

# **Impact of Entrepreneurial Activities on Employment Creation: A Case Study of Gweru**

**By**

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## **Abstract**

*The government is struggling to look for solutions to the unemployment challenge and one approach has been the promotion of self-employment through entrepreneurship. From 2000 onwards capacity utilization has been shrinking resulting in colossal retrenchments both in the private and public sectors. As a result, most of both skilled and unskilled labour in underperforming economies survive on informal sector activities. Therefore, the paper investigated the impact of entrepreneurship activities on employment creation, a case study of Gweru Central Business District. Descriptive design was employed to collect data using an open-ended questionnaire and it was supported by the purposive sampling technique. The sample consisted of 350 people out of the entrepreneurs in Gweru urban. Data was collected using an open-ended questionnaire. The study revealed that entrepreneurship activities create employment and contributed significantly to the development of the Zimbabwean economy. Nonetheless, entrepreneurs are constrained in their maneuvers because of a lack of financial support and infrastructure. Given their significance to the economy, the paper suggests that these businesses should be assisted by the relevant stakeholders to graduate from the informal to the formal sector. This will boost rapid economic growth.*

**Key:** *impact; entrepreneurship activities; employment*

## 1. Introduction

The Zimbabwean economy has been on a free-fall since 1997 with real Gross Domestic Product (GDP) having fallen by over 40% from 1997 to 2006 (Techfin Research, 2007), while inflation soared from around 20% in December 1997 to a record peak of 7 635% in July 2007 (Central Statistical Office, 2007). The stage for economic meltdown began in August 1997 when approximately 60 000 war veterans were granted ZWD50 000 each (approximately USD3 000 at the time) plus a monthly pension of approximately USD125 per month outside the budget (Chitiyo, 2000 as cited in Kairiza, n.d.). The payouts amounted to almost three percent of GDP at the time and this had the immediate effect of inflating the budget deficit at the end of 1997 by 55 percent from the 1996 levels. The World Bank and IMF responded by suspension and withdrawing credit lines from the country. The economic meltdown got worse when President Mugabe made a second populist decision in November 1997, announcing plans to compulsorily acquire white-owned commercial farms, again without elaboration on the financing side of the transaction. This had the immediate effect of giving investors a perception of an ensuing precarious fiscal position and consequently, there were spontaneous and concerted runs against the currency and from the money and capital markets.

The climax of these events was on 14 November 1997 when the Zimbabwean dollar crashed and lost 75 percent of its value against the USD on a single day, on what is now known as “Black Friday” in Zimbabwean economic history. The stock market also plummeted and the index was down by 46 percent by day end from the peak August levels. The central bank had to intervene and raise interest rates by six percentage points within that single month (Bond, 1998 as cited in Kairiza, n.d.). Thenceforward the exchange rate continued to depreciate uncontrollably, thus the 1997 financial and currency turbulence set the stage for a long and potentially long slump in the real

economy. What mainly contributed to the downturn of the economy was the severe decline of the manufacturing sector as well as the total collapse of the vibrant agriculture sector (Confederation of Zimbabwe industries, 2006). This led to massive shedding of jobs across the economy as industrial activity continues to slump downwards since 2010 unemployment levels have been soaring at alarming levels. As a result, the majority of people have turned to entrepreneurship activities for survival.

Entrepreneurship has a role to play in easing the unemployment problems in developing countries like Zimbabwe. Entrepreneurship has been labelled as an engine for economic growth, contributing positively to employment creation and income generation (Mahorera & Mahadea, 2014). According to Index Mundi, (2016) the formal unemployment levels have reached 90 % in Zimbabwe. With this widespread unemployment rate for the past decade on the back of collapsing industrial activity, the impact of the informal sector on the current Zimbabwe economy has been assessed by Chidoko, Makuyana, Matungamire & Bemani (2011), while Sibanda (2005) evaluates the contribution of Small and Medium Enterprises to the manufacturing sector in small towns like Bindura. Therefore, this current study will evaluate the impact of entrepreneurship activities on employment creation in the town of Gweru.

Mauchi et al., (2011) allude that the current state of the Zimbabwean economy is a cause for concern, especially for young people as they are confronted with the major problem of unemployment. Nyoni (2004) further puts it across that, “current investment levels are not sufficient to generate employment for the 300 000 school leavers on an annual basis” (as cited by Mauchi et al., 2011). This situation is worsened by the persistent closure of industries with the majority of the workforce condemned to informal businesses to make ends meet Chidoko (2013).

Chidoko (2013) defines entrepreneurship as the act of being an innovator to transform innovations into an economic good. This results in new organizations or maybe part of rejuvenating old firms in response to a prevailing economic environment. This entails

starting a business venture. Entrepreneurship has a role to play in easing the youth unemployment problem in Zimbabwe, but the government is not creating conducive environments to promote youth entrepreneurship. Economic maladministration, corruption, and bad policies and programs continue to choke the entrepreneurial potential of many Zimbabweans.

The United States of America is a proper example of how entrepreneurship can move a country as its booming entrepreneurial sector is responsible for much of its present economic prosperity. The U.S is among the most “entrepreneurial” nation because Americans believe they have opportunities to start businesses and live in a culture that respects entrepreneurship as an occupation.

Kubatana.net (2013) further notes that there is a growing awareness in most African countries of the training of technical and vocational skills that are necessary to lessen the unemployment problem. Zimbabwe has taken adopted this initiative too through its Ministry of Youth Development, Indigenization and Empowerment as early as 2011 acknowledging that they are implementing comprehensive programmes for promoting and empowering the youth through availing loan capital to finance youth projects and accelerate youth-led employment creation enterprises, despite a failure of the programme due to bad governance.

For entrepreneurship to flourish, adequate infrastructure is needed, and financial support, as well as administrative structures, are needed. Regrettably, these factors are not adequately provided in Zimbabwe and the Youth Fund initiative established by the government has been accused of being partisan and only benefiting the politically connected individuals at the expense of the needed and marginalized young people. Entrepreneurship should not be seen as a form of corruption whereby access to scarce goods or such strategic factors of production as bank loans is determined by political patronage rather than by the interplay of market forces. Policies and programmes must

also address the highly varied socio-cultural faces that make for success in entrepreneurship.

In the city of Gweru industrial activity is a thing of the past the formal workforce has been rendered to the informal sector for survival. The majority of the SMEs are involved in carpentry, steelworks, hairdressing, printing services, selling fruits and vegetables, car-selling, and farming. The other manufacturing activities included soft drink manufacturing, brickmaking, clothing manufacturing, and exercise book manufacturing. The Small to Medium Enterprises (SMEs) operational in the city are providing employment and generating income for household consumption. This shows the potential of SMEs to create much-needed employment. However, the sector requires a lot of infrastructural and financial support for it to reach its full potential. There is a need to promote networking in the SME sector so that enterprises can realize economies. Therefore, the paper seeks to measure the contribution of entrepreneurship activities to employment creation in the town, evaluate the major challenges faced by entrepreneurs in their operations and propose strategies for stimulating the growth of entrepreneurship activities in Gweru.

## **2. Methodology**

### **2.1 Study location**

The aggregate of subjects regarding the inferences was made, was drawn using a concentration of entrepreneurs across the city of Gweru. The population was drawn from entrepreneurs in Mtapá industrial area, the Light industrial area, and Central Business District.

### **2.2 Sample size**

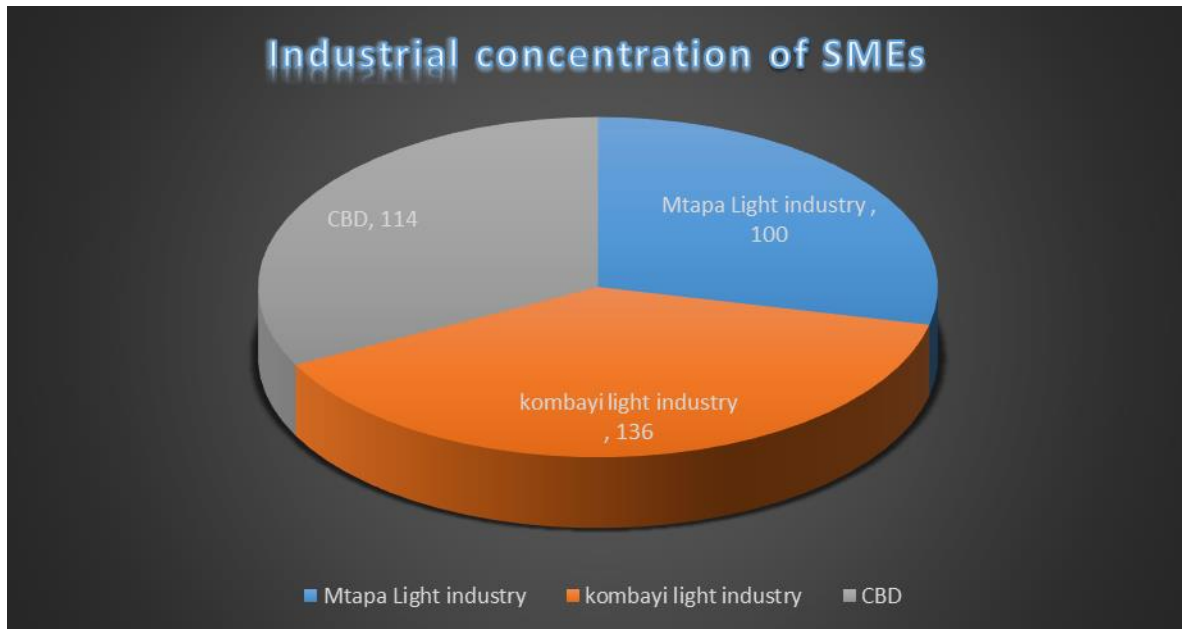
The sample consisted of 350 people out of entrepreneurs in Gweru urban (100 businesses from Mtapá industrial area, 136 from the Light industrial area, and 114 from the Central Business District).

### 2.3 Data collection

A survey was conducted amongst entrepreneurs operating in the city of Gweru who were targeted as the respondents of the investigation. A descriptive survey design was used to come up with the respondents. This is because the major goal of the research was to measure the impact of entrepreneurship activities in the city of Gweru. Furthermore, it is also relevant to gather detailed information concerning the current status of the entrepreneurship activities taking place in the city. Data for the study was collected data using an open-ended questionnaire, interviews, focus group discussions, and observations. Meanwhile, secondary data was obtained from the City of Gweru, SMEDCO, Ministry of Small to Medium Enterprise and Cooperative Development, and Gweru Informal Traders Association.

### 3. Results

Figure 1: Concentration of SMEs in Gweru.



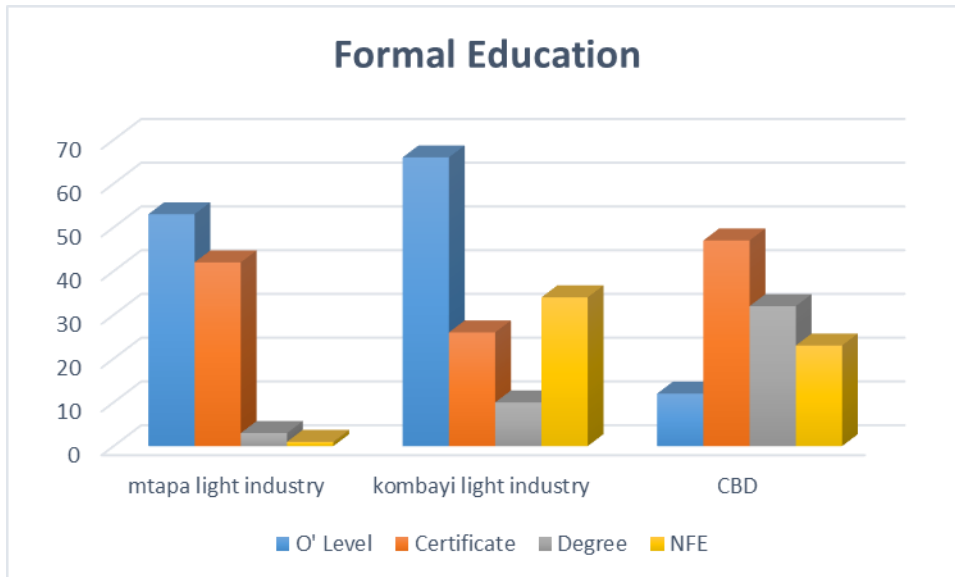
Source: Survey

The study consisted of 350 entrepreneurs in Gweru urban (100 businesses from Mtapá industrial area, 136 from Light industrial area, and 114 from the Central Business District) as shown above in the pie-chart.

An interesting phenomenon arose during the analysis of the data. It emerged that Mtapá industrial park and Kombayi Light industry had the oldest entrepreneurs, whilst the Central Business District had few people in the 46-55 and above 56 years age groups. This can be a good indicator for the Central Business District because it means that the majority of the entrepreneurs were in their prime ages and were the most economically active. The age difference is very important because if entrepreneurs are in their prime age they tend to invest more and run their business more professionally than those who are older. (Osei *et al.*, 1993) states that the younger generation tends to invest in their enterprises because they view SMEs as business whereas the older generation tends to venture into SMEs after retrenchment and view SMEs as a way of passing time.

The age distribution shows that nearly 72% of respondents in the survey are younger than 35 years of age. The survey has shown that SME entrepreneurs represent a population in the prime age. The possible explanation for this may be unemployment in the city of Gweru. Many people in the city are unemployed because the formal industries like ZimCast, ZimAlloys, and Bata have been retrenching and closing shop and thus many people tend to revert to the informal sector to start up their small businesses.

**Figure 2: Composition of Education Levels amongst Entrepreneurs.**



**Source: Survey, 2019**

The survey revealed that the majority of the entrepreneurs in the sample sites had at least attained formal education. At Mtapa Light Industry 53 respondents had an O' Level certificate, while 42 respondents had certificates from colleges. Meanwhile, 3 respondents said they had degrees and 1 respondent attained O'Level passes through non-formal education. The bulk of the entrepreneurs are 86% of them were in steel and iron engineering while 14% were involved in motor mechanics, firewood production, and juice making. In the Kombayi Light Industry area 66 claimed to have O'Level subjects, while 26 had certificates in various fields like engineering, wood technology, clothing, and design among others, 10 had degrees and 34 respondents attained at least 2 or more O' Level passes through non-formal education. 55% (males) and 45% (females) of the entrepreneurs had secondary education. The majority of entrepreneurs had any technical education because they are either involved in manufacturing, carpentry or steelworks, production of wood and steel products such as furniture, and building material such as door and window frames. This line of business needs experience, which the aged have acquired over the years mostly after being retrenched from the formal sector.

Furthermore, in the Central Business District 12 respondents had O' Level, while 47 respondents agreed to have a certificate. The survey also revealed that 32 respondents were degree holders while 23 responded agreeing to non-formal education. Overall, 77% (males) and 43% (females) had secondary education, 20% (males) and 7% (females) had primary education, and 23% (males) had no formal education. Furthermore, the majority of the educated women were involved in typing and printing, beauty therapy as well as selling stationery. The more aged female groups are into food venting, selling cooked food, fresh cabbages, tomatoes, onions, and other farm produce. The uneducated males in the city center are into selling different electrical gadgets, phone accessories, selling clothes, airtime, selling car parts, motor mechanics, and hairdressing.

In a nutshell, Chidoko (2013) argues that the less the number of years in school, the more one is likely to enter into self-employment. However, this is contrary to the prevailing situation in the city of Gweru, university graduates, as well as retrenched workers from the formal sector, are resorting to the informal sector for survival.

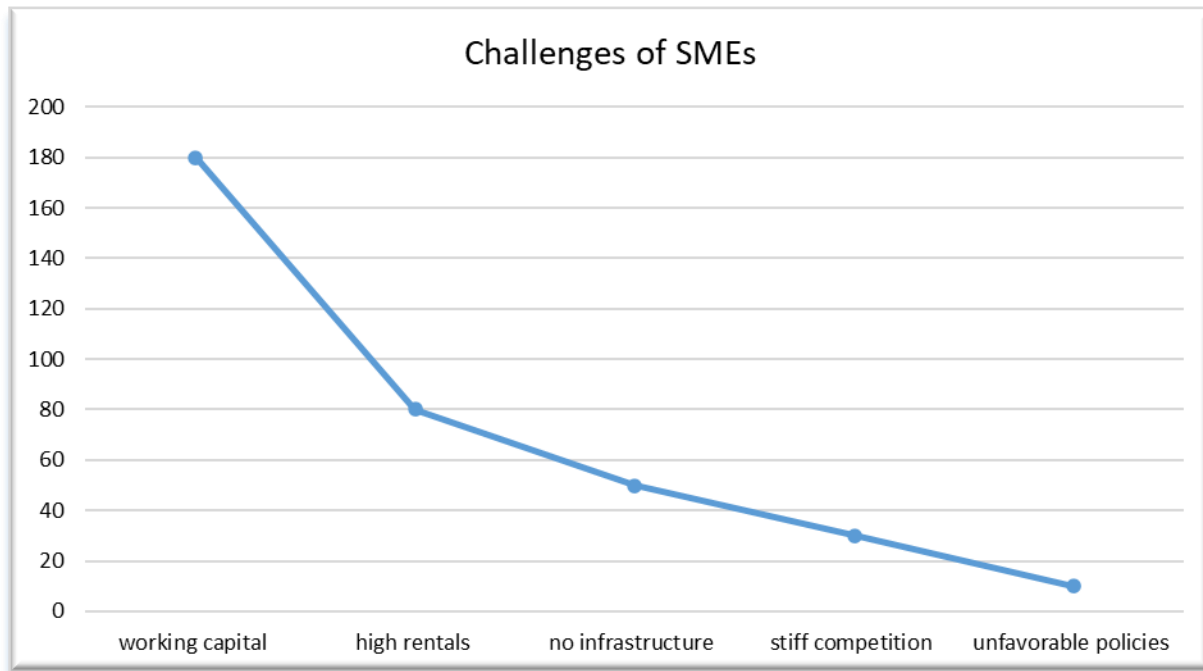
### **3.1 Discussion of Findings**

The study revealed that entrepreneurship activities create employment thus alleviating poverty levels amidst the deepening economic crisis in Zimbabwe. This result is similar to Chidoko et al. (2011) who found out that the growing informal sector is creating employment in the wake of deindustrialization. One of the interviewees from SMEDCO pointed out that entrepreneurship is a livelihood option in Gweru. The interviewee said, "People do not go out into the streets for fun but it is because they want to earn a living". Henceforth, SMEs are not only critical for local economic development in Gweru or Zimbabwe but more so in other parts of the world.

The study also revealed that entrepreneurship activities in the city are generating income for household consumption and in so doing it is contributing positively to

economic development. In Gweru major industries like Bata, ZimAlloys, ZimGlass, and Dairibord Zimbabwe Limited are underperforming and have since closed. Thus, the informal sector has kept the city alive amidst the total collapse of the industries in the city. These findings are similar to Sibanda (2005) who notes that Small to Medium Enterprises (SMEs) can contribute positively to the economic growth of the economy. Despite creating employment in Bindura town, it was also noted that their presence has also led to the establishment of firms in different areas that have the potential to grow to large firms. While on the same note, Chidoko et al., (2011) allude that the informal sector contributed to Gross Domestic Product.

**Figure 3: Challenges faced by SMEs**



**Source: Survey, 2019**

The study revealed that entrepreneurship activities are facing a lot of challenges as depicted above such as lack of working capital, exorbitant rentals, no infrastructure, and stiff competition from cheap imported goods from neighboring countries like South Africa, Botswana, and Namibia among others. Moreso, most entrepreneurs lacked necessary skills e.g., accounting and managerial, and absence of marketing platforms.

The results are similar to Chidoko et al., (2011) in their study to assess the impact of the informal sector in the Zimbabwean economy noted that entrepreneurs lack capital and collateral, **and** lack necessary skills e.g., accounting and managerial, and limited life span. Most informal businesses have a short life span that does not go beyond the life span of the owner. The business can only thrive as long as the owner still has the will to remain in the business.

The economy of Zimbabwe is facing a lot of stress at the moment wherein in major cities of the country there is massive deindustrialization on the back of unfavorable policies, no clear-cut industrial policy to stimulate production, and a lack of financial support from global financiers such as IMF and World Bank. Since 2013 economic activity has scaled down where exports have been declining and imports increasing. This has led to most industries collapsing and most people who were in the formal sector forming a small busi in the informal sector. As the economic crisis is deepening in Zimbabwe the informal sector is filling the gap in the collapsed formal sector and they have shown potential signs of growing into big companies if well supported by government and non-governmental organizations concerned. Chidoko, Makuyana, Matungamire, and Bemani (2011), Sibanda (2005), and Mahorera and Mahadea (2014) all acknowledge that entrepreneurship activities need support from the government and private players on the back of their positive contribution to the economy.

#### **4. Conclusions and Recommendations**

The results show that entrepreneurship is the inspired act of spotting an economic gap and efficiently marshalling the available resources to move into that gap. It demonstrated that it leads to investment and job creation. There is a need for public-private partnerships in support of entrepreneurship activities investing in technical and educational skills soneto stimulate production and hence output. Continual support from the public and private sectors for entrepreneurship activities will eventually lead to economic growth ultimately. Therefore, the following recommendations may be very

useful considering the significance of entrepreneurship in job creation in Gweru and Zimbabwe as a whole. These are:

There is a need for strengthening Public-Private Partnerships so as solidify the foundations of the informal businesses in Gweru urban to make them strong firms and eventually graduate into formal businesses. This is healthy for the business owners and the economy as a whole. There is also a need for training for the participants for the businesses to continue in existence since they fill in the gap that is left vacant by most formal enterprises. Further, there is a need for the creation of financial support by accelerating the creation of a Small to Medium Enterprises Bank that would provide affordable loans to entrepreneurs.

Ensuring that there are marketing platforms where entrepreneurs would showcase their services and products so as quote local and international buyers. More so, strengthening the initiative of entrepreneurship in the school curriculum. School pupils should be taught entrepreneurship right from Early Child Development to Tertiary Education. The government of Zimbabwe should establish and strengthen Youth Funds that have been successful around the globe and beneficiaries should not be partisan.

Furthermore, allow for natural growth, not top-down solutions – Build from existing industries that have formed naturally within the region or country rather than seeking to generate new industries from greenfield sites. Ensure all industry sectors are considered not just high-tech – Encourage growth across all industry sectors including low, mid, and high-tech firms. Develop a policy that addresses the needs of both the business and its management team – Recognizes that small business policy is ‘transactional’ while entrepreneurship policy is ‘relational’ in nature.

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