SMEs. The analysis also revealed that the decline in indigenous SMEs in Malawi is a result of the indigenous SMEs' lack of capacity and support from both the government and the private sector. In the case of lack of capacity it is noted that most of the indigenous SMEs are not good at planning which results in poor management. Due to a lack of planning and poor management they tend to lack support in general from the banks and other lending institutions that do not have confidence to support the indigenous SMEs financially thus not being able to invest sufficient capital in their businesses.

Kotler *et.al*, (2013) put forward two reasons for the shift in market growth: lack of capacity (the most common) and willingness to lose share in order to maintain price. This researcher deduces that indigenous SMEs in Malawi fell into the first trap suggested by Kotler *et al.*, (2013): lack of capacity. The implication of this finding is that a lack of capacity by indigenous SMEs in terms of lack of adequate working capital, credit, funding, capitalization and lack of collateral are the major areas that contribute to the low performance of the indigenous SMEs compared to the foreign SMEs in Malawi.

7.10 CONCLUDING REMARKS

The study was aimed at identifying why and how foreign SMEs succeed more than the indigenous SMEs. This was after noticing that the foreign SMEs are performing better than the indigenous SMEs. As such a comparative study of indigenous *versus* foreign SMEs was conducted. It is clear from the findings that indeed the foreign SMEs are performing better than the indigenous SMEs. Based on these findings various recommendations have been put forward in order to address the said problems facing the indigenous SMEs. It is the belief of the researcher that if the recommendations are to be implemented, there is going to be a change for the better in the way the indigenous SMEs have been conducting their business. It is also the belief of the researcher that the indigenous SMEs can benefit substantially by adopting the best practices from the foreign SMEs who are seen to be masters in the trade. Finally this research has been beneficial in that it has unearthed the problems facing the indigenous SMEs and solutions were put forward.

7.11 CHAPTER SUMMARY

This chapter has highlighted the main findings of the study which have been followed by the recommendations. The chapter has also highlighted the future research needs and practical contributions of this research to knowledge. It has ended with the author's concluding remarks.

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APPENDIX 1

STUDY QUESTIONNAIRE FOR THE INDIGENOUS AND FOREIGN SMEs

A COMPARATIVE STUDY ON INDIGENOUS VERSUS FOREIGN SME's IN MALAWI

INTRODUCTION

This questionnaire seeks to generate data to be used in writing a thesis that will be submitted to the University of the Free State in fulfillment of the degree of Doctor of Philosophy in Business Administration.

All individual responses will be treated in confidence. Identity of respondents will not be disclosed and findings will only be reported as aggregates and not as what individuals say. Respondents are to provide answers to all questions in the questionnaire. The exercise should take 25 minutes.

The results will be used to establish the performance gaps that may be seen to exist between indigenous SMEs and foreign SMEs in Malawi with relevant recommendations made to the indigenous and foreign SMEs for their attention and possible action.

DEMOGRAPHIC INFORMATION

1. Are you an indigenous entrepreneur or a foreign entrepreneur?

Indigenous entrepreneur ☐

Foreign entrepreneur ☐

2. How old are you?

Below 20 years ☐

Between 21 and 25 years ☐

Between 26 and 30 years ☐

Between 31 and 35 years ☐

Above 36 years ☐

3. Are you male or female?

Male ☐

Female ☐

4. In which sector is your business?

Manufacturing ☐

Trading ☐

Tourism ☐

Export ☐

Other (Please specify).....

5. What is the type of ownership of your enterprise?

Sole Trader ☐

Partnership ☐

Family owned business ☐

Other (Please specify).....

6. What is your marital status?

- Married ☐
- Divorced ☐
- Widowed ☐
- Separated ☐
- Never married ☐

7. What is your highest educational qualification?

(Please Tick one)

- Primary school certificate ☐
- Secondary certificate ☐
- College diploma ☐
- Bachelor's degree ☐
- Master's degree ☐
- Doctorate degree ☐
- Never attended school ☐

8. How did you become the owner of this business?

(Please Tick one)

- I purchased it ☐
- I inherited it ☐
- I founded it ☐

Other **(Please specify)**.....

9. How long have you been in the business?

(Please Tick one)

- 0 – 3 years ☐
- 4 – 6 years ☐
- 7 – 9 years ☐
- 10 – 12 years ☐
- Longer than 12years ☐

10. What motivated you to start your own business?

(Please Tick one)

- To create jobs ☐
- For recognition ☐
- For money ☐
- For respect ☐
- To make a living ☐
- Other (please specify).....

11. How many people do you employ?

(Please Tick one)

- One to two ☐
- Three to four ☐
- Five to six ☐
- Seven to eight ☐
- Nine to ten ☐
- More than ten ☐
- None ☐

12. How much did you invest in your business?

- Less than MK 1,000,000 ☐
- Between MK 2,000,000 and MK5, 000,000 ☐
- Between MK 6,000,000 and MK 10,000,000 ☐
- More than MK 10,000,000 ☐
- None **(Please specify)**.....

A. CUSTOMER SATISFACTION

13. Do you have a formal system of evaluating the customer's satisfaction?

Yes ☐

No ☐

14. If yes in **14**, how do you evaluate customer satisfaction?

Repeat sales ☐

Loyalty / Recommendations to other customers ☐

Other (**Please specify**).....

15. Do you offer your customers with after sales services?

Yes ☐

No ☐

16. If yes in **15**-how?

Personal visits by owner ☐

Personal visits by sales personnel ☐

Technical staff ☐

Other (**Please specify**).....

C. MARKETING

17. What type of marketing/selling promotions do you use?

(Tick more than one)

Word of mouth ☐

In store promotion ☐

Trade shows ☐

Leaflet advertising ☐

Print advertising ☐

Radio advertising ☐

None ☐

Other **(Please specify)**.....

18. Do you have a clearly thought out marketing plan?

Yes ☐

No ☐

19. What is your main competitive advantage?

Price ☐

Quality ☐

Speed to market ☐

Technical ☐

Service ☐

Other **(Please specify)**.....

20. How do you rate the performance of your business in terms of sales?

Excellent ☐

Good ☐

Average ☐

Fair ☐

Bad ☐

21. How do you characterise the degree of competition in the market place?

(Please Tick one)

High ☐

Moderate ☐

Limited ☐

22. How do you measure the success of your business?

(Tick more than one)

Profits ☐

Growth ☐

Cash balance ☐

Growth in market/market share ☐

Other **(Please specify)**.....

23. What problem(s) did you face when starting the business?

(Tick more than one)

Accessing finance ☐

Sourcing suppliers ☐

Accessing customers ☐

Recruiting staff ☐

Other **(Please specify)**.....

24. Do you think that foreign SMEs are performing better than the indigenous SMEs?

Yes ☐

No ☐

25. If yes in **25**, what are the most prevailing reasons behind the success of foreign SMEs in Malawi?

Training ☐

Educational background ☐

Capital ☐

Commitment ☐

Longer working hours ☐

Better prices ☐

Others **(Please specify)**.....

26. Why do you think that the indigenous SMEs fail to perform better than the foreign SMEs?

Rank them from 1-5 in order of where **1 totally not agree, 2 not agree, 3 neutral, 4 agree, 5 totally agree**

Factor	1 Totally not agree	2 Not agree	3 Neutral	4 Agree	5 Totally agree
Lack of planning					
Poor management					
Lack of support					
Lack of credit facility					
Peoples belief that anything foreign is superior					
Improper financing					

27. How seriously did you consider the following factors when starting your business?

Rate the factors on the scale of 1-5 with **5 as extremely serious and 1 as less serious**

Factor	1 Less serious	2 Not serious	3 Neutral	4 Serious	5 Extremely serious
Competitor analysis					
Customer analysis					
Market analysis					
Environmental analysis					

28. On a scale of 1 to 5, **with 5 as extremely serious and 1 as less serious**, how did the following factors impact on the operations of your business in Malawi?

Factor	1 Less serious	2 Not serious	3 Neutral	4 Serious	5 Extremely serious
High cost of doing business					
Tax and customs administration					
Licencing					

29. As an indigenous SME what do you think needs to be done if you want to increase the success in your business?

.....

30. As a foreign SME what do you think are the factors that have contributed to the success of your business on the Malawi market?

.....

THANK YOU

APPENDIX 2

LETTER OF CONSENT

A COMPARATIVE STUDY OF INDIGENOUS VERSUS FOREIGN SME's IN MALAWI

INTRODUCTION

In fulfillment of the requirements for my Philosophiae Doctor (Business Administration) at the UFS Business School Faculty of Economics and Management Sciences University of the Free State, I am conducting a research on a Comparative study of indigenous versus foreign SMEs in Malawi.

This questionnaire seeks to generate data to be used in writing a thesis that will be submitted to the University of the Free State in fulfillment of the degree of Doctor of Philosophy in Business Administration.

All individual responses will be treated in confidence. Identity of respondents will not be disclosed and findings will only be reported as aggregates and not as what individuals say. Respondents are to provide answers to all questions in the questionnaire. The exercise should take 25 minutes.

The results will be used to establish the performance gaps that may be seen to exist between indigenous SMEs and foreign SMEs in Malawi with relevant recommendations made to the indigenous and foreign SMEs for their attention and possible action.

The responses will be collected by the researcher himself and the information will be strictly used for academic purposes only. Feel free to ask for clarification if you are not clear.

I wish to thank you in advance for your assistance in this matter most sincerely.

George Kaudza - Masina

gkaudza@yahoo.com

+265 888 950 871

+265 999 950 871

