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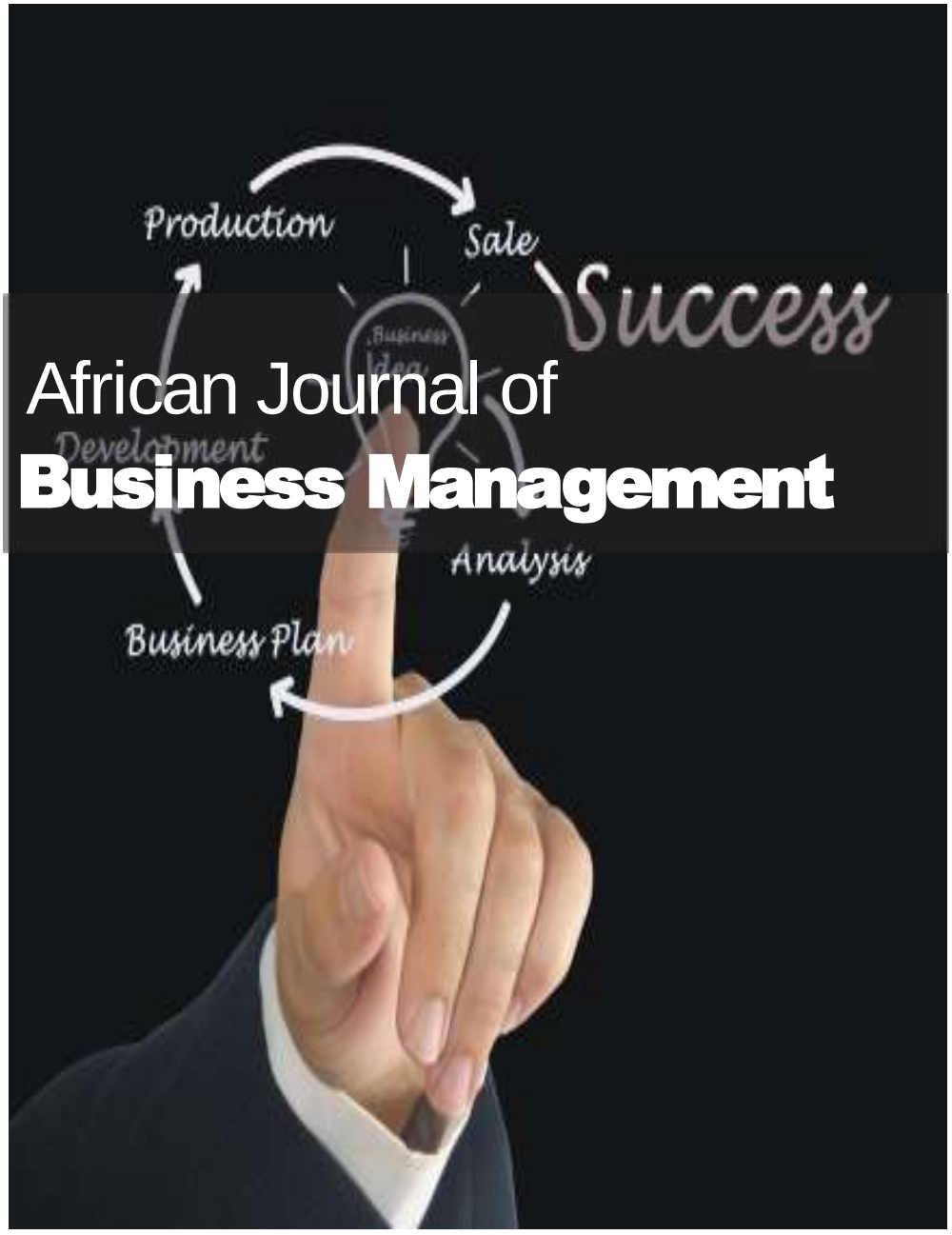

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African Journal of Business Management

Review

The antecedents of innovativeness in small and medium manufacturing enterprises in Kenya: A critical review of literature

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Innovation has been accepted as a key stimulus for growth. This is more so with SMEs which are widely acknowledged as being a significant driver in economic growth. In a review of over 90 peer reviewed journal articles and conference papers; this paper brings together different arguments that have been made in explaining the antecedents for innovativeness. This is a critical review of the literature with respect to innovativeness of manufacturing SMEs. Whereas it is acknowledged that the discussions around innovation are continually evolving, existing literature has shown that there are internal and external factors that affect innovativeness in firms. In addition to this, there is a need to have research that applies universally and hence the need to study this phenomenon in manufacturing SMEs in Kenya and the gaps therein. Even though entrepreneurial orientation, technological capability and environmental dynamism have been identified as variables affecting firm innovativeness, there is no common consensus across various approaches. A need to empirically explore this area further effectively contributing to knowledge in this area has been identified.

Key words: SMEs, Innovativeness, Entrepreneurial Orientation, Technological Capability, Environmental Dynamism.

INTRODUCTION

Studies have linked global economic development to the growth of the SME Sector which account on average for 13-50% of the gross national products in the developed world and between 3-35% of the gross national products for the developing world (Ardic et al., 2011). Consistent with the Schumpeterian Theory on “Creative Destruction”, it is a well-argued case that without innovation, firms have reduced chances of survival (du Preez and Louw, 2008). Innovativeness has been shown to significantly contribute towards firm performance and is very pronounced within Small and Medium Enterprises (SMEs) (Covin and Slevin, 1989; Kuratko et al., 2001; Freel, 2000; Ngugi et al., 2013). There is no convergence in knowledge on what actually contributes to innovativeness in SMEs. Ngugi et al. (2013) concluded that innovativeness positively affected the growth of SMEs and that there was a tendency by owner managers to influence the direction and adoption of new ideas and processes ultimately affecting the performance of their entities. This relationship was found to be more

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pronounced in dynamic environments (Miller and Toulouse, 1986). To understand the antecedents of innovativeness within SMEs there is a need to review it uniquely as opposed to reviewing it from a large organization context (McAdam et al., 2007; Ejydys, 2016; Wales, 2016; Pustovrh et al., 2017). This paper reviews what has been done before and identifies areas where there is lack of consensus at the antecedents of innovativeness in SMEs in Kenya.

SMALL AND MEDIUM MANUFACTURING ENTERPRISES IN KENYA

The SME segment is considered to be the most vibrant in Kenya accounting for over 25% of the overall GDP in Kenya (Mwangi and Gachunga, 2014). There are close to a million enterprises in the formal and informal manufacturing sector, out of which, about 174,000 are licensed whereas 700,000 operate as unlicensed (KNBS, 2016). The overall manufacturing sector has been contributing 11% of Kenya income, over the past eleven years (Government of Kenya, 2015). This is notwithstanding the fact that informally, SMEs also contribute significantly to the economy (Mwangi and Gachunga, 2014).

SMEs in Kenya have been associated with low levels of automation and as a result of this; there are limitations on value addition due to their resultant low productivity. In addition to this, there are concerns on the overall level of innovation within the segment (Government of Kenya, 2005; Government of Kenya, 2013). Notwithstanding this, only 30% of firms have patented their innovations in the last 3 years of their existence (Kenya Association of Manufacturers, 2017). There are also instances of innovations not being patented and as such possibility of copyright infringement is real. Against this backdrop, locally studies show that 60% of SMEs fail within their first three years of operation (KNBS, 2016). There is therefore a policy concern to understand what parameters can make this sector be successful. This is against the paradox amongst policy makers that huge investments in science and technology have not necessarily translated into innovation driven economic growth (Caraca et al., 2009).

THE CONCEPT OF ENTREPRENEURIAL ORIENTATION

Entrepreneurial Orientation (EO) as a concept was developed from the pioneering work of Miller, 1983. It can be said to be that latent process, habit or activity of a firm having the capability to reinvent itself in such a manner that it can be able to withstand future external events and shocks (Meadows et al., 1972; Covin and Slevin, 1991; Avlonitis and Salavou, 2007; Wales, 2016). Grounded in several theories, studies have demonstrated that entrepreneurial orientation should be viewed as a consistent strategic behavior complemented with actions that drive entrepreneurial actions (George and Marino, 2011; Covin and Wales, 2012; Andersen et al., 2015; Wales, 2016). Entrepreneurial orientation is considered to form a key plank of a firm's strategy, despite questions as how it manifests itself in a firm (Wales, 2016). The key dimensions of entrepreneurial orientation include pro-activeness, innovativeness, and risk taking (Miller, 1983; Covin and Slewin, 1989) and competitive aggressiveness and autonomy as the additional dimensions (Lumpkin and Dess, 1996). George and Marino (2011) and Wales (2016) have in their respective papers summarized some key areas that require further research. Research has showed that indeed as much as the dimensions can be unique, they can coexist but there is a need for additional work to understand the relationship within these dimensions (Lumpkin and Dess, 2001; Covin and Lumpkin, 2011; Miller, 2011; Covin and Wales, 2012). There are also still divergent views as to whether the dimensions should be viewed separately (uni-) or jointly (multi) (Lumpkin and Dess, 2001; George and Marino, 2011).

Moreover, there is an emerging view that innovation and its antecedents as a key dimension of entrepreneurship orientation has not been adequately conceptualized (Perez-Luno et al., 2010). Some studies have shown that entrepreneurial orientation cannot be treated as a uni-dimensional construct but rather as a multidimensional construct since the key dimensions interact differently and with different outcomes (Lumpkin and Dess, 1996; Kreiser et al., 2013, Ejdys, 2016). It is evident that the construct of entrepreneurial orientation remains incomplete. Indeed there have been persistent calls for qualitative research to build the knowledge in this area. In addition to this, other studies have shown that there are other variables beyond, entrepreneurial orientation that affect innovativeness of firms (Neely and Hii, 2012). Entrepreneurial orientation has been found to be a prerequisite for innovativeness (Hult et al., 2004; Renko et al., 2009; Perez-Luno et al., 2010; Laforet, 2011; Ruiz-Ortega et al., 2013; Ejdys, 2016). Innovativeness has been defined as "the firm's tendency or willingness to participate in support of new ideas, creativity and experimentation as well as to develop creative processes of technological and R&D leadership which result in new products, services or technological processes" (Ruiz-Ortega et al., 2013). Migiro (2005) in a study across 4 towns in Kenya, showed that entrepreneurial orientation affected innovativeness in SMEs. The rate of innovativeness tends to vary from industry to industry. Given the uniqueness of manufacturing sector, in the developing economies, the expectation would have been that discussions in this area would be conclusive but unfortunately that has not been the case. Furthermore, innovation patterns also vary

from country to country (Leger and Swaminathan, 2007; Cornel University, INSEAD and WIPO, 2016). Recent research state that cities where industries are based as well as uniqueness of the occupation are also key to innovation in SMEs (Lee and Rodriguez-Pose, 2013). This has the advantage of the firms sharing a higher concentration of customers, suppliers and employees. Although not conclusively determined it has been postulated that larger cities provide a great environment for innovation (Lee and Rodriguez-Pose, 2013). A similar research for developing economies is lacking. This would create large opportunities for research in view in view of the fact that it create a good understanding and validation on this phenomenon. In as much as limited studies have explored these linkages, Lee and Rodriguez-Pose (2013) established that this linkage tended to be explorative in nature but however indicated a need for additional research in this respect. In all these research, studies on the causal effect thus necessitating a need for longitudinal research would provide additional understanding of the phenomena.

THE THEORIES OF INNOVATION

Innovation has been identified as the third critical dimension of entrepreneurial orientation. Innovation requires “value” for it to be meaningful (O'Quin and Besemer, 1999; Ngugi et al., 2013). The Oslo Manual defined innovation as “all the scientific, technological, organizational, financial and commercial activities necessary to create, implement, and market new or improved products or processes,” (OECD, 2005; Leger and Swaminathan, 2007). Innovativeness has been studied extensively by researchers (du Preez and Louw, 2008) and has been further defined as the process by which an entity changes its operational processes or service, have new or amended products in the markets, with an aim of achieving a more efficient and effective process that ultimately leads to higher margins and growth (Damanpour and Wischenevsky, 2006; Perez-Luno et al., 2010). Innovativeness is therefore considered to be that continuous process which includes the level and potential that creates a new product, service or process that will be commercialized to allow an economic or social impact (Doroodian et al., 2014; Neely and Hii, 2012). By these definitions, we will note that innovation is the “output” whereas innovativeness is the “input”. Theories of innovation began with the market-based view of innovation which posits that environmental market conditions provide the background for which a firm will be active in the innovation space (Slatter and Narver, 1994; Porter, 1985). The Linear Models of Innovation further suggests that research and design was the initiating step to innovation followed sequentially by manufacturing and finally marketing and distribution of the product or service (Caraca et al., 2009). This was considered to be a “push” model.

Subsequently, alternative views postulated that the actual initial step was the market which “pulled” the research process, but in a linear function. The Innovation (Kline) Model argues that innovation is triggered by a market demand followed by a series of research and design activities laced with a set of complex interacting feedback steps that allow further development. The knowledge generated is placed in a knowledge bank to which findings of new research will occasionally be added (Kline and Rosenberg, 1986). Since then additional variants of this model that have integrated the research and design with the marketing function in an effort to explain this concept have been discussed (Leger and Swaminathan, 2007; Caraca et al., 2009). At the turn of the century, the Networking Models gained prominence by stating that over and above the internal linkages of research and design and the need to respond to the market, there is additional emphasis on external circumstances for instance environmental dynamism that affect innovation (Caraca et al., 2009). This model also incorporates the organisational dynamics that affected innovation. In developing the multi-channel interactive model, Caraca et al., 2009 argued that innovation as an outcome was influenced by the existing scientific knowledge interacting with the existing market information and the existing internal organizational knowledge. It is this triple set of influence on the current set of goods and services that in turn determined a new set of goods and services. However, the networking models were criticized as being closed as their source of drive was mainly internal. Subsequently Open Innovation models (OIM) an application of the Open Systems Theory as originated by Ludwig von Bertanlanffy in 1956 then gained prominence. Supplementary to the internal idea generation and development, external ideas were accepted and through the use of internal and other external networks that included the knowledge bases of other institutional players (Chesbrough, 2003; du Preez and Louw, 2008). The Open innovation models have however nevertheless been criticized as having simplified the innovation process to linear sequences that are then iterated by external networks and feedback as well as the universal validity of these findings (Trott and Hartmann, 2009; Benezech, 2012). It is evident, that these discussions are still ongoing (Pustovrh et al., 2017) and much of these arguments for manufacturing SMEs need to be backed by empiricism.

Further to this, there is now an emerging body of literature that splits innovation into explorative innovation and exploitative innovation. Explorative innovation works towards new knowledge and focuses on the research component (Aloulou and Fayolle, 2005) whereas exploitative utilizes current knowledge with emphasis on development to attain efficiency or product improvement (Andriopoulus and Lewis, 2009; Jansen et al., 2009; Perez-Luno et al., 2010; Yi-Ying, 2011; Chang et al.,

2011). Subject to environmental conditions, firms that are more proactive in nature will tend to be more explorative in their innovations (Perez-Luno et al., 2010). There are different schools of thought as to where the choice of preference between exploitative and explorative innovation for SMEs will be. One view is that SMEs will adopt exploitative innovation rather than explorative innovation due to their limited resources. There is a need for empirical validation in this area and more so in the developing economies. Another view is that SMEs out of limited choice will adopt the higher risk explorative innovation in order to survive (Laforet and Tann, 2006). This area as well as the motivating circumstances have not been conclusively investigated (Projogo and McDermott, 2014).

SME firms will often try to outsmart each other essentially demanding for innovativeness amongst its players (Ngugi et al., 2013). What triggers this phenomenon? Pioneered in the work of Graham Willis, the Creative Process Models have four iterative steps (Plesk, 1996) namely, the opportunity identification stage followed by the incubation stage. The third stage is called the insight stage and finally the evaluation and implementation stage. The main difference between the older models and the newer models is that older ones are of the view that ideation is more of impulsive and beyond the control of the thinker, whereas the newer ones advocate that ideation is a function of conscious and continuous analysis of the thinker's environment (Plesk, 1996). Holt (2012) further elucidated these as five creative stages namely idea recognition or germination, idea preparation or rationalization, idea incubation or fantasizing, idea illumination or realization and finally verification of the idea. The import of these latter arguments is that there is a conscious effort in making the idea turn into a reality.

THE ROLE OF TECHNOLOGICAL CAPABILITY

Technological capability is an internal state of readiness to accept change and nurture innovation and entails, "additional and distinct resources needed to generate and manage technical change, including skills, knowledge and experience, and institutional structures and linkages" (Bell and Pavitt, 1995; Arnold and Thuriaux, 1997; Acha, 2000; Alejandra, 2009; Iammarino et al., 2009; Zhou and Wu, 2010). Because we cannot directly measure technological capability, proxies are often used (Acha, 2000). Technological capability varies when firms have different budgetary resource allocations, different top management attitude, technical and organizational competence, economic incentives and appreciation for change, or even an existing pool of innovative knowledge bank, patents or licenses or networks that are available to the firm (Vonartas and Xue, 1997; Acha, 2000; Bell and Pavitt, 1995; Alejandra, 2009; Renko et al., 2009). Technological capability is limited on the basis of the resources available to the SME firm and is more often than not a function of the personal drive of the owner-manager (Arnold and Thuriaux, 1997).

Arnold and Thuriaux (1997) in June identified three key categories of technological capability as strategic, internal and external which they found to be interdependent and interlinked. This consequently led to a dynamic learning process. The strategic capabilities were more market oriented and firms identified opportunities and bridged the gap between the market needs and the firm's level of competence. On the other hand, the internal capabilities revolved around the tangible and intangible resources and include its assets, human talent as well as the firm's internal processes. The external capabilities include published and available information on the situation, networking arrangements and alliance arrangements between the firm and its business associates and with the customer feedback process. These three categories relate to each other in various ways and depending with unique firm situation. The literature reviewed stops shy of investigating how each of these categories separately or jointly affects innovativeness in SMEs.

Technological capability is also driven by investment, production and linkages (Alejandra, 2009) with each of these elements contributing differently to the final outcome of technological capability (Alejandra, 2009). Investment capability is the amount, willingness and ability to provide resources for investment in technological change. Production technology on the other hand, is the ability to demonstrate mastery or competence over basic technology that is sufficient to make an improvement. Linkage capability refers to the ability to transmit and receive information related to technology from various stakeholders. In addition to this, the firms need to be able to network as well as be able to benchmark as appropriate (Laforet, 2011). However, it has been noted that technological capability by itself will not necessarily lead to innovation as was evident in the case of mobile money adoption in South Africa (Tubbs, 2013).

Technological capabilities in SMEs are affected by the level of support from the owner manager (Yi-Ying, 2011). This relationship was found to be more pronounced in dynamic environments (Miller and Toulouse, 1986). The owner manager also drives connectedness within the firm which allowing for transparent decision making and information availability within the firm (Yi-Ying, 2011). It was established that in SMEs, technological capability together with a high level of centralized decision making and networking allowed innovation to thrive (Chang et al., 2011). With suitable technological capabilities, firms can be conscious of the contemporary technological situation, try out new designs and product innovations (Zhou and Wu, 2010). Some studies have shown that technological capabilities also positively affect entrepreneurial orientation (Renko et al., 2009; Ruiz-Ortega et al., 2013).

Other studies have not been as conclusive (Zhou and Wu, 2010). Arnold and Thuriaux (1997) segmented firms into four block hierarchical categories that are commensurate with their technological capability. At the bottom of the pyramid, are firms with insignificant technological capability and a limited perceived need for technological capabilities. At the top of the pyramid are the real innovators who would probably have a well-functioning “Research and Development” function and are to a large extent explorative. Because of limited resources, many SMEs, will tend to limit their technological capability, pursuing exploitation innovation instead of explorative (Arnold and Thuriaux, 1997). It is argued that the level of technological capability that influences innovation is a function of resources endowed to the SMEs.

Although the relationship between technological capability and exploitative and explorative innovation remains unclear (Zhou and Wu, 2010), Perez-Luno et al. (2010) established that firms with strong technological capabilities will venture into exploitative innovation for product development at an increasing pace. This is because the firms learn from their experience and on the basis of feedback is able to integrate these skills into the design process (Neely and Hii, 2012). A causal relationship is demonstrated here but this requires further investigations. Higher technological capability therefore facilitates a more efficient use of the existing knowledge (Zhou and Wu, 2010). The same study however found that technological capability had an inverted U-shaped relationship thereby restricting explorative innovation. This is because exploratory innovation requires substantial investment of resources. SMEs have limited resources and this relationship is likely to be consistent with the SME patterns. In addition, incorporating new ideas and products into an existing system always has challenges of implementation and thus a decline in further returns in the long run (Zhou and Wu, 2010). These studies are not conclusive and therefore demonstrated a need for further investigations in the area of SMEs.

Whilst some studies point to the idea that SMEs are nimble and quickly adapt to technology for higher growth (Storey, 1994), O'Regan and Ghobadian (2005) concluded that SMEs did not always convert research and development into effective innovation preferring instead to focus on time tested products. It was therefore argued that SMEs are to a large extent focused towards exploitative innovation. However this argument has not been exhaustively validated and concluded (Projogo and McDermott, 2014).Moreover, it was also established that public research expenditure had a positive relationship with innovativeness (Heimonen, 2012). Neely and Hii (2012) was able to demonstrate that there was an inadequate linkage between public research institutes and SMEs. Could it be that SMEs are uncomfortable to commercialize explorative research because of inadequate linkages? There is broad consensus, that the growth in innovativeness in many countries has been due to specific factors that are essential to innovativeness (Suarez-Villa, 1990; Kortum and Lerner, 1999). These factors included increase in allocation and utilization of research and development resources, direct linkage between patents and value as well as market dynamics. Adequate national policy framework goes creates an environment that is conducive for innovation (Ndemo, 2015). This supports the case for National Innovation Systems being driven by suitable supportive public research which can then be subsequently exploited by SMEs.

THE IMPACT OF ENVIRONMENTAL DYNAMISM

Environment dynamism is described as the change of the external circumstances under which firms operate (Volberda and van Bruggen, 1997; Lumpkin and Dess, 2001; Wijbenga and van Witteloostuijn, 2007; Jansen et al., 2009;). Environmental dynamism is one of the three dimensions of Environmental Turbulence (Volberda and van Bruggen, 1997). The other dimensions include environmental complexity and environmental un-predictability (Volberda and van Bruggen, 1997). Environmental dynamism manifests itself by way of changing demographics and the resultant shift in tastes and preferences, the advancement of Information Technology as well as globalization and the attendant competition from both local and non-local players. This has meant that SMEs have to continually change their product suites and the way they do their business (Lumpkin and Dess, 2001; Ngugi et al., 2013; Ruiz-Ortega et al., 2013) leading to innovativeness. It was established that there was a significant moderating effect of environmental dynamism on entrepreneurial orientation (Okeyo, 2014).

Environmental dynamism is further defined by either its intensity of change or frequency of the change (Volberda and van Bruggen, 1997) or can be further considered classified as static or dynamic depending on the attributes being considered. Ideally, a longitudinal study would be able to create the causal relationships and how they affect each other (McAdam et al., 2007). Further to this, a review of literature, indicates that most of the studies measure the dimensions of environmental dynamism as one unit rather than as multiple dimensions (Mohammad et al., 2014). To measure environmental dynamism, the Miller’s four item approach using a multi-rater scale is commonly used (Garg et al., 2003). In this case, proxies are similarly used as a measure of the changes in environmental dynamism.

The focuses of the reviewed studies have mostly been external environment and its effect on performance leaving a gap on the aspect of environmental dynamism and its related impact on innovativeness. In the contemporary times and with an open-based cultural

context, many entrepreneurs are receptive to external ideas and suggestions. It would be interesting to understand the extent of these changes in culture and how it affects innovativeness.

Culture has been identified as a significant contributor to the external environment affecting firms. On the basis of Hofstede's (1980) and subsequent Trompenaars (1993) Model, a culture whose power distance is low, has greater individualism, particularism and masculinity, acknowledges achievement and abhors uncertainty, is likely to have a thriving entrepreneurial orientation environment. However due to competitive global pressures, many of the traditional cultures are now evolving and gravitating towards the center (Lee and Peterson, 2000). Closely tied to culture, are ongoing and varying conversations on how different regions and locations affect innovativeness in SMEs (Heimonen, 2012). One school of thought suggests that urban areas produce a higher level of innovativeness which is mainly driven by resource allocation and available markets (Covin and Slewin, 1998). There are challenges however on how to accurately and objectively measure changes in culture and their impact on innovativeness.

Martins and Terblanche (2003) argued that there was limited consensus on the type of internal organizational culture required to affect innovation. This provides a scope for further investigations so as to achieve consensus. In addition to this and as a coping measure, SMEs have been known to resort to co-opetition, which is the phenomenon whereby firms cooperate and compete at the same time with a resultant impact on innovation (Gnyawali and Park, 2009). Co-opetition was initially coined by Roy Nord but popularized by Nalebuff and Bredenburger in 1996 (Robert et al., 2009). Its justification was high research and development costs in an environment whereby technology is ever converging as well as the need to harmonize technological standards (Gnyawali and Park, 2009). Other factors included strategic alliances and networking which have similarly and separately been shown to have an effect on innovativeness (Mothe and Link, 2002; Gudda et al., 2013; Osei et al., 2016). The causal effect of strategic alliances and networking has not been well researched. In addition to this is a well-functioning and robust national innovation system that links into the SME segment.

Several external factors including prevalent culture, hostility, dynamism, complexity, life-cycle stage of industry amongst other parameters have been identified as having an influence on entrepreneurial orientation (Covin and Slevin, 1991; Miller, 1983; Lumpkin and Dess, 2001). Environmental dynamism forces firms to be creative in their products and approach to markets (Zhou, 2006). In as much as it is generally accepted that there are cultural diversities, there are limited studies on the impact of culture, and the dynamism involved in the cultural aspect and their impact on innovation (Bwisa and Ndolo, 2011). Most of the studies reviewed have been on the influence of static culture.

DISCUSSION

Most of the studies reviewed tended to focus on performance as the dependent variable on, whereas there are other areas that may not have been exhaustively studied (Wales, 2016). It is evident that there are other factors that affect the relationship between entrepreneurial orientation and innovativeness. These factors may be either internal or external. Previous studies have indicated a relationship on these factors amongst themselves. Unfortunately, most of the studies reviewed have been in the developed economies with the scope limited to such economies and lacking a validation from the context of the less developed Economies.

Neely and Hii (2012) in a qualitative study in East England established that innovativeness is affected by culture, resources, skills and networking. However, the low response rate to the proposed sample could be seen to be vulnerable to biases. The study also lacked universal validity, being based in the developed world. This generates additional interest in what really affects innovativeness in firms.

Renko et al. (2009) in a cross sectional survey on Biotechnology firms in US, Finland and Sweden sought to establish the effect of the several independent variables on innovativeness. The study recommended industry specific research to fully understand the relationship. This was an interview based research that had a small sample size that could have affected the statistical validity of the results. The impact of incremental changes in innovativeness by way of longitudinal studies is evidently lacking. In addition to this, by their very nature, SMEs are significantly affected by their external environment and therefore such results may lack universal validity.

Perez-Luno et al. (2010) studied and confirmed that entrepreneurial orientation affected innovation generation and adoption. Like many similar studies, firms that have not recorded any innovations or innovations that have been successful in the market have been isolated from this study. There has not been significant effort to understand why firms are innovative in the first place. The study has also been limited to Spain and thus broader conclusions will be on the basis of generalizations and this may not be always accurate. Being cross sectional in nature, causal relationships may not have been exhaustively investigated. Technological capability positively affects the relationship of environmental dynamism on entrepreneurial orientation (Ruiz-Ortega et al., 2013; Subrahmanya, 2007). It has been demonstrated that technological capability thrives with adequate resources. As a result of this SMEs, that have limited resources will need to have additional strategies which allow them to either form strategic alliances, benchmarking or networking so as to be able to leverage on the unique skills that each small entity will

bring to the table.

Adequate technological capabilities combined with an appropriate environmental dynamism are necessary antecedents for successful innovation (Subrahmanya, 2007). Innovation has been shown to be highest in tough operating environments which are characterized by dynamic technological shifts, severe competition and short product life cycles (O'Regan and Ghobadian, 2005; Yi-Ying, 2011). In addition, SMEs require innovation so as to increase their chances of survival in a harsh terrain (Laforet, 2011; Chang et al., 2011). Ruiz-Ortega et al. (2013) established a significant relationship between environmental dynamism and technological orientation on entrepreneurial orientation. This study however did not isolate the various dimensions of entrepreneurial orientation. Methodologically it was limited to feedback from one manager in each of the sample firms which were all in Spain.

The environmental dynamism has to be such that a sufficient market demand is created so that the invented products or services are appreciated in the market. The interaction between environmental dynamism and the inherent technological capability has created new demands on innovativeness. Bearing in mind that innovativeness tends to be incremental overtime, there is a need for further investigations for causal relationships that are longitudinal in nature so as to evaluate the impact of afore-mentioned factors on innovativeness. In a cross sectional study, Ejdys (2016) confirmed proactivity affected innovativeness in SMEs. This study however did not explore other factors that could have jointly or singularly affected innovativeness in SMEs in Poland.

Osei et al. (2016) in a study on manufacturing SMEs in Ghana, took the well chartered path of confirming that indeed innovativeness affected growth in SMEs rather than what causes innovativeness. Pustovrh et al. (2017) demonstrated the need to have an understanding of the internal reasons for innovativeness and the final outcome of commercial innovation. Pustovrh et al. (2017) study was however limited in several areas. Firstly, it had the risk of small sample bias coupled with single respondent bias. Secondly, there were challenges on methodology as the operationalization of the various constructs which may either have been inadequate or not exhaustive. There still remains the recurring need for causal research to be able to conclusively exhaust this debate. It is evident, that there is a paucity of information in so far as the antecedent of innovativeness is concerned. Different studies have considered different aspects but no consistent theme has emerged that cuts across all locations. It is therefore important to understand what triggers innovation which would then be easily adapted by SMEs so as to renew their chances of survival.

CONCLUSION

There is still a need to understand the relationship between entrepreneurial orientation, technological capabilities and environmental dynamism and their impact on innovation in firms and SMEs in particular. A review of literature, is inconclusive in the study of innovativeness and its antecedents in SMEs. Further, most of the studies on innovativeness have been in developed economies with the scope mostly limited to their economies and lack a universal validity (Zainol, 2013).

IMPLICATIONS OF THE STUDY

This review creates a need for more knowledge building and validation research on what causes innovativeness in SMEs. It contributes to academic knowledge with specific regard to SMEs whose discourse presently has inconsistent conclusions. Numerous studies tend to be focused on financial performance as an outcome. Due to the fact that measurement of SME financial performance is not always objective in all cases as a result of information unreliability. It is important to consider other measures of outcomes and include them in the discussion. Moreover, a fuller understanding of what generates innovativeness contributes to knowledge. From the practitioners point of view, it is important to understand what really drives innovation. This is more so important for other stakeholders like the financiers, equity holders and venture capitalists among others. It is widely acknowledged that this sector has huge opportunities for investors in as much as it also carries significant risks and it therefore important for all stakeholders to have information that they can use to validate their assumptions. Effectively, this significantly allows them to assume knowledge-based risks, risk being a key attribute for innovativeness.

On the basis of the general agreement that SME development is critical for economic growth, many policy considerations have been adopted by numerous governments to stimulate growth. Due to the paucity of information, with respect to the direct relationship between the antecedents of innovativeness and actual outcome, many of these interventions have achieved varied results. Validation of these relationships at a localized scenario could help to achieve a better focus. It follows that National Innovation Systems can be configured in manner that will enhance innovation which in turn will contribute to positive economic development.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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Assessing the impact of Chinese foreign direct investment on economic growth in sub-Saharan Africa

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This study was conducted to assess the impact of Chinese outward foreign direct investment flows on economic growth in sub-Saharan Africa. The design used was a longitudinal study. The analysis used was existing data on 37 sub-Saharan African countries between 2003 and 2011. Two balanced panel regressions were estimated using time and country fixed effects, respectively. The estimations suggested that Chinese foreign direct investment positively affected economic growth in the studied countries. However, the effect, though statistically significant, was weak. Other covariates such as natural resources, employment and trade volume significantly increased economic growth while the opposite effect was observed for inflation rate. Sub-Saharan African countries are still not able to reap the expected benefits from foreign direct investments because most of them still do not have efficient absorptive capacities. It is suggested that African countries implement policies such as the fighting against corruption, the establishment of the rule of law and the setting up of efficient financial infrastructures.

Key words: China, foreign direct investment, economic growth, sub-Saharan Africa, panel regression.

INTRODUCTION

Sub-Saharan African countries, because of the low national incomes and savings, have resorted to foreign direct investment (FDI) as an additional opportunity to seek funding. The inflows of FDI are thus viewed as a channel for the transfer of know-how from foreign countries. China has been one of the key investors in sub-Saharan Africa (SSA). Since 2000, it has become the greatest commercial partner of Africa. It offered opportunities to African countries to decrease their marginalization from the international economy and get resources to boost national economies (Gill and Reilly, 2007; Zafar, 2007). The Chinese FDI stock in Africa has grown from $49 million in 1990 to $2.6 billion in 2006 (Besada et al., 2008) and was evaluated to more than $26 billion against $22 for the United States at the end of 2013 (Chen et al., 2016).

It is therefore important to understand the connection between the Chinese FDI and the economy in Africa in order to identify the conduits through which this FDI boosts economic growth, and subsequently design the corresponding policies to attract and reap the maximum benefits from these investments. However, studies (Adisu

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et al., 2010; Berthélemy, 2011; Besada et al., 2008; Claassen et al., 2012; Gu, 2009; Kaplinsky and Morris, 2009; Renard, 2011; Shen, 2015) that have been devoted to assessing the impact of Chinese FDI on economies in SSA are mostly descriptive. Three reasons prompted the current study. Firstly, theoretical debates about the presence of China in SSA are controversial. The positive side claims that China increases commercial and investments ties with Africa and provides it with low cost goods (Berthélemy, 2011; Zafar, 2007). The negative side reports an often disloyal competition from Chinese companies with African local companies (Anshan, 2007; Chen et al., 2016). Secondly, investigations about other types of FDI in SSA are still inconclusive (Adams, 2009a, b; Adams and Opoku, 2015; Forte and Moura, 2013; Gui-Diby, 2014; Lamine and Yang, 2010). Finally, to the authors' knowledge, this is the first paper to econometrically examine the relationship between the Chinese FDI and economic growth within the context of SSA. The analysis concerns a panel of 37 countries between 2003 and 2011.

LITERATURE REVIEW

There is an abundant empirical literature regarding the effects of FDI on economic growth in Africa (Adams, 2009b; Seyoum et al., 2015) for a comprehensive review. However, the current review mainly relates some of them mostly not referenced in these reviews.

Using a panel of 42 SSA countries over 1990 to 2003, Adams (2009b) uncovered that the effect of FDI on economic growth was not proportionate to the increase of FDI inflows. The estimates from ordinary least squares (OLS) and panel fixed effects models showed a significantly positive impact for the OLS regression only. For the fixed effects regression, the author believed that the unexpected finding was due to the weakness of financial markets and the insufficient absorptive capacity of countries to reap the benefits from the investment. The estimates from an OLS regression supported positive effects of FDI on economic growth in Cameroon over the period of 1980 to 2009 (Kang and Mbea, 2011). A similar method indicated that FDI though may be restricted by human capital was beneficial to the national economy in Nigeria (Adegbite and Ayadi, 2011). Gui-Diby (2014) used a generalized method of moments and found negative and positive effects of FDI on economic growth, respectively over the periods 1980 to 1994 and 1995 to 2009 in a panel of 50 African countries. Other studies reported that FDI is beneficial to economic growth only if it is interacted with other elements. Using a panel regression on 32 African countries over the 1997 to 2008 period, Adjasi et al. (2012) found that FDI can positively affect economic growth only when it is interacted with financial market variables. Adams and Opoku (2015) reported diverse interaction elements such as credit market and business regulations. The study used a general method of moments and focused on 22 SSA countries over the period of 1980 to 2011.

The impact of FDI on economic growth in Africa was also investigated using a dynamic analysis. Abala (2014) found a positive correlation between FDI and economic growth from Kenyan time series data over 1970 to 2010. Belloumi (2014) did not find any Granger causality between FDI and economic growth in Tunisia over the period 1970 to 2008, while Ahmed et al. (2011) revealed such causality in 5 SSA countries. In another set of 5 SSA countries over the period 1970 to 2005, the nature of the causality was found to depend on the extent of the financial market (Adeniyi et al., 2012). The estimates from a Granger causality analysis revealed the weakness of the FDI to boost economic growth in Guinea over the period 1985 to 2008 (Lamine and Yang, 2010). In Nigeria, for the period 1980 to 2009, Imoudu (2012) also reported in a cointegration analysis a very little impact of FDI except in the telecom sector. In a similar analysis on the same country between 1990 and 2009, Inekwe (2013) uncovered that FDI was a catalyst to economic growth in the servicing sector and an impediment for the manufacturing sector. The estimation results showed that economic growth Granger caused FDI in the service sector while there was a mutual causation between them in the manufacturing sector. Seyoum et al. (2015) investigated the Granger causality between FDI and economic growth for 23 African countries over the period of 1970 to 2011. A causal link was reported for the overall sample while unidirectional causality either from FDI to economic growth or in the opposite direction was found for the individual countries.

As it can be seen from the review, the impact of FDI on economic growth in Africa is not straightforward. The results are mixed and depend on some specific conditions of host countries. This concurs with many other studies in Africa and other parts in the world (El-Wassal, 2012).

METHODOLOGY

Data and sample

The study covers a set of 37 SSA countries shown in Appendix Table A1, over the period of 2003 to 2011. The choice of the countries and the variables is purely based on data availability. The dependent variable is economic growth proxied by the Gross Domestic Product (GDP) growth rate. The main regressor of interest is the Chinese annual outward foreign direct investment flows (CHFDI) to SSA countries.

Other explanatory variables that may influence economic growth were also included in the analysis. These variables are the total natural resources rent (NATR), the percentage of employed populations between 15 and 24 years (EMP), trade volume (TV) and inflation rate (INFL).

The CHFDI was obtained from the 2013 Statistical Bulletin of China's Outward Foreign Direct Investment (Ministry of Commerce,

Table 1. Descriptive statistics of the variables.

Variables description	Mean	SD	Min	Max
GDP growth rate (in %)	5.308	5.866	-30.145	37.999
Chinese outward FDI flows (in millions of USD)	43.1	274	-63.1	4,810
Total natural resources rent (in % of GDP)	17.966	19.201	0.004	91.954
Percentage of employed populations between 15-24 years	46.667	16.897	13	78.8
Trade volume (in % of GDP)	83.369	41.410	27.972	307.016
Inflation rate (in %)	10.186	12.543	-30.428	103.823

Table 2. Estimation results of the GDP growth rate.

Regressor	Model 1	Model 2
Chinese outward FDI flows	3.23e-10** (2.68)	2.21e-10** (2.45)
Total natural resources	0.104** (2.06)	0.074** (2.98)
Employment rate	0.058** (4.38)	0.025** (2.10)
Trade volume	0.037** (3.21)	0.002** (6.17)
Inflation rate	-0.020* (-1.92)	-0.026 * (-1.74)
Year	0.080** (5.54)	-
Constant	163.594** (2.55)	2.696 ** (2.55)
F-Statistic	10.11** (0.000)	20.43** (0.000)
R-Squared	0.902	0.856
Panel length	9	9
Number of countries	37	37
Number of observations	333	333

**,*Significance at the 5 and 10% level respectively. In parenthesis are the t-statistics for the coefficients and the p-values for F statistics.

2013), while the remaining variables were retrieved from the World Development Indicators database of the World Bank. The descriptive statistics (Mean, standard deviation, minimum, maximum) of all the variables are shown in Table 1.

The correlation coefficients between the variables did not show any risk of high correlation. The highest correlation coefficient was approximately 0.3. The variance inflator factor (VIF) scores were then computed to assess the risk of multicollinearity between the variables. The usual rule of thumb is that a VIF higher than 10 implies the presence of multicollinearity (Hamilton, 2009). However, the threshold of 5 has been commonly used (Castillo-Manzano et al., 2016). All the VIF scores were less than 5, attesting that there is no risk of multicollinearity between the variables. However, the Breusch-Pagan test provided a statistic of 116.89 with an associated p-value of 0.000. This suggests the presence of heteroskedasticity which needed to be controlled for in the estimation process.

Modeling technique

The modeling technique used in this study is a linear panel model. Panel data are more efficient in that they provide more information, more variability, less collinearity among the covariates and more degree of freedom (Baltagi, 2008; Hsiao, 2014).

The model is labeled as follows:

$$GDPPC_{it} = \beta_0 + \beta_1(CHFDI)_{it} + \beta_2 NATR_{it} + \beta_3 EMP_{it} + \beta_4 TV_{it} + \beta_5 INFL_{it} + \mu_{it}$$

$$i = 1, \dots, N$$
$$t = 1, \dots, T$$

where i and t, respectively refer to the country and the year, β_0 is the intercept, the remaining βs are the regressions parameters and μ represents the disturbance term. The explanatory variables are described in Table 1.

RESULTS AND DISCUSSION

A year trend was added to the models to control for time-related unobserved factors that may affect economic growth. In order to test the robustness of the results, a year fixed effects in Model 1 and a country fixed effects in Model 2 were estimated. All the models were estimated with robust standard errors to control for the presence of heteroskedasticity. The estimations were performed using a balanced panel of the 37 countries over 9 years giving a total number of 333 observations. Table 2 gives the estimation results. All the estimations were performed using Stata 14 (StataCorp, 2015).

The two models are globally statistically significant as

shown by the p-values of their F-statistics which are less than 5%. The R-squared in all models suggest that the variables explain more than 80% of economic growth rate. All the variables have the expected signs and these signs are statistically significant and consistent across the two models.

The coefficient of CHFDI is positive suggesting that Chinese investment boosts economic growth in SSA countries. However, the magnitude of the impact is reasonably minimal as shown by the coefficient of CHFDI which is in the order of the millionth. Some studies reported similar findings on the impact of the global FDI. In a comprehensive literature review, the effect of FDI on economic growth was found to be negligible in African countries (Adams, 2009). The relationships between FDI and poverty were insignificant and ambiguous, respectively in Northern and Southern Africa, and West Africa for the 1990 to 2007 period (Gohou and Soumaré, 2012). El-Wassal (2012) reported a null or very limited impact of FDI inflows on economic growth in 16 Arab countries between 1970 and 2008. These unexpected findings are due to the fact that the impact of FDI depends on the local conditions of host countries (Adams and Opoku, 2015). A country reaps greater benefits from FDI in the presence of many conditions such as a well-functioning domestic market (Adjasi et al., 2012; Ali, 2014; Drogendijk and Blomkvist, 2013; Morrissey, 2012), skilled manpower (Ali, 2014; Morrissey, 2012), political and economic stability (Bartels et al., 2009), technological know-how (Morrissey, 2012) and appropriate infrastructures to support the development. However, few African countries have developed effective plans to capture the opportunities created by their collaboration with China (Shen, 2015).

Natural resources, employment rate and trade volume are, as expected, related to a high economic growth while inflation is found to hamper it. In fact, employment is the source of more economic activities which drive up economic growth. This result is supportive of Agrawal and Khan (2011). As far as trade is concerned, it promotes economic growth by generating more foreign currency as found by Sakyi et al. (2012), Abala (2014), Omri and kahouli (2014), Adams and Opoku (2015) and Sakyi et al. (2015). Inflation augments the cost of buying goods and undermines the value of savings which results in decreasing investment and definitely in a low economic growth. This result is consistent with those of Anyanwu (2012), Omri and kahouli (2014), Feeny et al. (2014) and Adams and Opoku (2015).

CONCLUSIONS AND POLICY IMPLICATIONS

This study investigates the relationship between Chinese outward foreign direct investment flows and economic growth in SSA. A panel regression model estimated with country and year fixed effects supports a positive effect of this investment on the continent economic growth. However, similar to other studies on other types of foreign direct investment, the impact is found to be weak. This implies the need for African countries to build a conducive environment that welcomes any foreign investment. The policies to design should be directed towards the fight against corruption, the rule of law, a sustainable openness, the promotion of competition, the offer of efficient financial infrastructures and the training of skilled labor. These elements will increase the continent absorptive capacity in terms of foreign investment. When more data become available a further investigation as well as a causality analysis is suggested.

Nevertheless, the results of this study should be cautiously interpreted. The findings may suffer from external validity because of the data limitation which did not permit the inclusion of all the sub-Saharan African countries. Also, the analysis uses aggregate data which, though incorporating the impact of broader policies, overlook countries heterogeneities effects on economic growth.

Despite these limitations, the findings of the study can still offer a benchmark for decision-makers in designing appropriate policies to welcome foreign direct investment.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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Appendix

Appendix Table A1. List of the 37 countries studied.

Countries		
Angola	Ghana	Rwanda
Benin	Guinea	Senegal
Botswana	Kenya	Seychelles
Cameroon	Lesotho	Sierra Leone
Cape Verde	Liberia	South Africa
Chad	Madagascar	Sudan
Congo	Mali	Tanzania
Côte d'Ivoire	Mauritania	Togo
Democratic Republic of Congo	Mauritius	Uganda
Equatorial Guinea	Mozambique	Zambia
Eritrea	Namibia	Zimbabwe
Ethiopia	Niger	-
Gabon	Nigeria	-

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Effect of simplified licensing on registration and formalizing of start-ups in Mozambique

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The Mozambican Government has long realized that the only way to solve the unemployment problem is by encouraging entrepreneurship amongst the youths through the formation of small enterprises. Legally operating enterprises will also contribute to the government's coffers through taxations, exercise duties and contributions to the provident fund. The government introduced two accessible licenses for small firms namely the convenience license and the simplified license with the hope that more enterprises will start-up and those operating informally will register and legalize their activities. A study was carried out in Greater Maputo representing Mozambique as a whole to determine if these simplified licenses actually ease the registration of start-ups and informal firms. A sample of 485 small firms was drawn from the population of firms in Greater Maputo, using stratified random sampling method. Face to face interviews were conducted using structured, close-ended questionnaires to collect primary data. The study employed the quantitative methodology, and data were analyzed by the use of descriptive statistics that generated frequencies and percentages results.The study found that although a lot of red tapes and hindrances to firms licensing were eased, the new measures were still inadequate to bring about more small firms registration, and attract those operating informally to become formal. It was suggested that more reforms in the licensing structures be implemented, including the removal of registration fees for the first years of operation and allowing tax exemptions of up to five years for newly formed small firms.

Key words: Convenience license, provident fund, simplified license, small firms, taxation, youth unemployment.

INTRODUCTION

Previously, the Mozambican Government implemented licensing schemes for start-up entrepreneurs that required lots of paperwork and long bureaucratic procedures. In recent times the Mozambican State has enacted two types of less austere licenses in order to facilitate the registration of start-up firms and encourage the numerous small firms operating informally in the country to formalize their activities and contribute to the

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fiscal coffers of the state. The convenience and simplified licenses were therefore conceived as the solution to speed and ease the registration process. This study carried in Greater Maputo, scrutinized the nature, the arrangement and requirements of the two licensing structures, and determine from the small firms' perspective if they found the licenses ideal for the promotion of more start-ups or registration of informal firms. The study found that the procedures towards acquiring the licenses were still burdensome to many small firms, especially those whose owner managers had to scratch their meager funds to start their enterprises. Considerable numbers of informal firms were weary of the taxation implications and registration requirements and preferred to remain informal. To this extent, the study recommended that the licensing structures be reformulated to make them more easily accessible and affordable to start-up firms and more encouraging for those firms operating informally to register and become formal.

REVIEW OF RELATED LITERATURE

In describing a small firm, the assumption is that a small firm exists as an entity that has very few workers, very limited production or trade activities and very limited turnover (Berisha and Pula, 2015). Scholars such as Tommaso and Dubbine (2000) separate the characterization of a small firm by examining the approach in which economic theory demarcates the case of the small firm. The authors explain that there are four main approaches that explain the size of the firm, namely the technical efficiency approach founded on the concepts of technical and locative efficiency; the institutional efficiency approach where the crucial aspect is the relationship between efficiency and transaction costs; the imperfect competition approach which is based on market power; and lastly the dynamic approach consisting of dynamic models of the life-cycle of the firm (Tommaso and Dubbine, 2000). All these have ramifications on the welfare, the evolution, the competitive advantage and the survivability of the firm in the marketplace.

Growth is a vital observable fact in small firms according to (Rauch and Rijskik, 2013). There is little consensus in the existing literature on how to determine a firm's growth, and researchers have used a variety of different procedures. These measures include for example, increase of sales, workers, assets, profit, equity and other related factors (Douglas, 2013). In addition, the period over which growth is scrutinized in the literature changes significantly, normally stretching from one to several years. Furthermore, growth has been determined in absolute or relative terms. Perhaps the most common means of investigating an enterprise's growth is through relatively objective and measurable characteristics (Mateev and Anastasov, 2010).

The small firm's survivability depends on the small firm's ability to compete in the market with other small firms and larger firms (Machado, 2016). As a confirmation, McKelvie and Wiklund (2010) reckon that expanding decreases the likelihood of demise of the small firm. Brush et al. (2009) however claim that some enterprises do not aspire for growth but others yearn for slow expansion even though they are successful as much as those that grow speedily. The reality is that a considerable number of new firms do not expand beyond the phase when they began their activities with the exception of the so-called "gazelles", or young enterprises with very fast growth (Machado, 2016).

Definition of micro, small and medium firms

Each country has a different way of definition when it comes to the small firm concept. There are classifications which are based on the number of employees, turnover or the industrial branch of the company (Robu, 2013). Storey (2008) mentions that size, referring to the number of employees may be the most suitable defining term, given the heterogeneity of enterprises operating in this division. Nkuah et al. (2013) assert that the main factors determining whether a company is a small firm include number of employees and either turnover or balance sheet total. On the other hand, Okpara (2011) and Doe (2014) describe small firms as non-subsidiary, independent firms, which employ less than a given number of employees. Compared to larger enterprises, small firms tend to use less capital per worker and generally have the tendency to use capital productively. According to Hussain et al. (2012), small firms have significantly higher value-added to fixed assets ratios. Small firm's choice of techniques is thus coherent with factor availability especially for a labor-abundant economy (Jones and Tarp, 2012).

Other than these, there are some more indicators, of smaller importance, like social capital or accessed credit (Robu, 2013). The definition of micro, small and medium firms in Mozambique according to United States Agency for International Development (USAID) is: micro, having between 1 to 3 employees; small having 4 to 49 employees; and medium enterprises having between 50 and 100 employees (USAID, 2014). This study will be confined to micro and small firms in Mozambique; those at start-up and informal firms already in existence.

Formal and informal small firms

Mozambique is characterised by informal businesses. According to the USAID (2014) report, 77% of the labour force is involved in informal activities. Workers in the informal sector are not recognized by the department of

labour, and are not registered with the provident fund. Some revisions in the labour laws have been made in recent times with the enacting of the labour law of 2007 (Law No. 4/2007; USAID, 2014). Among other things, the law broadened social security coverage to the informal sector to allow employees in this sector to be covered by social security programs. According to Cheema and Atta (2014) when the economy is overwhelmed with informal business activities reflects the prevalence of disguised unemployment. Erdogan and Bauer (2009) and Olubukola (2013) describe disguised unemployment to the situation where surplus manpower is employed in an activity out of which some individuals have zero or almost zero marginal productivity such that even if they are removed the level of output remains unchanged. In Mozambique, disguised unemployment is present in both formal and informal businesses, but it is mainly concentrated in the informal sector. The labour market remains overshadowed by low productivity. Put differently, Jones and Tarp (2012) assert that the economy fails to generate sufficient high quality jobs that effectively translate macroeconomic growth into welfare gains. Jones and Tarp (2012) assert that despite the fact that most of the youth population is economically active only a minority is fully employed and 75% of these youths are engaged in petty informal activities, such as selling merchandize on street pavements. The reasons that so many youths enter into informal unemployment originate from the simple fact that there is no formal employment available, and the government is not doing enough to turn informal ventures into formal businesses (Yeh and Santos, 2009). The scenario in Mozambique where start-ups are funded almost entirely from personal funds tends to keep the small firms in the shadows of informal sector where business activity remains unknown (Sawaya and Bhero, 2017). This may encourage tax evasion because one may feel that no assistance came from the state, hence there is no obligation to be rendered to the state.

The role of small firms in the economy

Small firms are foundations of new ideas, a basis for employment creation and economic growth (Berisha and Pula, 2015). Consequently, small firms are a stepping stone to the world of entrepreneurs, and although only a few small firms would grow to be large enterprises, it is also true that only a few large enterprises did not begin as a small firm. Small firms are a product of entrepreneurship, and are endowed with the prospect of generating direct and indirect employment especially for young people. Small firms are recognized as an engine of growth in Mozambique. Micro and small firms are not only the fastest growing sectors in Africa and Mozambique, they are also considered an outlet for indigenous entrepreneurship (Vletter, 1996; cited in Kauffman and Parlmeyer, 2000). In his assessment of the small firm sector in Mozambique, Zimba (2015) reveals that although small firms represented a larger portion of all registered businesses in Mozambique employing close to 70% of all working population, they contributed to a modest 24.1% of the national income. Fox and Sohnesen (2013) mention that a lot of new jobs came about from start-up micro, small and medium enterprises rather than hiring within the existing small firms. According to Fox and Sohnesen (2013) out of all registered small firms in Mozambique, ninety-six percent are run by a single person with or without family help, while only 4% of the small firms reported hiring any worker outside the family.

The challenges of small firms

Etuk et al. (2014) and Abubakar et al. (2015) have listed the challenges facing small firms as lack of finance, markets, lack of trained manpower, inadequate infrastructure, low capacity of research and development in technology, globalization and unfriendly government regulations and policies. For example, Abubakar et al. (2015) lament on small firms inability to source marketing opportunities in Nigeria arguing that the problems of small firms in Nigeria are loose fiscal and monetary policies, multiple taxation, poor implementation of high interest rates, unstable foreign exchange regimes as well as high inflation rates. Etuk et al. (2014) reaffirm that these conditions make small firms the major victim so that not only are their competitive abilities reduced, but their mere existence becomes a struggle.

Small firms encounter a lot of challenges from start-up, during the nurturing phase and in later years of growth. Small firms on their own cannot wither the strains and challenges of development without support. One major area that can offer support to small firms is from the governments. Government policy on business development of small firms is one important factor determining their survival and growth. There is little scope for a common set of policies either from governments or the private sector, and logical tools to be successfully deployed in addressing the small firms issue including challenges that directly face this sector (Ong'olo and Awino, 2013). Statistics gathered by Doe (2014) in Ghana for example indicate that 70 percent of micro and small firms registered in that country do not start at all and 80 percent of those that start end up not being registered.

The theory of licensing and registration

For any business entity to operate in any country they require a license issued by a government authority. A licence is a permission granted to someone upon application to a controlling authority to perform a certain

activity in a prescribed manner, normally after satisfying certain conditions including payment of a determined fee (Gellhorn, 1956). The Kampala City Council Authority (KCCA, 2017) defines a trading license as an authorization given by government organizations that permit potential entrepreneurs or organizations to carry out business within the government's jurisdictional zone. There are often many licenses, registrations and certifications required to conduct a business in a particular area depending on the type of activities. Normally a potential licensee provides details of his activities and location of the business. Other determining aspects may include the number of workers, the configuration of the business setup, its members and shares (if applicable) such as sole proprietor or corporation (Antoniak, 1995). Under normal circumstances, a business or any other functioning activity may be censured by the government if it is found to be carrying its activities without a legal license. Therefore licenses are vital and indispensable features of contemporary economies.

Governments depend on licenses to regulate a wide range of human activities, from commercial entities and professional endeavours to dangerous and environmental sensitive operations (Dreschler, 2001). According to Antoniak (1995) an organization dealing with hazardous chemicals for example, will have stricter license requirements than a trading firm selling clothes and shoes. Governments impose licenses in order to track business revenue, and in some cases protect the public from activities that could be of moral or physical predicament to them. Applicants for licenses are obliged to fall under scrutiny of the issuing authorities to determine if they are fit to engage in the particular activity. Before the granting of a license, the applicant is obliged to meet certain criterion, for example a road license requires the applicant to be over 18 years of age, must have passed the driving exams and having paid the stipulated licence charges (Dreschler, 2001). Having a license ensures that all stake holders in the business scene are subjected to regulations and payments of their tax dues to the government without exemptions (Ighobor, 2013). Having unregistered business operators trading in anonymity without a license creates unfairness to those having a valid license and are recognized by the authorities. As Vletter (1995) mentions, in the case of Mozambique formal and licensed sector shopkeepers and licensed traders complain that unlicensed vendors undercut their profits because of unfair competition (selling illegally local and imported goods and avoiding income tax).

The prohibitive nature of launching small firms

The facts presented in the literature review demonstrate that lack of funding is the main hindrance for small firm start–up and sustainability. Even if entrepreneurs eventually use their personal meager funds or gifts from families to start small firms, they encounter challenges in launching the enterprises as a result of prohibitive and numerous procedures during registration.Some of the hindrances include high fees to pay for the licenses, lots of paper work in formalizing the processes; and soon after launching the enterprises they face unfriendly taxation regimes, and payment to provident fund as contribution for their workers' safeguarding. Roberts (2003) reveals that the more cumbersome procedures for small firm registration in Mozambique include emission of licenses, which entail publishing articles of association, registering with the chamber of commerce, registering for taxes at the finance ministry, inspections and notarizing certificates. According to Jones and Tarp (2012) the vast majority of Mozambican youth are forced into the informal sector, characterized with few support programs. Jones and Tarp (2012) affirm that informal activity is usually difficult to quantify. The National Institute of Statistics (INE) affirms that a firm is formal only if it complies with the following conditions: (i) if it is registered at the provincial level with the commerce department, or the finance department; or (ii) if it is in possession of an official document, either a license or a registration record (INE, 2006).

The other obstacle for start-ups and informal firms attempting to formalize, are the fiscal requirements imposed on them at the nascent stage and at the very early phase of firm's growth. The taxation regime has not been restructured to favor small firms that are vital for employment creation especially for the youths in Mozambique. According to Roberts (2003) until the last decade (a fact that is still unresolved up to the present moment; IPEME, 2018) government policy on taxation and duties to small firms was not well defined. Roberts (2003) revealed that corporate income tax of 30 percent is the same for all businesses regardless of size. Import duties on consumer goods are at 20% and between 0-7.5% on raw materials; fuel, equipment and intermediate goods. Social security is 7% of the employee's wage of which 3% comes from the contributor's wage and 4% is paid by the business.

The Mozambican Government has recently established more flexible registration licenses for start-ups and informal small firms in order to attract the registration of new enterprises and formalization of existing informal businesses. Only recently, according to Zitamar News (2016) has the government of Mozambique begun implementing measures to extend tax exemption to small registered miners who were on the verge of closing their operations and turn into illegal mining activities due to very high taxation. In another turn, the government has attempted to relieve the tax burden to small firms by passing the new Municipal Finance Act to alleviate the tax burden on small vendors by enacting the Simplified Tax Regime for small businesses.

Table 1. The convenience License: acquisitions and requirements.

Issuing authority	License duration	Requirements to obtain the license	Costs of acquiring License	Taxations and fiscal requirements
Local municipal district offices	One year (renewable)	(i) Presentation of identification papers. (ii) Tax identification number. (iii) Receipt of Municipal Tax. (iv) Registration of title of Occupation of the operating space/land (if space is declared). (v) Declaration of the neighborhood where the applicant exercises the activity. (vi) Inspection by Municipal Police (in case the licensee has premises).	(i) Documentation and license authorization: Between 200 -1500 MT (if a premise exists).	(i) Payment of VAT of 17% for products sold with respective receipts. (ii) Contribution to the Provident Fund for workers employed(in case the business has employees) at 7%.

Source: Ministry of Commerce and Industries (MIC, 2017; Ministério da Indústria e Comércio).

METHODOLOGY

The strategy for carrying out the study postulated on the premises of the existing enterprises registration procedures in Mozambique by determining how the construe of the current licensing and registration regime is being enforced at present with the introduction of the two most accessible licensing structures designed for start-up enterprises and the legalization of informal firms.

The objective of the current study

The objective of this study is to compare and contrast the current registration and licensing requirements for small firms, and the taxation procedures applicable to small firms in Mozambique. After scrutinizing the licensing methods, the study will determine the shortfalls of the current schemes, determine if the system supports small firms at start-up and during the nascent stage, and suggest counter proposals for the registration requirements and taxation regime that will enable more small firms to register at start-up, and allow informal operating small firms to formalize.

There are several licensing formats in Mozambique depending on the nature of the business and the size of the enterprise. Out of these two main licenses are relevant to start-ups, nascent small firms and informal firms intending to become formal. These are the Convenience License (*Licença Precária*) and the Simplified License (*Licenciamento Simplificado;* Ministerio da Indústria e Comércio (MIC); 2017).

Convenience license

This is the simplest type of license in force in Mozambique aimed at individual business activities, micro enterprises, and petty businesses especially those operating informally. The requirements for obtaining the license are detailed in Table 1.

The convenience license was conceived to enable petty traders and individuals with miniature concerns to register their activities. It is also aimed at assisting start-up enterprises that start at very diminutive levels to be registered instead of taking the informal route (MIC, 2017). The government instituted this license with the expectation of updating its data base on the numbers, forms and types of business concerns that exist in the country. The second and perhaps the most important motive was to get businesses formalized in order to benefit from tax receipts in the form of Value Added Tax (VAT) that could be collected from business transactions of these enterprises. The hope was to encourage petty and micro firms to declare and register their workers (even if it is a single employee) to the provident fund so as to benefit from their contributions. The contribution to the provident fund is 7% of the gross salary. In the case of a self employed or single proprietor, the contribution to the provident fund is paid entirely by the proprietor (INSS, 2018).

Depending on the issuing municipal district, the convenience license does not come free of charge. Documentation and authorization fee of between 200 to 1500 MT is spent during the registration process. Sometime premises inspection is carried out by the municipal police, for those entities or sole proprietors operating from recognized establishment.

The simplified license

The second accessible license established by the Mozambican government to assist small firms is the simplified license. The convenience license is designed mainly for petty businesses, individual concerns or sole proprietors who are carrying out very small businesses, operating on very miniature scales; concerns that would normally function informally and in many cases without a secure operating establishments. The simplified license could also be applied to sole proprietors, but whose business entities are more organized and obligatorily, and operate in established premises. The nature and requirements for pursuing a simplified license are listed in Table 2.

Acquiring the simplified license involves more procedures than the convenience license. The issuing authorities are different, but the advantage of the simplified license is that it has no time limit.

Table 2. The simplified license: acquisitions and requirements.

Issuing authority	License duration	Requirements to obtain the license	Costs of acquiring license	Taxations and fiscal requirements
Single Attendance Desk (BAÚ); Municipal Councils within its area of jurisdiction (where there are no BAÚs); District Governments-District Services for Economic Activities (SDAEs), where there are neither BAÚs nor Municipalities.	Without limit	(i) Presentation of identification documents. (ii)Tax identification number.(iii) Receipt of Municipal Tax. (iv) Presentation of title of occupation of the operating space / land. (v)Declaration of the neighborhood where the applicant will exercise the activity. (vi) Declaration in the form of Terms of Commitment, by the applicant (undertaking to assume all conditions imposed in the occupation of the land where the applicant will carry out the activity). (vii) Inspection on business premises to be carried out by: (a) Representative of the local administrative authority; (b) Representative of the local health agency; (c) Representative of the fire services; (d) Other entities by reason of the matter.	(i) Inspection 3152 MT; (ii) License to exercise activity of trading and services sector 50% minimum wage (2128MT) (iii) For industrial sector, fixed rate of 4728,00MT.	(i) Payment of VAT of 17% for products sold with respective receipts. (ii) Contribution of 7% of worker's wages to the Provident Fund: 3% from workers' wages and 4% from the company. (iii) Simplified tax for small enterprises: (iiia) Annual fixed tax of 75 000MT. (iiib) Or a tax rate of 3% over yearly sales. (iiic) For first year of operation a deduction of 50% on tax is offered.

Source: Government Gazette (Bulletin da República, 2017).

The applicant needs to prove ownership of the establishment where the business will be carried out, or a rental agreement arranged with the owner of the property. Once it starts operating, the business establishment is subject to inspection by representatives of the local administrative authority, health agency, fire services and other relevant entities.The inspection fees are charges at a flat rate of 3,152 MT. There is an additional licensing fee of 4728,00 MT charged for simplified licenses of industrial or mining nature (MIC, 2017).

Simplified licensing is subject to more taxation procedures compared to convenience licensing. Besides the payment of the compulsory VAT on all goods or services sold, there is the so called simplified tax for small enterprises rated at 3 % on goods sold, or services rendered, or an annual flat tax rate of 75000 MT. A consolatory discount of 50 % on the tax rates is sometimes rendered to start-up firms. Simplified license holders are obliged to contribute to the provident fund for the workers they employ. The disbursement is at the rate of 7 %, where the firm pays 4 % and the employees contribute the remaining 3% of the amount.

The design of the study

After scrutinizing the two most basic licensing options the study proceeded to answer the study problem whether the licensing schemes were supportive and accommodating for small firms' registration and formalization in Mozambique. The research problem was analyzed in conformity with the following suppositions.

(i) If the small firms found the license issuing authorities accessible.
(ii) Whether the small firms could effortlessly gather the required documents for registration.
(iii) Finding out if the small firms could afford payment of the registration fees.
(iv) Determining if the small firms could meet the taxation and provident fund requirements.

To answer the research problem based on the premises of these four questions, a study was carried out in Greater Maputo representing Mozambique as a whole involving a sample of 485 SMEs chosen from a population of small firms based on stratified random sampling. This method of random sampling was chosen in order to give fair representation of the views of both license holders. The samples were divided into two portions whereby convenience license holders were represented by 243 firms and the remaining 242 samples came from simplified license holders. Data were collected through interviews carried out on face-to-face approach, using structured, closed ended questionnaires. Data were processed using the SPSS program, with the assumption that it was non-parametric data that entail less theoretical efforts resulting in the process being faster and more user-friendly. The quantitative approach was used, whereby the study employed descriptive statistics, involving frequencies and percentages.

FINDINGS AND DISCUSSION

The following sections review the findings of the research problem presented in this study. The findings are discussed on the basis of divergence of views as per the following sections.

Table 3. Accessibility to license issuing authorities.

Factors of Impediments	Convenience licensing		Simplified licensing	
	Frequency	Percent	Frequency	Percent
Distance to the registration	28	11.5	26	10.8
Waiting time to be attended	143	58.9	148	61.2
Lack of registration material	2	0.8	2	0.8
Inadequate information	46	18.9	17	7
Not having all requirements	24	9.9	49	20.2
Total	243	100	242	100

Accessibility to the licence issuing agencies

Concerning the convenience licence, there were no significant complaints about accessing the municipal district offices. In the case of simplified licence, applications could be processed at the Single Attendance Desks (BAÚ). In the absence of these bureaus, applicants had the option of going to the municipal councils within their areas of jurisdiction. In few remote areas where both facilities were not available, potential entrepreneurs could approach district governments or district services for economic activities. Accessibility was thus not reported as a major hindrance for small firms' registration. The problem cited by an average of 60% of surveyed entrepreneurs (58.9 and 61.2%) as shown in Table 3 was the waiting time to be attended and unscrupulous officials who implanted unethical practises in the registration process (Appendix 1).

Corruption in all forms is a problem in exercising the smooth running of public activities. In their studies in several African countries, Ihua (2009) and Umar (2010) lamented that bureaucracy and corruption hindered and disarrayed the disbursement of government support to small firms. Corruption is usually ranked just behind lack of collateral and overall bad business climate as factors that obstruct small firms' progress in most African countries

The challenge of gathering documentations and other registration requirements

Acquiring the convenience license requires the entrepreneur to present personal documents, a letter from the community where the potential business owner lives and proof of payment of the municipal tax. In the case of a business entity operating from a fixed premise, the owner is required to disclose the location of enterprise, the nature of activities to be carried out, prepare the premise for inspection and make a commitment of fulfilling all conditions imposed in the occupation of the premise or land where the applicant operates.

Findings from the study as shown in Table 4 indicated that nearly three quarters of convenience license applicants concealed that they operated from established premises to avoid presenting titles of occupation, thus avoiding inspectors from municipal council and paying inspection fees. The only convenience license holders who adhered to these requirements were those who wished to benefit from focused amenities such as internet connections, insurance coverage or bank loans.

Conversely, simplified license holders had to obligatorily adhere to the license requirement. They had to prepare for compulsory premises inspection from licensing authorities, health authorities and fire department. Simplified license holders are coerced to register with the finance department for tax purposes and to submit employees' register to the provident fund. As evidently portrayed in Table 4, around 40.1% of the surveyed simplified license owner-managers complained about the difficulties of accessing documents including the licensing bureaucracy besides the assurance from the issuing authorities that the licenses were easily accessible (Appendix 2).

Ability to meet the costs of registration and inspection

The cost of acquiring the convenience license is supposed to be free of charge; however there are hidden costs for example of acquiring application forms, notarizing certificates and preparation of supplementary supporting documents. In addition there is a fixed fee of 200 MT to pay for premises inspection for those having fixed trading or manufacturing zones. The amounts might appear to be small, but for petty traders who were accustomed to operating informally without paying any dues to the government, it is an issue for contemplation. From the study, Table 5 demonstrates that 75.3% of convenience license holders complained of hidden costs that were burdensome to them (Appendix 3).

The simplified license fees are set in two categories: sectors involved with trading and services and small scale manufacturing are charged at 50% of the minimum wage. The current monthly minimum wage for public administration workers is placed at 4255 MT (Wage-

Table 4. Ability to meet costs and requirements for registration.

Factors of impediments	Convenience licensing		Simplified licensing	
	Frequency	Percent	Frequency	Percent
Not operating in premisses	182	74.9	90	37.2
Hard to access documents	29	11.9	97	40.1
Not having funds at all	32	13.2	55	22.7
Total	243	100	242	100

Table 5. Registration costs and documentations.

Factors of impediments	Convenience licensing		Simplified licensing	
	Frequency	Percent	Frequency	Percent
High cost of registration	57	23.5	122	50.4
Hidden costs and documentations	183	75.3	117	48.3
Sub-total	240	98.8	239	98.7
Missing	3	1.2	3	1.3
Total	243	100	242	100

Indicator, 2018). Therefore 50% of this value amounts to a round figure of 2128 MT which needs to be paid to acquire the license. Enterprises that wish to set up activities categorized as industries, even at the micro stage are charged a flat rate of 4728 MT to acquire the license (MIC, 2017). The payment for premises inspection for simplified licensing is set at 3152 MT (Bulletin da República, 2017). From Table 5, half of the simplified license holders surveyed (50.4%), most of whom had dedicated their meager personal funds to launch their enterprises, found such fees exorbitant and cautioned that potential entrepreneurs might be discouraged from acquiring formal license unless they had other posterior motive, such as applying for bank loans, or benefiting from incubation programs aiming at upgrading trading and business management skills.

Determining the taxation and the provident fund requirements

VAT payments

Both the convenience and simplified license holders are required to meet the payment of VAT of 17% for products sold with respective receipts, although in reality the tax collection regimen is not rigorously enforced for the convenience licensees.

Under existing circumstances where petty traders are selling goods from home, or in the streets, it is challenging to collect the due VAT proceedings for those holding convenience licenses. Convenience license holders are not obliged to have fixed trading or services premises and not compelled to have organized accounts. The study deduced that 80.2% of convenience license holders as exposed in Table 6, did not submit themselves to tax requirements, and even if they did, the amounts declared for VAT were minimal; a token to show that they traded along the year to qualify for renewal of the licenses for subsequent years.

Value added tax is effectively enforced to the simplified license holders because by law, they are required to present declarations of VAT payments after every three months and a financial report at the end of the financial year. The study found that it was a burden for firms at the nascent phase to comply with these fiscal requirements such that 60.3% of small firms surveyed under the simplified license category, complained that the taxation requisites were burdensome (Table 6). A majority of these firms were not making profits at the initial stages and most of them were still paying debts accumulated from friends, family members or informal lending arrangements such as the Xitique schemes (Cunha, 2014). Consequently the study suspected that a considerable number of previously registered firms had to close down or opted to continue their businesses on informal bases (Appendix 4).

Contribution of 7% of worker's wages to the provident fund

Table 7 shows that nearly 70% of start-ups and newly formed small firms (73.7% of convenience and 68.6% of simplified license holders) avoided hiring workers on permanent bases and preferred to use casual workers to avoid complying with provident fund requirements (Appendix 5).

The employer contribution of 4% of the workers' wages

Table 6. Submission of tax returns and implications.

Status of tax compliance	Convenience Licensing		Simplified licensing	
	Frequency	Percent	Frequency	Percent
Did not submit to Tax regime	195	80.2	36	14.9
I did submit to Taxation	15	6.2	57	23.6
Tax requirements Burdensome	30	12.4	146	60.3
Sub -Total	240	98.8	239	98.8
Missing	3	1.2	3	1.2
Total	243	100	242	100

Table 7. The Hiring of workers and contribution to provident fund.

Action taken	Convenience licensing		Simplified licensing	
	Frequency	Percent	Frequency	Percent
Not hired permanent workers	179	73.7	166	68.6
I hired permanent workers	62	25.5	75	31
Sub-total	241	99.2	241	99.6
Missing	2	0.8	1	0.4
Total	243	100	242	100

Table 8. Firms that received government Support.

Government support	Convenience Licensing		Simplified Licensing	
	Frequency	Percent	Frequency	Percent
Received government support	58	23.9	62	25.6
Never received government support	185	76.1	180	74.4
Total	243	100	242	100

to the provident fund was seen as an additional unnecessary cost to the nascent small firms. According to Table 8, an average of 75.3% of small firms (76.1% of convenience and 74.4% of simplified license holders), even those that had been in existence for more than three years complained of not receiving any type of support from the government in tax relief or exemptions (Appendix 6).

The feeling of being forsaken by the main stake holders, especially by the government gave the license holders the conviction that they were under no obligation to contribute to the coffers of the government.

CONCLUSIONS AND RECOMMENDATIONS

The government in Mozambique has attempted through various streamlined licensing schemes to solve the problems facing start-up firms in registering their enterprises and enabling those operating informally to become formal. Two main licenses have been constituted by the government including the convenience license, issued by municipal districts aiming at petty business holders or those running very small operations mostly involving a single person, and the simplified license aimed at micro enterprises and other types of small business entities. By enacting these two licenses the government was convinced that the measures would go far enough to speed the registration and formalization of small firms and offloading the taxation burden imposed on small firms.

This study in Greater Maputo ascertained that even though the licenses were made simpler and convenient, and the taxation arrangements reviewed, the measures were inadequate to attract new start-ups, encourage informal enterprises to formalize and preclude already registered small firms from deregistering and resorting back to informality.

Based on these findings the following recommendations are suggested

The convenience license

(i) Issuing of the convenience license: The issuing

authorities may remain the same as they are at present, except that they should be staffed with more attendants especially in busy areas such as the city of Maputo to ensure that there are more registration centers in all the seven administrative districts. The same should be implemented to other major provincial capitals of the country.

(ii) License duration: The convenience license duration is valid for one year. The government should increase the duration to three years so as to give formalized petty traders and start-ups time to establish themselves and consolidate their activities. Having a one year renewable license may coerce some start-up firms especially those facing operational difficulties at the nascent stage to desist from renewing their licenses and move into informality.

(iii) Requirements for attaining licenses: The requirement for obtaining the convenience license should be further simplified. The exigencies for registration for the first two years of operation should be limited to presentation of personal identification, the tax identification number and the receipt of Municipal Tax. Towards the third year of operation the business owners could be required to present more documentation including the title of occupation of the operating space/land (for firms operating in an established space), and allow for inspection from public authorities.

(iv) Fees, taxation and fiscal requirements: The government should make the acquisition of documentations and registration for the convenience license completely free of all charges for the first operating year. Such actions would encourage more start-up enterprises and attract firms in the informal sector to formalize their activities. For the first year of operation small enterprises should be exempted from any VAT returns or contribution to the provident fund. Firms should start abiding by the requirements of the provident fund from the third year of existence and be encouraged to begin paying VAT after five years of operation. Assenting relief from taxation would inspire nascent firms to remain formal and become more financially stable in anticipation of meeting fiscal obligations when they grow and mature.

The simplified license

Soliciting a simplified license requires more procedures than obtaining the convenience license. In order to encourage more adherence to this form of licensing the following amendments to the issuing procedures are suggested.

(i) Requirements for obtaining the licenses: The requirements for handing out the simplified licensing seem to be too exigent for a small firm, especially those at the nascent stage. All simplified license holders are required to present a title of occupation of the operating area, or sometimes the rental agreement. This exigency can remain in place, but it should only be enforced to the license holder after one year of operation. The inspection of the premises should be carried on the locations after two years of operation. This allowance would give start-up firms enough time to organize themselves so as to get their premises and supporting documents in order. The exigencies of inspections right at the beginning of operation and subsequent payment of inspection fees of 3152 MT may be burdensome to some new entrepreneurs, especially those operating informally and wishing to formalize their activities. An allowance should be given for the fees to be paid after two years of existence, and if possible in two installments.

(ii) Fees, taxation and fiscal requirements: Simplified license holders should be totally exempted from declaration of VAT proceedings for the first two years of operations. The requirements of VAT declarations should be gradually imposed to those firms that survive to the third year of existence. A five years exemption from the simplified tax declarations for small enterprises should be granted to this category of license holder to allow them ample opportunity of recovering their initial investments. It should be reminded that an overwhelming majority of the owner-managers of these enterprises started their businesses from personal funds, money borrowed from friends or relatives or from informal lending schemes. Only an insignificant proportion got assistance from banks or other formal financial institutions. Firms that survive for five years would be mature enough and feel obliged to start making fiscal contributing to the government.

With these measures in place, enterprises that have persevered in business for three to five years, and have established themselves as stable small firms, are unlikely to resort back to informality. After five years of survivability the businesses would have hired workers, made reputable commitments with clients and suppliers; some would have entered into financial commitment with banks and insurance firms. In summary, the small firms would be in a position to contribute to the provident fund, file VAT returns for goods or services rendered, and pay simplified or corporate taxes to the government at the end of financial years.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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Appendix 1: Summary of selected SPSS Extracts

Factors that made it difficult to access the licenses

Appendix 1 Accessibility to the license issuing agencies.

Licesite		Frequency	Percent	Valid (%)	Cumulative (%)
Convenience license holders					
Valid	Distance to the registration	28	11.5	11.5	11.5
	Waiting time to be attended	143	58.9	58.8	70.3
	Lack of registration material	2	.8	.9	71.2
	Inadequate information	46	18.9	18.9	90.1
	Not having all requirements	24	9.9	9.9	100.0
	Total	243	100.0	100.0	-
Simplified license holders					
Valid	Distance to the registration	26	10.8	10.7	10.7
	Waiting time to be attended	148	61.2	61.2	71.9
	Lack of registration material	2	.8	.8	72.7
	Inadequate information	17	7.0	7.1	79.8
	Not having all requirements	49	20.2	20.2	100.0
	Total	242	100.0	100.0	-

Appendix 2. Ability to meet the cost and requirements for registration.

Ability		Frequency	Percent	Valid (%)	Cumulative (%)
Convenience license holders					
Valid	Not operating in premises	182	74.9	74.8	74.8
	Hard to access documents	29	11.9	11.9	86.7
	Not having funds at all	32	13.2	13.3	100.0
	Total	243	100.0	100.0	-
Simplified license holders					
Valid	Not operating in premises	90	37.2	37.2	37.2
	Hard to access documents	97	40.1	40.0	77.2
	Not having funds at all	55	22.7	22.8	100.0
	Total	242	100.0	100.0	-

Appendix 3. Registration costs and documentations.

Hide cost		Frequency	Percent	Valid (%)	Cumulative (%)
Convenience license holders					
Valid	High cost of registration	57	23.5	24.1	24.1
	Hidden costs and documentations	183	75.3	75.9	100.0
	Total	240	98.8	100.0	-
Missing	99	3	1.2	-	-
Total		243	100.0	-	-
Simplified license holders					
Valid	High cost of Registration	122	50.4	50.9	50.9
	Hidden costs & Documentations	117	48.3	49.1	100.0
	Total	239	98.7	100.0	-
Missing	99	3	1.3	-	-
Total		242	100.0	-	-

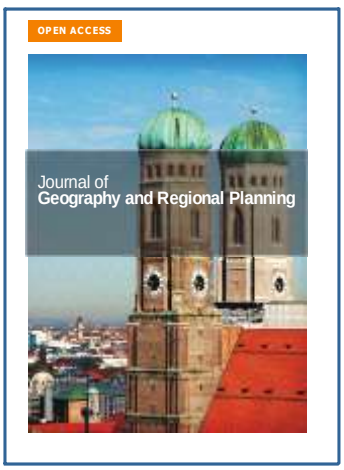
Appendix 4. Submission of taxation requirements and tax impact.

TaxRequ		Frequency	Percent	Valid (%)	Cumulative (%)
Convenience license holders					
	Did not submit to Tax regime	195	80.2	80.2	80.2
Valid	I did submit to Taxation	15	6.2	6.9	87.1
	Tax requirements Burdensome	30	12.4	12.9	100.0
	Total				
Missing	99	3	1.2	-	-
Total		243	100.0	-	-
Simplified license holders					
	Did not submit to Tax regime	36	14.9	15.4	15.4
Valid	I did submit to Taxation	57	23.6	23.9	39.3
	Tax requirements Burdensome	146	60.3	60.7	100.0
	Total				
Missing	99	3	1.2	-	-
Total		242	100.0	-	-

Appendix 5. Hiring of workers and contribution to provident fund.

HireWork		Frequency	Percent	Valid (%)	Cumulative (%)
Convenience license holders					
	I did not hire perm. workers	179	73.7	74.1	74.1
Valid	I hired perm. workers	62	25.5	25.9	100.0
	Total	241	99.2	100.0	-
Missing	99	2	0.8	-	-
Total		243	100.0	-	-
Simplified license holders					
	I did not hire perm. workers	166	68.6	69.0	69.0
Valid	I hired perm. workers	75	31.0	31.0	100.0
	Total	241	99.6	100.0	-
Missing	99	1	0.4	-	-
Total		242	100.0	-	-

Appendix 6. Finding whether firms received government support.

GovSuprt		Frequency	Percent	Valid (%)	Cumulative (%)
Convenience license holders					
Valid	Received Gov. support	58	23.9	23.9	23.9
	Never received Gov. support	185	76.1	76.1	100.0
Total		243	100.0	100.0	-
Simplified license holders					
Valid	Received Gov. support	62	25.6	25.6	25.6
	Never received Gov. support	180	74.4	74.4	100.0
Total		242	100.0	100.0	-

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