AN ASSESSMENT OF SURVIVAL STRATEGIES OF SMALL AND MEDIUM SCALE ENTERPRISES DURING THE RECENT RECESSION IN BOTSWANA: FINANCE PERSPECTIVE
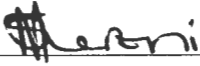
(THE CASE OF GABORONE AND ITS ENVIRONS)

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A Mini Dissertation submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in Financial Management at the Mafikeng Campus of North-West University

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DECLARATION

I, **Miriam Thabani Shereni**, declare that this dissertation is my original work and has never been done or presented anywhere. Where quotations are made in the contents of the work, it is done with reference to the author. This dissertation shall not under any circumstances be presented to any other institution for an award of a degree.

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Date 28/09/11

SUPERVISOR'S APPROVAL

This dissertation has been examined and approved as meeting the requirements for the partial fulfilment of the degree of Master of Business Administration in Financial Management.

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ABSTRACT

This study examines the impact of recession on Small and Medium Scale Enterprises' (SMEs') performance, and survival strategies during recession in Botswana (Gaborone and its environs). Data was collected through questionnaires and personal interviews to 60 randomly selected SMEs. Data was analyzed using SPSS software. The study revealed that SMEs in terms of profit were generally affected negatively during the peak period of recession in Botswana in (2009). Availability of credit was generally a big challenge during recession. Furthermore, SMEs came out with strategies to counter the recession. The study concludes by presenting some (policy) recommendations.

The study followed the qualitative method of research. The objectives of the study were to examine the performance of SMEs in terms of profit during recession; to find out the recession impact on SMEs by location, gender and type of business during recession; to establish the liquidity and survival strategies being put in place by SMEs in response to banks and other financial institutions position during recession; and to make recommendations basing on findings.

The major findings of this study are that most males were affected by cash flow problem 64.7%, and only 35.3% women cited cash flow as an area of great impact on their businesses during recession. This affected profits negatively. The study revealed that 8.3% of those who cited a problem of banks not offering support to women, were women.

The following are recommendations pertaining to the study. Policymakers should at least give room for credit advances to some businesses during recession. Local Enterprise Authority (LEA) should offer training to SMEs so that they see the need to share business strategies than to refrain from information sharing. Women should be given priority when advancing credit to SMEs as the study revealed that they are at a disadvantage. SMEs are encouraged to adopt some recommendations by fellow SMEs on how to survive during recession.

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CHAPTER 1

INTRODUCTION

1.1 Background Information

An economic recession occurs when there is a general decline in the economy, which is evidenced by fall in Gross Domestic Product in two or more consecutive periods. This, generally, leads to drop in stock markets, non-availability of funds to borrow from financiers, unemployment and decline in prices of houses, as what happened in Botswana in 2008 after the first two quarters. When an economic recession occurs, the survival of companies depends on the measures taken to mitigate challenges that come with economic recession. This study, therefore, investigates how small and medium enterprises (SMEs) in Botswana tackled this challenge and survived in an environment that is not conducive to credit extension to businesses, especially SMEs.

Botswana is a developing country that is actively promoting the growth and sustenance of small and medium scale enterprises. Botswana is not only classified as upper middle income country (World Economic Forum, 2009), it is also regarded by most economists as one of Africa's major success stories. At independence Botswana was one of the poorest countries in the world, with a primarily rural and agriculture-driven economy and a per capita income of less than USD100 per annum. Agriculture accounted for about 43% of the country's real gross domestic product (GDP) of P908.6 million at 1993/94 prices. However, the discovery of diamonds soon after independence transformed Botswana into the fastest growing economy in the world with growth rates averaging 13% in the 1970s and 1980s. By 1986 agriculture contribution to GDP declined to 5%, while mining (predominantly diamonds) contributed 47% to GDP (Central Statistical Office, 2009).Between 1966 and 1997 Botswana still had the highest rate of economic growth in the world, averaging 9.2%, but thereafter it was adversely affected by the Asian financial crisis (Encyclopedia, 2007).The backbone of Botswana's economy is still mining, though the government has now adopted the policy of economic diversification through agriculture, manufacturing, financial services, pharmaceuticals, and tourism sectors. This new thrust in economic diversification has led to the mushrooming of SMEs, which require capital from financial institutions in order to set up or expand businesses. During recession times, it is generally believed that financial institutions are reluctant to lend money to SMEs, in particular, because they are viewed as risky borrowers.

Generally, SMEs in Botswana have been doing well with all the support from the government through the small scale financier, Citizen Enterprenurial Development Agency (CEDA) and loans from banks. There has been a lot of research on how the small and medium scale enterprises perform and benefit from government finance. This study investigated how SMEs in Botswana have survived during recession, with emphasis on the finance perspective.

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1.2 Statement of the Problem

According to Pereman and Barret (2001), problem statement generally is characterized by the following three elements:

- the problem itself, which should be stated clearly with enough detail justifying why it is important,
- the methodology used to solve the problem identified, and
- the purpose, statement of objective and the scope of the document the writer is preparing.

However, the three elements above should be written in brief so that the reader does not get lost.

The problem addressed in this research is to establish how SMEs survived in Gaborone and its environs, during recession. This study clarified whether liquidity made any difference to performance of SMEs in Gaborone during recession. In order to get the understanding of this problem, the following specific questions were asked:-

1. How does the current financial crisis affect the availability of credit to SMEs in Gaborone and its environs?
2. What are the survival strategies being implemented by the SMEs in Gaborone and its environs?

Very few studies have comprehensively dealt with the impact of recession on SMEs from a finance perspective. This study hopes to fill this gap.

1.3 Objectives

The primary objective of this study was to investigate the performance and survival strategies of SMEs during recession. Specific objectives that guided the study were:

- To examine the performance of SMEs in terms of profit during recession.
- To find out the recession impact on SMEs by location, gender and type of business.
- To establish the liquidity and survival strategies being put in place by SMEs in response to banks and other financial institutions.
- To make recommendations basing on findings (for example to SMEs, Banks and government).

1.4 Significance of the study

The purpose of this study is to investigate the survival strategies of SMEs during recession. The study is worth looking at as the whole world has been hit hard by recession. It will be interesting to investigate how SMEs are surviving during recession, particularly in a country that is vigorously pursuing economic

diversification. This is going to benefit SMEs as the recommendations from the findings of this study will help upcoming and already existing SMEs on survival strategies during hard times. This research will also be useful to policymakers and scholars.

1.5 Hypothesis

The study tests the following hypotheses:

1. Performance of SMEs in terms of profit was generally negatively affected by recession
2. The impact of recession differed by gender and type of business
3. Availability of credit and liquidity were general challenges during recession
4. SMEs came out with strategies to counter recession

1.6 Organization of the study

The organization of this study is arranged as follows; Chapter 2 provides an overview of credit crunch and subsequent recession. Chapter 3 deals with literature review, while Chapter 4 presents the research design and methodology, followed by data analysis in Chapter 5. Conclusion, recommendations, and study limitations are presented in the last chapter, Chapter 6.

CHAPTER 2

An Overview of Credit Crunch and Recession and the Impact on SMEs

2.1 Introduction

A credit crunch is defined by Bernake and Lown (1991) as a general reduction in availability of loans or credit or a sudden tightening of conditions that are required when applying for a bank loan. A credit crunch leads to reduction of credit availability, independent of the official interest rates. Bernake and Lown (1991) further suggest that a credit crunch leads to an abnormally large decline in the supply of credit at some stage of business cycle. In most cases a credit crunch is accompanied by prioritizing top quality lenders and investors as a way of reducing risky investments. This has a negative impact on SMEs who are generally considered as risky borrowers.

2.2 Background of Credit Crunch and its Impact on SMEs

It is important to understand what credit crunch is as it subsequently leads to recession. For example, the World Economic Forum Report for January 2009 states that the financial crisis started in a small segment of the US housing market and evolved into a global crisis. The report mentions that the global banks responded by reducing leverage and this affected houses and businesses worldwide.

One way through which credit crunch occurs is when there are no funds readily available in the credit market, making it difficult for borrowers to obtain financing. As a result, financers would have very limited or no funds available to lend, or are unwilling to lend additional funds, or have increased the cost of borrowing to the rate that is beyond the reach of most borrowers.

This point is reached when lending institutions have suffered losses from previous loans and are generally unwilling or not in a position to lend. This occurs when borrowers fail to repay their loans and the properties under mortgages decline in value. Under such circumstances, banks repossess and try to sell these properties to recover their funds. The recovery is made impossible by the fact that the property prices would have fallen, so that banks sell at a loss. The banks are then unable to lend out as their capital positions would have shrunk to below minimum expected. This affects businesses negatively, including small and medium enterprises that largely depend on borrowings from banks or financial institutions to start up or to support ongoing projects.

Credit crunch can also occur as a result of increase in capital requirements by financial bodies. Financial institutions are required to maintain a certain amount of capital liquidity based on their risk-weighted level of assets. If this amount is increased, financial institutions will have to increase their capital reserves. To achieve this, banks will cut lending, thereby reducing the availability of loans for individuals and companies.

Thirdly, credit crunch can be a result of increase in lending rates by the banks. If banks perceive a greater risk in the market, they often raise their lending rates to offset the risk. This means the cost of borrowing will be too high, making it too difficult for borrowers to access financing, including small and medium scale enterprises (SMEs). A credit crunch can do a lot of damage to the economy by not promoting economic growth through decreased capital liquidity and reduced ability to borrow.

Storey, Keasey, Watson and Wynarcizyk (1987) mention the importance of small firms' contribution to the economy through offering competition with large firms and employment creation, especially in developing countries, which have now also been affected by credit crunch. The changes caused by credit crunch, among many variables, are cited by Machado, Strydom and Cant (1999) as issues that affect the environment in which the business operates.

2.3 Causes of Credit Crunch

A credit crunch is often caused by a period of inappropriate lending which leads to losses being incurred by lending institutions. The financial institutions respond by reducing the availability of credit and increasing cost of accessing credit through increase in interest rates (Wikipedia 2010). It is generally believed that this crisis is caused by reduction in the market prices of previously "over priced" assets which are ceded as security when securing loans.

Clair and Turker (1993), after having looked at 1987 recession, came up with six reasons that cause credit crunch. These are summarized as follows:

2.3.1   Decline in Bank Capital

When the credit crunch begins, demand for credit drops as the banks would only offer high interest credit. Supply of credit also drops as the loans become riskier. SMEs are worst affected as the financial institutions would only lend to the reputable companies who would meet the requirements. This leads to the simultaneous shift of both demand and supply. The majority of those in debt fail to repay the banks, leading to banks suffering massive losses. This, in turn, leads to banks operating at levels below the minimum capital requirements by the central bank.

2.3.2   Bank Supervision Over Reaction

Since Clair and Turker (1993) based their paper on the 1987 recession, they conclude that bank supervisors' reaction is to a greater extent a factor that contributes to recession. Clair and Turker (1993) however, came up with factors that the bank supervisors of affected banks consider in the process of enforcing safety and soundness of banks. The factors are as follows:

- Examiners could be critical to loans that needed to be extended.

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- Examiners could be more conservative in evaluating banks' conditions and thereby increase higher leverage ratio.
- Examiners criticism discourage banks from extending credit
- Examiners need higher loan documentation requirements which contribute to increase in costs.

The above findings can also be attributed to the recent global financial crisis.

2.3.3 New Credit Standards set by Bankers

The bankers assume a position that reflects supervisors' recommendations on their perception of risk. Bankers are most likely to re-evaluate the way they take risks. This leads to reduction in the credit being extended to clients. As stated before, SMEs are the worst affected. This leads to bankers contracting credit supply through raising credit standards and denying credit to a majority of borrowers, even though the applicants qualify. They are often rejected as a way of minimizing risk and not because they do not qualify.

2.4 Recession Indicators and Impact on SMEs

An economic recession is a business cycle contraction or a general economic slowdown in periods longer than few months (Wikipedia, 2010). The recession indicators include the following factors:

- Drop in Gross Domestic Product (GDP);
- Increase in unemployment levels;
- Reduced investment expenditure;
- Drop in house hold income;
- Drop in business profits;
- High inflation rate; and
- Increase in bankruptcies, (Wikipedia, 2010).

The mentioned factors indicate that, during recession, liquidity is a problem. As a result, businesses are in trouble as there is drop in profit levels due to wide spread drop in consumer spending. Businesses, especially SMEs, suffer negatively as productivity drops due to low demand of products and services. Bernake and Lown (1991) also mention that economic recession has further social effects, since the standard of living of people depends on their salaries. Job losses due to close-downs have a negative effect on family stabilities and general health of people. Included in this category are SMEs who are the worst affected when it comes to credit extension by banks.

Investopedia (2010) quote National Bureau of Economic Research (NBER), who define the recession as a decline in economic activity spread across the economy, lasting for more than a few months.

CHAPTER 3

LITERATURE REVIEW

3.1 Introduction

Literature review is a body of text that aims to review the critical points of current knowledge including substantive findings. Theoretical and methodological contributions to a particular topic are incorporated in the review.

According to Emerald (2010), a literature review is a description of the literature relevant to a particular topic. It summarizes an overview of what has been said by the key writers and what their theories and hypotheses are. The main purpose of a literature review is to demonstrate the "logical continuity between previous and present work" so that the reader appreciates how the current study fits into contemporary research in the area of investigation (APA, 1994:11).Therefore, this chapter reviews the literature and presents theoretical and empirical evidence with the above understanding and purpose.

3.2 Theoretical Literature Review

SMEs play an integral part in Botswana. With the influx of the Chinese in Botswana, a lot of retail shops are being opened and thus a positive contribution to reduction in unemployment levels, poverty alleviation and general improvement of the economy.

There is no universal definition of small and medium-sized enterprises (SMEs) that is widely acknowledged. It is difficult to give a universal definition of a small and medium scale enterprise since a small business in Japan could be a large enterprise in Botswana. However, for the purpose of this study, a small and medium scale enterprise is defined as closely to the national definition,which regards a small enterprise as including micro enterprises that employ 1 to 25 people with an annual turnover of less than P50 000. Medium enterprise is that which employs between 26 and 100 people and has a turnover between P1 500 000 and P5 000 000 (Republic of Botswana, 1999:3).

Various definitions of the concept appear, especially in business, commerce, economics and development literature. The common definition adopted by the Organization for Economic Co-operation and Development (OECD) countries is based on employment features, while the South African SME Act defines SMEs as having 100 to 200 employees or a turnover of five million rands. On the other hand, micro enterprises have up to five employees. Finally, within the context of Botswana, Mukras and Seemule (2005:175) define a small business as "that enterprise employing between six and twenty five paid employees and has an annual turnover of between P60 000 and P15 500 000".

The Economic Commission for Africa (2001) looks at enhancing the competitiveness of small and

medium scale enterprises in Africa with emphasis on designing a strategic framework to enhance the competitiveness of Africa's SMEs in regional and global markets. On the other hand, Danninger, Balakrishnan, Elkdag and Tyrell (2009) argue that the current financial crisis in advanced economies is unique from that in emerging markets, even though it has crippled the financial system (banks, securities and exchange markets) of developing countries as well. Therefore, SMEs in developing countries, such as Botswana, are not immune to the effects of the global financial crisis.

Ramanglalahy (2003) investigated the competitive strategy and performance of exporting SMEs with emphasis on the impact of their export information search and competencies. The current study is similar to Ramanglalahy (2003) in that this study analyses competitiveness of SMEs through profitability of SMEs during recession. However, this study differs from Ramanglalahy (2003) in two areas. Firstly, Ramanglalahy (2003) study is about SMEs in Canada whereas this study is in Gaborone and its environs. Secondly, Ramanglalahy (2003) analysed the impact of export-related information on SMEs as a competitive strategy, whereas this study analysed the survival strategies implemented by SMEs in Gaborone and its environs during the recent recession.

3.3 Empirical Evidence

Acquah and Mosimanegape (2009) focus on factors contributing to the performance of small business enterprises in Botswana. The overall objective of this study was to identify factors contributing to the performance of SMEs and how they affect SMEs establishment and sustenance in business. The findings from Acquah and Mosimanegape (2009) research led to the conclusion that funds invested into business as start-up funds influence business performance positively. The current study is similar to Acquah and Mosimanegape (2009) in that the current study analyses performance of SMEs in Gaborone and its environs during the recent recession. However, the current study differs from Acquah and Mosimanegape (2009) in that Acquah and Mosimanegape focused on factors contributing to performance of small businesses in Gaborone and environs, whereas the current study focuses on liquidity and survival strategies of SMEs in the same area, but during recession.

The current study acknowledges the research by João and Franco (2003) who made an assessment of individual entrepreneurship capacity and performance of SMEs in Portugal. João and Franco (2003) analysed the importance of human capital and organizational capital on the determination of SMEs performance, by proposing and testing a conceptual model about individual entrepreneurship capacity, and its impact both on non-economic and economic performance. João and Franco (2003) conclude that human capital and organizational capital are important factors that determine SMEs' performance. However, the current study differs from João and Franco (2003) in that João and Franco (2003) analysed the performance of SMEs from human capital point of view, while the current study looks at survival strategies of SMEs in Gaborone and its environs during recession.

Reference is also made to recent study by Kapunda, Magembe and Shunda (2007), whose study is on gender relationship between SMEs financing and development in Botswana. The Study found that SMEs owned by women had more financial problems compared with the ones owned by men.

The researcher analysed the article published by LeXolution KPO Services (2010) and noted similarities and differences from what SMEs in Botswana recommended as survival strategies. However, the current study focused on the SMEs liquidity effect and survival strategies during recession, while LeXolution KPO Services (2010) focused on outsourcing as a strategy that could be implemented by SMEs for survival during recession period.

According to LeXolution KPO Services (2010), the following are some of the competitive advantages that could be enjoyed by SMEs that use outsourcing as a survival strategy;

3.3.1   Cost Cutting Measures

Off shore outsourcing is regarded as a cost-cutting measure that small businesses should consider, because they are also advised to control their costs in order to keep their businesses in operation, especially during turbulent economic environment, such as recession. Since SMEs seek to expand their businesses without increasing their capital costs, they are advised to use outsourcing as a tool which minimizes costs. Offshore outsourcing is considered important since service providers located in offshore countries provide cheaper rates. The main issue here is cost-cutting. How the SMEs reduce the costs might differ from industry to industry and from country to country.

3.3.2   Help for Short Projects

This strategy encourages SMEs to hire professional employees only for specific projects and for specific duration and not to engage them as permanent staff members as a way of cutting costs.

3.3.3   Specific Expertise
It is recommended that the SMEs hire off shore specific expertise for a special project that is not offered in-house.

3.3.4   Quick Resolution to Problems

Outsourcing service providers have efficient manpower and resources. This offers an advantage of quick resolution to project problems and, thereby, improve efficiency. This is an important strategy in that it is not only centred on outsourcing, but can be used by SMEs as a tool that improves customer service.

3.3.5   Improved Efficiency in Projects

SMEs are encouraged to make use of offshore service providers as they have economies of scale that can

benefit SMEs, while they focus on their core business objectives. According to LeXolution KPO Services (2010:p1) "A good outsourcing service provider that has a global reach can provide you with some lucrative business opportunities." Therefore, SMEs in Botswana may also try to use this strategy since there was no mention of outsourcing as a survival strategy during the recession.

3.3.6   Gain Competitive Edge

SMEs are encouraged to make use of outsourcing as a tool which would help them to gain competitive edge during the difficult times of recession. However, the need to get a competitive outsourcing service is encouraged.

It is worth emphasizing that outsourcing is more common in larger economies compared to what the current study focused on. In Gaborone and its environs, SMEs are generally very small and they are more into retail and service industry than manufacturing.

According to Parks (2010), when growth is stagnant, it is best to explore ways of cementing customer relationships since the success of business largely depends on client satisfaction. Parks (2010) highlights strategic tools for survival which can be used by SMEs. In his findings he recommends the following as survival strategies which SMEs can implement during recession:

- Strengthening existing customer relationships and looking deeper into the changing needs of customers.
- He further states that the SMEs have to translate their insights into plans that yield profit through offering innovative value-added services and products as a way of attracting new customers and retaining old ones.
- He recommends that SMEs offer high quality products for solutions at competitive prices during economic crisis. Parks (2010) further mentions the need for putting strategic management techniques in place in order to operate competitively during recession. This is an issue SMEs have to deal with in order to survive during recession.

Parks (2010) findings are in line with what SMEs in Botswana highlighted as their survival strategies. However, our point of departure is that Parks' article is based on comments from business people. No survey was done to get a comprehensive understanding. Therefore, the study bridges the gap through the research that was conducted and an analysis of findings.

The Enterprise and Industry Magazine (2010) published an article titled 'Assessing the Performance of European SMEs'. The paper claims that 20.7 million SMEs in European Union make up 99.8% of European enterprises and they are regarded as key to economic growth and employment. This article mentions that all companies regardless of size were hit hard by recession. However, their view is that SMEs are the worst hit as they are more vulnerable to economic down turns because they could not

access loans from banks as they are considered high risk borrowers compared to big enterprises. This observation is consistent with a finding by Temtime and Pansiri (2006) and Kapunda, Magembe and Tlotlego (2010).

Bizxchange website quote a recent research paper written by Prasenjit (2010) of the Reserve Bank of India (RBI), who came up with the conclusion that SMEs in India were possibly more equipped to cope with recession impact than the big players. The conclusion was informed by the fact that SMEs in India appeared to do better than big businesses during 2008 to 2009 when the research was conducted. These findings are however, different from findings in the current study. In Botswana SMEs performed badly during the recession period 2008-2009. Therefore, this study will come up with SMEs survival strategies.

A comparison is also made with reference to Enterprenuer (2010). According to Entrepreneur (2010), recession is regarded as a gateway for SMEs success through innovation. The paper states that even though financial assistance is a challenge to SMEs, chances for exposure are great for SMEs during the recession. The Entrepreneur quotes Williams (2010) who maintains that, 'Those companies that develop innovation solution in downturn will thrive in the upturn'. This emphasis on innovation is an area that this current study is silent about, while SMEs in Botswana highlighted the need for change in marketing strategies as a tool to counter recession. Finally, the Entrepreneur (2010) emphasises on product development, while most SMEs in Botswana are in retail and service sector and not manufacturing where innovation is most emphasised.

The Entrepreneur (2010) also states that flexibility is another area where SMEs have a competitive advantage over big companies during recession. When big companies are not sure of what to do or take long to make decisions, SMEs are quick to respond to customers' needs. Quick response to customers' needs boasts sales during recession. This is however, different from this study's findings.

Temtime and Pansiri (2006) carried an investigation on how managerial problems affect performance and development with their overview that the Botswana government introduced SMEs as a way of diversifying the economy and a way of alleviating poverty. Similarities with the present study are that Temtime and Pansiri (2006) focused on SMEs in Botswana and also their investigation used questionnaires as data collection tools, similar to what the current study used. However, they differ in terms of the objective. The focus of the present study was on the effects and survival strategies of SMEs during recession whereas Temtime and Pansiri (2006) focused on how managerial problems affect SMEs performance. Both studies focused on SMEs performance but from different perspectives.

Temtime (2009) wrote an article on Business Planning Practices of SMEs with special reference to the planning processes and content. During his data collection period, structured interviews were conducted in cities of Botswana. Findings from his study indicate that the owner managers of SMEs are not actively involved in planning process. Similarities with this study is that target in both studies is Botswana SMEs.

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However, the two studies are totally different in that this study focuses on impact of recession on SMEs and how they counter recession from a finance perspective.

Temtime and Pansiri (2006) did another study on proactive marketing and financial management for SMEs. The study looked at the perspective impact of marketing and finance on the development of SMEs in Botswana. Temtime and Pansiri (2006) identified 39 marketing and finance related problems on development of SMEs. The respondents rated the problems using a 5 point scale. The research concluded that the problem areas were mostly marketing actions, customer relationships, investment analysis and working capital management. The study is similar to the current research in that the focus in both studies is on performance of SMEs. However, the point of departure is that the current study examined the effect of recession of SMEs in terms of liquidity and how SMEs tried to counter recession by implementing survival strategies.

SMEs in India are struggling due to the economic recession according to Kumbha (2009). Kumbha (2009) further mentions that SMEs are being affected negatively by falling prices, restriction to credit, overpopulation, decreased demand of goods and services and high levels of unemployment. It is interesting to note that this study's findings of how SMEs are affected by recession are similar to how SMEs in India are affected by recession. SMEs in Gaborone and environs share similar negative impact with India, such as drop in demand for products, restriction to credit and high unemployment levels. However, over population is not a problem in Gaborone and its environs. Khumbha (2009) revealed that SMEs in India fail due to the following reasons:

- Low utilisation of installed capacity

- Poor awareness of IPR which protects their intellectual power
- Problem of skilled management
- Low quality of input
- Less innovative actions in SMEs
- Lack of proper market information
- Low levels of research and development
- Lack of awareness of global trade laws
- Reduction in export subsidies
- Low level of ICT adoption by SMEs

The mentioned problems affecting SMEs in India can also be investigated in Botswana since it has been established that the economies share common SMEs effects of recession. He concluded by advising government and policymakers on ways to assist SMEs during the recession period. His approach is similar to the approach used in this study. Problems affecting SMEs during recession were listed in both studies. The point of departure is that this study looks at the problems from a finance perspective and

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SMEs were given the chance to highlight survival strategies and recommendations to follow SMEs and policy makers.

According to Borade (2010), strategies that SMEs can implement to mitigate recession may vary, depending on the type of economic system and analysis that policymakers follow. He suggested that some countries resort to deficit spending to initiate economic growth, while others adopt tax cuts, whereas others recommend non-government intervention in the market forces of the economy. The study provided an in depth analysis of the impact of recession on the whole economy. He came up with recommendations affecting the whole economy. His study is different from this study in that the current study is specific to problems and recommendations affecting SMEs during recession.

Fairoz, Hirobum and Tanaka (2010), did a study on entrepreneurial orientation and business performance of SMEs of Hambatota District Sri Lanka (HDSL). The study investigated the degree of entrepreneurial orientation (EO) of 25 SMEs in Sri Lanka district of Hambatota. This research used interviews and the findings of the study revealed that 52% of SMEs in HDSL represented moderate levels of EO. The results confirmed that proactiveness, innovativeness, risk taking and overall EO were correlated with market growth. The findings also confirm positive correlations among proactiveness for EO with business performance. The study is similar to the current study in the sense that the focus of research was based on SMEs.

However, the main point of departure is on the main objectives of the studies. Fairoz *et al* (2010) focused on investigating entrepreneurial orientation in relation to business performance of SMEs, whereas the present study focused on the impact of recession on SMEs and how they counter the recession through implementation of survival strategies. Another difference is on data collection method used. In their study, interviews were used as a data collecting tool, whereas in the current study questionnaires were used as the major data collection tool. In addition, the economies of Sri Lanka and Botswana are completely different.

The Mmegi Online dated 22 January 2010, published an article "Recession Balloons CEDA's Arrears", which indicates that the recent recession affected SMEs in Botswana negatively. In this article, CEDA reports an increase in arrears rate to 34% of their book value. This is regarded as highly abnormal as CEDA strives to maintain arrears below 20% of the book value. The article points out that the high rate of arrears was at peak during the year 2008/2009. This confirms that the SMEs were struggling to repay loans during the recession period. It is stated that CEDA's board wrote off P229 million in an effort to clean up debt. This confirms that SMEs struggle during recession and this might be a factor why CEDA was not advancing loans to SMEs during the recent recession period.

Reference is also made to Economic Commission for Africa (2001) report, which made a research on priorities for policymakers and practitioners and provides the building blocks for a strategy framework to

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help African SMEs compete in regional and global markets. The current study is similar to Economic Commission for Africa (2001) document, since both studies analyse the extension of credit to SMEs and conclude that credit extension to SMEs is a problem. The point of departure, however, is that the objective of the current study is to determine how SMEs survived in Gaborone and environs during recession with emphasis on liquidity, while the Economic Commission for Africa (2001) report identifies priorities for policymakers and practitioners and provides the building blocks for a strategy framework to help African SMEs compete in regional and global markets.

The current study acknowledges Riley (2010) who analysed the survival strategies of SMEs in the United Kingdom (UK) and concluded that:

Out of the sample, 20% of SME bosses took the decision to invest, on average, £17,030 of their own savings while 34% slashed their own salary to cut operating costs and improve cash flow.

Riley (2010) states that 33% of SMEs increased their working hours by, on average, 12.5 hours a week while 10% worked over 50 hours a week to keep their businesses operational. Riley (2010) claims that 38% of SME bosses have suffered from stress, and 24% spent sleepless nights due to business worries. It was interesting to note that Riley (2010) claims that over 13% of SME owners had marriage problems due to the recession. The following are strategies that Riley (2010) claim to be useful survival tools used by SMEs in addressing recession in the UK:

- Focusing on securing relationships with existing clients (36%)
- Reduced personal salary (34%)
- Worked additional hours (33%)
- Focusing on securing new business deals (31%)
- Invested personal savings (20%)
- Investment in adapting programmes and services to meet client needs (12%)
- Recruited additional specialist staff to help attract or retain new clients (10%).

Riley (2010) findings are similar to the current study in that retrenchment is claimed to be a survival strategy which SMEs implement during recession. Riley (2010) findings conclude that SMEs recruited additional staff to help keep clients. In addition, the economies studied are dissimilar. The current study focused on impact of recession on SMEs in Gaborone and its environs, and the survival strategies implemented, whereas Riley (2010) analysed SMEs survival strategies in the UK.

Rudofsky (2008) shared some recession survival tips and some valuable insights in a *Small Business Trends Radio* episode. The following is a summary of issues Rudofsky (2008) highlighted as strategies businesses should implement during recession:

- An Internet presence is crucial — Rudofsky (2008) predicts that Internet sales are likely to

increase significantly. This is attributed to the increase in rising fuel costs and a desire by consumers to minimize travelling costs.

- Grow your business through acquisition — Rudofsky (2008) advises business owners that recession is a good time to acquire property and assets at very reasonable prices. The investment is likely to increase and the business can benefit from the growth and expansion after recession.

- Consider taking your business global — because small businesses receive assistance from the U.S. government to expand into foreign countries. David says, *"With the weakness of the dollar, now is the opportune time."* This piece of advice can be passed on to SMEs in Gaborone and its environs.

According to Crawford (2008), the following is a checklist which SMEs may use as survival strategies during recession:

3.3.7 **Plan for the Worst, Hope for the Best**.
 SMEs are encouraged to plan for worst scenario and SMEs are discouraged from making quick short term decisions.

3.3.8 **Reduce Costs**

The first thing is to cut costs sharply. SMEs are encouraged to cut back on purchases and negotiate more favourable payment terms with vendors and landlords. SMEs are encouraged to be insistent, but polite. If the business has valuable assets, selling may be considered. SMEs should lease equipment, instead of borrowing money to make purchases. Labour costs should be analysed and a performance pay system should be encouraged, pay commissions instead of flat salaries and even let go of noncritical employees, if need be.

3.3.9 **Hold on to Every Penny of Your Cash Like It's Your Last**

SMEs are encouraged to adjust timing of payables by taking advantage of the maximum allowable time to pay your vendors and suppliers. In addition, payments should be done at the end of the month, instead of the beginning of the month. Extend less credit to customers to reduce need for capital.

3.3.10 **Optimize Cash Flow**

SMEs are encouraged to provide incentives for customers to make timely payments by offering discounts. For customers who cannot make payments, discounting should be offered on overdue balance. Collections through collection agency should be avoided as it is more costly. If you are billing customers for time, consider billing twice a month instead of once. Invoices should be sent promptly. Billing promptly on the 1st and 15th of the month speeds up immediate cash flow. However, SMEs should avoid appearing desperate for cash; as it could send a bad signal to clients.

3.3.11 Monitor Your Finances

When times were good, it was easy enough to simply work your way out of debt. But in a recession, SMEs need to look at cash flow and debt load more frequently, keeping the balance sheet in order. Credit card bills should be paid on time avoids high interest charges. Resist the temptation of balance transfers. Transferring your balance to get a lower rate will likely pull credit score down.

3.3.12   Network with Other Small Businesses to Find the Right Bank

SMEs are discouraged from using one bank. It is recommended to speak to higher office in order to get the best rates.

3.3.13   Know Your Business Plan and Figures

Once an SME identifies a potential lender, preparation is encouraged to ensure that there is thorough understanding of where the loan will lead the business. The banker should be shown the ability to repay the loan and the SME's financials should be readily available. This is an area where SMEs in Gaborone and its environs need to improve as the results of this study revealed high levels of poor record keeping.

3.3.14   Have a Plan B

SMEs are encouraged to negotiate with suppliers to get more trade credit. Consideration of peer-to-peer lenders or micro lenders is encouraged. As a last resort, SMEs are advised to loan by using receivables as collateral, known as factoring; selling equipment and leasing it back; or borrowing funds against future credit card and debit card sales, known as a merchant account cash advance is encouraged. However, SMEs should be aware of exorbitant rates.

3.4   Conclusion

In this chapter the historical background of SMEs was discussed. Comparison with other scholars was highlighted during literature review. It is important to mention that the paper focused on current event – impact of recession on SMEs and their survival strategies during recession 2008-2010 in Gaborone and its environs: From a finance perspective.

CHAPTER 4

RESEARCH DESIGN AND METHODOLOGY

4.1 Introduction

This chapter discusses the research methodology and design followed by the study.

4.2 Qualitative research

According to Creswell (2007), qualitative research method is an enquiry approach for exploring and understanding a central phenomenon. The inquirer asks participants broad questions. From this data the researcher interprets the meaning of the information.

While the research is broadly qualitative in nature, mixed methods were used on certain cases for clarity. The mixed schedule provided benefit from advantages of both qualitative and quantitative approaches.

When using qualitative method, unstructured interviewing methods were used. This tool involved direct interaction between the researcher and a respondent or group. It differs from traditional structured interviewing in a number of ways. Firstly, although the researcher had some initial guiding questions or core concepts to ask about, there was no formal structured instrument or protocol. Secondly, the interviewer was free to move the conversation in any direction of interest that may come up. Unstructured interviewing was particularly useful for exploring a topic broadly. However, there is a price for this lack of structure because each interview tends to be unique with no predetermined set of questions asked to all respondents, it is usually more difficult to analyse unstructured interview data, especially when synthesizing across respondents.

4.2.1 Characteristics of qualitative research

The following are characteristics of the qualitative research

4.2.1.1 Natural Setting

This is stated as an environment where the problem exists. Data is collected by interaction with the respondents

4.2.1.2 Researcher Key Instrument

Qualitative data is collected by researchers using various tools. In this study the questionnaire was designed by the researcher as recommended by Creswell (2007).

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4.2.1.3 Multiple sources of data

Interviews, observation and documents are examples of tools that can be used. In this study, interviews, participative observation and documents were tools which were used.

4.2.1.4 Inductive Analysis

Data is organized from "bottom up". This involves collaborating with participants interactively to shape the themes or obstructions that are encountered during the research process.

4.2.1.5 Participants' Meaning

The qualitative research process keeps focus on learning meaning that participants hold about the problem on hand and not what the researcher brings to the research.

4.2.1.6 Emergent Design

The qualitative research is referred to as "emergent". This implies that the initial plan is not supposed to be rigid as the process may change or shift when the researcher is in the field.

4.2.1.7 Holistic Account

The researcher looks at the problem from multiple perspectives that are involved in the situation.

4.2.1.8 Theoretical lens

This deals with the social, political or historical context of the problem under study.

4.2.2   The characteristics of a "good" qualitative study – Creswell (2007)

- Rigorous data collection procedures.
- The researcher frames the study in assumptions and characteristics of qualitative approach.
- Researcher begins with single focus.
- Study includes detailed methods, rigorous approach to data collection, analysis and report writing.
- Researcher analyses data using multiple levels of obstruction.
- The researcher writes persuasively so that the reader feels "being there".
- The study reflects history, culture and personal experiences of researcher.
- Qualitative research is ethical if used in a good study.

Quantitative research was also used, which is often an interactive process whereby evidence is evaluated,

theories and hypotheses are refined and technical advances are made.

4.3 Population and sampling

The population of the study is SMEs in Gaborone and its environs which comprise of Ramotswa, Metsimothlabe and Gakuto villages. They are in retail, service, construction, manufacturing and farming.

After a careful consideration of travelling, telephone costs and the objectives of study and the population of SMEs in Gaborone and its environs a random sample of 60 (n = 60) of the respondents was selected. There is no current survey which confirms the population of SMEs in Gaborone and its environs (Botswana Central Statistics Office, 2011). The sample of 60 was randomly selected and it covers both urban and rural SMEs.

4.4 Data collection tools
4.4.1 Questionnaires

According to Brace (2004), the main purpose of the questionnaire is to help respondents give the most accurate data, often in their own time. The questionnaire is important as it plays an integral part of the survey process. Brace (2004), states that poorly designed questionnaires will not get the required data or in the worst scenario provides inaccurate data. Brace (2004), emphasizes that the questionnaire should meet the objectives of the study which should be specific and exploratory at the same time.

The researcher designed the questions and distributed the questionnaires to the sample of 60 Small and Medium Scale Enterprises. This tool was used so that those whom the researcher found busy were able to complete during their own convenient time. There was a challenge of not getting the responses on time, and some did not respond at all, limiting the sample size to 60.

4.4.1.1 Advantages of using the questionnaire

Stat Pac Inco (2010), mentions that questionnaires are cost effective when compared to face-to-face interviews. This is generally true for studies involving large sample sizes and large geographic areas. Cost effectiveness increases as the number of research questions.

Stat Pac Inco (2010), further claims that questionnaires are easy to analyse when software package such as Statistical Package for the Social Sciences (SPSS) is used to do the data analysis.

People are familiar with questionnaires. It is generally assumed that almost everyone has had an opportunity to complete a questionnaire and this makes respondents appreciate the need to complete the questionnaire.

When using a questionnaire bias is reduced. Questions presented are uniform and to the point required by

researcher. The researcher's own opinions will not influence the respondent's opinion when answering the questionnaire.

Another advantage highlighted by Stat Pac Incor (2010), is that questionnaires are less intrusive than telephone or face-to-face surveys. The respondent is not interrupted by the research instrument since he or she is given enough time to complete the questionnaire.

4.4.1.2 Construction of the questionnaire

The researcher understood and acknowledges the importance of the questionnaire; hence, the researcher tried to be as clear as possible with minimum vague statements. This helped the researcher to counter the following problems;

- Misunderstanding of concept by respondent
- Incorrect responses to questions.

Aaker, Kumar and Day (2007) state that "Questionnaire construction is properly regarded as an art", while Aaker *et al* (2007) claim that there is no procedure that will lead to a good questionnaire; however, the questionnaire should meet the researcher's objectives. In line with their comments, the researcher incorporated the following steps in the development of the questionnaire.

4.4.1.3 Planning what to Measure

The researcher thoroughly looked at the information that needed to be measured with reference to the objectives of study. Usefulness of the information and how it would be useful in analysis was also considered during the design stage of the questionnaire, so that information not pertinent to the study was left out of the questionnaire.

4.4.1.4 Formulation of Questions to Obtain needed Information

The degree of freedom to respondents was considered when drafting the questions. Some had 'Yes' or 'No' answers and some were open ended questions to obtain detail especially on the survival strategies being implemented by SMEs during recession.

4.4.1.5 Decision on order of Wording

The researcher used simple wording and avoided vague words. Questions were short and clear for clarity.

4.5 Pilot study

The research began with a pilot study of ten questionnaires in the first week. This was done to ensure that

the questionnaires and other tools were revised after getting feedback from the first week. Then the final rollover followed in the second week. This is in line with Brace (2004), who states that a pilot study should be conducted to ensure that the issues at hand are addressed and it helps the researcher to simplify terms that respondents need clarification on.

4.5.1 Adjustments to questionnaire

Pilot findings led to refinement of the questionnaire before the final roll over.
The researcher incorporated the following techniques that improved communication with the respondents;

4.5.1.1 Use of simple vocabulary

Botswana is a country with a number of foreigners involved in business. Since language or vocabulary might mean one thing in one language and a different thing altogether in another language. The researcher considered this and kept the language simple for clarity. As a result,

- Vague or ambiguous words were avoided.
- Questions with potential double meaning were excluded.
- Questions which suggested potential threats were excluded
- Questions were short and precise.

However, there were some problems encountered which were outside the researcher's control as;

- Incorrect interpretation by respondent even though the researcher made the questionnaire simple.
- Most respondents were Setswana speaking and the researcher had to translate. There were chances of incorrect interpretation, but this was minimized by hiring Setswana speaking data collectors.
- Some respondents were bored or showed no interest in completing the questionnaire and this was outside the researcher's control.
- Some SMEs had poor record keeping and it took the researcher time as a lot of time had to be spent trying to get near accurate information.

A questionnaire is a very important research tool that requires thorough design if one is to get meaningful data from respondents. However, Brace (2004) mentions that complete accuracy is almost impossible especially where behaviour and attitude are concerned.

The design stage of the questionnaire was done thoroughly for successful and meaningful data collection during the survey.

4.6 Interviews

Some interviews were conducted over the telephone after making appointments with respondents. Webcam was also used to interview those who were on internet and far away from the interviewer. Personal visits to SMEs were conducted and questionnaires were completed during the interviews. The qualitative data was captured during interviews. The qualitative data was then translated into numbers for the purpose of easier statistical analysis. Advantages of using this tool included – quick response and it was easier for respondents answer on sensitive issues than on face to face basis. However, the disadvantage was that telephone calls were too expensive and it was not easy to establish whether the researcher talked to the right person or not.

4.7 Participative Observation

This study made use of participative observation tool since the researcher runs a small business. Personal observation from the way the business has been performing during recession helped in this study as it provided practical data for comparison.

4.8 Sampling-Random and Systematic

The research used both tools. Structured random sampling was useful in that a representative sample of SME owners was targeted. The representative sample of 60 SMEs were from – services, trade, manufacturing construction and retail. The researcher made use of the telephone directory to help in identifying target. Systematic sampling was also used through use of the registrar of company's office to establish a systematic way of sampling.

4.9 Data type

The primary data was obtained by interviewing and completion of questionnaires by owners of SMEs. The data was used as input to the final analysis of how SMEs are survived during the recession.

4.9.1   Data estimation and analysis
4.9.1.1 Validity and Reliability

Aake *et al* (2007), define validity as the ability to show relationships unambiguously. Aake *et al* (2007) further state that an attitude measure has validity if it measures what it is supposed to measure. The tools used in this study proved the ability to measure what they were supposed to measure.

Aake *et al* (2007) define reliability as a measure of stable results over time. Aake *et al* (2007) further point out that reliability is of less importance in comparison to validity.The use of various methods and tools helped in the validity and reliability of the results of this study.

SPSS was used for statistical analysis of the SMEs' performance, liquidity issue and survival strategies

during recession. Figures and tables were used to display the information for easier visual display and comparison purposes.

CHAPTER 5

RESEARCH FINDINGS AND INTERPRETATIONS

5.1 Background findings

The distribution of respondents by location shows that, of the sample of 60 SMEs, a majority of the respondents (47) 78% were from Gaborone, followed by Ramotswa with (6) 10%, Metsimothlabe (5) 8% and Gakuto with (2) 4%. The majority of the respondents (78%) represent the urban (Gaborone) SMEs, and the 22% (Gakuto, Metsimothlabe and Ramotswa) represents the rural SMEs. The results of the distribution of the sample are shown in Figure 1 below:

Figure 1: Distribution of SMEs by Location of Business
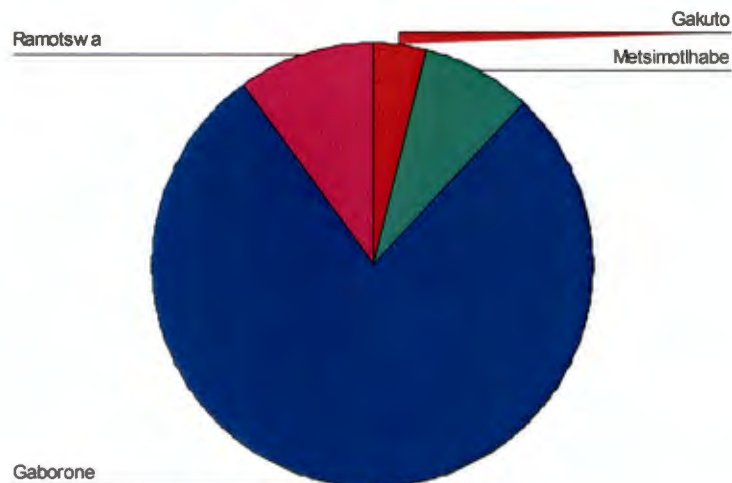
The results indicate that in the urban areas represented by Gaborone there are more male SMEs (59.57%) than the female SMEs owners (40.43%). Gakuto had a balanced representation, whereas Metsimothlabe and Ramotswa had more female SMEs owners than males. One can conclude that there are more female

SMEs in rural areas than in cities.

The results of the distribution of the sample are graphically shown in Table 1 below:

Table 1: Distribution of SMEs Location of business and Gender of owner

Location	Frequency				
	N	Male		Female	
		N	%	N	%
Gakuto	2	1	50	1	50
Metsimotlhabe	5	2	40	3	60
Gaborone	47	28	59.57	19	40.43
Ramotswa	6	0	0	6	100
Total	**60**	**31**	**100**	**29**	

5.2 Main Findings

5.2.1 Main impact of recession on business by gender

Table 2 below shows the distribution of the main impact of recession in relation to the gender of the business owner.

Table 2: Distribution of Main Impact of Recession on Business by Gender of owner

Variable	Gender of Business Owner				Total		Overall Ranking
	Male		Female				
	N	%	N	%	N	%	
Cash Flow	11	35.5	6	20.7	17	28.3	2
Banks Stopped Offering Credit	4	13	5	17.25	9	15	3
No Support from Banks	0	0	5	17.25	5	8.3	4
Reduced Consumption of Product	16	51.5	12	41.4	28	46.7	1
High Cost of Inputs	0	0	1	3.4	1	1.7	5
Total	**31**	**100**	**29**	**100**	**60**	**100**	

It is noted from the results of the sample that regarding cash flow, most males 64.7% (11/17) were affected by cash flow problem, and only 35.3% (6/17) women cited cash flow as an area of great impact on their businesses. This could be due to the general conservative nature of women.

There was almost a balance between men and women on the response to the issue of banks having stopped offering credit to SMEs. As indicated in Table 2 above, out of the nine (9) respondents who

reported that banks had stopped offering credit, 44% were men and 56% were women. This shows that all businesses were affected, although slightly more women were affected than men.

On the issue of banks not providing support to women, the study revealed that 8.3% of those who cited it as a problem were women. This could be due to several factors, which might include what Kapunda *et al*, (2007) cited as lack of business acumen, poor record keeping, and lack of financials to support bank applications. Financials required by banks generally include the income statements, cash flow projections and balance sheets for the period the banks might require. These financial documents are generally not readily available from SMEs as support documents for bank applications. This point is supported by women respondents who highlighted that they could not get banks' support during recession. This confirms that liquidity is a problem during recession.

Investorwords (2011:n), define liquidity as 'The ability of an asset to be converted into cash quickly and without any pricediscount.' If banks are running short of funds to lend, it is an indicator that banks are not receiving cash from depositors. This is a sign that depositors are having trouble in disposing their assets without discounting or losing value. Reserve Bank of Jamaica (1996:p2) defines liquidity as;

> '..the availability of funds, or assurance that funds will be available, to honour all cash flow commitments as they fall due. These commitments are generally met through cash inflows, supplemented by assets readily convertible to cash or through the institution's capacity to borrow. The risk of liquidity may increase if principal and interest cash flows related to assets, liabilities and off balance sheet items are mismatched.'

SMEs revealed from the research that there was a problem of reduction in demand for their goods and services leading to reduced consumptions due to the recession. Fifty seven per cent 57% (16/28) of the respondents who indicated reduced consumption of products were male owners, and 43% (12/28) were female owners. This goes in line with less floating cash during recession. Interesting enough only women complained about high costs of inputs during recession, while men were silent on this issue. This is an area for further investigation to determine causes of gender-based differences on the effects of high input costs.

Overall ranking based on the findings shown on Table 2 indicate that SMEs regardless of gender were badly affected by reduced consumption of products (46.7%), followed by cash flow problem (28.3%), then banks having stopped offering credit (15%), no support from banks (8.3%) and high cost of inputs having the lowest impact (1.7%).

5.2.2   Main impact of recession on business by type of business

An analysis of the main impact on type of business revealed that 48.3% of respondents cited reduced consumption as the major problem affecting all businesses. Cash flow is the second main impact citing 25% thirdly, banks not offering credit had 13.3% representation followed by no support from banks on

8.3%. The least problem was high input cost which had a 5% overall representation. Retail businesses were the worst affected by reduced consumption of products, followed by service industry. Manufacturing was badly affected by cash flow, 57.1% of the respondents who cited cash flow as a problem were in manufacturing as indicated in Table 3 below. Farming had a balance of cash flow and reduced consumption as the main problems during recession.

Table 3: Main impact of recession on business by type of business

| | Type of Business | | | | | | | | | | Total | |
| | Retail | | Manufacturing | | Service | | Farming | | Other | | | |
	N	%	N	%	N	%	N	%	N	%	N	%
Cash Flow	2	10.5	4	57.1	6	27.3	3	37.5	0	0	15	25.0
Stopped Offering Credit	2	10.5	0	0.0	4	18.2	2	25.0	0	0	8	13.3
No Support from Banks	2	10.5	0	0.0	3	13.6	0	0.0	0	0	5	8.3
Reduced Consumption of Product	11	57.9	2	28.6	9	40.9	3	37.5	4	100	29	48.3
High Cost of Inputs	2	10.5	1	14.3	0	0.0	0	0.0	0	0	3	5.0
Total	19	100	7	100	22	100	8	100	4	100	60	100

5.2.3   Main impact of recession on business by location of business

It was interesting to note that Ramotswa business owners cited that they were not affected at all by cashflow problem. This might be due to the fact that the majority of respondents were women who did not complain about cash flow as a major impact on their businesses. As shown in Table 4 below, Gaborone business owners were the worst affected by cash flow problem, bank support, no credit offering, reduced consumption and high input costs. One can conclude that the urban SMEs as represented by Gaborone are the worst affected by recession in comparison to the rural SMEs represented by Gakuto, Metsimotlhabe and Ramotswa.

Table 4: Main impact of recession on business by location of business

| | Location of the business | | | | Total |
	Gakuto	Metsimotlhabe	Gaborone	Ramotswa	
Cash Flow	2	1	12	0	15
Stopped Offering Credit	0	1	5	2	8
No Support from Banks	0	0	3	2	5
Reduced Product Consumption	2	3	21	3	29
High Cost of Inputs	0	0	3	0	3
Total	4	5	44	7	60

5.3 An analysis of credit availability to SMEs' with reference to the Government, CEDA, Local Enterprise Authority (LEA), banks and others' support.

A majority of the respondents, over 65% in various sectors of the economy, answered 'NO' support from the government, CEDA, LEA, banks and others. 'Others' option was mostly funds from friends and relatives. The 30% who got support from banks were those who already had loans they were still repaying and a few who got loans had to pay high interest rates. Figure 2 next page summaries sources of financial support to SMEs. Those who got government support mostly cited the support through access to cheap business land especially those in nursery school business. The results indicate that even the government and its bodies (CEDA, LEA) have also tightened the terms of supporting the SMEs during recession as shown by the majority 'NO's as shown in Figure 2 below.

The results of the bank response differ from Hankinson (1999) survey that revealed that 8% of Small Businesses got bank support during recession period.
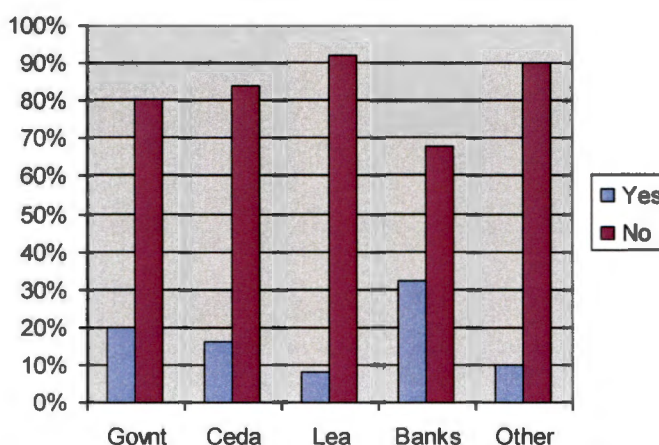
Figure 2: An analysis of credit availability to SMEs

The researcher also investigated why SMEs got little or no support from CEDA, a government body which assists SMEs, and found out that the list of requirements to attach to the application was too long. CEDA requires the following 29 items:(http://wiki.answers.com/Q/What_is_really_required_to_get_a_CEDA_loan_in_Botswana_or_yout h_grant)

1) Certified copies of Omang – ID (individuals, partners, shareholders and directors)
2) Form 3 (certificate of incorporation), in case of a company
3) Resolution by shareholders to apply for a loan (in case of Company)
4) Form 2 (list of shareholders/directors)
5) Form 4 (allotment of shares)
6) Audited financial statements (in case of existing operations)

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7) Valuation report of the purchased prepared by professional valuer (the report must not be more than three years at the time of submission of the application)

8) Proof of title deed for the property to be purchased or used as security

9) Proof of ownership or availability of land for the project

10) Copy of necessary license to operate the business

11) Livestock brand certificate

12) Copy of rental or lease agreement (in case of lease premises)

13) Copy of Franchise Agreement

14) Borehole drilling completion certificate, proof of ownership

15) Concept Architectural Plans (in case of property development)

16) Shareholders/partners/directors/individual applicants are 18 years and over

17) Market details and marketing strategies have been prepared

18) Financial projections have been prepared

19) Personal Balance sheets of all shareholders or individual applicants are provided

20) At least three quotations of items to be financed

21) In case of companies all shareholders must be citizens

22) Check that all relevant sections of the forms are in and also that the proposal falls within CEDA's financing criteria

23) Professional and academic certificates

24) Curriculum vitae

25) Letters of intent

26) Application form

27) Memorandum and articles of association

28) Insurance quotation

29) Soil and water tests

Over and above the twenty nine items listed above, the applicant is expected to attach a business plan. The researcher is of the opinion that this might be a factor which discourages SMEs from getting help from CEDA. However, other scholars may contact further studies to support or oppose the researcher's opinion.

5.4 Profit impact on SMEs' performance by year (2008 - 2010)

Respondents were requested to complete monthly revenue and costs and profit was computed during data analysis, since most respondents were not comfortable disclosing their profit figures. The survey shows that even though inflation was at peak in 2008, SMEs in Gaborone were worst affected in the year 2009 as shown in Figure 3 next page. In 2009 profits were mostly in the 0% region. In 2010, SMEs showed recovery signs as shown by the increase in profit figures. This is in line with findings of other scholars who report that Botswana was worst affected by recession in 2009 as shown in Figure 3 next page.
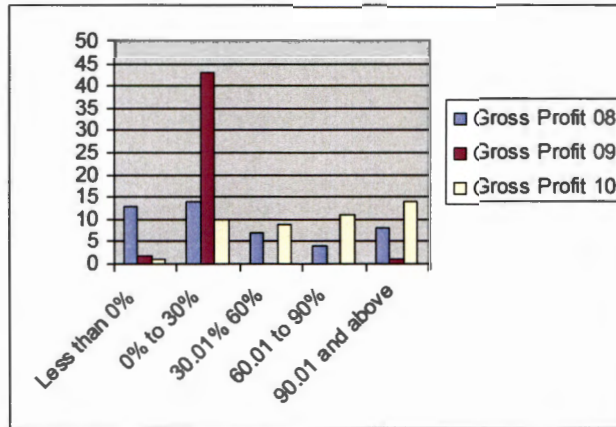
29

Figure 3: Profit Impact on SME performance by Year (2008-2010)

It is important to note that profitability is not the same as 'cash on hand' as mentioned by Hazel and Reid (1977) because a firm can be profitable but can go bankrupt through having no cash, just as an unprofitable firm can temporarily bulge with cash. This is an issue which scholars can further investigate in relation to SMEs survival during recession.

5.5 Survival strategies used by SMEs during recession

SMEs were asked to indicate how they survive during recession and the following strategies were highlighted:

1. 32% of the SMEs retrenched their employees as they cited low demand in their products or services.
2. 2% had existing loans and some managed to get overdraft facilities.
3. 10% highlighted that they had to revise their marketing strategies which included serious persuasion with customers to but their products.
4. 14% did not retrench employees. These were mostly bread and cake makers. They instead reduced salaries and maintained their workforce as a way of helping employees during the hard times of recession.
5. 2% continued running businesses with high input cost citing the need to keep customer base during hard times and keep the company going.
6. 8% resorted to borrowings from friends and relatives. These were mostly women who could not access bank credit.
7. Some SMEs reduced borrowings and input costs to cut down on losses due to low demand of products.
8. 12% did not comment on how they were surviving, due to partially fear of ideas being disclosed to competitors.
9. 6% of the sample gave discounts and offered occasional promotions to boast sales, and increase revenue.

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10. 4% of the respondents avoided high interest rate loans and resorted to survival as is or borrowed from friends and relatives at no interest.

Some of the above findings are in line with what Kyambalesa (1994) recommended as survival strategies for small businesses in a turbulent environment. These include the following;

- Stream lining operation costs
- Simplifying designs to minimize costs
- Providing high quality products
- Developing a spirit of innovation among others

Table 5 below, summarizes the survival strategies implemented by SMEs in Gaborone and its environs during the recent recession. These can be adopted by any small business in Africa.

Table 5: Survival strategies used during recession

Strategy	Frequency	Percent
1. Retrenchment	19	32.0
2. Got loans and overdraft from banks	1	2.0
3. Revise Marketing strategy	6	10.0
4. Maintain staff and reduce salaries	8	14.0
5. Continue with business even with high costs	2	2.0
6. Used personal savings or borrowed from friends	5	8.0
7. Reduce borrowings and input costs	6	10.0
8. No comment	7	12.0
9. Gave discounts or product promotions	4	6.0
10. Avoid high interest credit	2	4.0
Total	**60**	**100.0**

5.6   An Analysis of Strategies Implemented by SMEs to Counter Recession

SMEs were asked on what strategies they are putting in place in order to counter recession and the following strategies were highlighted;

5.6.1   Retrenchment

SMEs retrenched employees as evidenced by 32% respondents who reported that they retrenched employees during the period of recession.

5.6.2   Bank Assistance

Only one SME managed to secure a loan from the bank. This confirms that during recession banks tighten credit terms and SMEs are affected.

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5.6.3 Revision of Marketing strategy

Of the 10%, farming and other are totally excluded from this strategy. It is interesting to investigate further why they ignored this strategy to counter recession.

5.6.4 No retrenchment

This strategy was supported by all sectors, with service being the highest. However costs were reduced through reduction in salaries and other benefits.

5.6.5 Continue with business with high costs

This was implemented by retail industry which represents 2% of the sample.

5.6.6 Used personal Savings or borrowed from friends

Retail, Manufacturing used this strategy, however farming and other sectors did not. This supports that during recession liquidity is a problem. SMEs resort to borrowing from friends as banks are not willing to extend credit to SMEs.

5.6.7 Reduce borrowing and input cost

Those in farming and manufacturing did implement this strategy. The 8% composed of retail, service and other.

5.6.8 Gave discounts and product promotions

The 6% of the sample gave discounts and offered occasional promotions to boast sales.

5.6.9 Avoid high interest credit

Out of the 60 representative sample, 2% in service and 2% in other industries resorted to avoiding borrowing at high costs.

Survival strategies implemented by SMEs during recession were summarized in Table 6 next page. However, the reasons that Hall (1995) cites as accounting for why SMEs fail, which includes one man rule by owners, lack of management depth and weak finance function, were not explored because they were outside the scope of the current study. However, this does not suggest that these reasons are not applicable to SMEs during recession period.

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Table 6: An analysis of strategy by type of business

			Type of Business				Total
		Retail	Manufacturing	Service	Farming	Other	
1	Retrenchment	4	2	9	3	1	**19**
2	Got loans and overdraft from banks	0	0	1	0	0	**1**
3	Revise Marketing strategy	2	2	2	0	0	**6**
4	Maintain staff and reduce salaries	2	1	3	1	1	**8**
5	Continue with business even with high costs	1	0	0	0	1	**2**
6	Used personal savings or borrowed from friends	2	1	2	0	0	**5**
7	Reduce borrowing and input costs	2	1	1	0	2	**6**
8	No comment	2	1	2	2	0	**7**
9	Gave discounts or product promotions	4	0	0	0	0	**4**
10	Avoid high interest credit	0	0	1	0	1	**2**
Total		**19**	**8**	**21**	**6**	**6**	**60**

5.7   Recommendations suggested by SMEs to improve businesses during recession

SMEs made recommendations on how to improve businesses' performance during recession. The top five recommendations were cost minimization 16%, need for banks, CEDA and LEA to help 14%, revising marketing strategy 12%, providing good service and retrenchment tied at 8% each as shown in Table 7 below.

Table 7: Recommendations suggested by SMEs to improve businesses during global recession

Strategy	Frequency	Percent
Sell underutilized property	2	2.0
Minimize credit sales	2	2.0
SMEs should support each other and trade among themselves	3	2.0
Improve security to minimize theft	1	2.0
Shift work	2	4.0
No comment	3	6.0
Save money	2	6.0
Keep operating at small scale	3	6.0
Retrench	5	8.0
Provide good service	5	8.0
Revise Marketing Strategy	7	12.0
Buy in bulk directly from manufacturers	7	12.0
CEDA, government, banks should give loans	8	14.0
Minimize costs	10	16.0
Total	**60**	**100.0**

The above recommendations are in line with what other scholars recommend as survival strategies which SMEs may implement during recession. LeXolution KPO Services (2010), website published an article "Outsourcing – An Effective Survival Strategy for SMEs". In the article, the following were highlighted as cost cutting measures which are useful to survival of SMEs during recession.

5.7.1   Cost Cutting Measures

Off shore outsourcing is regarded as an obvious advantage of offshore outsourcing. Small businesses are advised to control their costs in order to keep their businesses in operation during the turbulent economic atmosphere. Since SMEs seek to expand their business without increasing their capital costs they are advised to use outsourcing as a tool which minimizes costs. Offshore outsourcing is considered as best since service providers located in offshore countries provide cheaper rates. The main issue here is cost cutting. How the SMEs reduce the costs differs from industry to industry and from country to country.

5.7.2   Help for Short Projects

SMEs are encouraged to hire professional employees only for specific projects and for specific duration and not to engage them as permanent as a way of cutting costs.

5.7.3 Specific Expertise

It is recommended the SMEs hire off shore specific expertise for a special project that is not offered in-house.

5.7.4 Quick Resolution to problems

Outsourcing service providers have efficient manpower and resources. This offers an advantage of quick resolution to project problems and improves efficiency. This is an important note which is not only centered on outsourcing, but a tool that SMEs can use to improve customer service as highlighted in the findings of this study.

5.7.5 Improved Efficiency in Projects

SMEs are encouraged to make use of offshore service providers that have economies of scale that can benefit SMEs while SMEs focus on core business objectives. "A good outsourcing service provider that has a global reach can provide you with some lucrative business opportunities" (LeXolution KPO Services, 2010). Therefore, SMEs in Gaborone and its environs may also try to use this strategy since there was no mention of outsourcing as a survival strategy during recession.

5.7.6 Gain Competitive Edge

SMEs are encouraged to make use of outsourcing as a tool which would help them to gain competitive edge during the difficult times of recession. However, the need to get a competitive outsourcing service is encouraged.

CHAPTER 6

CONCLUSION, POLICY IMPLICATIONS AND RECOMMENDATIONS

6.1 Conclusion

This study has examined how the current global recession has affected performance of SMEs in Gaborone and its environs. A thorough analysis of survival strategies by SMEs was conducted to determine the techniques used by SMEs to survive during recession.

The study concludes that recession affected SMEs mostly due to reduced consumption of products and services. The study revealed that 64.7% of the sample was made up of men who cited cash flow as a problem. Only 35.3% of the respondents were women who cited cash flow as a problem during recession. One can conclude that all businesses were affected regardless of gender of the owner. However, men were the most affected by cash flow problem. It was interesting to note that from the sample, no men cited bank support as a problem, 8.3% of the sample who cited this as a problem were women. Cash flow affected mostly men than women. The study revealed that male owners did not point out the cost of inputs as a problem affecting their business performance. This gives room for further investigation by other scholars.

Generally SMEs got very little or no support from government, CEDA, LEA or commercial banks. From these findings one can conclude that global recession did not only affect commercial banks who tightened credit availability, but the government and its bodies were also affected.

However, liquidity remained a major problem to SMEs during recession. Performance of SMEs was generally affected by the drop in profit figures in 2008 to 2009. Banks' failure to extend credit to SMEs indicates that there was very little money available in the market which Banks could give to SMEs as credit. In my opinion, the banks' failure to offer credit to SMEs is an indicator that liquidity is a problem during recession period.

In general, SMEs who survived during recession retrenched their staff as a strategy to cut down costs in response to drop in demand for products and services. The study revealed that 2% of those who indicated bank support confirmed that they were only repaying the old loans. This indicates that there is a problem in getting additional loans from banks as SMEs are considered riskiest borrowers. This is supported by the 8% who resorted to getting loans from friends and relatives and these were mostly women owners. This is another indicator that the official financiers were not extending credit to SMEs.

This paper revealed that 12% of the respondents did not comment on their survival strategies, one can conclude that SMEs are not willing to share their strategies with others. This might mean the literacy level is low or understanding of business information sharing is low among SMEs which is a cause for

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concern. However, some really see the need to change the marketing strategies as a survival tool, this is a positive move.

6.2 Recommendations to Policymakers

This study revealed that liquidity is a general problem during recession. During the current recovery period and in future recession, policy makers should at least give room for credit advances to some businesses. Policy makers should give women priority as they cited little or no support from banks and government bodies. This is an area which the government has to address.

Since some SMEs refrained from giving information, LEA should offer training to SMEs so that they see the need to share business information and strategies than to refrain from sharing business information. A culture of information sharing should be emphasized through SMEs' training.

6.3 Limitations of Study and Recommendations for Further Research

This study had only 60 respondents. The sample size could not be expanded as there was limited time and funds to follow up on questionnaires. The majority of respondents were in Gaborone city whereas nearby villages' samples had limited responses. Researchers have room to expand the observations in order to have a wider coverage of observations. The effect of high input costs which male owners were silent about needs to be further investigated. Future studies on this topic should investigate why SMEs cited little or no support from CEDA and LEA as these are the bodies which are expected to help SMEs in Botswana.

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Sample Questionnaire

ASSESSEMENT OF THE SME'S SURVIVAL STRATEGIES DURING RECESSION 2008-2010

CONSENT TO CONFIDENTIALITY: _____

DATE_____   **QUESTIONAIRE NUMBER:** _____

SECTION A: BACKGROUND DATA

1.1 Name of organization _____

1.2 Location_____

1.3 Name of owner of business(**optional**)_____

1.4 Owner's particulars (**Tick the appropriate item**)

Male [ ] Female [ ]

SECTION B: ENTERPRISE PARTICULARS

2.1 Number of years in Business_____

2.2. Type of business: Tick the appropriate	1. Retail	[ ]
	2 Manufacturing	[ ]
	3. Service	[ ]
	4. Farming	[ ]
	5. Others (specify) _____	

2.3 If you are a retailer what goods would you sell?

a) Locally _____

1

b) Internationally _____

2.4 If you are involved in international trade please list the countries you export your product to_____

2.5 Number of employees (including owners) _____

SECTION C: BASIC INFORMATION

3.1 Has the current global recession affected the performance of your business? Tick the appropriate item

1. Yes   [   ]

2. No   [   ]

3.1.1 If you answered yes above, explain how you were affected by the recession

_____

_____

3.2 How has the global recession affected your business in terms of access to finance/credit ? Explain

_____

_____

_____

_____

3.3 has the recession affected the business in other areas as
a) Access to markets (local and international) _____

b) Sales/revenue _____

c) Operation costs _____

e) Labor costs _____

d) Profitability_____

e) Others (specify) _____

3.4 Have you ever reduced the employment levels during the global recession period (2008-2010)?

    1) Yes [ ]
    2) No   [ ]

3.5 If you answered yes explain this reduction in term of
numbers_____

3.6 Have you ever received any supportive assistance from the following? If yes specify the assistance

    a) Government   1) Yes [ ]   2) No   [ ]

_____

_____

_____

_____

    b) Citizen and Entrepreneurial Development agency (CEDA)
    1) Yes [   ]   2) No [   ]

_____

    c) Local enterprise Authority (LEA)
    1) Yes [   ] 2) No [   ]

    d) Commercial Banks_____
    1) Yes [   ]   2) No [ ]

    e) Others (specify)_____
    1. Yes [   ] 2) No [   ]

3.7 Estimate the current average monthly income/revenue _____

3.8 Estimate the average monthly operating costs_____

3.9 Estimate the current monthly employment level_____

ITEM	2010	2009	2008
Average monthly income/revenue			
Average monthly operating costs			
Average monthly employment			

3.10 What strategies did you use to survive during recession, in terms of layoffs and capital finance?

_____

_____

3.11 What recommendations would you make to improve your business in the current global recession?

_____

_____

_____

_____

THANK YOU