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THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR SMALL TO MEDIUM ENTERPRISES IN ZIMBABWE

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ABSTRACT

The objectives of this research paper are to establish the level of the adoption of the International Financial Reporting Standards(IFRS) for the Small to Medium Enterprises(SMEs) in Zimbabwe, the benefits accruing to such SMEs, the promotion of the adoption of these IFRS, maintenance of acceptable accounting records and related challenges for the adoption of IFRS for SMEs. The descriptive survey design integrate both the quantitative and qualitative approaches. The population consisted of SMEs in the retail trade sector, accounting professional bodies, Ministry of SMEs in Zimbabwe and the Small Enterprise and Development Corporation (SEDCO). The random sampling technique was used to come up with 40 participants. The composition was 32 SMEs,1 from SEDCO,1 from the Ministry of SMEs and 6 from accounting professional bodies. The research instruments used were questionnaires and interviews. Research findings showed that 80% of the SMEs did not maintain accounting records; none had adopted IFRS for SMEs. 20% which had accounting records observed provisions of IFRS in general which were in line with Generally Accepted Accounting Standards. Most of the employees in SMEs that lacked accounting records lacked basic accounting financial knowledge. A few SMEs prepare the Statement of Comprehensive Income, Statement of Financial Position and Statement of Cash flows. Little effort is being made to encourage the adoption of IFRS for SMEs by the policy makers within the retail trade sector. Benefits that could accrue to SMEs that would have adopted the IFRS for SMEs would be better decision-making leading to growth through better accountability and compliance with tax legislation. Non-adoption of the IFRS for SMEs has been prompted by ignorance of their existence, lack of separation of ownership from management, lack of capacity to implement the IFRS. The study recommends the need to formalise business operations for SMEs, promotion of business

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record maintenance, separation of ownership from control of SMEs, mounting of seminars or workshops for personnel on professional development courses.

Keywords: Small to medium enterprises (SMEs), International financial reporting standards (IFRS).

1. INTRODUCTION

The Zimbabwe business story post 2009 cannot be complete without the role of SMEs.

In the European Union, SMEs contribute to over 99% of all enterprises and 100 million jobs, representing 67.1% of private sector employment (International Financial Accounting Committee (IFAC), 2010). UK SMEs are mainly involved in the agricultural, business and construction sectors; South African SMEs are prominent in community, social and personal services and the finance, real estate, wholesale and agriculture sectors; and in Kenya SMEs are mainly involved in agricultural activities (Association of Chartered Certified Accountants (ACCA), 2000). SMEs are estimated to represent more than 95 per cent of all entities, according to the IFRS Foundation (2010).According to Gono (2013), SMEs contribute to output and employment creation and they are also a nursery for the larger firms of the future. The most successful developing country over the last 50 years, Taiwan is built on a dynamic SME sector. Small and medium enterprises (SMEs) have played a significant role in Taiwan's economic development in expanding exports and providing jobs. According to Nyoni (2012), Zimbabwe Co-operative Development Minister, SMEs contributed above 60% of employment in the country.

As a result of broad discussion of SMEs and common standards for SMEs worldwide, the International Accounting Standard Board (IASB) introduced an International Financial Reporting Standard (IFRS) designed for use by small and medium-sized entities (SMEs) on July 9, 2009 (International Accounting Standards Board, 2010).The introduction of IFRS specifically for SMEs was necessitated by many challenges faced by these entities in adopting full IFRSs in financial reporting, the main of which was the excessive disclosure requirements, based on a cost-benefit analysis for SMEs (Nazri, 2010). The South African Institute of Chartered Accountants was the first country to adopt IFRS for SMEs as its national SME standard. Table 1 shows the adoption rate:

Table-1. Adoption Rate for IFRS

Year	**2009**	**2010**	**2011**	**2012**
Jurisdictions that have adopted or indicated publicly their plan to adopt IFRS for SMEs	19	60	73	80

In Zimbabwe, the IFRS for SMEs was adopted in 2009 when it was first published by the IASB, (Institute of Chartered Accountancy Zimbabwe (ICAZ), 2010).The Zimbabwe Accounting Practices Board, which is the national standard-setting body and the Public Accountants and Auditors Board, which is the statutory regulatory and oversight boardy for the accounting profession in Zimbabwe, formally adopted the IFRS for SMEs as the second accounting reporting framework for use in the country, by eligible entities, with effect from 1 January 2011, (Institute of

Chartered Accountancy Zimbabwe (ICAZ), 2011). Fitzpatrick and Frank (2009) note that IFRS for SMEs is not currently well known. Among investors, businesses, lenders, educators and financial statement users, few have

spent the time necessary to understand the differences from national GAAPs and the corresponding impact and are not prepared to adopt, or make important business decisions with these standards in mind.

IFRS for SMEs, like full IFRS, have more flexibility, less-specific rules and more opportunities to apply professional judgment. There is a distinct possibility that the same type of transaction entered into by different companies could be reported differently in the financial statements. Thus, comparability may suffer. Many businesses still don't understand what options are available and how IFRS for SMEs interplay to their benefit (Fortuin, 2011). This is an indication of the lack of awareness of the benefits accrued through the use of IFRS for SMEs which may in turn inhibit SMEs from adopting them. The results of the survey by Deloitte in 2009 revealed that 43% of SME respondents were not aware of the IASB's standard IFRS for SMEs.

Worldwide, the greatest challenge facing small and medium-sized entities is access to finance. In Zimbabwe, the SMEs have the potential to turn around the country's economy but the major challenge remains that of being underfinanced, (Gono, 2013). Studies have shown that the major reason why small firms fail is due to poor financial management and reporting. So it is important for SMEs to have some form of financial reporting.

Zimbabwe Accounting Practices Board (ZAPB) has noted that there is a low level uptake of IFRS for SMES reporting framework and it was agreed that there was an urgent need to look at the obstacles of adoption of the framework, with a view to map a way forward, (Public Accountant and Auditors Board, 2012). Concerns have been raised about the burden to financial statement preparers and the relevancy of the resulting information to lenders, vendors, credit rating agencies, family investors, development agencies and others who use SME financial statements (Institute of Chartered Accountancy Zimbabwe (ICAZ), 2010). Studies have been conducted to assess the adoption of IFRS for SMEs in different countries. Most of the research has been carried out in developed countries with very few from other countries.

This study makes an attempt to bridge this gap and tries to gauge the uptake level, and challenges faced by SMEs in the process of adoption of IFRS for SMEs. This study is therefore motivated because of the absence of studies on IFRS for SMEs in Zimbabwe.

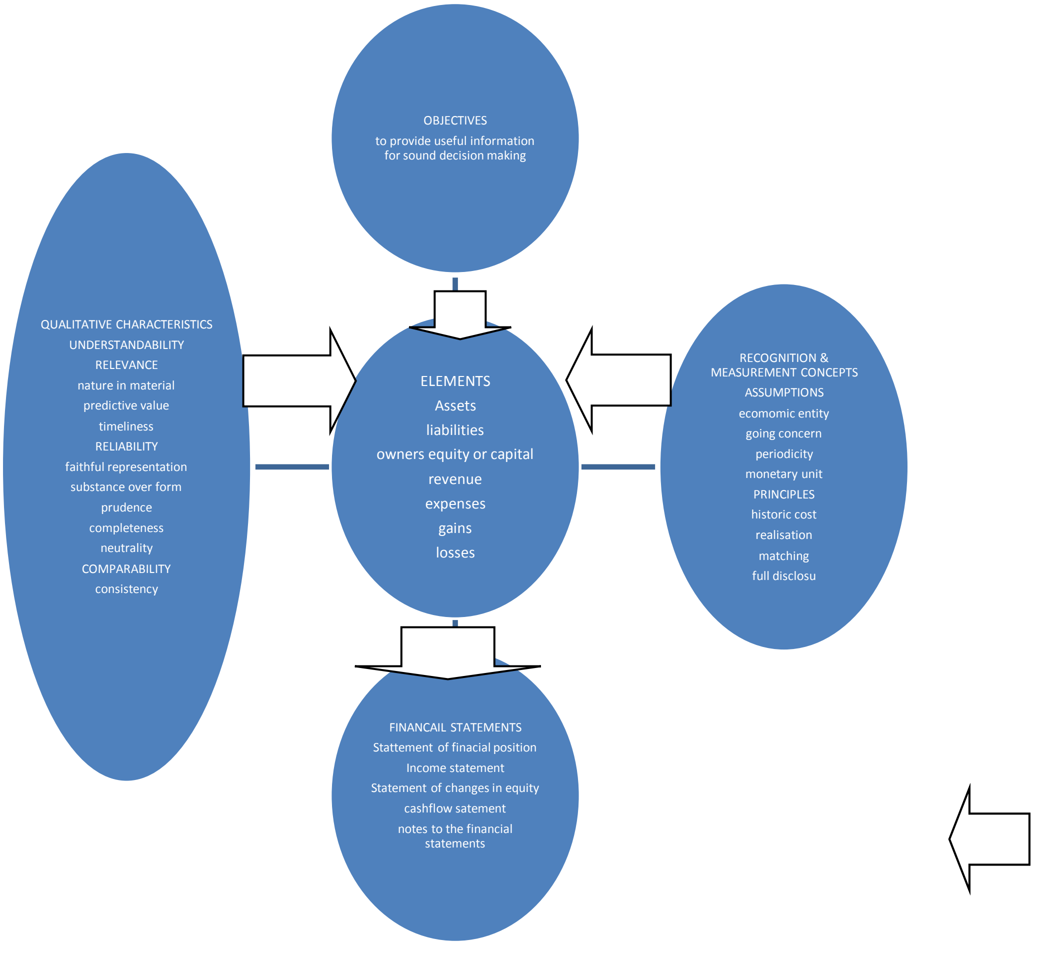
The objectives of the research are as follows:

- To establish the level of uptake of IFRS for SMEs by entities in Zimbabwe.
- To ascertain benefits that SMEs can derive through adoption of IFRS for SMEs.
- To assess efforts made in promoting IFRS for SMEs uptake by SMEs.
- To identify challenges being faced by SMEs in Zimbabwe in adopting IFRS for SMEs

1.1. Conceptual Framework

According to the literature, this study constructs the research framework as shown in Fig 1.

Figure-1. Conceptual Framework



In financial reporting, a conceptual framework as shown in Fig 1 is a theory of accounting prepared by a standard-setting body against which practical problems can be tested objectively, in other words, a theoretical base, a statement of principles, a philosophy and a map, Association of Chartered Certified Accountants (ACCA) (2011) In September 2010, the IASB issued a revised version of its conceptual framework (Conceptual Framework for Financial Reporting, 2010). The two primary objectives of financial statements prepared under IFRS are economic decision-making and stewardship. The main users of financial statements are considered to be equity investors, lenders and other creditors, while the primary characteristics are relevance and faithful representation.

- **International Accounting Standard Board (IASB):** The International Accounting Standards Board (IASB) is accountable for its governance, funding, oversight and supervision (International Accounting Standards Board, 2010).

- **International Financial Reporting Standard (IFRS):** These are guidelines, treatments, rules, regulations, policies and procedures established by the International Accounting Standards Board (IASB) for the preparation of financial statement. The main objective of these international standards is to allow investors, organizations and governments to compare the financial statements with greater ease.

- **Small and Medium-Sized Entities (SMEs):** The Small and Medium-Sized Entities (SMEs) can be characterized into three categories; micro, small and medium-size enterprises. They are small businesses employing less than 100 employees (Ministry of SMEs, 2002). The basic requirements for Small and Medium-Sized Entities (SMEs) are companies that do not have public accountability, and prepare general purpose financial statements for external users (International Accounting Standards Board, 2010).

- **IFRS for SMEs:** IFRS for SMEs are a set of accounting standards developed by IASB for its intended use in general purpose financial statements and reporting by small and medium-sized entities, private firms and non-publicly accountable enterprises.

2. THE IMPORTANCE OF ACCOUNTING INFORMATION SYSTEMS

According to the Kaplan and Bruns (1987) accounting is defined as 'the process of analyzing and systematically recording, in terms of money or some other unit of measurement, operations or transactions and summarizing, reporting and interpreting the results thereof. The need for accounting information became imperative with the emergence of the corporation as a vehicle for mobilizing resources both capital and human.

In addition, accounting helps in maintaining of systematic records. It is a primary function of accounting to keep a proper and chronological record of transactions and events, which provides a base for further processing and proof for checking and verification purposes. It embraces writing in the original/subsidiary books of entry, posting to ledger, preparation of trial balance and final accounts (Shayamapiki, 2005).

Accounting is also a strategy for meeting legal requirements. Accounting helps to comply with the various legal requirements. It is mandatory for joint stock companies to prepare and present their accounts in a prescribed form. Various returns such as income tax, sales tax are prepared with the help of the financial accounts (Hayes, 2002).

Shim and Siegel (1999) also assert that accounting facilitates protection and safeguarding of business assets. Records serve a dual purpose as evidence in the event of any dispute regarding ownership title of any property or assets of the business. It also helps prevent unwarranted and unjustified use. This function is of paramount importance, for it makes the best use of available resources.

Maintaining accounting records also facilitates rational decision-making. Accounting is the key to success for any decision-making process. Managerial decisions based on facts and figures take the organisation to heights of success. An effective price policy, satisfied wage structure, collective bargaining decisions, competing with rivals, advertisement and sales promotion policy, all owe it to well set accounting structure. Accounting provides the necessary database on which a range of alternatives can be considered to make managerial decision-making process a rational one (Shim and Siegel, 1999).

Communicating and reporting are also made possible through accounting records. The individual events and transactions recorded and processed are given a concrete form to convey information to others. This economic information derived from financial statements and various reports is intended to be used by different groups who are directly or indirectly involved or associated with the business enterprise (Maskell and Baggaley, 2003).

Value is generated from millions of investors and lenders into national and international operations. As a result, the separation between owners and lenders on one hand, and management on the other hand has increased. Effective communication between these separate groups is needed for such an economic system to function, and accounting provides for such communication. Accounting information is regarded as the lifeblood of capital markets and economic development. Accounting information reported must be adequate and reflects a company's true financial situation and should be improved to encompass specific industry-based standards (Paul, 2003).

Paradza (2003) highlighted that in accordance with the requirements of the International Accounting Standards Committee (IASC) Framework for the Preparation and Presentation of Financial Statements, information provided by financial statements should enable accounting users (present and potential investors, creditors, financial advisors, investment and economic analysts and other users) in making rational investment, credit and similar decisions, in making cash timing and risk assessment decisions and in the determination of assets, liabilities, profitability as well as liquidity of an entity. The International Accounting Standard Committee (IASC) Conceptual Framework document stated that the objectives of financial statements are to provide information about the financial position, performance and changes in the financial position of the firm (Kazunga, 2005).

Consequently, the societal needs for accounting information are not static. Informational needs for users of accounting information changes and such changes had been attributed to many factors among them, economic structural changes, legal developments and social changes. Kazunga (2005) highlighted that initially financial statements were on historical-cash basis and later changed to historical-accrual basis and today it is moving towards current-cost accounting in response to continuing inflationary pressures. Importance has also shifted from the statement of financial position to the statement of comprehensive income particularly net income. Social goals as well as issues of corporate governance, regulatory compliance and risk management are taking center stage in response to growing concerns over consumerism, good governance, social responsibility, environment protection and improvement of quality of life.

According to Kazunga (2005), stakeholders use accounting information. A stakeholder is any individual who has an interest in the affairs of the business. According to Paradza (2003), the following are the stakeholders or users of accounting information in Zimbabwe.

Government, in general, and tax officials, in particular: Tax officials like ZIMRA, are interested in accounting information due to the need to calculate taxes.

Shareholders: Shareholders are the owners of a company. They use accounting information to decide if their company is making adequate profit and assess the risk of loss of capital.

Managers: Managers make use of accounting information when evaluating the success of strategies they would have employed.

Employees: Employees are interested in earning higher wages and salaries. If a company is making more profit, employees would like to have a fair share of the 'cake'. Therefore, employees make use of accounting information when negotiating for remuneration. Job security can be assessed on the basis of performance.

Financial institutions: Financial institutions use accounting information in order to evaluate the credit worthiness of a company when a loan is to be advanced.

Suppliers: Businesses usually buy goods and merchandise on credit. Suppliers use accounting information in order to establish the maximum value of goods to be sold on credit including the solvency level of the entity.

Potential investors: Investors make use of accounting information when deciding whether or not to invest in a company.

Accounting information is, therefore, usefully to a number of stakeholders. From this it becomes apparent that accounting plays a very important role in influencing the decisions of users of accounting information in their day-to-day dealings with business organizations (Paradza, 2003). However, the problem often arises in that, businesses knowing how important accounting information is in influencing decisions that are vital to their existence, they sometimes try to influence such information in order to achieve predetermined reactions from such people.

2.1.Accounting Practices and Financial Reporting of SMEs

In most jurisdictions, the law requires all or many of the SMEs to prepare financial statements and, often, to have them audited. Normally, the financial statements are filed with the government, posted on a website or are made available on request (European Commission, 2008). In Zimbabwe, all companies are required to keep proper books of accounts in compliance with Section 140 of the Companies Act (Chapter 24:03) and to prepare and submit tax returns based on these financial statements to the, Zimbabwe revenue authority (ZIMRA), in compliance with various pieces of tax legislation (Paradza, 2003). A study by Lalin and Sabir (2010) concludes that regulations are the main drivers why SMEs prepare financial statements.

Holmes and Nicholls (1988) conclude that the volume of accounting practices in SMEs is dependent on a number of operating environmental factors that include size of the business, business age and industrial grouping. They further argue that most owners and managers of SMEs engage public accountants to prepare required information and that owners and managers search for additional information, but only to a limited extent. Ismail and King (2007) conclude that the development of a sound accounting information system (AIS) in SMEs depends on the owners' level of accounting knowledge. Keasy and Short (1990); Bohman and Boter (1984) report that small firms use professional accounting firms for preparation of annual reports and for other accounting needs.

According to Hayes (2002), financial accounting is based on several principles and these are called as GAAP. These principles include the business entity principle, the objectivity principle, the cost principle and the going-concern principle. Table 2 shows how SMEs should comply with these principles.

Table- 2. How SMEs Should Observe Basic Accounting Principles

Principle	**Brief Description**	**How it Should be Observed**
Double Entry Concept	For every business transaction, there are two accounts involved. There is an account to be debited and an account to be credited.	The SMEs maintained ledger accounts in which transactions were recorded
Money Measurement Concept	Transactions are in monetary terms. Only those items, which are quantifiable in monetary value, are subject to accounting records.	Accounting records contained monetary values. Aspects such as goodwill, number of clients, number of employees and their skills were not shown
Business Entity Concept	The business has a separate existence from its owner. Accordingly, the proprietor's personal affairs are not mixed up with the business	Though most SMEs were owner managed, some owners kept records of drawings
Matching or Accruals Concept	Revenue is for the 'year' it is earned even if there was no payment of 'cash'. In a similar vein, expenses are for the 'year' they have been incurred even if there was no payment	Adjustments for amounts due and prepayments were duly made. SMEs kept records of debtors and creditors
Materiality Concept	There is need to consider the significance of the value of an item, to the business, before classifying it as an asset.	Minor items were not reflected as assets

In addition, Marriot and Marriot (2000) argue that the professional accountants should develop their services to also include graphic presentations and comments and interpretation of the amounts in financial statements. Everaert *et al.* (2006) and (Jayabalan and Dorasamy, 2009) however argue that the high cost of hiring professional accountants leaves SME owner-managers with no option but to relegate accounting information management. Zhou (2010) proposes the use of accounting software by owner-managers in SMEs to improve accounting practices but laments that developers of accounting software are yet to produce the medium-sized software for SMEs.

McMahon (1999) argues that financial reporting practices in SMEs seem to fall short of what is dictated by various external financial reporting imperatives that exist for them, further arguing that owner-managers appear particularly reluctant to produce financial reports which might become accessible to outside parties either directly or through the offices of regulatory authorities.

3. IFRS for SMES

According to International Accounting Standards Board (International Accounting Standards Board, 2010), the IFRS for SMEs is a self-contained standard designed to meet the needs and capabilities of small and medium-sized entities (SMEs), which are estimated to account for over 95% of all companies around the world. IFRS for SMEs is about good financial reporting made simple. It is simplified IFRSs, but built on an IFRS foundation. It is designed specifically for SMEs and is internationally recognised. The IASB took six years to develop it. The final standard was issued by the IASB on the 9th of July 2009. The standard is available for any jurisdiction to adopt, whether or not it has adopted full IFRSs. Each jurisdiction must determine which entities should use the standard. The IASB's only restriction is that listed companies and financial institutions should not use it. Over 99% of private entities around the world are expected to be eligible to use the standard. The definition is therefore based on the nature of an entity rather than on its size. Where a transaction is not addressed by the IFRS for SMEs, management is expected to use judgment to determine its accounting policy. If such a transaction is covered in full IFRS, management may refer to the appropriate international standard if it wishes but is not required to do so by the IFRS for SMEs (Price Waterhouse Coopers, 2009).

3.1. Benefits of Adopting IFRSs for SMEs

Adekoya (2011) pointed out that IFRS for SMEs have clear benefits for investors, lenders and those seeking to raise finance through the transparency afforded by a consistently applied global set of financial reporting standards. It will provide a standard which is simple and well understood and this will ease transition to full IFRS for growing entities once they become publicly accountable. IFRS for SMEs also provide an accounting framework for entities that are not of the size or have the resources to adopt full IFRS (Alp and Ustuntag, 2009). The Standard is predominantly welcome in some developing nations who also have difficulty in developing and interpreting their accounting standards as it will ensure that these inconsistencies will be resolved. It also leads to improved financial reporting as it will be more targeted and simplified and will reduce the burden of interpreting accounting principles and complying with differences in reporting requirements. The ability to improve comparability and understandability of financial statements will also build investor confidence, (Adekoya, 2011).

According to International Accounting Standards Board (2010), IFRS for SMEs is tailored for needs and capabilities of small businesses. Topics which are not relevant to SMEs have been removed and this has resulted in improved access to capital, improved comparability, improved quality of reporting as compared to existing national GAAP, and less of a burden for entities in jurisdictions where full IFRSs or full national GAAP are now required (Cai and Wong, 2010).

3.2. Steps taken by IASC and IASB to ensure Implementation

To assist in implementation, the IASC Foundation and the International Accounting Standards Board (2010) have taken a number of steps which had several implications that are worthy of note. These are discussed below.

Implementation guidance - The IFRS for SMEs is accompanied by implementation guidance consisting of illustrative financial statements and a presentation and disclosure checklist.

Training material - The IASC Foundation is developing comprehensive free to download training material to support the implementation of the IFRS for SMEs,

IFRS Taxonomy - the IFRS Taxonomy is a translation of IFRSs - including the IFRS for SMEs - into XBRL (extensible Business Reporting Language). XBRL is a digital 'language' used to communication information between businesses and other users of financial information.

Workshops - The IASC Foundation is holding regional ‘train the trainers’ workshops, in co-operation with regional professional associations and the world’s development agencies, to build capacity for the implementation of the IFRS for SMEs, particularly in developing and emerging economies (International Accounting Standards Board, 2010)

3.3. How far have the SMEs Implemented IFRSs for SMEs

South Africa, through the South African Institute of Chartered Accountants (SAICA) was the first country in the world to adopt the IFRS for SMEs as its national SME standard in 2009. It is expected that many organizations will follow SAICA example (Paul, 2009) The Council of the Institute of Certified Public Accountants of Kenya (ICPAK) and the Council of the National Board of Accountants and Auditors of Tanzania approved the use of IFRS for SMEs in 2009. In UK, tens of thousands of the businesses will need to act promptly to adapt to the new accounting plans announced by the UK Accounting Standards Board (ASB) which will see the demise of UK GAAP, (Deloitte, 2010) The UK ASB set the 1 January 2012 for implementing the new accounting framework (Adekoya, 2011).

3.4. Reasons for Low Level of Implementation of IFRS for SMEs

According to Bhattacharjee and Hossain (2010), a number of reasons were provided for the low level of adoption of IFRSs for SMEs. In this regard, a number of explanations were brought forth which included unwillingness to work and accept a more principles-based set of accounting standards compared to the more rules-based IFRS (Adekoya, 2011).

4. LEVEL OF AWARENESS

The transition plan to IFRS and its implications for preparers and users of financial statements, regulators, educators and other stakeholders have to be effectively coordinated and communicated. This should include raising awareness on the potential impact of the conversion, identifying regulatory synergies to be derived and communicating the temporary impact of the transition on business performance and financial position. The implementation of IFRS requires considerable preparation both at the country and entity levels to ensure coherence and provide clarity on the authority that IFRS will have in relation to other existing national laws (Committee on Roadmap, 2010) .

4.1. Accounting Education and Training

Practical implementation of IFRS requires adequate technical capacity among preparers and users of financial statements, auditors and regulatory authorities. Countries that implemented IFRS faced a variety of capacity-related issues, depending on the approach they took. One of the principal challenges Nigeria may encounter in the practical implementation process, shall be the shortage of accountants and auditors who are technically competent in implementing IFRS. Usually, the time lag between decision date and the actual implementation date is not sufficiently long to train a good number of professionals who could competently apply international standards (Adekoya, 2011).

4.2. Training Resources

Professional accountants are looked upon to ensure successful implementation of IFRS. Along with these accountants, government officials, financial analysts, auditors, tax practitioners, regulators, accounting lecturers, stock-brokers, preparers of financial statements and information officers are all responsible for smooth adoption process. Training materials on IFRS are not readily available at affordable costs in Nigeria to train such a large group which poses a great challenge to IFRS adoption (Adekoya, 2011).

4.3. Tax Reporting

According to Cai and Wong (2010), the tax considerations associated with the conversion to IFRS, like other aspects of a conversion, are complex. IFRS conversion calls for a detailed review of tax laws and tax administration. Specific taxation rules would have to be redefined to accommodate these adjustments .For instance, tax laws which limit relief of tax losses to four years should be reviewed. This is because transition adjustments may result in huge losses that may not be recoverable in four years. Accounting issues that may present significant tax burden on adoption of IFRS, include determination of Impairment, Loan loss provisioning and Investment in Securities/Financial Instruments (Adekoya, 2011).

4.4. Amendment to Existing Laws

In Nigeria, accounting practices are governed by the Companies and Allied Matters Act (CAMA) 1990, and the Statement of Accounting Standards (SAS) issued by the Nigerian Accounting Standards Board (NASB) and other existing laws such as Nigerian Stock Exchange Act 1961, Nigerian Deposit Insurance Act 2006, Banks and Other Financial Institution Act 1991, Investment and Securities Act 2007, Companies Income Tax Act 2004, Federal Inland Revenue Services Act 2007. All these provide some guidelines on preparation of financial statements in Nigeria. IFRS does not recognize the presence of these laws and the accountants have to follow the IFRS fully with no overriding provisions from these laws. Nigerian law makers have to make necessary, amendments to ensure a smooth transition to IFRS (Adekoya, 2011).

4.5. Recommendation on the way forward on the Adoption of IFRS by SMEs

According to Cai and Wong (2010), governments should be ready to provide incentives to SMEs especially those that can reduce their tax burdens, increased accessibility to capital and provide them with an opportunity for growth. Creating awareness among SMEs should be the starting point for those who have no information. And with the rest training needs to be strengthened. Regulatory bodies should take up their role and formulate an all encompassing IFRS with local bodies utilizing the existing business conditions to recommend suitable financial reporting standards for SMEs within their jurisdiction. Relief has been provided to SMEs from preparing financial statements in compliance with full IFRSs (Adekoya, 2011).

Future developments may see the abolition of the close corporation entity form and the removal of the audit requirement for SMEs. However, all stakeholders should be consulted to ensure that any decisions are based on the correct information (Adekoya, 2011). Research in South Africa has shown that a single threshold for differential corporate reporting may not adequately address the South African differential corporate reporting needs and that multiple thresholds each with their own reporting requirements may be the most comprehensive solution (Stainbank and Well, 2007).

4.6. Small Firms -Overview of SMEs

According to Newberry (2006), owning a small business provides an excellent opportunity to satisfy personal objectives while achieving the firm's business objectives. These are the two reasons, that is, to achieve independence and obtain additional income. The best things about owning a small business are independence, control and satisfaction. These personal objectives are easy to achieve provided the owner or entrepreneur has the knowledge, skills, and personal traits that they bring into the business.

At times people start businesses after being unable to find employment elsewhere or due to a discharge from places of work. Some small business owners are motivated as much by personal family considerations as by the desire for profits. The other reason is to provide products not available elsewhere. Innovations are born in small firms, history tells us that the first air conditioner, airplane, jet engine, first giant computer and many other breakthroughs either resulted from the creativity found in small companies or led to the creation of a new business (Penwell, 2004).

The most important function of the business owner is to set objectives. Objectives determine the character of the business, they give the business its direction and provide standards by which to measure performance. Objectives are goals toward which the activities of the business are moving. Some of the important objectives of the small business include providing a service, profit, and growth (Stainbank, 2008).

In general, the objective of a business is to serve customers by producing and selling goods and services at a profit. The profit motive is to make a profit as the reward for taking the risk of starting and running the business. Social objectives are goals regarding assisting groups in the community and protecting the environment. The growth objective is important for the expansion and stability of the business (Chibuike, 2008).

Small businesses are the engines for economic growth in a country. There are three influences to growth of small businesses, that is, background access to resources, nature of the firm, and the strategic decision taken once the firm starts operating (Newberry, 2006).

In a study carried out by Story in 1994, he revealed that 55% of SMEs had no intention to grow, 35% planned slow growth, and 10% planned fast growth. The growth of a small business is a complex process that cannot be due to any one single factor. In another related research, Stanworth and Curran (1986) concluded that the growth of small business is a complex social and psychological process that involved cultural factors. Generally, the growth of a small business depends on the motivation and attitude of the owner.

Another researcher, (Marquand, 1992), argued that the active intervention of the government is required in fostering enterprise culture through a number of areas, which include education and training and tax incentives.

4.7. The role of SMEs in economies

The private sectors of many emerging economies today are let down by a ‘missing middle’ (Kauffmann, 2005). Investors, policymakers and development professionals dedicate most of their efforts to either large corporations of over 500 employees or very small businesses with perhaps five employees. Larger enterprises and multi-national corporations (MNCs) are frequently the main targets for tax incentives and corporate subsidies. Between these two extremes lies the small- and medium-sized enterprise (SME) sector with businesses that employ between 10 and 100 people.

Institutions like the World Bank and United Nations Development Program have devoted a significant amount of attention and aid toward promoting micro-enterprises. SMEs are often seen as being too minute to serve as significant drivers of economic growth (and therefore unworthy of policy consideration by governments), yet too large to benefit from non-profit and microfinance institution schemes such as joint-liability programs. While the challenges to the SME sector can be daunting, there have been many promising initiatives to support this crucial sector in emerging economies. There has been action by civic, investment and business leaders who recognize the clear role of SMEs in sustainable development (Newberry, 2006).

Consequently, definitional issues and a paucity of data in some areas make any analysis of SME impacts difficult. For example, the role SMEs play in community development often remains obscured by the informal nature of their actions, a phenomenon that is often called “silent corporate social responsibility” (Medina Muñoz and Medina Muñoz, 2001). However, anecdotal and quantifiable evidence exists in a number of studies on small business and the environment, providing a sense of how important this sector is for sustainable development in emerging economies.

Many researchers concluded that SMEs, being less mobile than large corporations, are more likely to have ties of dependence and familiarity to their communities, which will ensure they protect their reputation and relationships among neighbours and customers. One study of European SMEs notes that on average, 67.5% of them report practicing some form of external socially responsible activity on a regular basis, such as supporting a local charity (European Commission, 2002). The main reasons cited for these efforts were “improvement of the loyalty of customers” and “better relations with the community” (European Commission, 2002).

The presence of SMEs also correlates with several economic factors, including the growth of a nation's gross domestic product (GDP). Although evidence for a direct causal relationship remains limited in most cases, there are many acknowledged benefits of SMEs in growing an economy. For example, one major investment firm ordered case studies of ten businesses in its SME portfolio and found significant benefits for employees, the community and the local economy. Recent bodies of research, including a report produced by the United Nations Industrial Development Organization (UNIDO) support these findings, showing that there is widespread consensus pointing to fact that SMEs are labour-intensive, providing more opportunities for low-skilled workers. SMEs are correlated with lower income distribution inequality. They are also an important part of the supply chain for large MNCs (Luetkenhorst, 2004); are necessary for agriculture-dependent nations transitioning to an industrial- and service-oriented economy. SMEs are excellent “better-sites” for innovation and sustainable initiatives due to their inherent flexibility and risk-taking ability (Raynard and Forstater, 2002). SMEs provide all of these crucial benefits in developing countries despite their relatively smaller presence (Patricoff and Sunderland, 2005).

4.8. Financial Management and SMEs

A Japanese proverb says‘vision without action is a daydream. Action without a vision is a nightmare’. Too often entrepreneurs launch businesses destined for failure because their founders never develop a financial strategy for success (Hamel and Prahalad, 2005). Small businesses must define a workable financial strategy that sets them apart from their competition. Normally small businesses are a result of trying several approaches figuring out which one works, without a cohesive plan of action.

Small businesses lacking clear financial strategies may achieve some success in the short run, but as soon as competitive conditions stiffen, or an anticipated threat arises, they usually fold. Small to medium businesses must have a basis for differentiating themselves from their competitors, otherwise without the basis; the best the businesses can hope for is mediocrity in the marketplace (Chibuike, 2008).

In today's global competitive environment, small businesses that do not think and act strategically are extremely vulnerable. All businesses are vulnerable to the forces of a rapidly changing competitive environment, and in future small businesses can expect even greater change and uncertainty, from political changes around the planet, and rapid technological advances to more intense competition and newly emerging global markets. The environment has become more turbulent and challenging for small businesses. To be successful, small companies in a hostile ever-changing environment must go through the process of strategic management (Penwell, 2004).

The goal for developing a strategic plan is to create for the small business a competitive advantage. A competitive advantage is a collection of all the factors that sets a small business apart from its competitors and gives it a unique position in the market superior to its competition. From a strategic perspective, the key to business success is to develop a unique competitive advantage, one that creates value for customers and is difficult for competitors to duplicate (Bill, 2009).

Building a competitive advantage alone is not enough; the key success is building a sustainable competitive advantage. A company gains a sustainable competitive advantage through its ability to develop a set of core competences that enables it to serve its selected target customers better than its rivals do (Muro, 2008).

Core competencies are a unique set of capabilities that a business develops in key areas, such as superior quality, customer service, innovation, team building, flexibility and responsiveness that allows it to vault past competitors. Markets, customers and competitors may change, but a business's core competences are more durable, forming the buildings blocks for everything a firm does. Small businesses core competencies have a bearing on their size, their smallness is an advantage that allows them to do things their larger rivals cannot do. The key to success is to build on the core competencies and providing superior service and value for target customers (Newberry, 2006).

Entrepreneurs must use a short planning period for their strategic planning. They should be informal and not over - structure themselves. The process must be participatory and include employees and outside parties to improve the reliability and creativity of the resulting plan. Entrepreneurs should maintain flexibility and must focus on strategic thinking not just planning, by linking long – range goals to day-to-day operations (Engel, 2006).

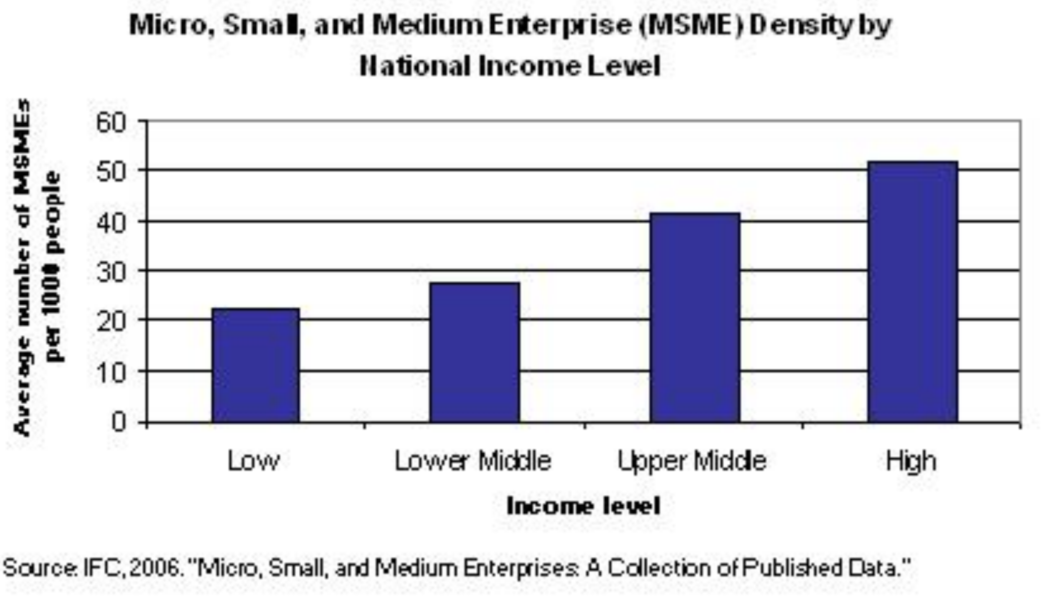
According to Muro (2008), entrepreneurs who spell out the vision for their business focus everyone's attention on the future and determine the path the business will take to get there. The vision influences the decisions, no matter how big or how small, that owners, managers and employees make every day in a business. A clear vision excites and ignites people to action. People want to work for an organization that sets its sights high.

5. OTHER CHALLENGES FOR SME GROWTH

It is clear that a vibrant SME sector can bring great benefits to developing countries, though these impacts are often overlooked due to the SMEs "missing middle" status (Newberry, 2006). However, emerging economy private sectors tend to have a domination of large corporations or micro-enterprises that often times employ five or fewer people, creating substantial barriers to SME growth.

There is a substantial gap between the size of the SME sector in developing and developed countries. A study by Small Enterprise Assistance Funds (2005) shows a positive correlation between a country's overall level of income and the number of SMEs per 1,000 people (Figure 2); countries with a higher GDP tend to have private sectors that have an even distribution in terms of company size. Regional data illustrates this point more precisely; a study by the Foundation for sustainable Development indicates that among its member countries in the developing region of Latin America, extremely low-income micro-enterprises comprise 93% of the total number of businesses in each economy with SMEs accounting for only 6.7%.

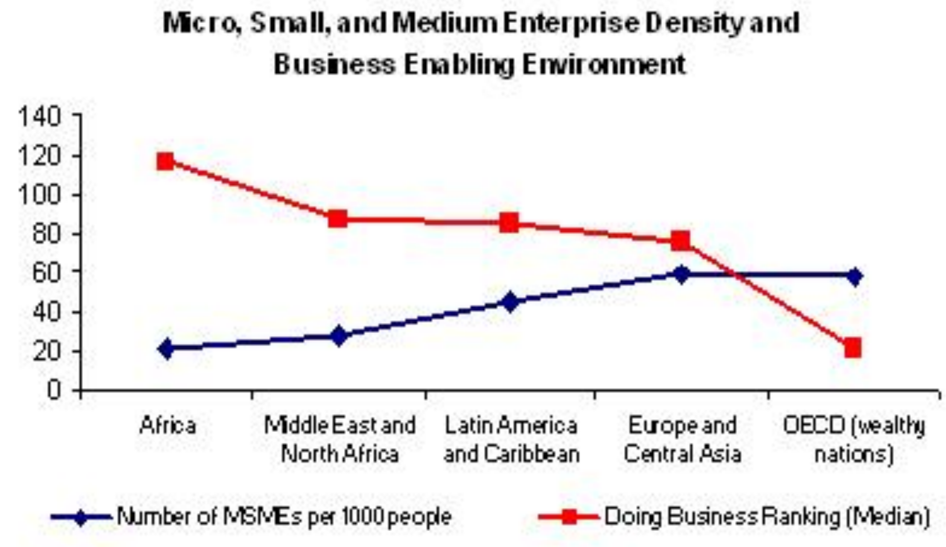
Figure- 2.



The reasons for this disparity are numerous. Most importantly, SMEs face regulations and bureaucratic practices that solidify the dominance of large corporations in the formally regulated economy and incentives entrepreneurs to operate informally, meaning illegally and out of the government's regulatory reach. These prohibitive factors disproportionately affect SMEs because of their limited human and financial resources (Newberry, 2006).

Data from the International Finance Corporation International Federation of Accountants (2006) shows that the number of formalized SMEs in a country increases with a more favourable investment climate, which includes a low cost of doing business and a short average time to start an enterprise. Figure 3 contain this revelation.

Figure- 3.



Adapted from IFC, 2006. "Micro, Small, and Medium Enterprises: A Collection of Published Data."

The World Bank Group's Doing Business report emphasize the point, confirming that countries that rank higher on the ease of "doing business" such as New Zealand and South Africa, have smaller informal economies, measuring 12.7% of gross national product (GNP) and 8.8% of GNP, respectively. The opposite is true for those with worse business environments like Burkina Faso, which has an informal economy that contributes 38.4% of GNP (The World Bank Group, 2006).

A harsh regulatory environment also has a negative impact on SMEs adhering to pollution standards. The International Organization for Standardization (ISO) 14001 is a set of voluntary environmental standards businesses may adhere to in order to prove their commitment to sustainable practices through a recognized authority. An ISO survey of 1,500 small business employees in 71 countries found that the majority of SMEs refuse to utilize the organization's environmental standards because of inadequate support, time-consuming paperwork burdens and a general distrust of external intrusion (Strategic SME Group, 2005).

While large corporations can spread the fixed costs of compliance over a larger revenue base, micro-enterprises generally operate below the purview of government agencies, SMEs are obliged to follow large-scale commercial enterprise norms for assessing and reporting their ecological impact. Government regulations that are for ensuring enforcement among larger corporations are not suited to smaller businesses, which impair the ability of the government to protect its natural resources.

Although the environmental impact of each SME is relatively small, they collectively contribute significantly to ecological degradation. One estimate among EU countries suggests that SMEs are responsible for 50% of pollution and waste (European Commission, 2002). The public-sector as well as environmental non-governmental organizations (NGOs) tend to focus their attention on more prominent enterprises that individually pose a greater environmental risk, but their lack of engagement with SMEs ignores an equally important, widely-dispersed threat.

In addition to these regulatory issues, there is ample evidence that SMEs are significantly underfinanced. A study of South- East Asian countries reports that only 3-18% of SMEs could obtain financing from banks. The Inter-American Development Bank (IDB) estimates that in Latin America, 90% of entrepreneurs are in pressure to source much of their financing from personal savings (Smith, 2003). This is mainly because of the logistical difficulties inherent in lending money to small businesses; banks tend to offer loans to SMEs on unfavorable terms because of the high-fixed costs associated with these transactions.

Finally, SMEs are at a greater risk of failure, partially because company directors may have less collective management experience or business expertise than larger companies (Organization for Economic Co-operation and Development (OECD), 2006). Foreign investors often shy away from investing in emerging economy SMEs because of unfavorable investment climates and the uncertainty of sufficient returns. The result is that some SMEs secure financing only by agreeing to a high amount of collateral and shorter pay-back periods while the rest must either rely on their personal networks or high-interest, illegal loans to generate start-up capital.

The various challenges of the ‘missing middle’ are seeing their redress as organizations within the development community launch new SME-related initiatives and entrepreneurs increasingly engage the public sector. New focus by the development community on national policies that help or hinder the growth of the private sector have given governments the tools necessary to identify and reform regulatory obstacles to a business and investment-friendly environment.

The Doing Business (2006) reports by the World Bank have been particularly useful in encouraging countries such as Georgia and Vietnam to create reforms that allow SMEs to thrive. Where governments fall short, individual enterprises such as Brazil's Primer often take the lead in engaging civic leaders to promote change and growth within their own sectors.

There have been individual efforts within the investment community to create realistic methods for determining the environmental impact of small companies. Most of these efforts are pragmatic assessments of SMEs within their own portfolio rather than universally adoptable procedures, and they range from qualitative reviews of potential investors during due diligence to more data-driven assessments such as those used by the Small Enterprise Assistance Fund (Small Enterprise Assistance Funds, 2005).

There have also been isolated attempts within the private sector to combine environmentally responsible technologies and production processes with profitable business models to achieve sustainable growth. These market-based solutions have used the emerging prominence of "green" sectors including clean technology and organic agriculture as vehicles of collective action.

Although many lament that, the SME ‘finance gap’ has yet to gain full understanding in a fully quantifiable manner, promising solutions have been brought forth by different groups. Some governments have created departments and loan programs specifically targeted toward financing SME development, such as those implemented in Australia (Mining Technology Services Action Agenda, 2004). A hybrid public-private sector approach to mitigating risk has great potential, and already a handful of fund management firms with SME portfolios have proven that such a partnership can result in investments that are both stable and lucrative.

6. METHODOLOGY

6.1. Research Philosophies

According to New York University (2011), research philosophy refers to the structure of an enquiry undertaken to ensure that the evidence collected enables the researcher to answer study questions or test hypotheses as unambiguously as possible. There are two philosophies to the research process that dominate literature, namely positivism (quantitative) and phenomenology (qualitative).

Kato (2002), argues that no study depends solely on one approach. Saunders *et al.* (2009) share the same view and stated that research 'rarely' falls 'neatly' into the positivist and phenomenological camps and that business and management research is often a mixture between the two. Accordingly, this study applies both quantitative and qualitative approaches.

According to Kato (2002), looking at the same problem from a number of viewpoints is an excellent way to verify interpretation and conclusions. It is in view of this fact that the researchers used the triangular approach, which is a combination of both philosophies and used both qualitative and quantitative data.

6.2. Positivism or Quantitative Research

Quantitative research is scientific in approach. It aims to be objective, and collects and uses numerical data. Saunders *et al.* (2009), add that a researcher who reflects the principles of positivism will most likely adopt the philosophical stance of the natural scientist.

When a researcher assumes the role of an objective analyst, it becomes easy to make detached interpretations about the data they have collected in an apparently free manner. The underlying assumption of this principle is that the researcher is independent of and neither affects nor is affected by the subject of the research. Principles of positivism emphasise a high degree of structured methodology with objectives that can be quantified to allow for statistical analysis (Frenkel and Wallen, 1996).

6.3. Qualitative Research / Phenomenology

The phenomenological approach takes on a qualitative perspective to the research process. According to Saunders *et al.* (2009), this approach is persuasive in the case of business and management research. Qualitative research takes the view that it is very difficult for researchers to stand back and be objective, since they are really part of the research process. One may argue that the world of business and management is too complex to lend itself to theorizing by definite laws in the same way as physical sciences.

According to Kato (2002), greater insight can often be obtained when collecting data under a qualitative research framework through such methods as observation, interview, and document and media analysis. This facilitates the understanding of the phenomenon from various aspects.

6.4. Research Design

Choosing the most appropriate research design is very important to any researcher (Marczyk *et al.*, 2005). Generally, the research design provides a framework that guides and specifies the type of information gathered, its sources, how the it is collected and how data is going to be analysed (Kothari, 2004).

The design is the logical sequence that connects the empirical data to a study's initial research questions and ultimately to its conclusion (Kothari, 2004). A research design is also a blueprint of research dealing with at least four problems; what questions to study, what data is relevant, what data to collect and how to analyse results (Yin, 2003).

The research design used in this study was a survey. According to Saunders *et al.* (2009) there are a number of research designs that one can use. These include experiment, survey, observation, research, case study, and action research. Nevertheless, given that there was a need to collect information from a number of SMEs in Harare and Bulawayo and from professional bodies, the researcher decided to do a survey.

According to Henning (2004), "surveys are means of gathering information that describe the nature and the extent of a specified count of frequencies, to attitudes and opinion". A survey design is a method of gathering data from a number of individuals. A sample of participants is 'selected' from the population. The survey enabled the researcher to collect first hand information relating to the issue under invesstigation.

The population is the group of interest to the researcher. Kato (2002), say that it is upon this group that the researcher would generalize the results of the study. The population included all individuals whom the researcher was interested in obtaining the information and making inferences on. In practice, it is difficult to find complete lists or records of all the elements in a population (Kothari, 2004).

The population can be in two categories, the target and the study population. The target population is the actual population to which the researcher would really like to generalize. The target population of this study are retail SMEs in the central business district of Harare and Bulawayo in Zimbabwe, ACCA, ICAZ, PAAB, SAAA, ICSAZ, IAC, SEDCO and Ministry of Small and Medium Enterprises.

A sample is a subset of the target population from which there is gathering of information to estimate something about the population. A sample design is a definite plan for obtaining a sample from a given population (Kothari, 2004). It refers to the technique or the procedure the researcher would adopt in selecting items for the sample.

Saunders *et al.* (2009), argue that the aim of sampling is to obtain a representative that looks like the population within an acceptable margin of error. More so, focusing on a sample is less costly, the researcher has greater control over data, and there is better accuracy of results.

The researchers used both random and non-random sampling. In order to ensure representation, there was selection of SMEs using random sampling. The researcher obtained a list of retailers who are licensed by Cities of Harare and Bulawayo from their Health Services Departments. Fishbowl method was used to select 16 SMEs in Harare and 16 in Bulawayo.

Convenience (non-random sampling) was in use for the professional bodies, SEDCO, and Ministry of SMEs. The researchers selected participants who were accessible and whom they believed were knowledgeable i.r.o. required information. The sample had 40 participants. Table 3.illustrates the sample size summary.

Table- 3. Sample Size

Institutions	Sample
SMEs in Harare	16
SMEs in Bulawayo	16
SEDCO	1
Professional Institutions	6
Ministry of Small and Medium Enterprises in Zimbabwe	1
Total	40

7. RESEARCH INSTRUMENTS

Research instruments are tools used for collecting data needed to find solutions to the issues under investigation. Tools for data collection include questionnaires, interviews, participant observation, non-participant observation, and focus group discussions (Sekaran, 2000). The researchers used the questionnaires and interviews as research instruments. The questionnaires and the interviews are essentially the same except for the method of questioning. Answering of questionnaires is in writing whereas for interviews there are oral responses. The researchers made sure that the respondents have guarantee about the confidentiality of the information they provide (Kato, 2002).

7.1. Questionnaire

According to Saunders *et al.* (2009), a questionnaire is a list of carefully structured questions chosen for considerable testing with a view to elicit reliable responses from a chosen sample.

The use of the questionnaire as a key tool for data collection was based on the advantages that the instrument had over other instruments that could be used (Saunders *et al.*, 2009). The researchers used questionnaires because they afforded an opportunity to collect large volume of data as more participants could be covered. In addition, questionnaires allowed participants to respond to questions at their own time of convenience and pace. The use of questionnaires also enabled the respondents to remain anonymous and to be honest in their response.

Most questions in the questionnaire were closed. Closed questions made it easier for participants to complete questionnaires. Closed questions facilitate easy analysis of data (Saunders *et al.*, 2009). There were also open ended questions in the questionnaire. These questions were aimed at soliciting information that the researcher was not sure about or lacked total insight. The questions also gave participants an opportunity to provide detailed responses.

Questionnaires also have some disadvantages. Some participants may leave some questions unanswered. The researchers may not be able to ascertain whether participants fully understood the questions or withheld their information. Some respondents may fail to return the questionnaires.

The researchers took both pre and post control measures for dealing with disadvantages of using questionnaires. Pre-control measures involve making sure that all questions are concise and clear to avoid any misinterpretations. Most questions in the questionnaire are closed questions and participants are required to select alternative from a list of possible answers. The aim was to reduce the burden on respondents when completing the questionnaires.

Use of questionnaires was reinforced by interviews. Interviews provided a multi-perspective understanding of the issues under investigation and they had the potential to reveal multiple, and sometimes conflicting, attitudes about a given topic (Yin, 2003). The advantages of using an interview technique were that the respondents expanded on areas of interest and used non-verbal communication such as facial expressions to emphasise their responses. However, interviews were time consuming and expensive to conduct, and they involved protocol in setting up appointments and being granted authority to conduct them.

Marczyk *et al.* (2005) argue that the research instruments should be valid and reliable. Validity in research is essential to see if the research instruments are practically measuring the variables that the research is focusing on. There are ways in which one can measure validity and these are content validity and construct validity.

Content validity focuses on ascertaining whether research instruments contained enough questions to cover the purpose of study. The researcher ensures content validity by following objectives during the designing of questionnaire.

Construct validity focuses on the construction of questions in the questionnaire. The researchers made sure that all questions were concise and clear. In addition, the use of closed questions that made it easier for participants to complete questionnaires. Piloting the questionnaire also helped in ensuring validity. The questionnaire was pilot tested at ICAZ, Harare Offices.

Reliability is defined as the extent to which a questionnaire, test, observation or any measurement procedure produces the same results on repeated trials (Saunders *et al.*, 2009). Reliability of the instrument is tested using Cronbach's Alpha. The Alpha of the instrument is 0.83. According to Ritter (2010) 0.83 is a good value for Alpha, therefore, the research instrument was reliable.

Data collection procedures are steps taken in administering instruments and collection of data from subjects under study (Saunders *et al.*, 2009). The researchers made appointments with research subjects through telephone and personal visits to organizations. Distribution and administering of questionnaires is done through hand through the use of two research assistants.

According to Saunders *et al.* (2009), ethics of research include informed consent, confidentiality, protection of privacy, protection against harm, and protection against identity.

Ethical considerations were observed when participants were informed about the study and verbal consent was obtained. Participants were also told not to write their names on questionnaires and this ensured anonymity. In addition, participants were informed that data collected was to be used for academic purposes only and that information collected would be treated as confidential.

Data analysis is a pivotal part of the research process, to arrive at findings (Saunders *et al.*, 2009). Data was analysed using content analysis. Ritchie and Lewis (2003) argue that qualitative content analysis involves a process designed to condense raw data into categories or themes based on valid inference and interpretation. Data was presented on tables and illustrations were made using pie charts, and graphs. The researchers then discussed the meaning of the findings and references were made to literature.

8. FINDINGS AND DISCUSSION

Table 4 illustrates the response rate.

Table- 4. Response Rate

Category of Participants	Sample Target Questionnaires Interviews	Response	Response Rate
SMEs	32	25	78%
Professional Bodies	6	3	50%
SEDCO and Ministry	2	2	100%
Total	40	30	75%

Table 4 shows that, from a sample target of 40 participants, responses were received from 30 participants (25 participants in SMEs and 1 participant from SEDCO and 1 from the Ministry of Small and Medium Enterprises, and 3 from professional bodies). There was a 75% response rate, which was acceptable as it was well above 67% that is recommended by Saunders *et al.* (2009).

8.1. Qualifications of People in Charge of Reporting in SMEs

The researcher solicited information about the level of qualifications of people in charge of reporting in SMEs. Table 5 shows findings in this regard.

Table- 5. Qualifications in SMEs

Qualification	Number of Participants
O Level	12
A Level	6
Diploma	2
Bachelor's Degree	3
Post Graduate	2

Data in table 5 can be represented graphically. Figure 4 illustrates the findings.

Figure- 4. Qualifications of Participants in SMEs

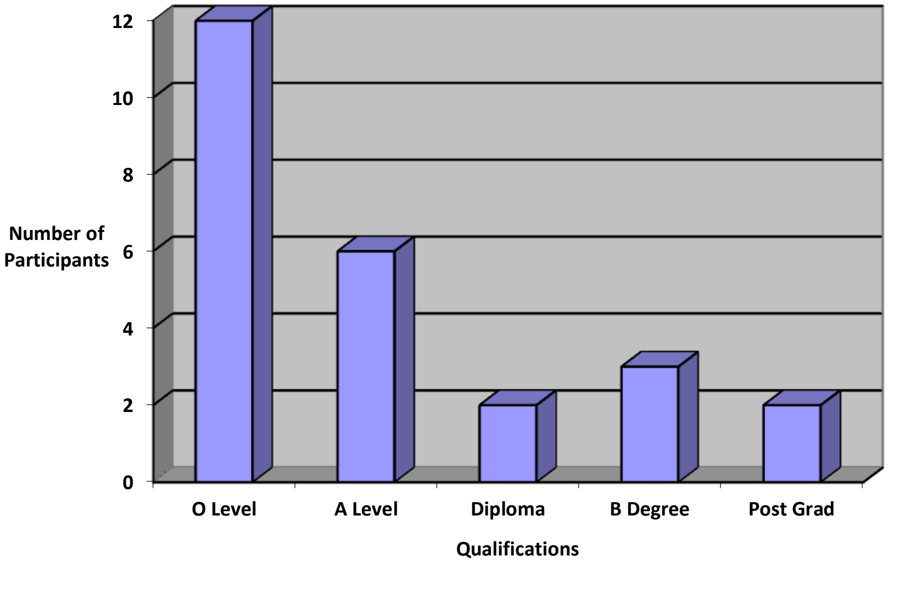


Table 5 and figure 4 showed that 18 out of the 25 people in charge of reporting (72%) in SMEs in the retail sector did not have higher educational qualifications. Out of the 25 respondents, two (8%) had post graduate qualifications, three (12%) had bachelor's degrees, two (8%) had diplomas, and 12 (48%) had 'O' and 6 (24%) had 'A' level. Figure 4 shows these findings.Findings in figure 4 show that 72% of SMEs in retail sector are run by people who have low academic qualifications. This was in contrast to information collected from Professional bodies and SEDCO, (13%) which indicated that accounting personnel should have a professional accounting qualification. Therefore, it seems as if SMEs in retail sector do not have the qualified professional human resources to implement IFRS for SMEs due to financial instability. The findings also seem to agree with what was argued by Hendricks (2008). Hendricks (2008) alleged that many small and mid-sized companies are run by entrepreneurs who are highly skilled in some key aspect of their business, perhaps technology, marketing or sales, but are less savvy in financial matters.Some of the challenges are limited-skilled human resources caused partly by extensive brain-drain out of Zimbabwe during the period of economic downturn. Also the cost of hiring professional accountants is beyond the reach of most SMEs. (Reports on the observance of standards and codes (ROSC, 2011)

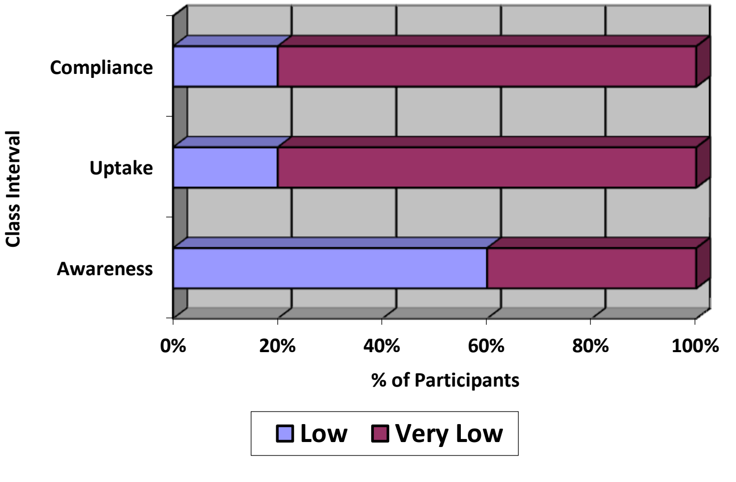
8.2. Responses on Level of Uptake of IFRS for SMEs

The researcher asked questions pertaining to level of IFRS for SMEs' uptake in the retail sector in Zimbabwe. Table 6 shows that data, while figure 5 is a graphical illustration of the findings.

Table- 6. Responses on Level of Uptake of IFRS for SMEs (Findings from Professional Bodies, SEDCO, and Ministry)

	Responses				
	Very High	**High**	**Low**	**Very Low**	**Unsure**
Awareness	0	0	3	2	0
Uptake	0	0	1	4	0
Compliance	0	0	1	4	0

Figure- 5. Level of IFRS for SMEs Uptake



Findings in figure 5 show that 3 out of 5 participants (60%) revealed that the level of awareness of IFRS for SMEs was low in Zimbabwe. The other 2 participants (40%) said that awareness was very low. Also, all 5 (100%) participants said that compliance and uptake levels were not desirable, with 4 out of the 5 (80%) saying it was very low. 5 out of 5 participants (100%) revealed that SMEs are not aware of the existence of IFRS for SMEs, therefore, there might be need to educate or make intensive campaigns on awareness.

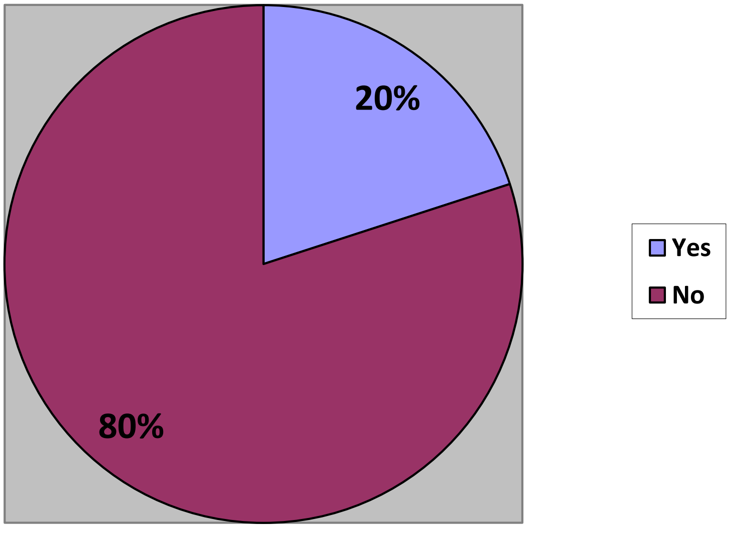
8.3.SMEs maintenance of Accounting Records

Table- 7.

	Yes	**No**
Accounting records	5	20

20 out of 25 participants from SMEs (80%) asserted that their businesses did not have proper accounting records; therefore, they have not adopted IFRS for SMEs. Their accounting system was a mere maintenance of records on cash received and cash paid. The other five participants (20%) pointed out that their businesses were fairly larger and used proper books of accounts. Figure 6 illustrates findings in this regard.

Figure- 6.SMEs Maintain Accounting Records



Findings from the participant at SEDCO indicated that SMEs that deal with the institution maintained accounting records. It was held that accounting records were necessary for the receipting of funds. In fact, companies were required to submit their financial statements before they can be approved for funding.

In addition, the 5 SME participants who said that their businesses maintain accounting records pointed out that their companies made use of manual accounting systems. According to Maseko and Manyani (2011), SMEs do not keep complete accounting records because of lack of accounting knowledge and the cost of hiring professional accountants. As a result, there is inefficient use of accounting information to support financial performance measurement by SMEs in Zimbabwe.

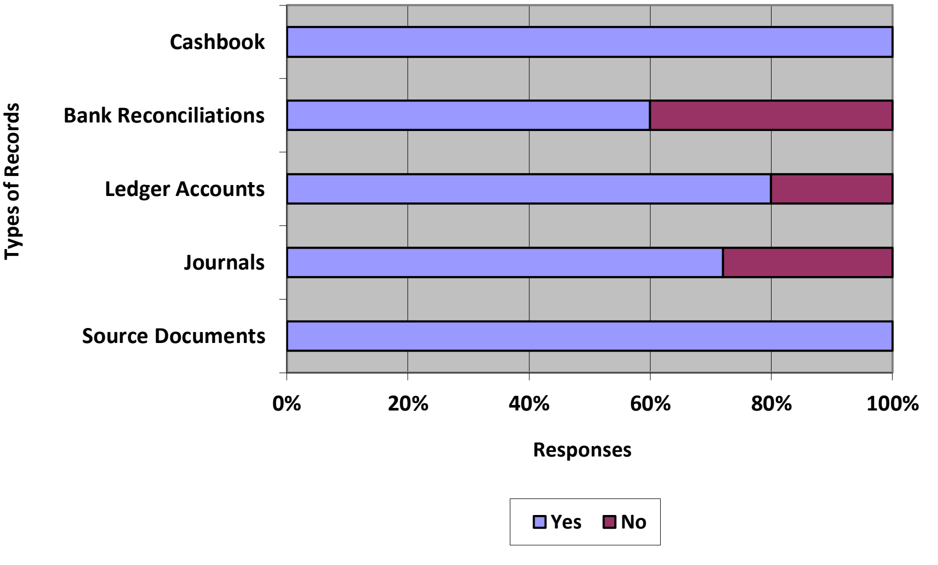
The SMEs had a few transactions and were content with manual accounting records. They lack requisite capacity for them to manage computerized accounting records. This finding seemed to agree with Australian Research Foundation (2005) who asserted that computerized accounting systems involve extremely high costs on developing, introducing and using the systems, they require special training for personnel and increased personnel costs, and create a high dependence on machines. Thus small and medium businesses usually prefer manual accounting without detriment to quality while large corporations apply complex accounting systems which cost millions dollars but the effect from their application exceeds all the expectations (Australian Research Foundation, 2005) . Table 7 shows the responses on nature of accounting records prepared.

Table- 8. Nature of Accounting Records Maintained

Accounting Record	Number Saying Yes	Number Saying No
Source documents	25	0
Journals	18	7
Ledger Accounts	20	5
Bank Reconciliation Statements	15	10
Cashbook (Receipts and Payments statement)	25	0

The findings in table 4.4 can be diagrammatically illustrated as in figure 4.4.

Figure- 7. Responses on Nature of Accounting Records Maintained by SMEs



According to Table 8 and figure 7, participants revealed that their companies maintained source documents (100%), eighteen out of twenty five (75%) make use of journals while the seven (28%) do not make use of journals, twenty out of twenty five (80%) use ledger accounts and the 20% does not. 60% do bank reconciliation statements while the 40% does not prepare the bank reconciliation statements, and twenty five out of twenty five (100%) make use of the cashbook.

The study reveals that over 50% of SMEs, as shown in Figure 7 do not keep complete sets of accounting records because of lack of accounting knowledge and the costs associated with hiring professional accountants.

Figure 8 also shows that 50% of the SMEs prepared financial statements that included statement of comprehensive income, statement of financial position, and statement of cash flow as they maintained source documents, journals, ledger, cashbook and prepared bank reconciliations. However, the financial statements were largely prepared in order to meet loan requirements from SEDCO, and for tax purposes.

8.3. Supposed Benefits of Adopting IFRS for SMEs

The study revealed that SMEs derive a number of benefits through adoption of IFRS for SMEs. Table 9 presents the data in this regard while figure 8 illustrates the responses from professional bodies, SEDCO, and ministry on the envisaged benefits.

Table- 9. Responses on Benefits of Adopting IFRS for SMEs

Responses	**Responses**			
	Strongly Agree	Agree	Disagree	Strongly Disagree
Tax Compliance	3	2	0	0
Better Credit Rating	2	1	1	1
Growth	3	2	0	0
Investor Confidence	3	2	0	0
Allows Comparability	3	2	0	0

Figure- 8. Benefits for Adopting IFRS for SMEs

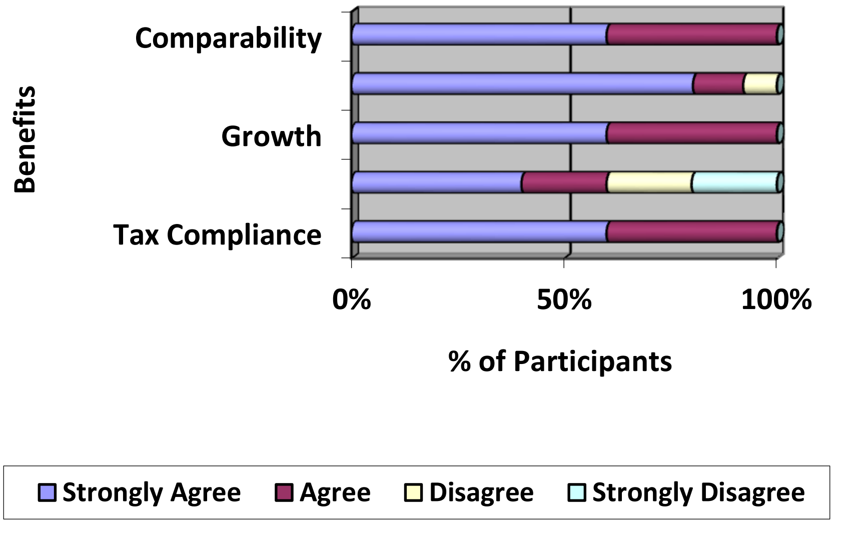


Figure 8 shows that SMEs are set to benefit when they adopt IFRS for SMEs. The study reveals that adopting IFRS for SMEs is vital. This assertion is supported by Shim and Siegel (1999) who asserted that accounting facilitates protection and safeguarding of business assets. Therefore, SMEs in retail sector needed to be conscientised about the importance of accounting information.

8.4. Efforts Being Made to Encourage Adoption of IFRS for SMEs

The researcher asked questions on efforts being made to encourage adoption of IFRS for SMEs in Zimbabwe. Table 10 shows responses in this regard while figure 9 is a graphical illustration of the findings.

Table- 10. Efforts being made to Encourage Adoption of IFRS for SMEs

Action	Responses		
	Yes	No	Unsure
Action is being taken to encourage adoption of IFRS for SMES	1	25	4
Efforts are adequate	1	26	3

Figure- 9. Responses on efforts to Encourage Adoption of IFRS for SMEs

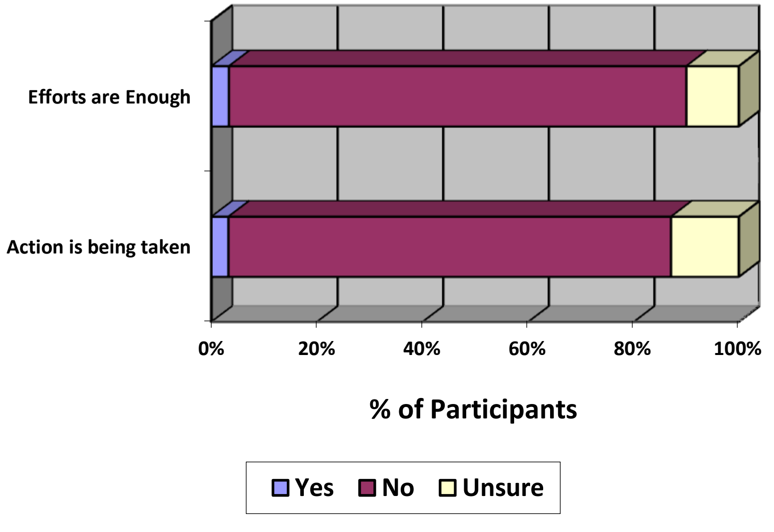


Table 10 shows that 1 out of 30 participants in the study (3%) are in agreement that action was being taken to encourage adoption. Nevertheless, the majority which is 29 participants (97%) said action was not adequate. Therefore, it was not surprising that the level of awareness of IFRS for SMEs was very low. This seems to indicate that there is little or no effort towards encouraging SMEs to adopt IFRS for SMEs in Zimbabwe. One participant argued that;

> 'One of the reasons might be that Zimbabwean Professional Accountants in Business (PAIB) tend not to follow CPD requirements of membership to professional bodies as closely as those in professional practice. As such the knowledge gap on the IFRS for SMEs could be perceived as higher amongst professionals in business when compared to their colleagues in practice. This is not empirical though, but a subjective assessment that is supported by many colleagues'.

The findings in this study are in contrast with international practice, where the IASC Foundation and the IASB have taken a number of steps towards creating awareness and understanding of IFRS for SMEs. Some of the steps included developing an implementation guidance consisting of illustrative financial statements and a presentation and disclosure checklist, provision of 'free to download' training material to support the implementation of the IFRS for SMEs, holding of regional 'train the trainers' workshops, in co-operation with regional professional associations and the world's development agencies, to build capacity for the implementation of the IFRS for SMEs, particularly in developing and emerging economies (International Accounting Standards Board, 2010).

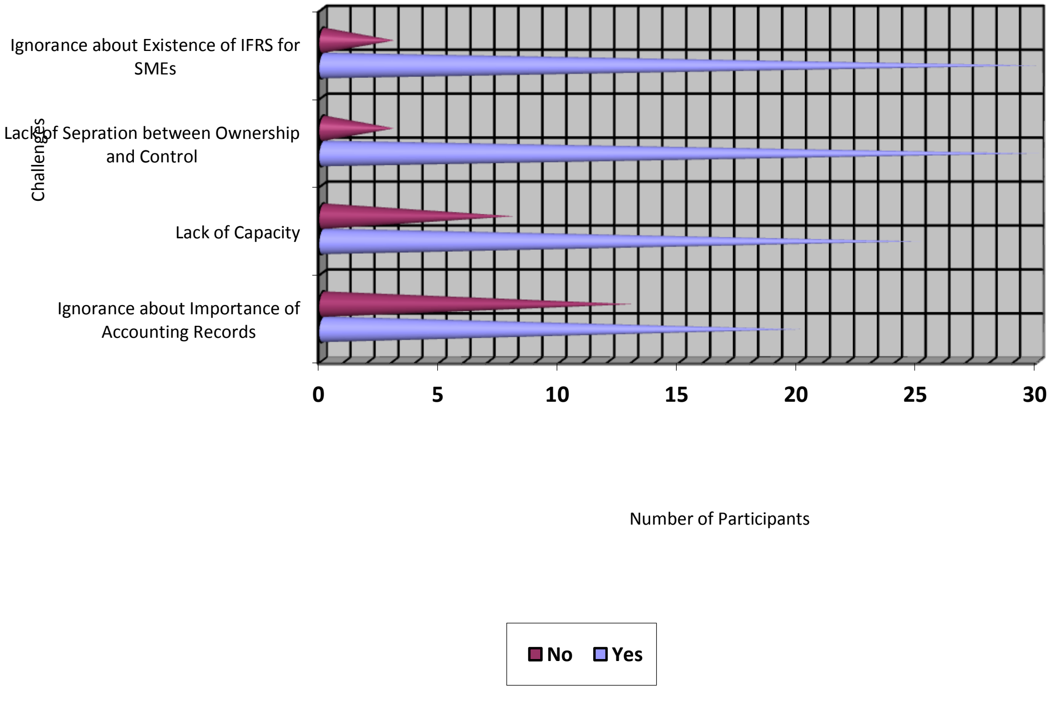
Table- 11. Responses on Challenges that constrain SMEs in Adoption of IFRS for SMEs

	Yes	No
Participants citing challenges	30	0

The study shows that all the participants (100%) had some challenges.

SMEs face some challenges that constrain them from adopting IFRS for SMEs. The study revealed that ignorance about the importance of accounting information and existence of IFRS for SMEs, lack of capacity, and lack of separation between ownership and management of SMEs hindered some organizations from maintaining accounting records. Figure 4.7 shows findings on challenges.

Figure- 10. Challenges that Hinder SMEs Adopting IFRS for SMEs



Another challenge to adoption of IFRs for SMEs by SMEs was that of financial resources. It was held that maintaining the system could be costly, especially in terms of human resources. This finding is in line with arguments by Smith (2003) that SMEs are significantly underfinanced. This is mainly because of the logistical difficulties inherent in lending money to small businesses; banks tend to offer loans to SMEs on unfavourable terms because of the high-fixed costs associated with these transactions.

In addition, figure 10 shows that one of the challenges is lack of separation on ownership and control. Therefore, there is a high risk of absence of accountability. This seems to agree with the view by (Organization for Economic Co-operation and Development (OECD), 2004) that SMEs are at a greater risk of failure, partially because company directors may have less collective management experience or business expertise than larger companies. More so, foreign investors often shy away from investing in emerging economy SMEs because of unfavourable investment climates and the uncertainty of sufficient returns. The result is that some SMEs secure financing only by agreeing to a high amount of collateral and shorter pay-back periods while the rest must either rely on their personal networks or high-interest, illegal loans to generate start-up capital.

Consequently, participants argued that there was need for awareness and/or education campaigns by the PAAB highlighting the relative merits of small entities adopting the IFRS for SMEs. The distribution of the IFRS in soft or hard copy format to target entities would improve accessibility to users (despite information being freely available online users are not always aware of this fact). Roll-out of IFRS for SMEs training seminars by the various professional bodies, supported by the PAAB. Possible distribution of CPD material covering the subject matter of the IFRS could help create awareness.

There other challenge was the behaviour aspect where people and entities resist change and avoid by all means to learn new things. Also change is more accepted by younger rather that old employees or professionals.

One respondent mentioned the various challenges. The first being that SMEs are subsdiaries for public interest companies and must comply with full IFRS for group reporting. Lack of awareness on preparers as they were trained under full IFRS. Entities that may qualify for SMES reporting might not be aware of the existence of this standard. Most entities do not want to be deemed as small. The challenge of presenting this reporting to shareholders might force management to stick to full IFRs rather than give the impression that their entity is not going to be large, therefore IASB should consider renaming the standard to IFRS for Non- public interest entities.

9. MAJOR FINDINGS

The major findings of study were as follows;

9.1. Level of adoption of IFRS for SMEs

The study revealed that 80% of SMEs did not maintain accounting records and had not adopted IFRS for SMEs. There was no uptake of IFRS for SMEs in Zimbabwe. The few SMEs that had accounting records made use of manual accounting system and complied with provision of IFRS for SMEs.

9.2. Benefits of Adopting of IFRS for SMEs

The study showed that SMEs would derive a number of benefits if they adopt IFRS for SMEs. These included ensuring comparability of financial statements, building investor confidence, allowing for growth through accountability, and tax compliance.

9.3. Efforts being made to ensure Adoption of IFRS for SMEs

The study showed that little effort was being taken to ensure adoption of IFRS for SMEs in Zimbabwe. This was because of the fact that most participants in SMEs were ignorant about its existence.

9.4. Challenges that constrain SMEs from Adopting IFRS for MEs

Lack of awareness was the main challenge. Other challenges were lack of capacity and absence of separation between ownership and management of businesses hindered most SMEs from maintaining accounting records. Ignorance about the existence of IFRS for SMEs and utility of accounting records were the key challenges.

The study was a success as it managed to assess the extent to which SMEs applied IFRS for SMEs, constraints faced and the way forward.

10. RECOMMENDATIONS

10.1. Formalization of Business Operations

There is need for SMEs to formalize their business operations and maintain accounting records. Accounting records would help managers determine whether businesses were making profit.

10.2.Training of Employees

It is vital for SMEs to send their employees for accounting courses. This was because of fact that most SMEs did not have accounting records.

10.3. Separation of Ownership and Control

There is a need for separation of ownership and control of business affairs. This would ensure more accountability.

10.4. Awareness Campaigns

The study showed that little or no effort was being made to encourage adoption of IFRS for SMEs. Therefore, policy makers in Zimbabwe need to organise workshop and create awareness on the importance of maintaining accounting records and adopting IFRS for SMEs. There is need for the distribution of IFRS for SMEs in soft copies or hard copies to targeted entities, the roll-out of IFRS for SMEs training seminars by various professional bodies, supported by PAAB and finally the distribution of CPD material covering IFRS for SMEs. Emphasis should be on the benefits of adoption of IFRS for SMEs.

10.5. Professional accounting firms

SMEs should outsource financial reporting to professional accounting firms who are always up to date with accounting standards and have the requisite skills

10.6. Renaming of the standard

Renaming the standard might be the solution for adoption of IFRS for SMEs to 'IFRS for Non-Public Interest Entities'. Entities might not want to be associated with the acronym SMEs as it gives an impression that they are small while they view themselves as a major player in the industry and would be seen as such.

10.7. Adding it to the curricular of universities

The other recommendation is to add IFRs for SMEs to the curricular of universities.

11. SUGGESTIONS FOR FURTHER RESEARCH

The researchers recommend further research to be conducted on the adoption of IFRS for other SMEs in Zimbabwe. This was because of the fact that this study focused on SMEs in retail sector. A more encompassing study by a research institute would be desirable.

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