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THE IMPACT OF INFLATION ON SMALL TO MEDIUM ENTERPRISES PERFOMENCE. A CASE STUDY OF BINDURA TOWN MUNICIPALITY FROM JANUARY 2022 TO DECEMBER 2022.

BY

B1953966

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DEDICATION

This research is dedicated to and all my family who have supported me during my studies, the lecturers at Bindura University of Sciences Education who have taken the time to provide me with knowledge, and most importantly to the Almighty God.

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First and foremost, I would like to thank the Almighty God for His guidance, protection and wisdom throughout this dissertation writing. My acknowledgement would be incomplete without recognizing the efforts and contributions of my supervisor's guidance, leadership, advice and mentorship during the course of this research he was constantly there advising me and made time for me in his demanding schedule.

ABSTRACT

The purpose of this study was to determine the impact of inflation on Small to Medium Enterprises performance, a case study of Bindura Town Municipality from the period of January 2023 to the period of December 2023. The objective of the study was to see if there is any relationship between SMEs performance and inflation, to evaluate the strategies used by SMEs to survive in inflationary environment and also to evaluate the support that these SMEs are getting from the government. A review of literature was done and various authors agreed that inflation has impact on SMEs performance. The research study was confined in Bindura town. The study drew its subject from SMEs within the town of Bindura. The study made use of the descriptive research design and the case study as a research method. A sample of 50 SMEs was used using stratified sampling. The industry survey employed the use of a questionnaires as research instruments for the SMEs owners. Data collected were analyzed using both qualitative and quantitative techniques and data tables, pie charts and graphs through the use of SPSS were used. The study established that inflation has negative impact on the performance of SMEs sector as it reduces profit, reduce investment potential and reduce the competitive advantage of consumers. The study recommends that the SMEs owners and those who are promising to have their business established in Bindura Town should adopt measures such as keeping overhead cost low, offer products that have low cost and avoid long term loans. Also, the government should fully support the activities of the SMEs sector there contribute much to the development and GDP of the economy.

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CHAPTER I

1.0 Introduction

Planning for upcoming events around the whole world becomes more challenging for all businesses due to inflation. Since businesses will fail to meet the demand for their products at increased cost, there are forced to charge extremely high prices on goods and services in so as to make up for the production cost. Hence this has resulted making it much harder for businesses to determine production volume of their goods and services (Boyd 2006). A high rate of inflation hinders enterprises from integrating with other international market places in addition of having an adverse impact on the operation of the nation's markets and financial institutions. Because inflation is complex by nature, future prices, interest rates and exchange rates are unknown, which raises business risk and slows down transactions. (Wamucii 2010).

Generally, increase in growth of money supply are as a result of inflation in the economy. Opinions differ on which aspects drive low to moderate inflation are more divestible. Low level or modest rates of inflation can be due to changes in actual or due to availability, similarly during scarcity, also growth in the money supply. However, the general opinion is that prolonged period of inflation is due to money supply expanding rapidly as compared to the rate of economic growth (Dwivedi, 2010).

Majority of businesses nowadays favour a modest, steady inflation rate. Low (zero or negative) inflation can lessen the toughness of economic decline by allowing the labour market to respond more quickly in the case of recession and lowering the chance that liquidity trap hinders monetary policy from economic stabilization. Keeping low and stable inflation is generally entrusted to monetary authority in the Zimbabwean economy. These monetary authorities are the central bank that maintain the volume of supply of money (Lipsey, 2004).

A rising inflationary climate increased the challenges faced by financial planners in SMEs settings. It can be claimed that inflation is the rise in the cost of basics like food, clothing, medical care, and electrical utilities or the fall in the value of money, making it necessary to spend more money for the purpose of purchasing the same goods and services. Inflation has the effect of assisting in the transfer of funds from investors and savers to debtors (Wamucii, 2010). It rewards those who are in debt while punishing those who put off satisfaction and invested in SMEs. Governments typically print surplus money to meet expenses, which is a grave moral wrong (Adu, 2016).This circumstance can affect financial performance of the SMEs in the economy.

When there is inflation, which is a major issue for many nations, the currency's buying power of money declines as the cost of goods and services rises. The effects of inflation have an impact on costs as well as income in reaction to sales volume. Due to the fact that SMEs account for the majority of Zimbabwe's exports, they have a significant impact on the economy. SMEs performance can be shown by the gross profits acquired from the comprehensive income statement of the firm. To maintain their success in their day to day business operations, SMEs (Small to Medium Enterprises) must be mindful of the impact of inflation (Maimunah and Patmawati 2018).

1.1 Background of the study

According to Kotler (1997), the general economic environment and trends are essential for any business organization to succeed. The cost of manufacturing goods and providing services as well as market conditions, are influenced by wages, suppliers and rival prices and governmental tax policy. Inflation and interest rates, national income, unemployment and industry productivity investment and savings, currency issuance and balance of payments are just a few of the economic variables that have an impact on how business operate.

Zimbabwean economy is primarily defined by SMEs. The SMEs sector is mostly dominated by sole proprietorships,   partnerships, and small cooperatives predominate the SMEs sector. These can be grouped in two parts of the economy, which is the retail sector and production sector.

Majority of SMEs owners acknowledge that their venture began as a hobby and evolved into a successful enterprise. Small and medium sized enterprises are expanding in Zimbabwe economy as a result of record business closures that have put many individuals out of employment. SMEs are essential to the solution of socioeconomic issues like unemployment and poverty, particularly in developing nations like Zimbabwe. For most Zimbabweans, SMEs now serve as their primary source of income. The SME sector is widely credited with driving growth that is seen as a launching pad for industrialization. The SMEs sector in Zimbabwe merits the attention it receives, given the significance and status of SMEs in any economy. For the stability and health of the economy, it is essential to comprehend why certain SMEs prosper while others fail.

According to Financial Gazette (2018), the government entered the market by establishing the ministry of small and medium enterprise, which is intended to support them in terms of money because SMEss make a higher contribution national economy. It also assist in development of markets and the provision of business management guidance.

Due to the fact that they provide revenue for individuals, employ locals thereby reducing the level of unemployment in the economy, and have potential to grow into huge companies, SMEs have contributed more to the economy (OECD, 2017).

Since the year 2019, there has been a decline in number of SMEs in Bindura town municipality and this has been caused by failure by the sector to operate at full capacity because of inflation that dominates the economy (financial gazette, 2021).

1.1.1. Positive effects of inflation on firms

In some situations, inflation may be advantageous. It offers various benefits to the businesses, one of which is that it lowers the value of debt, which helps to maintain inflation to some level. Inflation can assist in lowering the real debt value of a company with debt. This is so because rising nominal income makes it simpler to pay back previous loans. Since the real worth of the debt will rise sufficiently, inflation is preferred in this situation than deflation. Despite the fact that inflation is influenced by interest rates, businesses debt interest rates will rise (Pettinger, 2016).

Strong economic expansion typically causes inflation to be at least moderately paced. For instance, the poor economic growth may be blamed to the very low inflation rate of 0.2%. Demand increase will result in higher inflation and faster economic expansion. Therefore, rising inflation may result in higher business profitability. Moderate inflation makes it easier to modify the relative costs of goods and services as well as employee compensation. For instance, it will be challenging to reduce nominal salaries for underperforming employees if inflation is recorded at 0%. However, it is simpler to freeze wages and thereby cut the actual pay of unproductive workers if inflation is 3%. (Maimunah and Patmawati, 2018).

The speed of inflation is normally at least modest during periods of strong economic boom. For instance, the very low inflation rate of 0.2% may be to blame for the weak economic growth. A rise in demand will lead to higher inflation and a quicker rate of economic growth. As a result, increasing inflation may boost firm profitability. It is simpler to adjust employee salaries and the relative costs of goods and services when inflation is moderate. For instance, if inflation is reported at 0%, it will be difficult to lower nominal compensation for underperforming staff. However, if inflation is 3%, it is easier to freeze wages and then reduce the actual pay of unproductive employees (Maimunah and Patmawati 2018).

1.1.2 Negative effects of inflation on firms

Businesses typically opt for inflation that is moderate and steady. If inflation increases above 3 or 4%, business costs and uncertainty can go up. Businesses may face difficulties as a result of inflation, including growing expenses, decreased profits, and a loss of competitiveness in international markets (Pettinger &Pettinger, 2016). The costs of corporate inflation include some of the following:

1.1.2.1. Menu costs

Eytan and Yoram (1977), two economists, defined menu costs as business expenses incurred when a company adjusts the prices of its goods or services. When the level of profit falls below the equilibrium point, costs are said to arise. The macroeconomic theory of price stickiness is thus supported by this. Businesses will examine prices more frequently if inflation is high. The operation has associated business expenditures. Due to the increasing difficulty in locating goods that may be sold for less than a cent, this high inflation can be very harmful. However, modern technology has made it much simpler than ever before to change prices these days. Instead of manually changing prices, barcodes can now be updated, which saves time.

1.1.2.2. Wage inflation

Rapidly rising inflation may necessitate renegotiating salaries with employees. However, because firms cannot afford it, these pay hikes can be expensive (Adu, 2016). According to Garter research (2021), raising pay and awarding additional bonuses are obvious ways to assist employees in adjusting to rising inflation. Henceforth, 63% of businesses will raise compensation to reflect inflation.

1.1.2.3 Uncertainty and confusion

The cost of investments will change more regularly if inflation is more than what it should be. Businesses become less eager to invest as a result since they cannot predict future expenses, wages, or needs. This is particularly problematic because unanticipated inflation increases the price of raw commodities. Due to the high level of inflation unpredictability, this is perhaps the most expensive inflationary cost of conducting business and could limit growth.

1.1.2.4. International competitiveness

Given the current economic climate in Southern Africa, Zimbabwe has the highest inflation rate compared to other nations in the region; as a result, Zimbabwean businesses would be less competitive than those in other countries in the region, which is crucial for exporters. Competitiveness will be restored if inflation rises above the current level because competitors will likewise devalue their currency, raising import prices and standard of living (Maimunah & Patmawati, 2018).

1.2 Statement of the problem

Since the Zimbabwean dollar's devaluation in 2019, high inflation has been a problem in Zimbabwe. The economy imports more goods and services than it exports, which makes it more susceptible to global economic fluctuations in domestic prices. Between January 2021 and November 2022, the sum of SMEs running their business operation in the municipality of Bindura town decreased. These have happened in opposition to the rise in demand for the goods made by these SMEs. Markets have also seen some shortages of products and services, and customers are grumbling about the problem. Additionally, the reduction has resulted in employment losses and a decline in activity in downstream industries.

The number of small enterprises operating in the Bindura Town Municipality has decreased as a result of the rising cost of labour, transportation, and raw materials over the past few years, particularly from January 2022 to December 2022. SMEs have been unable to meet consumer demand because they are unable to manufacture goods and services at a typical rate. Additionally, inflation has resulted in negative profitability, cash flows, and sales for the SMEs sector, all of which have negatively impacted growth and expansion. Additionally, the industry has seen few new entries throughout the same time span, remaining unchanged.

1.3 Objective of the study

1.3.1 Primary objectives

The research aims to assess the impact inflation to SMEs performance in Bindura town municipality.

1.3.2. Secondary objectives

- To determine the relationship between inflation and SMEs performance.
- To investigate the current strategies being employed by SMEs in order to survive in an inflationary environment.
- To establish the adequacy of financial, technical, business support given to SMEs by the government.

1.4 Research questions

- Is there any relationship between inflation and SMEs performance?
- What are the current strategies employed by the SMEs in order to survive in an inflationary environment?
- Is there adequacy of financial, technical, business support given to SMEs by the government?

1.5 assumption of the study

It is assumed that

- Research participants give accurate and unbiased information
- A representative sample is used
- The effects are controllable
- Responses will represent all SMEs owners in Bindura town municipality

1.6 Significance of the study

The research study influences a great deal of benefit to various stakeholders of the SMEs sector. Such stakeholders are management, general employees, customers, the researcher and scholars.

1.6.1 Management

The research study will enable management of the SMEs sector to align their strategies that enable them to survive in hyperinflationary environment.

1.6.2 General employees

The benefit that accrues to employees is that they/ are guaranteed of the continuity of the firm. This means that the staff will have job security thus remain motivated.

1.6.3. Customers/ consumers

SMEs customers are guaranteed of continued supply of basic commodities at the market place and as a result continued business.

1.6.4. Researcher

The study will help the researcher to gain industry knowledge. This will also provide research skills. The study will also assist in the appropriate application of knowledge concerning the subject matter. It will also serve as a motivational tool to the researcher.

1.6.5 Scholars

The research will help other researchers with empirical evidence for further researches on the impact of inflation on SMEs performance.

1.6.6 Government

The research will help the government to know how the SMEs benefit the economy and also to know were there can assist the SMEs in order to improve their efficiency since the sector contribute a higher percentage of the GDP of the economy.

1.7 Delimitations of the study

In the research, the SMEs sectors located in Bindura town municipality were used as a case study with emphasis on how this firms are surviving in the inflationary economy the respondents in the study will restrict mainly to SMEs owners .In Zimbabwe the inflation figures shows that it entered the hyperinflationary trend in early 2000 as of the CSO statistics however the research will only focus in 2022 in order for simplification and greater accuracy .The study will ignore SMEs that are not registered with registrar of companies. The research was confined to the period January 2022- December 2022.

1.8 Limitation of the study

Obtaining trustworthy data is the most difficult aspect of analysing the impact of inflation on SMEs performance. The scarcity of accurate data on the impact of inflation on SMEs performance makes it difficult to draw firm conclusions. To use accurate data, the researcher must compare data acquired from various sources.

Another issue is that of small sample size. The researcher opted for Bindura town Municipality to represent a Zimbabwean town so that the results of impact of inflation on SMEs performance will provide conclusion to all towns in Zimbabwe.

SMEs owners take more time than expected to provide the researcher with crucial information. The study endeavour was carried out at a period of economic collapse where resources were few, including electricity for typing and internet browsing. The researcher has work at night and on weekends when there is electricity.

1.9 Definition of terms

Inflation- means a continuing or persistent tendency for the price level to rise.

Impact – is a marked effect or influence.

SMEs- is an enterprise that is managed by owners in a personal way.

Strategy- is a plan for achieving a long-term or overall goal.

Relationship- the way in which two or more things are connected

Support – give assistance

Business performance- describes how well an organization is doing

Profit- is a financial gain

SMEs- small to medium-sized enterprise, a company with no more than 500 employees.

RBZ- is the central bank of Zimbabwe

1.10 Abbreviations

SMEs - Small to Medium Enterprises

RBZ - Reserve Bank of Zimbabwe

ZIMRA- Zimbabwe Revenue Authority.

QTM- Modern Quantity Theory of Money

CU- Capacity Utilisation rate

INF- Inflation rate

LR- Lending rate

1.11 Summary

The background of the study, primary and secondary objectives, research questions, assumptions, and, most importantly, the problem of the study were all highlighted in this preliminary chapter, synchronizing all elements. The study's limitations were also mentioned. The following chapter examines the literature reviews of various authors.

CHAPTER II

LITERATURE REVIEW

2.0 Introduction

This chapter will give a thorough analysis of the ideas that already exist and the related investigations that have been done to support this study. In accordance with the objectives of the study, the literature will also be studied.

2.0.1 Inflation

In spite of being fairly intrusive, inflation is one of the hardest to spot and stop because of how sophisticated it is (Baciu, 2015). A consistent and ongoing increase in the economy's general prices is referred to as inflation (Nyoni & Bonga, 2018). According to Fatukasi (2012), inflation is also the gradual rise in the national currency's overall price level in a value-added economy. In general, inflation can be defined as the continuous increase in the prices of goods and services across the economy. According to Nyoni and Bonga (2018), maintaining price stability is one of the primary goals of monetary policy in the majority of countries, including Zimbabwe. According to Idris and Bakar (2017), healthy and productive inflation is a sign of financial responsibility and a requirement for attaining levels of growth and development that are sustainable. The impact of monetary policy is slow to take effect, as noted by Bockil and Schimmelpfennig (2005). As a result, policymakers must often alter their inflation trajectory. Through forecasting, policymakers offer a preliminary indication of the possibility of upcoming inflation.

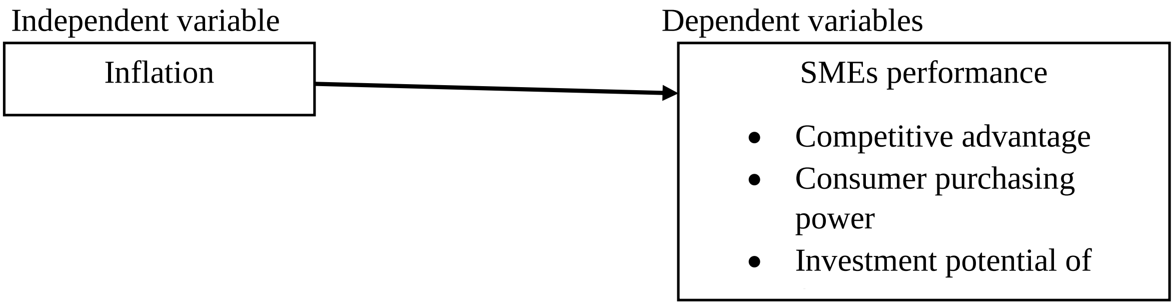
2.0.2 Small to medium enterprises

For policies, laws, and legislation to be effective across all sectors, identifying SMEs is essential. It's important to figure out what they signify. A small enterprise has no proper definition that is accepted on a worldwide scale. SMEs are characterised differently depending on the nation. Depending on the work required, each nation has its own systems for determining speed and rate into a different industry. For instance, some countries categorise SMEs as having all variable assets, a specific quantity of workers, sales, or paid capital. Other countries have definitions that are specific to the industry they operate in. Therefore, they employ many pointers simultaneously.

In the United States SMEs are generally defined as an independent company with fewer than 500 employees. United States SMEs Association Office of Advocacy (2019), but further it is broken down by employment, revenue and annually by various industry standards Revenue from government programs such as contracts U.S. SMEs Administration (2020). The concept of SMEs depends on the volume of economic activity, economic structure, level of economic development and economic objectives development plan. On the other hand, in Japan, SMEs are mainly hiring businesses with the number of employees varies from 4 to 299. In Sudan, SMEs are defined by the size of the organization employees. Thus, a small enterprise is defined as an enterprise with less than 10 employees. In Zimbabwe, Zimbabwe Revenue Authority (ZIMRA) classifies SMEs as business that employs between 5 to 40 employees (Financial tribute, 2018).

2.1 Conceptual framework

An independent variable (Usually indicated as x) is a variable whose variation does not depend on that of another. While a dependent variable (Usually indicated as y) is a variable whose value depends on another. In this study the independent variable is inflation while the dependent variable is SMEs performance.



2.2 Theoretical review

2.2.1 The monetarist theory of inflation

According to the Modern Quantity Theory of Money (QTM), often known as the monetarist theory of inflation, inflation is a monetary phenomenon that happens quickly everywhere and always when the money supply increases more quickly than the rate of production (Nyoni &Bonga, 2018). According to monetarists, the QTM effectively causes the quantity of money in circulation to determine the price level. Monetarists contend that QTM provides a complete solution. The real economy is unaffected by changes in the money supply; only the level of prices are impacted.

2.2.2. Keynesian theory of inflation

Interest has an impact on the production of money without directly impacting aggregate demand. Consequently, the tariff with the lowest effect on overall demand (Samuelson, 1971). The monetarist theory that the velocity of money circulation is stable was fiercely contested by Keynesians. It turns out to be extremely unstable, though. Modigliani (1977) criticised the monetarist theory of strategic dealing and emphasised the importance of stabilisation policies to combat inflation. The monetarist notion that markets were free to regulate themselves inefficiently and restore to full employment was likewise criticised by Keynesians.

2.2.3. Neo-Keynesian theory of inflation

Keynesianism is the foundation of the Neo Keynesian theory of inflation. It claims that there are three different types of inflation, including structural inflation, rising costs, and rising demand. When total demand outpaces supply, demand-side inflation results. Cost drive a sharp drop in total supply is what triggers inflation. Basically, changes in the country's monetary policy have caused structural inflation.

2.2.3.1. Demand pull inflation

According to demand pull theorists, relative fixed supply of goods and services is not the primary source of inflation, but rather the continuous rise in aggregate demand for goods and services (Addison & Burton, 1979). Changes in the market's demand for products and services are the primary cause of inflation. This inflation gap, which raises prices, is caused by a rise in total demand without a corresponding increase in supply. 2017 (Kavila and Roux). Because of labour limits, the product level is full when the economy is at full employment and output volume and aggregate demand are rising. Therefore, increasing the prices of the market's goods is the only method to free the commodity market. Demand-pull inflation proponents disagreed that an inflationary gap was caused by an imbalance between the money and commodity markets (Kavila & Roux, 2017). Consequently, expansionary monetary policy is what drives inflation (Friedman, 1956). The money supply is expanding faster than the rate of production (Kavila etm Lou, 2017).

2.2.3.2 Cost push inflation

The non-monetary supply effects that lead to higher expenditure are mentioned in the cost push hypothesis of inflation. Consequently, it has a price (Kavila & Roux, 2017). Proponents of the cost push theory, who view monetary growth as playing a conforming or passive role, recognise the significance of momentary expansion as the source of inflation (Humphrey, 1977). Cost inflation theory places more emphasis on rising production costs than on excessive aggregate demand (Kavila & Roux, 2017).

2.2.3.3. Structural inflation

Supply factors are the main focus of structural theories of inflation as its causes. Bernanke, (2005). According to structuralist theory, a country's tendency for inflation is determined by a number of characteristics that are particular to that nation.

Structuralism according to the structuralism philosophy, labour rigidity, monopolistic tendencies, and inelastic supply are some examples of economic obstacles that cause inflation. Prices for food are regulated. Costs, wages, and import prices are also cited by Khan and Schimmelpfennig (2006) as contributing factors to inflation. According to structuralists, the world is not flexible enough for the pricing mechanism to assist the market in reaching equilibrium.

2.2.4 Inflationary expectations theory

The perceptions or beliefs of economic agents concerning potential inflation trends are known as inflationary expectations. Mohanty, (2012).A crucial element of current macroeconomics monetary theory and policy is the concept of inflationary expectations (Gali, 2015; Sims, 2009). The expectations of economic actors for inflation have a significant impact on central banks' ability to achieve price stability. In this sense, supply management plays a key role in enhancing price stability. (Loleyt & Gurov, 2010; Bomfin & Rodenbusch, 2000).

Expectations can be formed rationally or adaptively. When economic agents base their expectations on previous and present experiences with inflation, they are said to have adaptive expectations. A lot of people were drawn to adaptive expectations because of their retroactive perspective. The notion of rational expectations was developed in response to criticism. According to Mohanty (2012), rational expectations are created when economic agents take into account all of the information that is currently known concerning inflation and then factor in how the central bank will respond to changes in monetary policy. Expectations have been added to the Philips curve relationship identified by Elhers and Steinbach (2007), which increases their significance in macroeconomic policy.

2.2.5 Classical Theory of Inflation

According to the traditional theory of inflation, money is an asset that people regularly use to acquire goods and services. In the modern world, money serves as a means of exchange in every economy. When both the general price level and the demand for goods and services rise, inflation happens in an economy. The development of the classical theory of inflation is dependent on a number of variables. The quantity theory of money provides an explanation for inflation. The primary significant and long-term drivers of inflation rate and price levels are described by this theory, which is a part of the classical theory of inflation. The entire economy is in ruins due to inflation, which is a dominating phenomenon. It affects every aspect of the economy. It is a phenomenon that has an impact on and inhibits the entire economy and deals with the fundamental unit of exchange in an economy, which is money (Wamucii, 2010).

The term "devaluating of money" refers to the process that occurs when the money supply expands, prices rise, and the value of money declines. The government uses an open market policy to control the amount of money in circulation. A strong tool for regulating the flow of money is the open market. Money demand is influenced by a variety of things (Keynes, 1923). Interest rates and the general level of pricing in the economy are some of these variables. Every economy aspires to the equilibrium point where supply and demand for money are equal. Marx described inflation's source as the devaluation of the currency, which results in high prices due to an excess of non-convertible bank notes.

2.3 Empirical review

According to Carroll (2004), profitability, growth, market value, total shareholder return, economic value added, and customer satisfaction based on stakeholder expectations can all be used to describe and measure a company's performance. According to Delen, Kuzey, and Uyar (2013), financial analysis has traditionally been used to gauge how well a company is performing for investors, decision-makers, creditors, and other stakeholders. This is because many experts concur that a company's performance and its financial performance are closely related. But for the stakeholders, factors other than financial performance are important (Harrison and Weeks, 2013). Also, they look for more. Due to this, Freeman (1984) defined business performance as the sum of value created by an organization via its daily operations, which is equal to the utility produced by each enterprise's legal stakeholders. A combination of organizational, environmental, and human elements that contribute to the growth of the business environment have been identified by Hansen and Wernerfelt (1989) as the predictors of longitude company performance. Organizational performance is influenced by individual behaviors in the workplace. Similar to Rothaermel (2017), who also adhered to the balanced scorecard and triple bottom line framework, this business model of business performance takes into account three traditional metrics of performance: accounting profitability, shareholder value, and economic value.

As stated by Henderson (1969). Instead of enhancing productivity and reducing risk appetite among business owners to invest in the future, higher inflation or higher inflation expectations cause businesses' expenses to grow more quickly, reducing competitiveness. Employment and economic growth are negatively impacted. The following are some of inflation's strategic implications: Despite stronger profit reports, real profit margins are expected to decline. Both the price of money and the necessity for cash will rise. Of course, these factors also contribute to industrial concentration (Hamman 2012).

According to Walters (2013), prosperous economic circumstances, such as low and consistent inflation, are typically required for firms to grow. This allows companies to plan their operations and investments, such as the purchase of new machinery and the construction of production facilities, years in advance. For large companies, investment planning may span several decades. Business plans become very uncertain when inflation is high or expected to be high because businesses are unable to forecast their future costs or revenues owing to changes in the value of money. In response, they become more circumspect.

Walter (2013) argues that while zero or negative inflation is bad for the nation, high inflation is beneficial to the economy. The economy can be impacted in a number of ways:

- When inflation is rising, consumer behaviour is distorted because people tend to purchase as many of their necessities in advance as they can in order to minimize their fear of price rises. • Higher inflation redistributes people's income, which might destabilize markets and lead to excessive deficits.

- Unions may demand higher wages during periods of high inflation. If the business grants the employees' requests, it could result in a spiralling wage-price situation that would make the inflation issue worse.

- During an era of growing inflation, the inflation rate varies widely, making it challenging for businesses to forecast the future and precisely determine pricing and returns on investments. As a result, it erodes consumer and investor confidence. If inflation rate in the economy is slightly higher than that of its rivals, its exports will be less alluring in comparison to those of other countries. This implies a decline in domestic and international sales of state products, increasing the trade deficit. At the same time, the country's competitiveness is weakened by high inflation in international markets (Harman, 2012).

Behrendt (1996) argues that rising inflation will make it more volatile and increase the possibilities of adjustments in relative prices. He contends that because unforeseen inflation cannot be managed, financial planners may only consider predicted inflation during the planning stage. Additionally, he noted that when inflation volatility rises, rising inflation will cause an increase in unforeseen inflation. Businesses that are essential and that need to be identified and treated will be more affected by inflation, which will increase planning uncertainty and financial risk. Inflation can be managed most simply by accounting for it in every cash flow item and using the most recent information on how each component will be affected (Transtutors.com, 2013). Errors are unavoidable because future inflation cannot be predicted with great accuracy. Thus, inflation makes capital budgeting more uncertain, risky, and complex. Fortunately, spreadsheet models and computer programmes are available to assist with inflation analysis, making the inflation adjustment process practical and simple (Hamman 2012).

According to empirical research, inflation has an impact on business performance that is both positive and negative. For instance, a study by Loto (2012) demonstrates that factors such the capacity utilization rate (CU), inflation rate (INF), and lending rate (LR) had a favorable but negligible impact on the performance of businesses in Nigeria in the first quarters of 2005 and 2006 as well as 2007 and 2008. According to study by Chaudhry, Ayoub, and Imran (2013), Pakistan's SMEs suffered significantly from inflation between 1972 and 2010. Another finding supporting the Siyakiya (2014) study indicates that as the economy in Zimbabwe is highly commercialized and asset values are declining, hyperinflation had a negative impact on business performance between 2000 and 2009. Another finding in support is of Siyakiya (2014),It indicates that the economy of Zimbabwe is highly commercialized and asset values are declining, hyperinflation had a detrimental effect on business performance between 2000 and 2009, it prove that there is a clear negative correlation between inflation and corporate performance. These findings contradict Adaora's (2013) study on Nigeria. According to Adaora (2013), inflation had a strong positive impact on corporate performance in 1981 prior to 2011. Lotto's (2012) findings and Adaora's (2013) studies are in agreement. According to Maimunah and Patmawati's (2018) research, which supports Adaora's (2013) and Loto's (2012) findings, there is a correlation between an organization's gross profit and the rate of inflation. This was evidence that inflation increased earnings in manufacturing firms rather than decreased profits. According to Chioma et al. (2015)'s research, there is a negative correlation between reported earnings and inflation for financial institutions like banks. The adverse effect is reportedly to be reducing the value of banks in Nigeria. In line with Chioma et al (2015) findings, (Khaled et al 2021) demonstrate a significant negative relationship between inflation and business performance. Their study's objectives included an analysis of the short- and long-term effects of inflation on the growth of this industry in the Jordanian economy from 1993 to 2018. The findings from the ARDL Model revealed that inflation has a negative effect on the financial sector's performance. The outcomes were due to a lack of savings and higher consumer expenditure on goods and services as a result of inflation, which lowers the purchasing power of savings. Due to inflation, which lowers the amount of investment required for production expansion and constricts economic growth, there was a scarcity of savings and a rise in consumer spending on goods and services as a result. This demonstrates that inflation generally raises business earnings rather than reduces profits.

In a different study by Chisasa (2013), he attempted to ascertain how SMEss in the Harare Central Business District managed to endure during the years of 2005 and 2009, when Zimbabwe experienced hyperinflation. The findings of his research demonstrate that, in order to survive during that time, businesses who were having financial difficulties employed illicit techniques like stockpiling and currency conversion on the black market. SMEs would import inventories from neighbouring nations, which is how the SMEss manage to survive, as the manufacturing sector was similarly impacted by raw material shortages and was thus operating at considerably below capacity. Mohamed (2016) also performed study on how to manage earnings in an environment with inflation. According to his research, firms that can comprehend various revenue phrases across their current and projected consumer bases can generate more money. He added that business owners should concentrate on tactics that can generate greater returns with less work. A study on the survival tactics used by manufacturing companies in Zimbabwe during the hyperinflationary years of 2005 to 2008 was done by Gumbe & Kaseke (2011) The study's findings demonstrate that businesses use a variety of survival tactics. Quantity reduction, decentralized decision-making, lowering product quality, creating syndicates, cutting pay periods, and other financial, marketing, and purchasing techniques are some examples of such tactics. In their investigation, they also noted that businesses who were hesitant to implement sustainability practices collapsed in their business operations.

A study on the impact of government assistance on the success of SMEs was undertaken by Rankhumise and Masilo in 2013. The investigation was undertaken in two nations South Africa and the other one in China. According to their research, many small to medium enterprises succeeded and some experienced high turnover, demonstrating the effectiveness of the support being provided to them. Another study was conducted by Kyphilavong in Laos in 2007 with the aim of identifying factors impacting SMEs efficiency and providing information on government policies pertaining to SMEs development. The findings demonstrated that the small company sector in Laos plays a significant role in economic development, the government supports the growth of SMEs with defined policies and plans. The results showed that high taxes, rising inflation, and unpredictable currency rates are the main challenges.

2.4 Research gap

Numerous studies have been conducted on various areas of inflation and business performance as a result of the examination of the literature. Scholars have not, however, sought to examine how inflation impacts the performance of SMEs using Bindura Town Municipality as a case study. By determining the impact of inflation on SMEs performance, this study will close this gap.

2.5 Chapter summary

The chapter focused on what was published by other researchers and scholars on the topic which is the impact of inflation on SMEs performance. It covered the relationship between inflation and business performance, strategies that are employed by SMEss in order to survive in inflationary environment and government support to the SMEs. It also looked at the research gap. Based on secondary sources and pertinent literature on each research aim, the chapter examined both extensive theoretical and empirical literature in line with the objectives of the study.

CHAPTER III

METHODOLOGY

3.0 Introduction

Wilkinson (2004) defines research methodology as certain operations or techniques used to recognize, elect, process, and analyses data about a given topic. The chapter addresses two major questions which are how data was collected and how data will be analysed. This chapter examines the research methodology and processes used to conduct the study and reach findings on the influence of inflation on SMEs performance. The research strategy, sample, data collecting technique, data analysis, data presentation, and data reliability and validity was all covered in this chapter. Examination of these procedures used to obtain secondary data to try to answer the research questions. The study will aid in the formulation of recommendations.

3.1 Research design/ plan

The choice of research strategy, according to Sileyew (2019), is an important choice in the research design process since it specifies how pertinent data for a study will be obtained. It is the research project's master plan. According to Kirshenblatt- Gimbelett (2006), research design is the overarching approach used to combine many factors of the research in compatible and logical manner. It guarantees that the data gathered is sufficient to discuss the study challenge clearly. There are four different types of research designs, according to Yousaf (2018) which are exploratory research designs, descriptive research designs, explanatory research designs, and evaluation research designs.

The researcher employs a descriptive study approach in order to answer the "what" and "how" questions. It depicts the current situation without requiring a theory. The research study is based on previously collected data. Because it concentrates on the what of the study topic rather than the why of the study subject, the descriptive research approach was chosen. Descriptive research may be carried out utilising many approaches such as observation, case studies, and surveys. Bhat (2019) provides an overview of the primary data gathering methods. Another benefit of doing descriptive research is it permits research to be performed in the respondent's simple setting, ensuring that exceptional and reliable data is acquired. Blurt (2019) investigates how information can be gathered through textual sources like newspapers. This type of data collecting enables descriptive research to reveal insights within living experiences that other research approaches cannot. According to Hamidehkarimy (2019), descriptive research can be a precursor to forthcoming study since it may aid in selecting factors that may be investigated.

Considering that the research findings collected is from both qualitative and quantitative, it provides a thorough convention of a study subject. According to McNabb (2018), descriptive research is rapid and inexpensive since it employs intermediary tools.

Nevertheless, descriptive research contains its own set of disadvantages. Bhat (2019) discusses how the unpredictability of the sample makes it difficult to certify that it is an accurate reflection of the population. Another disadvantage is the lack of secrecy. If the inquiries are too personal, the replies may not always be truthful. This may call the data's veracity into question. Because it only focuses on what of an objective, the descriptive method has no opportunity for learning the cause. It does not permit objective why or how.

3.2 Population

According to Webster's definition from 1828, a population is a group of unique people, objects, or things from whom statistical samples are drawn. The study sought to demonstrate the impact of inflation on the performance of SMEs. This study's demographic consisted of respondents who operate SMEs in Bindura Town Municipality. This study's target group will be 500 SMEs owners from various sectors of operation who are thought to be reliable for the study.

3.3 Sample

All sampling procedures strive to obtain a representative sample from the population. With a representative sample, the results may be securely generalized to the remainder of the community from whom the sample was collected. A sample is a portion of the population that is chosen using either probability or non-probability methods. Given the size of the target population, Henry (1990), as mentioned in Saunders et al (2005), contends that "using sampling makes possible a higher overall accuracy than a census." The sample strategy was chosen with. Additionally, a sampling methodology refers to the process used to choose the sample's units. Researchers use it to track for potential sources of information (Bryman, 2008). The investigation used stratified sampling technique where respondents were which is probability sampling technique. Here the researchers divides a diverse population into relatively homogeneous groups called strata. The respondents were grouped according to their industry of operation which includes textiles, agribusiness, information and communication technology and construction. Respondents sought by the research in their sample were SMEs owners in Bindura town Municipality. A sample of only 50 respondents was only selected using stratified sampling technique. This is 10% representation of the total sampling frame of 500 potential respondents.

3.4 Data collection instruments

Both quantitative and qualitative viewpoints are used to analyse the study design. A researcher can use any of them on their own or in combination. Due to the speedy data collection, the researcher uses quantitative methodologies. The collection of data for analysis is moving more quickly, according to Napolitano (2019).

Quantitative research is faster than other approaches. According to Devault (2019), quantitative research provides accurate and reproducible knowledge. When some sites are investigated under randomized settings, it confirms itself by providing consistent findings.

3.5 Primary sources

Primary research data will be gathered using a survey method and questionnaires to which respondents will respond. Additionally, if appropriate, respondents will write their responses in the spaces provided on the questionnaire. Respondents will receive the questionnaire, and advance preparations will be done.

3.6 Secondary sources

Secondary data sources include published public documents and real evidence. Secondary data on inflation and small company performance will be acquired from a range of journals, periodicals, newspapers, articles, books, and websites for the study. The study will also refer to previous, similar research that has been conducted elsewhere.

Due to the controllable nature of papers and their value as a source for reliable historical data, this form of data gathering is effective and successful. As a method for acquiring quantitative research data, document review has developed over time. There are several places where secondary data may be found (Crossman, 2019). Since the researcher won't need to spend money, time, effort, or resources gathering the data, it is cost-effective. According to Dufour & Richard (2019), secondary data is frequently already cleaned and preserved in an electronic format, saving researcher's time in the data preparation process.

Secondary data comes with its own set of drawbacks. Dufour & Richard (2019) claims that the researcher is unaware of how the data was obtained or how well the process was completed. The data acquired may be suspicious, therefore the researcher has no control over it. The data given does not specifically address the requirements of the researcher because it will be utilized for other purposes.

3.7 Data Collection Procedures

The questionnaire was the primary research tool.

3.7.1 Questionnaire

This instrument was used to collect information from small company owners. This enabled the researcher to get data from a large number of participants while ensuring consistent replies. The researcher was able to collect qualitative data from the owners by using questionnaires that comprised closed-ended questions on a Likert scale. The Likert scale is a method of scaling responses made by respondents. The following alternatives were used in this study paper: strongly agree, agree, neutral, disagree and strongly agree.

Likert scale

Table 3. 1

Attitude	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Points	5	4	3	2	1

Creswell (2014)

Closed-ended questions allowed respondents to select the category that best reflected their opinions. Because the researcher gave the participants a week to complete the questionnaire, this tool enabled all participants to provide significant feedback. The way the questions were framed resulted in more objective and consistent replies. This made it straightforward to compare the information gathered. Because the researcher was compelled to ask respondents not to divulge their names and swore to keep the data secret and only utilized there was also a high degree of success in acquiring truthful and honest information or facts for the purposes of this investigation. This alleviated the concern of sharing sensitive information that may perhaps contribute considerably to this study endeavour.

3.7.2 Questionnaire distribution

Distribution of the questionnaire to respondents was done using a drop-pick and personal technique based on stratified sampling. With the use of a student ID and a cover letter that sought to quickly describe the purpose of the questionnaire, the researcher introduced herself. One week was provided to the responders to complete the questionnaire.

3.8 Data validity and data reliability

As a way of assessing a study's stability or consistency, Stephanie (2010) looks into data reliability. When using a tool or technique to collect data, reliability should be considered throughout the process. According to Middleton (2019), it is critical that the outcomes be exact, reliable, and reproducible. This research's reliability is accomplished by picking a sample and assessing it for accuracy using data collected. Data validity describes how accurately a method measures the variables it is intended to assess. Validity should be assessed early on in the research process, when the researcher chooses the data collection method (Middleton, 2019). By utilizing objective data, this study's validity is assured.

3.9 Data presentation and analysis

Data analysis, according to Ott & Longnecker (2015), is the process of assessing, cleansing, transforming, and modelling data in order to draw conclusions, find useful information, and support decision-making. According to Guru (2019), data analysis entails a number of phases, including gathering data requirements, gathering data, cleaning data, analysing data, interpreting data, and visualizing data. Tools and software for data analysis can be employed at this stage to comprehend, analyse, and come to conclusions depending on the needs. In this research SPSS (Statistical

Package for the Social Sciences) was used to analyse data. Descriptive statistics gives a simple way to compare multiple data sets in order to identify the largest and smallest values as well as changes over time. It is used to summarize enormous amounts of data collected.

Descriptive statistics have their own set of restrictions. It does not permit drawing inferences beyond the scope of the facts examined. It just permits the researcher to sum up the measured data; it does not permit the generalization of the same data to other objects. To visualize what the data was showing would be challenging, especially if there was a lot of data.

3.10 Chapter summary

The study methodology was covered in this chapter, together with information on the general research design, data sources, sampling processes, and research tools employed. Additionally, it outlines how the data will be examined and presented.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.0 Introduction

The research findings are discussed in this chapter in accordance with the goals outlined at the outset of the study. The questionnaire was created by translating the research objectives into structured research questions. Following the application of the pertinent data analysis techniques, the results were systematically presented through graphs, tables, charts, and an explanation of the responses. This Chapter covers the analysis of the primary data gathered, which will be analysed in relation to the literature already in existence as described in Chapter 2 of this study.

4.1 Data presentation, analysis and discussion of research findings

4.1.1 response rate

Table 4. 1

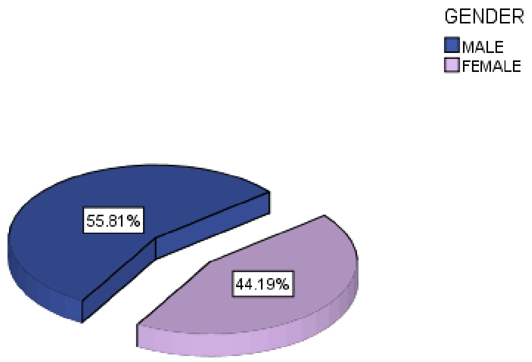
Item	Frequency	% Frequency
Usable	43	86
Unusable	7	14
Total	50	100

Source: primary data 2023

Table 4.1 shows that a total of 50 SMEs owner were chosen as a sample from the population of SMEs in Bindura to answer the questionnaire. A total number of 43 SMEs owners answered the questionnaire and constituted a 86% usable return. Only 14% could not respond to the questionnaire sent to them

4.1.2 Gender responses

Figure 4. 1

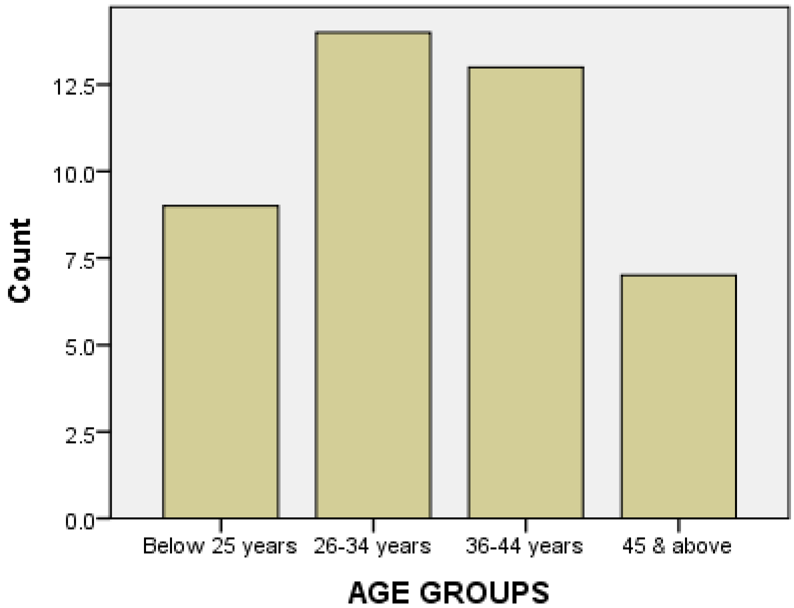


Source: primary data 2023

According to the research findings , the respondents gender status was as follows. 55.81 of the respondents were males and 44.19 % of the respondents were females as shown in figure 4.1 this shows that the information was collected from both male and female SMEs owners, which reduces the gender bias component.

4.1.3 Age groups

Figure 4. 2

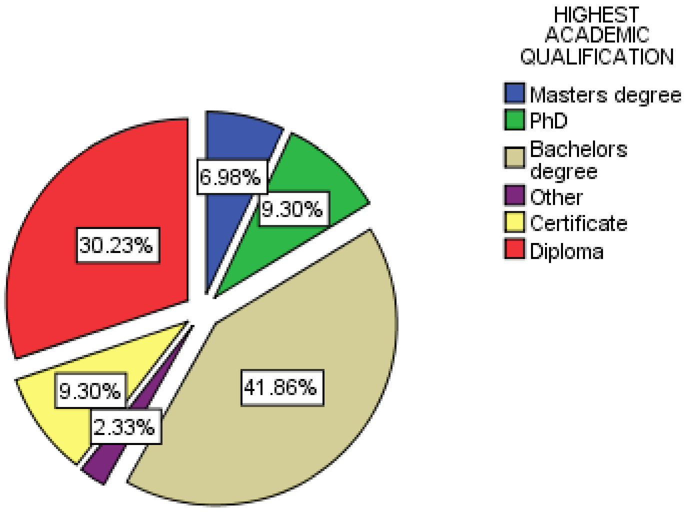


Source: primary data 2023

The age group of 26-44 years constituted the highest number of respondents with 62.8%, followed by below 25 years which had 20.9% and lastly 45 and above which had only 7 respondents with 16.3%. It clearly shows that the young adults, middle aged adults and the old adults owns the SMEs in Bindura at different capacity. This show that the majority of the small owners of the SMEs are the young people. This might be because in developing countries such as Zimbabwe where there is high rate of unemployment. Such that the young ages will find alternative ways to survive by creating their own employment.

4.1.4 Highest academic qualification

Figure 4. 3



Source: primary data 2023

The results indicates that the respondents at the time of research as shown in figure 4.3 indicate that the majority 41.86% attained a Bachelor's degree, whilst 30.23% attained diploma, 9.3% of the respondents indicated there had reached PhD and certificate, 6.98% reached masters and lastly a lower percentage of 2.33% of respondents did not specify there level of education. This indicate that the research was not biased since majority of the respondents indicated that there attained specific qualification which indicate that there were able to read and understand that the questionnaire requirements except for the 2.33% which could not tell their highest level of education.

4.2.5. Does inflation has impact on the overall performance of the SMEs sector?

Table 4. 2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	2.2	2.3	2.3
	Disagree	1	2.2	2.3	4.7
	Neutral	4	8.9	9.3	14.0
	Agree	19	42.2	44.2	58.1
	Strongly agree	18	40.0	41.9	100.0
	Total	43	95.6	100.0	

Source: primary data 2023

Table 4.2 indicates that 46.6 % strongly agree, 41.9 agree, 7% neutral, 2.3% disagree and 2.3 strongly disagree that inflation has impact on overall performance of SMEs in Bindura.

Basing on the overall mode of the results 88.4 percent agreeing indicates that inflation indeed cause poor performance of SMEs in Bindura. As stated by Henderson (1969). Instead of increasing productivity and reducing risk appetite among business owners to invest in the future, higher inflation or higher inflation expectations cause businesses' costs to rise more quickly, reducing competitiveness.

Excessive inflation is likely to decrease business activities because it obscures and distorts relative prices, fosters uncertainties that makes it difficult for firms to make long term decisions and deters saving, redistributing earning and depressing consumption and degrading financial stability (Hamman 2012).

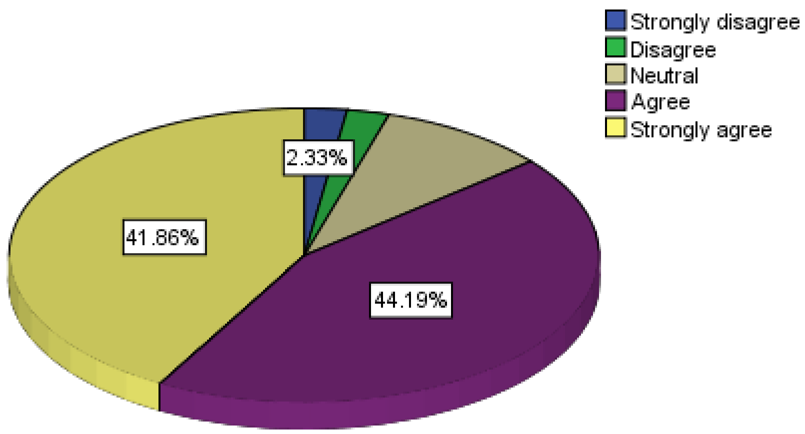
Contrary 4.6 percent of the respondents did not agree that inflation causes poor performance of SMEs. This is in line with the research of Pettinger (2016) that

Inflation can assist in lowering the real debt value of a company with debt. This is so because rising nominal income makes it simpler to pay back previous loans. Since the real value of the debt will rise sufficiently, inflation is preferred in this situation to deflation.

Also, Najihah et al (2014) suggested that there are other factors besides inflation which cause poor performance in SMEs which includes entrepreneurial characteristics, management practices and training and guidance. Also in addition to Najihah (2014) research Ntakobajira (2013) also add that government policies and regulation, technology and access to financial services also affect SMEs performance

4.2.6. **Inflation reduces competitive advantage of SMEs**

Figure 4. 4



Source: primary data 2023

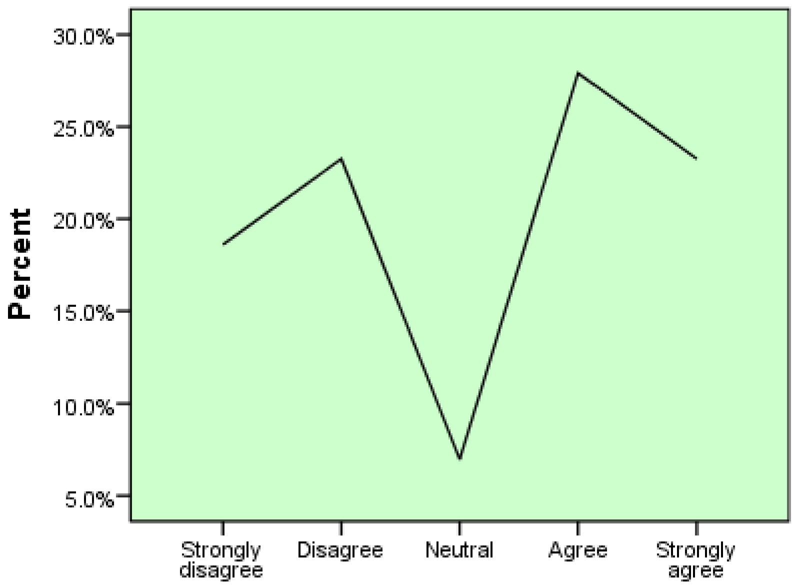
The research revealed that inflation does affect the competitiveness of a business. In view of this establishment, 44.19% of the respondents agreed, 41.86% strongly agreed, 9.33% neutral, 2.33% disagree and 2.23% strongly disagree.

Consumer perception of a firms offering in relation to competitors affects how responsive customers are to price changes, or the price elasticity of demand. Consumers may find it more challenging to understand how firms' price compares to its competitors when nominal prices change often. If so, the business will be compelled to raise price because doing so will allow more profits while endangering fewer consumer relationship Wamucii (2010).

According to 86.1 percent of respondents, inflation weakens local businesses' competitive advantages. According to Hamman (2012), inflation raises the cost of both goods and services, which causes exports to fall without an exchange rate adjustment as goods and services lose some of their competitiveness and appeal. While domestically produced goods will continue to be pricey, the cost of imported goods and services will also be more competitive and much less expensive.

4.2.7. Inflation distorts consumer purchasing behaviour

Figure 4. 5



Source: primary data 2023

With regards to consumer purchasing behaviour, 23% of the respondents strongly agree that inflation distorts consumer purchasing pattern 27.9 % just agreed, 7% were unsure, 23.3 % disagree and 18.6 strongly disagree as shown in figure 4.5.

Consumer purchase behaviour is a serious issue that threatens all businesses and is marked by constant change. Purchase decisions are influenced by social, cultural, economic, political, and psychological variables. According to Lautiainen (2015), consumer purchasing behaviour is a set of coordinated actions that an individual or group of individuals conduct to choose and consume goods and services that will satisfy their needs and preferences.

51.2 percent agree implies that consumers will buy fewer goods as prices rise, which has a knock on effect on the performance of SMEs. However, it's important to recognise that the impact is not uniform to all sectors of production. The demand for other products, specifically those that are necessities will not decrease which support the 41.9 disagree on the above table. Demand will increase for some goods as consumers prefer expensive products for status symbol such goods with Veblen appeal. Similarly, there are other goods that as prices increases their demand will also increase, these goods are called giffen goods. However, as consumers reorder their expenditures, the majority will experience a decline. Demand may continue to fall for businesses selling luxuries throughout prolonged inflationary periods, particularly if high prices are driving away customers. To retain as many customers as firms can, there should monitor their market and ensure that their prices are reasonable Dwivedi (2010).

4.1.8. Does inflation reduce investment potential of SMEs?

Table 4. 3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	9	20.0	20.9	20.9
	Disagree	10	22.2	23.3	44.2
	Neutral	4	8.9	9.3	53.5
	Agree	11	24.4	25.6	79.1
	Strongly agree	9	20.0	20.9	100.0
	Total	43	95.6	100.0	

Source: primary data 2023

With regards to the rate of investment, 20.9 % of the respondents strongly agree, 25.6 just agree, 9.3% were neutral, 23.3% disagree and lastly 20.9% strongly disagree that when not managed well, inflation affects the level of investment in a business. This is shown in shown in Table 4.2.8

A high rate of 46.5 percent implies that high inflation generally has a negative impact on investment as it deters investment and diminishes the earning of many businesses. This was supported by Woodford (2003) when he states that, sometimes it can be more challenging for a SMEs to make investments in the future because borrowing money becomes more expensive during inflationary periods, particularly if high inflation ultimately results in a recession. Even so, investors often decide to place their money in lower-risk and/or inflation-indexed assets during inflationary periods because emotional reactions play a significant role in both personal and business investment decisions.

4.2.9. Do you keep overhead cost low as a survival strategy for your business in inflationary environment?

Table 4. 4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	2.2	2.3	2.3
	Disagree	2	4.4	4.7	7.0
	Neutral	4	8.9	9.3	16.3
	Agree	19	42.2	44.2	60.5
	Strongly agree	17	37.8	39.5	100.0
	Total	43	95.6	100.0	

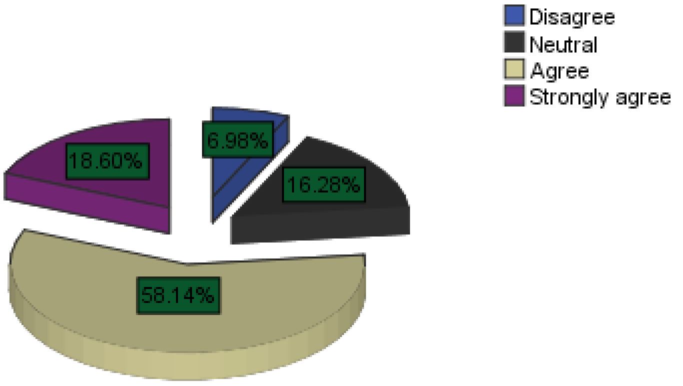
Source: primary data 2023

Table 4.4 depicts that 39.5percent strongly agree; 44.2 percent agree 9.3percent are neutral 4.7 percent disagree and 2.3 percent strongly disagree that there keep overhead cost low as a survival strategy for their businesses inflationary environment.

83.7 percent of the respondents agreed that there keep overhead cost low as a survival strategy during inflation. This was supported by Dwivedi (2010), cost of everything rises during an inflationary period, including rent, utilities, employee wages, and delivery costs, SMEs will try by all means to keep overhead costs as low as possible to avoid financial strain, especially for those within profit margins. Consequently, reducing overhead expenses can assist businesses in maintaining profitability even during inflation.

4.1.10. Do you avoid long term loans as a survival strategy for your business in an inflationary environment?

Figure 4. 6



Source: primary data 2023

The results in figure 4.6 show that 18.60 percent strongly agree; 58.14 percent agree; 16.28 percent are neutral; 6.98 percent disagree and none strongly disagree that there avoid long term loans as one of the strategies that can be used by the SMEs sector to survive in inflationary environment.

76.7 percent of the respondents agreed that there avoid long term loans as a survival strategy for your business in an inflationary environment. This was supported by

David (2010), he suggested that interest rates on loans will be higher because borrowing money becomes more expensive during an inflationary period. Because long-term interest rates are fixed for a longer time period than short-term rates, long-term loans are more susceptible to inflation than short-term loans. This implies that if inflation rises, the loan's interest rate will stay the same while the actual cost of borrowing rises. Due to the fact that they will end up paying more in real terms than they would have if they had taken out a short-term loan, this explains why in table 10 SMEs owner businesses should avoid clear of long-term loans during periods of inflation. Instead, SMEs should think about obtaining short-term loans or utilizing other forms of financing that are less susceptible to inflation.

4.1.11 Do you offer commodities and services that have low cost for you to survive in an inflationary environment?

Table 4. 5

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	2.2	2.3	2.3
	Disagree	3	6.7	7.0	9.3
	Neutral	7	15.6	16.3	25.6
	Agree	22	48.9	51.2	76.7
	Strongly agree	10	22.2	23.3	100.0
	Total	43	95.6	100.0	

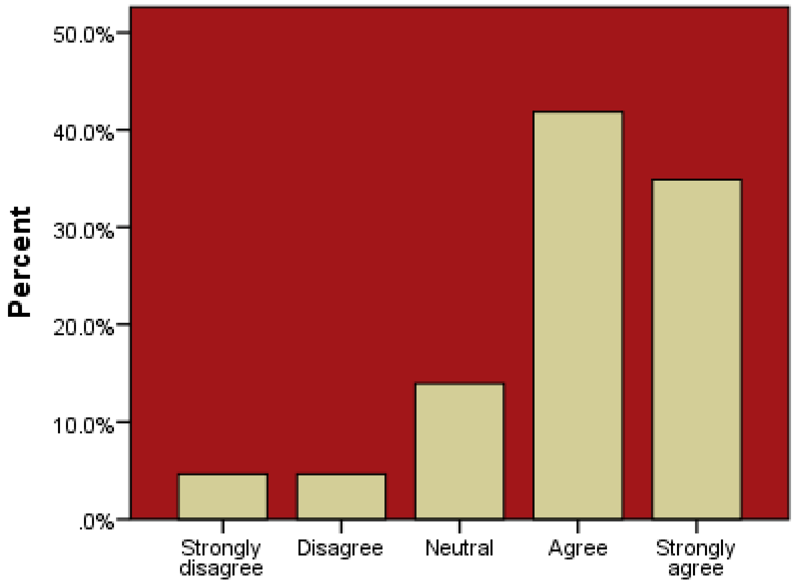
Source: primary data 2023

Table 4.5 shows that 23.3percent strongly agree; 51.2 percent agree; 16.3 percent are neutral; 7 percent disagree and 2.3 strongly disagree that there offer commodities and services that have low prices in order for them to you to survive in an inflationary environment.

74.5 percent of the respondents agreed that there offer products and services as a survival strategy. This was supported by Norman (2020), businesses may provide inferior goods and services during an inflationary period in order to maintain their profit margins. Consumers tend to demand inferior goods less as their income rises. Consumers may be more inclined to buy inferior goods when they have less money to spend because they are less expensive than other goods. This is due to the fact that inferior goods are frequently more affordable during inflationary periods than standard goods. Offering inferior products and services, however, may not be the best long-term strategy for firms as it may harm their reputation and client loyalty. This support 9.3 percent respondents who disagreed.

4.1.12 Do you reduce the quality of goods and services for you to survive in an inflationary environment?

Figure 4. 7



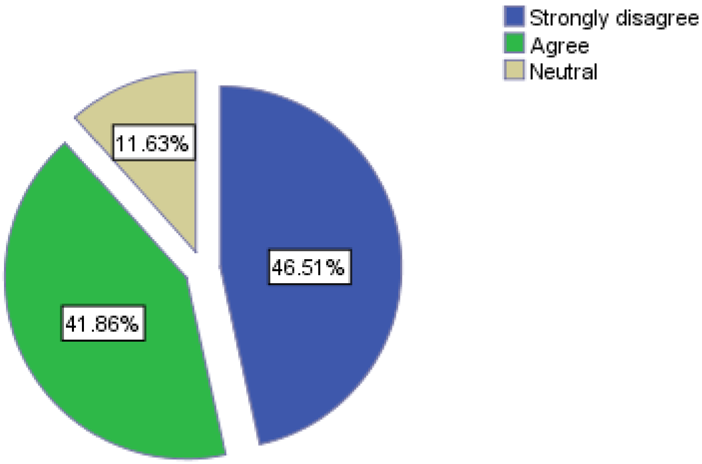
Source: primary data 2023

Figure 4.7 shows that 34.9 percent strongly agree; 41.9percent agree; 14percent are neutral; 4.7 percent disagree and 4.7 strongly disagree that there reduce quality of commodities and services in order for them to you to survive in an inflationary environment.

To maintain their profit margins during an inflationary period, businesses may lower the quality of their products and services, which support 76.8 agreement that SMEs reduce quality of goods and services in order to survive in inflationary environment. This is due to the rising cost of production, which businesses might not be able to fully pass along to customers. However, lowering the quality of products and services might result in a decline in client satisfaction and loyalty, which might be harmful to the company's long-term success. This explains why 9.4 percent respondents won't reduce the quality of goods and services during inflationary period Businesses must strike a balance between preserving their profit margins and offering their clients high-quality products and services.

4.1.13The government exempt and reduce taxes in my business operation.

Figure 4. 8



Source: primary data 2023

Figure 4.8 shows that none respondents strongly nor agree, 11.63 percent are neutral; 41.86 percent   disagree and 46.51 percent strongly disagree that government exempt and reduce taxes in their business operation. Environment.

According ZIMRA (2022) to SMEs in Zimbabwe can benefit from tax incentive like being exempt from paying the 10% withholding tax on contracts with other companies and paying no taxes for the first five years of operations in Special Economic Zones (SEZs) and a 15% tax rate thereafter. However the SMEs in Bindura as indicated by 88.4 percent disagreement were not privileged to such tax incentive

4.1.14. I benefit from enhanced loan from the government?

Table 4. 6

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	20	46.5	46.5	46.5
	Agree	13	30.2	30.2	76.7
	Agree	10	23.3	23.3	100.0
	Total	43	100.0	100.0	

Source: primary data 2023

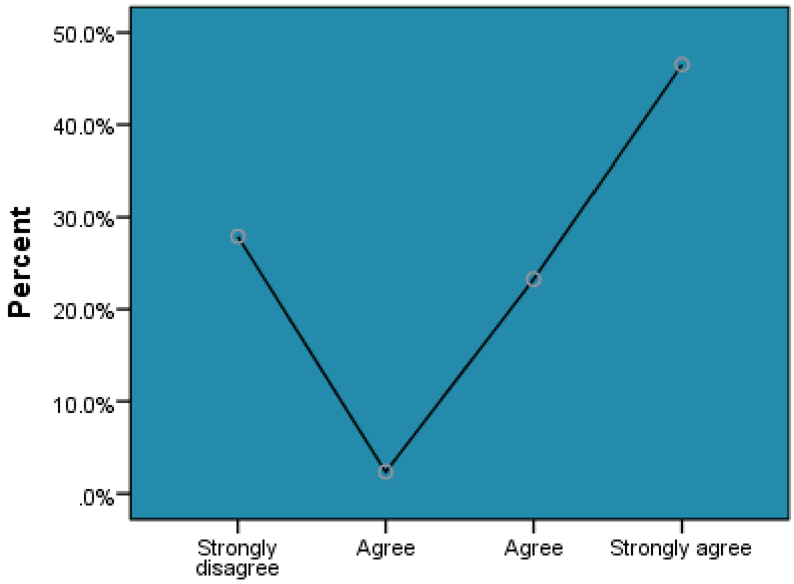
Table 4.6 shows that none respondents strongly agree, 23.3 percent agree; none are neutral; 30.2 percent disagree and 46.5 percent strongly disagree that there benefit from enhanced loan repayment from the government.

According to RBZ (2022), Zimbabwean government provide loans to SMEs as to support them. The SMEAZ Savings & Credit Cooperative is one of them, allowing its members to obtain quick short-term loans (emergency loans, order financing and invoice discounting). In addition, it serves as a guarantee fund and substitute for collateral for members whose loans have received approval from a financial institution1. The SME Short Term Loan program, which is another one provided by CBZ Holdings, offers working capital and capital expenditure loans to SMEs. Finally, Zimnat Microfinance offers the Diaspora Guaranteed Business Loan, which enables Zimbabweans living abroad to support their families by operating a SMEs. This explains the 23.3 percent agree as some SMEs owners has privilege to these government loans.

However, as for the 76.7 percent disagree for a variety of reasons, SMEs may have trouble obtaining government loans due to lack of consistent cash flow, insufficient credit, insufficient collateral, personal guarantees, insufficient operating history, and other factors are some of the causes. The government loans I believed to come with too many restrictions and also many boring procedures are to be followed to be granted such loans.

4.1.15. The government provided operating market place for my business.

Figure 4. 9



Source: primary data 2023

Figure 4.9 shows that 46.5 percent strongly; 23.3percent agree; none percent are neutral; 2.3 percent disagree and 27.9 that the government provided them with operating market place for their business.

69.8 percent agree implies that the government provide operating place for them. According to Magaisa & Matipira (2017), government development programs help SMEs to start, grow and relocate. Such government programs include infrastructure development policy.

However, 30.2 disagree implies that there were not provided with operating places for their businesses. There might be renting on private individuals for operations.

4.1.16 I did not get any assistance from the government

Table 4. 7

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	10	23.3	23.3	23.3
	Agree	4	9.3	9.3	32.6
	Neutral	3	7.0	7.0	39.5
	Agree	1	2.3	2.3	41.9
	Strongly agree	25	58.1	58.1	100.0
	Total	43	100.0	100.0	

Source: primary data 2023

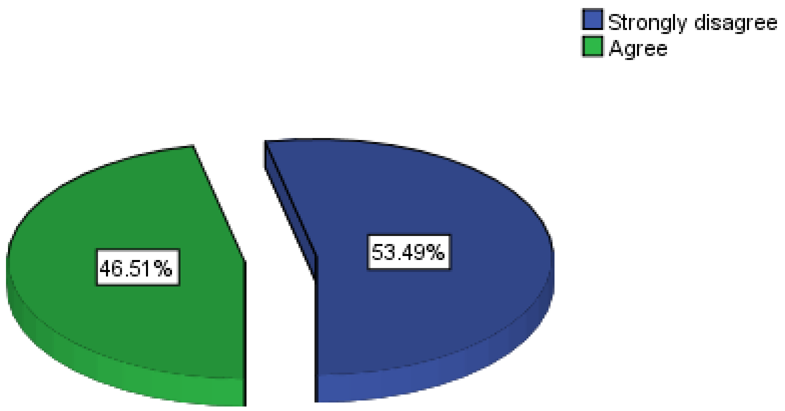
Figure 4.2. Shows that 58.1 percent strongly agree; 2.3 percent agree; 7 percent are neutral; 9.3 percent disagree and 23.3 percent strongly disagree that there receive nothing from the government as assistance in their business operations.

According to The Guardian (2021), for a variety of reason it can be difficult for SMEs to receive government support. Many SMEs owners are unaware of the government resources available to them, such as free or low-cost capital, free counselling, generous tax incentives, and free training and education. This explains 60.4 percent agreement on the table above.

However, 32.6 percent disagreement implies that the SMEs received assistance from the government. The support includes everything from financial assistance, technological advancement, and market development services to managerial training and advisory programs. Zimbabwe's government also offers financial, training, and other support services through commercial banks and other business organizations Odero (2006).

4.1.17. I received educational services from the government

Figure 4. 10



Source: primary data 2023

Figure 4.10 shows that none respondents strongly, agree or are neutral; 46.51 percent disagree and 53.49 percent strongly disagree that there receive educational services from the government.

From figure 4.10 none of the respondents agree that there receive educational services from the government. Educational services offered by the government are crucial for SMEs because they can help them achieve a variety of goals. SMEs owner can advance and start their own businesses have a strong business foundation. Educational services can be an opportunity to acquire both theoretical and practical knowledge. Most striking advantages of business education includes development of the fundamental qualities needed for effective management of business, particularly in the industries of marketing, finance, and production. Also it assist in growth and development of businesses. Lastly, sustained growth of an organization is assured (Karedza et al 2014).

4.1.18 Reliability

Table 4. 8

Reliability Statistics

Cronbach's Alpha	No of Items
.707	16

Source: SPSS output

Cronbach's Alpha reliability measures the internal consistency of a group of metrics such as questionnaire/test items, raters, occasions, or alternate formats. It compares the amount of shared variation or covariance between measurements to the total amount of variance. It is calculated by comparing the variance for all individual measurement scores to the correlation between the score for each measurement and the overall score for each observation. It is one of the reliability metrics that is most frequently used in social and organisational sciences. An appropriate level of reliability is indicated by a Cronbach's Alpha reliability score of 0.6 to 0.7, whilst a very exceptional level is indicated by a score of 0.8 or higher. However, figures higher than 0.95 may not necessarily be preferable due to the possibility of redundancy (Cronbach, 1951). In this case, a Cronbach's Alpha reliability score of 0.707 shows that the test's internal consistency is consistency.

4.1.19 Regression analysis

Table 4. 9

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.709[a]	.503	.465	.911

Source: SPSS Output

The R values are provided in Table 4.9. The simple correlation coefficient, represented by the R value, gauges the strength and direction of the linear link between two variables. An R value of 0.709 in this situation denotes a significant positive correlation between the variables.

Table 4. 10

Anova

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	32.761	3	10.920	13.144	.000[b]
	Residual	32.402	39	.831		
	Total	65.163	42			

Source: SPSS Output

According to Table 4.10, regression has a significance level of 0.000. It indicates that the estimated p-value is extremely low, usually below the accepted significance level of 0.05. This shows that the null hypothesis, according to which the relevant regression is equal to zero, has very high statistical evidence.

Table 4. 11

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.652	.764		.853	.399
	Inflation reduces competitive advantage of local business	.923	.176	.658	5.253	.000
	Inflation distorts consumer purchasing behaviour	-.257	.189	-.307	-1.357	.182
	Does inflation reduces investment potential of SMEs	.135	.197	.161	.684	.498

Source: SPSS Output

The coefficient table 4.11 provides necessary information to predict if inflation has impact on overall performance of SMEs sector based on competitive advantage, consumer purchasing behaviour and investment potential. The regression equation for this is as follows:

Impact of inflation on the overall performance of SMEs sector = 0.652+0.923-0.257+0.135

4.2 Discussion of research findings

4.2.1 Is there any relationship between inflation and SMEs performance?

The research study shows that indeed inflation has negative impact on competitiveness of a business, consumer purchasing behaviour and the rate of investment for business growth. In view of this, majority of the respondents agreed with and the few disagreed others just agreeing as shown in Tables 4.2.6., 4.2.7 and table 4.3. This shows clearly that there is a negative relationship between inflation and SMEs performance.

This was supported by the study of finding in support of the study by Siyakiya (2014) , it reports that hyperinflation has a negative impact business performance in Zimbabwe between period 2000 and 2009 since the economy is highly monetized and assets value were falling. The findings from the ARDL Model 2008 confirmed that inflation had a detrimental effect on the financial sector's performance. The results were caused by a lack of savings and higher consumer spending on goods and services due to inflation, which lowers the amount of investment required for production expansion and constricts economic growth. These findings contradict Adaora's (2013) study on Nigeria. According to Adaora (2013), inflation had a considerable positive impact on company performance in 1981 Prior to 2011.

4.2.2 What are the current strategies under use by the SMEs sector in order to survive in an inflationary environment?

The results collected in table 4.5 and 45, figure 4.6 and 4.7 indicates that the SMEs sector in Bindura need to keep overhead cost low, avoid long term loans, reduce quality of goods and service and also reduce the price of goods and services. The results are consistent with the result of Kaseke & Gumbe (2011) where he concluded that there are strategies that can be adopted by SMEs sector which include keep overhead low, building cash reserves to buffer short term price increases, watching margins carefully, worrying about growing profits rather than sales avoiding to lock into long term contracts that have narrow margins with large customers.

This automatically indicates that the SMEs sector lack expertise as inflation is concerned. It is now the responsibility of the SMEs owners and the management to formulate strategies that enable the sector to survive in an inflationary environment

4.3.3 Is there adequacy of financial, technical, business support given to SMEs by the government?

Results from table 4.6 and 4.7, figure 4.8, 4.9, and 4.10 infers that fewer respondents indicated that there were getting support from government in terms of enhanced loan, educational services as well as operating market places. However majority of the respondents indicated that there were not given any support by the government. This is could be as a result of unawareness of the services offered by the government through the Ministry of Small and Medium Enterprises to SMEs sector. Karedza et al (2014) discovered that the SMEs sector in Lao play a significant role in economic role in the economic development, the government has a clear policies and strategies in support SMEs development. So the study is in line with what the research discovered.

4.3 Summary

This chapter looked at the data presentation, analysis and discussion of major findings based on the impact of inflation on SMEs performance.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDETION

5.0 Introduction

This chapter concludes the entire report. It contains the summary, the research conclusion and the recommendations on the impact of inflation on SMEs performance, a case study of Bindura town Municipality. The conclusion and recommendations are based on data findings presented in chapter 4. The suggestions provide information on how small and medium-sized businesses in Bindura can thrive in an inflationary environment. This study also emphasises the research topic, the technique or methodology employed, the study's limitations, and the ramifications of the results.

5.1 Summary of findings

The study sought to find out the impact of inflation on SMEs performance. A descriptive research design was adopted where Bindura town Municipality was used as a sample to review the impact from the period from January 2022 to December 2022. The researcher relied on primary data through the use of questionnaires. The SMEs owners were the one who provided information required by the researcher.

According to the findings, there is a negative association between inflation and SMEs performance. Inflation raises the production costs of SMEs. It raises the cost of raw materials, labour, and other expenses for SMEss. This diminishes profitability and makes it more difficult for SMEs to invest in growth or pay off debt. Inflation also reduces consumer purchasing power, resulting in decreasing demand for products and services. It may be difficult to attract customers or retain sales if consumers are spending less owing to inflation. Finally, rising interest rates as a result of inflation may make it more difficult for SMEs to get loans or other forms of capital. This can limit their ability to invest in new equipment or hire more employees.

The results also demonstrated that small enterprises use a number of inflationary era survival strategies. The first strategy is to keep overhead costs to a minimum. Cost-cutting strategies include hiring an accountant, obtaining as many referrals as possible, insulating their workspace, using low-energy lighting and equipment, restricting their marketing and advertising spending to only the most successful and well-liked products, looking into refinancing their SMEs loan or getting a lower-cost start-up loan, and so on. Another strategy for surviving is to avoid long-term borrowing. SMEss may concentrate on improving their cash flow by reducing expenses, lowering the cost of their inventory, and collecting receivables quickly. They could avoid needing long-term loans by doing this to pay their payments. Additionally, SMEs may provide lower-quality goods and services in an environment where prices are rising since it costs more money to operate.

The research findings also revealed that the government does not adequately assist SMEs financially, technically, or commercially. One explanation for this is that the government might not have enough funding to support all SMEs. The fact that SMEs might not be aware of various government schemes or might not have the wherewithal to apply for them is another concern. Additionally, certain SMEs might not be eligible for government assistance initiatives.

5.2 Conclusion

The research aims to find out the impact of inflation on SMEs performance. The research concludes that there exists a negative relationship between inflation and SMEs performance. This was supported through the negative response by SMEs owners in Bindura in accordance to business competitive advantage, purchasing power of consumers and investment potential. In light of this, the study found that inflation hurts SMEs in a number of ways, including by reducing profit margins. SMEs may suffer from inflation if consumer spending and sales are restricted. Customers have less money to spend on non-essential items when the cost of goods and services rises. In turn, consumer demand declines. Businesses are affected greatly by inflation, especially in terms of cash flow and purchasing power. SMEs are strained by this, which might result in decreased profitability.

Additionally, inflation weakens the competitiveness of small enterprises. As a result of inflation, costs for work, materials, and energy all increase. SMEs are strained as a result, and profitability may suffer. SMEs competitors' costs for both manufacturing and pricing will increase. They will thus have a lesser profit margin if they charge the same price.

SMEs have few options for financing their operations. Interest rates on loans and other forms of credit may increase as a result of inflation. This might make it harder for businesses to borrow money and grow their operations.

Therefore, inflation is bad for small enterprises since it might result in business failure. SMEs owners should use a variety of survival techniques to ensure that their operations remain profitable.
Because SMEs are the backbone of the economy, the government should assist them. By employing locals and paying taxes, they make a major contribution to the community's economy. Innovative SMEs also encourage competition in the marketplace. They could receive resources and financial access from the government to aid in their development. SMEss confront competitive disadvantages as compared to larger companies, despite the fact that they are built to operate in a free market economy. The government should develop policies that are specific to small enterprises in order to support them.

5.3 Recommendations

- SMEs should take steps such as providing low-cost goods to prevent entering into long-term contracts with big customers with limited margins.

- Financial flow analysis and improvement are important for SMEss. When this happens, the SMEs needs to find ways to keep the cash flowing, like automated payments for services or items rendered, prompt document delivery, and follow-up on overdue payments from accounts outstanding.

- SMEs should look into adopting more production technologies that will help reduce the cost of production. This in itself will help boost employee productivity by allowing production tasks to be completed much more quickly with less room for human error.

- SMSs should prioritise an evaluation of their supplier circumstances. While the amount a company pays its suppliers may be affected by inflation in some instances, it is still prudent to assess seller situations on a frequent basis. Given this, it is necessary to keep a watch on what other rival suppliers are providing and to seek out better deals.

- On the sector's general performance decline. SMEs should cut costs wherever possible, leaving only inevitable expenditures like salaries that are directly linked to inflation and cannot be cut.

- SMEs should also concentrate on product pricing adjustments. Even though raising prices might be detrimental and is probably not a business's first move when faced with inflation, the option still exists. The key to minimising this effect is for SMEs to always keep an eye on the price of their competitors and make sure that it does not exceed what they are offering.
- The Ministry of SMEs should prioritise educating new entrepreneurs in order to decrease business failure. These can take the shape of advice and outreach services, as well as business management practises intended to help SMEs improve their output.
- In order to enhance the performance of SMEs, policymakers should carefully manage inflation.

5.4 Limitations of the study

Some SMEs owners disliked the promise of anonymity and confidentiality and were unwilling to divulge sensitive information about the operation of their company. The research study had limitations since it could only analyse data from a very small sample of 50 respondents in the Bindura Town Municipality. Future researchers could broaden the focus of their investigation to incorporate additional SMEs in different Zimbabwean towns. To learn more about how inflation impacts the performance of SMEs, the research should also involve stakeholders besides SMEs owners, such as clients and staff directly assessing the impact of inflation on SMEs performance.

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APPENDIX A: QUESTIONNAIRE

My name is **Tendai Gwenhure** Reg No B1953966 a final year student at Bindura university of Sciences Education pursuing an honors degree in banking and finance. This programme requires a dissertation as a prerequisite for graduation. The study aims at establishing the impact of inflation on SMEs performance, a case study of Bindura town municipality. Your suggestion, views and opinions are required for the research to be success. On ethical ground your responses and identity are kept confidential and anonymous respectively. So fell free to express all your views without reservations.

SECTION A

Demographic details of the respondents

Please tick the appropriate box. Leave blank if in applicable

1. Gender

Male	
Female	

2. Age groups

Below 25 years	
26-34 years	
36-44 years	
45 & above	

3. Highest academic qualification

Master's degree	
PhD	
Bachelor's degree	
Other	
Certificate	
Diploma	

SECTION B

Information sort section

Please indicate to what level you agree with the following statements on a 5 point Likert type scale with 5 representing strongly agree, 4- agree, 3- neutral, 2- disagree and 1 strongly disagree

4. **Does inflation has impact on the overall performance of the SMEs sector**?

Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

5. **Inflation reduces competitive advantage of local business**

1. strongly agree	
Strongly agree	
Agree	

Neutral	
Disagree	
Strongly disagree	

6. Inflation distorts consumer purchasing behaviour

Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

7. **Does inflation reduces investment potential of local business**

Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

8. **May you rate the current strategies under use by the your business sector in order to survive in an inflationary environment**

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

Keep overhead low					
Avoid long-term loans					
Offering commodities and services that have low cost					
Reduce the quality of goods and services					

9. **May you rate the on the following forms of support that the government provided to you**

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Government exempt taxes and or reduces taxes					
You benefit from enhanced loan from the government					
The government provided operating market place for your business					
You did not receive any kind of assistance from the government					
You received educational services from the government					

THANK YOU!

23:10

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