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Enhancing business opportunity identification processes in Zimbabwe's manufacturing sector: The case of Harare's manufacturing sector

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ABSTRACT

The manufacturing sector in Zimbabwe plays a critical role in the economic development of the country such as employment creation, contributing to the country's GDP and saving and generating foreign exchange. It is for this reason that the Government of Zimbabwe (GoZ) has crafted a number of programmes aimed at rejuvenating the sector since it started to decline in the late 1980s. However, the programmes seem to have benefitted foreign competitors as the sector experienced further decline, resulting in the country becoming a net importer, capacity utilisation in the sector declining and unemployment rising as firms closed shop. This study sought to establish why the sector is failing to identify opportunities that are presented in the government initiated programmes thereby allowing foreign competition to benefit at their expense. The study sought responses from top managers of the sampled 68 manufacturers from Harare. The sample was drawn from the 16 sub-sectors that constitute Zimbabwe's manufacturing sector. Study findings reveal that the sampled firms have weaknesses in the way they scan the environment. The study is concluded by proffering relevant recommendations.

Key words: Environmental scanning; economic development; agricultural sector; manufacturing sector; opportunities

INTRODUCTION

Morris, Kuratko and Covin (2008) acknowledge that the business environment in the 21st century has been characterized by high turbulence mainly driven by rapid technological improvements. These improvements have seen customer tastes rapidly changing in any given period of time; markets being fragmented and competition in industries intensifying as firms jockey for market share and preference from suppliers of both inputs and labour. Morris, Kuratko and Covin (ibid) argue that survival and growth in this era is based on the firms' and their managers' ability to develop competitive advantage based on their ability to adapt to change, rather than acquisitions and mergers as was previously the trend. The authors identified five key capabilities namely:

- adaptability;
- flexibility;
- speed;
- aggression; and
- innovation.

This argument implies that firms' survival and growth has to be through internal initiatives or organic means through innovation. Sarkar, Echambadi and Harrison (2001 p 702) argue that only firms that are pro-active are the ones that will be able to develop the above mentioned capabilities. They assert that the proactive approach considers that individuals and organisations shape their environments through their actions. Miller and Friesen (1978 p 923) posit that pro-activeness is achieved through scanning the environment to seek opportunities and taking pre-emptive action against the identified opportunities.

Prior to the year 1990, Zimbabwe's manufacturing sector played a critical role in contributing to the economy's Gross Domestic Product (GDP) and export earnings. The sector contributed an average of 23,3 percent to GDP during the period 1980-1989, (Mlambo 1997). However, by the end of the 1980s, the manufacturing sector was under strain as evidenced by a decline of its contribution to GDP to 20,5 percent from the previously mentioned 23,3 percent (Mlambo ibid and UNDP Zimbabwe, 2010).

Hawkins and Ndhlela (2009) and UNDP Zimbabwe (2010) attribute this decline to shortages of foreign currency as the manufacturing sector was not exporting enough to generate foreign currency that could be used to import inputs for the sector. UNDP Zimbabwe, (ibid) also cites investor uncertainty, due to the GoZ's socialist rhetoric, and an overvalued Zimbabwe dollar which made the country's exports uncompetitive, as the causes of the poor performance of the manufacturing sector. Hawkins and Ndhlela (2009) and UNDP Zimbabwe (2008) also argue that the Zimbabwean manufacturers had lost their ability to compete internationally after 15 years of isolation and protection during the UDI era and that they were also, to some extent, reluctant to export as they could make profits from the domestic market where they were protected from imports through a punitive tariff regime which was only second to India in the world.

Mlambo (ibid) also adds a political dimension to the reasons for the manufacturing sector's decline in performance at the end of the 1980's. He argues that Zimbabwe also faced destabilisation from the then apartheid regime in South Africa and RENAMO in Mozambique which hindered its trade. He further argues that the domestic market's disposable income was shrinking in real terms due to rising inflation which rose from 8,6 percent in 1980 to 17,9 percent in 1983.

These developments left the GoZ with no option but to adopt the IMF initiated Economic Structural Adjustment Programme (ESAP) in 1991 as a way of rejuvenating the economy (Hawkins and Ndhlela, 2009).

BACKGROUND TO THE STUDY

ESAP was envisaged to last only five years after which the economy was expected to grow to prosperity and the manufacturing sector was expected to expand rapidly and create more job opportunities (Mlambo 2000 p 110).

According to UNDP Zimbabwe (2010) and Hawkins and Ndhlela (2009) ESAP sought to achieve an economic rejuvenation by implementing the following:

- dismantling import controls through removal of tariffs and
- liberalising (opening up) the economy to allow foreign investment and competition.

The authors agree that the programme was a failure and it marked the demise of the manufacturing sector. The reasons proffered for the poor performance of ESAP by all the cited authors are the 1991/92 and 1994/95 droughts, the dismantling of the tariff regime and the liberalisation (opening up of the economy to foreign competition)

The droughts had a negative impact on agriculture upon which the manufacturing sector depended for inputs and foreign exchange. Riddel (1990) posits that Zimbabwe's manufacturing and agricultural sectors are heavily interdependent that by 1980, agriculture accounted for 60 percent of the inputs used in manufacturing, while agriculture consumed 44 percent of the manufacturing sector's output.

Dismantling of import tariffs and liberalisation of the economy is also cited as the cause of ESAP's failure (Hawkins and Ndhlela 2009). The extent of ESAP's failure is reflected in the First Merchant Bank's (FMB, 1993) annual report which states that the manufacturing sector's output fell by 19,8 percent in 1993, with the hardest hit sub-sectors being transport equipment, -36 percent; textiles and ginning, -26,6 percent; petroleum and chemicals, -24,4 percent and lastly the foodstuffs, -11, 1 percent.

On the other hand, the national statistics indicate that by June 1993, 11 percent of the working population was employed in the formal sector, the lowest level since 1970. The highest casualty of the effects of ESAP and the drought were the textiles sector which saw a decline of firms by 1994 from 280 to 193, with one firm (Cone Textiles), employing 6000 employees closing down (ZIMPREST, 1997).

After such a dismal performance, the GoZ was left with no option but to abandon ESAP in 1996 and adopted the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST). The programme sought to redress the ills that had been created by ESAP. The programme was also supported by the revised

industrial policy document which placed high emphasis on indigenisation through the promotion of Small to Medium Scale Enterprises, SMEs (UNDP 2010). However, ZIMPREST also failed due to two main reasons (Raftopoulos 2009).

The author posits that the year 2000 saw two developments that were to have a negative impact on Zimbabwe's economy in general and the manufacturing sector specifically. These were the birth of Zimbabwe's strongest opposition party since 1980, the Movement for Democratic Change (MDC) and the Fast Track Land Redistribution Programme (FTLRP) respectively.

Raftopoulos (ibid) contends that the GoZ suspected the commercial farmers (the majority of whom were white) of financially supporting the MDC. As a result the GoZ adopted the FTLRP, which at times was violent, settling black people on previously white owned commercial farms, thus cutting off the MDC's umbilical cord.

The effect of this was a decline in agricultural output which in turn starved the manufacturing sector of inputs. Riddell (1990) argues that by 1980, Zimbabwe's agricultural sector supplied 60 percent of manufacturing sector inputs and that 95 percent of these were sourced from the commercial farms. It meant that disturbances on the commercial farms would have serious consequences on the manufacturing sector.

The farm invasions were also accompanied by parliamentary elections in 2000 and 2005 and presidential elections in 2002. The results of these elections were heavily disputed resulting in the country being isolated by the international community (Besada and Moyo, 2008). The World Bank had in October 2000 announced that it would not extend loans to Zimbabwe (ibid). These developments left the Zimbabwean manufacturing sector with no sources of the needed foreign currency with which to import inputs. These developments left the manufacturing sector in a decline, which resulted in serious food shortages, cost-push and demand-pull induced inflation as cost of inputs rose due to scarcity, while on the other hand shortages of products on the market raised prices. The Zimbabwean economy then fell into a period of hyperinflation, which was last officially recorded at 231 million percent in July 2008 (Besada and Moyo, 2008), characterized by "brain drain" of skilled personnel to neighboring countries, United Kingdom, Australia and Canada (World Bank, 2008), low agricultural and manufacturing industry output, and other related shortages (RBZ 2006).

These developments drastically affected the agricultural sector and subsequently the manufacturing sector as shown by Table 1 below and Table 2 on the next page.

Table 1: Maize, Wheat and Soya bean Production Trends from 1999 to 2008

Year	Maize			Wheat			Soya bean		
	Area	Output (t)	Yield (kg/ha)	Area	Output (t)	Yield (kg/ha)	Area	Output (t)	Yield (kg/ha)
1999	1 477 990	1 606 588	1 087	47 438	260 909	5 500	52 931	120 685	2 280
2000	1 373 117	1 619 651	1 180	42 551	229 775	5 400	60 650	135 417	2 233
2001	1 239 988	1 526 328	1 231	37 269	197 526	5 300	64 009	140 793	2 200
2002	1 327 854	604 758	455	39 000	195 000	5 000	51 282	84 441	1 647
2003	1 352 368	1 058 786	783	40 809	122 427	3 000	25 390	41 197	1 623
2004	1 493 810	1 686 151	1 129	70 585	247 048	3 500	49 572	85 827	1 731
2005	1 729 867	915 366	529	65 454	229 089	3 500	41 871	56 730	1 355
2006	1 712 999	1 484 839	867	67 201	241 924	3 600	47 137	70 273	1 491
2007	1 445 800	952 600	659	60 000	180 000	3 000	69 900	112 300	1 607
2008	1 724 844	435 160	250	51 000	132 600	2 600	72 311	48 320	670

Source: Ministry of Agriculture, Mechanisation and Irrigation Development (2009).

Table 2: Decline in manufacturing output

	2004	2005	2006	2007
Output (Zim\$ 000)	6 500 000	5 100 000	4 000 000	3 800 000
% Decline	—	21	17	5

Source: CZI, 2009

Faced with hyperinflation, the GoZ in August 2006 directed that prices be reversed to June 2006 levels as it attempted to contain pressure from consumers who could not cope with the hyperinflation (Makochekanwa, 2007). This directive put a further strain on the manufacturing sector resulting in its further decline. The Zimbabwe Industrial Development Policy (ZIDP) 2011-2015 (Ministry of Industry and Commerce, 2012) says that between 2006 and 2008 the manufacturing sector declined by a total of 73,3 percent, capacity utilisation fell to 5 percent in 2008 and manufacturing sector's contribution to GDP fell from a peak of 23 percent in the 1990's to 12 percent in 2008.

OTHER MEASURES INTRODUCED TO IMPROVE MANUFACTURING SECTOR PERFORMANCE

In 1997 the GoZ introduced the Export Processing Zones (EPZs) whose main objective was to stimulate and promote the country's exports and create employment (UNDP, 2010). However, the performance of the EPZ was not satisfactory and the issuing of licenses to applicants was stopped in November 2006, UNDP (ibid).

In 2003 the GoZ faced a shrinking manufacturing base of an annual decline of 20 percent (CZI, 2009), high unemployment levels- formal employment shrinking from 1, 4 million in 1998 to 998000 in 2004 (Raftopoulos, 2009) and a hyperinflationary economy of 623 percent in January 2004 (CSO, 2004), put in place a raft of support facilities, through the Reserve Bank of Zimbabwe (RBZ), which included: Productive Sector Facility (PSF)-2004; Distressed Companies Fund (CDF)-2004; Import Substitution and Value Addition Facility (ISVA)-2006 and Basic Commodities Supply Side Intervention Facility (BACOSSI)-2007. These facilities were meant to boost the performance of the country's manufacturing sector. However they seem not to have had a significant effect on the sector as by 2008 capacity utilisation stood at 5 percent and GDP contribution stood at 12 percent (Ministry of Industry and Commerce, 2012).

THE MULTI-CURRENCY ERA 2009-TO DATE

In its budgetary statement of January 2009, the GoZ adopted the multi-currency system which saw the economy getting back on its feet as firms started to import goods for resale in response to demand stimulated by availability of hard currencies like the US\$ and the South African Rand. CZI survey (2009) acknowledges the significant role played by the multi-currency policy in stimulating manufacturing sector's performance which by June 2009 was operating at 32,3 percent from a low of below 10 percent capacity utilization. The survey report also notes that the sector grew by 110 percent in 2009 compared to an annual decline rate of 28 percent in 2007.

However in 2013 the sectors' capacity utilisation dropped to 38% (CZI, 2013). On the other hand National Social Security Authority (NSSA) also reported that a total of 711 companies in Zimbabwe closed shop between 2011 and 2013 while as at end of July 2013 149 firms from Harare had lodged liquidation applications with the Harare High Court (nssa, 2013).

STATEMENT OF THE PROBLEM

The government of Zimbabwe recognises the important role that the country's manufacturing sector plays in its economy. This is demonstrated by the number of policy initiatives that the government has put in place. However the initiatives have not achieved the intended results because players in the sector have not been able to effectively scan the environment for opportunities.

HYPOTHESIS

The study proposes that firms in Zimbabwe's manufacturing sector, particularly those operating in Harare, do not use effective methods in scanning the environment for business opportunities hence their failure to excel in the face of foreign competition.

OBJECTIVES

The study sought to establish:

- if the manufacturing sector players in Harare scan their environment for opportunities;
- the methods that are used by Harare manufacturers to scan the environment; and
- recommend ways of improving the environmental scanning processes that are being used.

LITERATURE REVIEW

Environment Scanning/ Opportunity Identification

Van Aardt and Van Aardt (1997) define an opportunity as the difference between the desired and the prevailing situation. They further argue that an opportunity that is worth pursuing by a firm is one which should:

- be sustainable and profitable;
- have a relative advantage over existing ones;
- be compatible with society's values and beliefs;
- not inflict injuries to potential buyers; and
- be easy to communicate its benefits.

Barringer and Bluedorn (1999 p 423) define environmental scanning as the managerial activity of learning about events and trends in the organisation's environment. They argue that scanning is important for managers in that it helps them identify opportunities, assists managers in developing and maintaining successful innovation strategies and facilitates risk taking as it lowers uncertainty in the eyes of management.

Covin (1991), Kanter (1989) and Zumd (1983) agree that learning about the environment is a result of collecting and analysing information. Therefore one's level of knowledge of environment depends on the amount and quality of information possessed and how he/she analyses it. Shane and Venkataraman (2000) support this assertion when they argue that ability to identify opportunities is a result of prior knowledge that one possesses about the market being served. They further argue that this information can be obtained by firms from suppliers, distributors, competitors, customers etc. This means businesses need to create relationships with people outside their organisations in order for them to access this prior knowledge. This brings into perspective the social network theory as argued by Powell, Koput and Smith-Doerr (1996 p 118) who postulate that entrepreneurial or opportunity information does not exclusively reside inside firms but that it is found in interstices between firms, universities, research laboratories, suppliers and customers. This means that firm managers need not rely solely on internal sources when scanning the environment but that they should also make use of external sources.

Hitt et al. (2001) identify several benefits of these external networks over and above opportunity detection. These include resources and capabilities required to compete and learning new capabilities. The authors argue that a firm can exploit complementary resources of its partners in the network to its benefit like a biotechnology firm that makes use of pharmacies in its network to distribute and market (commercialise) its new products. In this case, a firm would have used external networks to leverage its capabilities and resources. Hitt et al. (ibid) further argue that firms can use external networks to create alliances which can help them learn new capabilities which can help them compete effectively in new markets without first owning prerequisite resources or skills. Thompson, Strickland and Gamble (2010 p 167) cite the example of Ford Motor Corporation of United States of America and Mazda of Japan, as an alliance that allowed the two firms access to new technologies and markets in foreign countries.

Barringer and Bluedorn, (1999) also provide another dimension to opportunity identification when they posit that locus of planning greatly contributes to the process. Locus of planning refers to the extent to which managers involve lower level employees in the planning process, a process that inherently requires scanning the environment. The authors argue that firms that involve lower levels (deep locus of planning) tend to be effective in opportunity identification than those that have a shallow locus of planning (only involve management). Shane and Venkataraman (2000) justify this effectiveness in opportunity identification to information asymmetry which posits that people at any given point in time, do not possess the same information. Including people from different backgrounds enhances analysis of given scenarios thereby identifying opportunities that may easily be overlooked by people sharing the same background. In this case management and workers scanning the environment together prove useful to the organisation. The information asymmetry concept can also be used to explain why external networks are also equally effective in assisting organisations detect opportunities.

RESEARCH METHODOLOGY

Research design

Leedy (2005 p 41) posits that designing a research is influenced by how it seeks to acquire knowledge. Thomas (2003 p 1) posits that research can assume a quantitative or qualitative approach depending on what the study seeks to establish.

Glesne and Peshkin (1992 p 6) define quantitative research as seeking explanations and predictions that will generalise to other persons and places.

Denzin and Lincoln (1994 p 2) define qualitative approach as multi-method in focus, involving an interpretive and naturalistic approach to its subject matter. They assert that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret phenomena in terms of meanings people bring to them. The authors affirm that the approach uses a variety of empirical materials like case study, personal experience, introspective, life story, interview, observation, historical, interactional, and visual texts that describe routine and problematic moments and meanings in people's lives.

This study's objective is to establish if Harare's manufacturing sector is using effective environmental scanning processes, thus making it a case study which is a qualitative approach.

Study population

Population is defined by Shajahan (2009 p 244) as the group of individuals under study. Thus the population of this study is the manufacturers in Harare. According to the Confederation of Zimbabwe Industries (2012), this population is made up of 16 sub sectors (strata) namely: Bakers; Battery; Plastic, Packaging and Rubber; Pharmaceuticals; Chemicals; Leather and Allied; Car Assemblers; Building (including Construction); Grain Millers and Tobacco; Electric Appliances Manufacturers; Engineering and Steel; Printing and Publishing; Textiles and Clothing; Paints and inks; Timber Processors (Including Furniture) and Food, Dairy and Beverages.

Sampling and sample size

Shajahan (2009 p 244) defines a sample as a finite sub-set selected from the entire population. Kumar (2005 p 164) argues that at times it is difficult, if not impossible, to investigate all elements in a population, hence the need to identify elements that are representative enough of the population (sample). The process of arriving at a sample is referred to as sampling design (Shajahan, *ibid* and Kumar, *ibid*) which requires the researcher to identify the population, the sampling unit or where the sample is drawn from (for example geographically) and the sampling frame or source lists (where each sample element is identified).

Sixty-eight sample elements were selected using the proportionate stratified random sampling method from the CZI register of Harare manufacturers. Kumar (2005 p 175) defines proportionate stratified random sampling as a process of selecting elements from each population stratum in relation to its proportion to the total population. This sampling method has the advantage of ensuring that the sample is the reflection of the population; hence avoid particular population strata, with more elements than others, influencing the study findings.

Table 3 shows the sample size of each sector used in the study.

Table 3: Sector Sample Sizes

Sector	Population	Harare's Sample Size
Bakers	8	4
Battery	3	2
Plastic, Packaging and Rubber	13	6
Pharmaceuticals	7	3
Chemicals	11	5
Leather and Allied	4	2
Car Assemblers	2	1
Building (including construction)	8	4
Electric Appliances Manufacturers	5	3
Grain Millers and Tobacco	5	3
Engineering and Steel	18	8
Printing and Publishing	6	3
Textiles and Clothing	6	3
Paints and Inks	10	5
Timber Processors (including Furniture)	7	3
Food, Dairy and Beverages	29	13
TOTAL	142	68

Data collection instruments

Data collection instruments, unlike research methods which focus on how data are collected, are the tools that one uses in the collection of research data (Shajahan, 2009 p 57). This study uses structured and semi-structured interviews, and recorded observations. Open and closed ended questions were used in interviews in the study to ensure that respondents freely expressed their opinions (Shajahan, 2009).

Data processing and analysis

Kothari (2004 p 18) posits that after collecting research data, there is need to bring order and meaning through coding, tabulating and editing. Thomas (2009 p 57-59) explains that data can be processed using content analysis which is the systematic process of searching through one or more communications to answer questions brought up by the researcher. He further acknowledges that the method is the "only appropriate" method to use in qualitative research as it answers most research questions through searching for insights in situations, settings, styles, images, meanings and nuances.

Therefore this study used content analysis to analyse data from the findings.

Ethical Considerations

Ethics in research are important as they assist in according a study the validity, reliability and objectivity it deserves (Kumar, 2005 p 210), as its responses and results are not fraudulently derived. This study observed ethical behaviour in data collection, analysis and presentation.

FINDINGS AND DISCUSSION

Response Rate

The response rate was of 84%. The high response rate is attributed to the fact that questionnaires were hand-delivered to the respondents who were then followed up after a week to collect the completed questionnaires. Where a respondent had not completed the questionnaire, the researcher would agree with the concerned respondent on the day of follow up and collection. Thus the constant follow up and the nature of respondents (senior managers) contributed to the high response rate.

Johnson and Owens (2009 p 127) argue that a response rate of at least 60% in a questionnaire survey is good and acceptable for contributions to refereed journal articles. Nulty (2008 p 308) agrees with the argument but goes further to state that a response rate of between 60% and 70% is more favourable. Thus, the overall response rate in this study is above the minimum threshold of 60% rendering the study findings reliable.

Profile of respondents

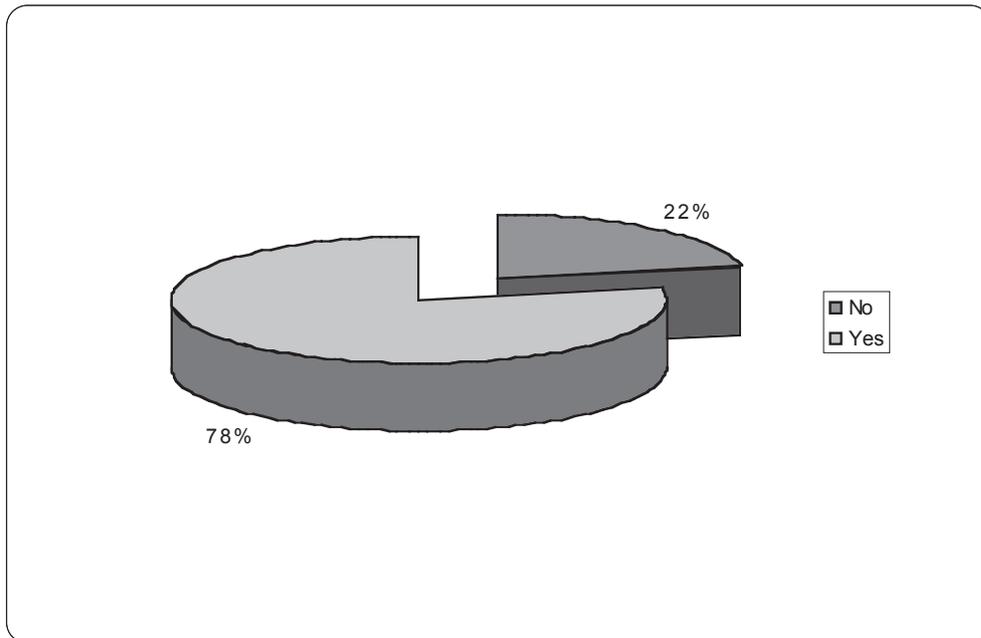
Respondents in this study were senior managers in the sampled firms that are in the manufacturing sector. 67% of the senior managers from Harare said that they had been senior managers for a period of five (5) or less years while 21% of them said they had occupied the senior management position for a period between 5-10 years. However 12% of the respondents said they had been in that position for a period of more than ten years.

Existence of strategic plan documents

Respondents were asked if their firms had strategic plan documents. Figure 1.1 on the next page shows that 22% of the respondents stated that they did not have strategic plan documents, while 78% stated that they had the documents.

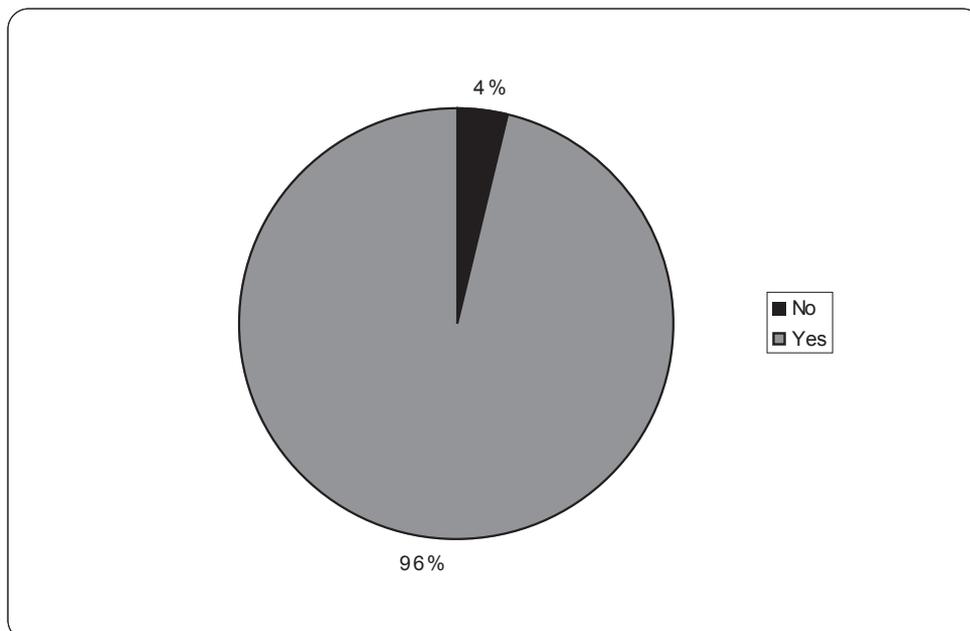
Strategic plan documents are an important indicator of whether organisations are pro-actively engaging in scanning the environment in which they are operating. Scanning the environment is important in that it enables organisations to identify opportunities that they can exploit for purposes of growing their businesses. Besides opportunities, the process also allows organisations to mitigate their threats for purposes of remaining competitive. The strategic plan document acts as a guide to organisations as it outlines what actions the organisation will take to reach their objectives. Thus organisations that operate without that document are like ships without compasses and are bound to crash. In the case of organisations they may find themselves out of business as a result.

Figure 1: Existence of a strategic plan



Holding of formal strategic planning sessions

Figure 2: Does organisation hold formal strategic planning



Respondents who said they had strategic plans were asked if they held formal strategic planning sessions. Figure 2 shows that 4% of the respondents said that they did not hold formal strategic planning sessions while 96% stated that they did hold formal strategic planning sessions.

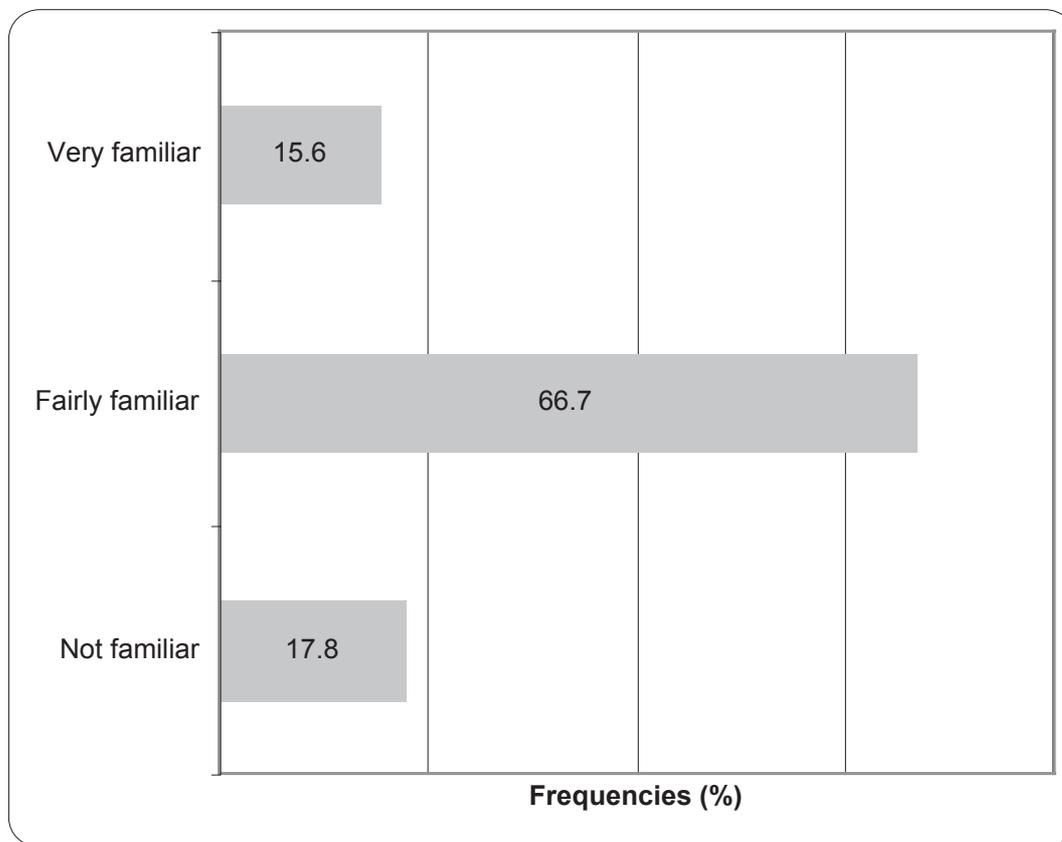
Formal planning sessions are important. They allow participants to be aware of the organisation's expectations and intentions. They secure buy-in from participants hence their commitment. Most importantly formal planning sessions help in making plans as objective as possible.

Carrying out the process informally results in organisations not taking the resultant document seriously and believing that it is a formality that it must be in place lest they are viewed as not progressive.

Therefore notwithstanding the seemingly small number of firms not engaging in formal strategic planning the consequences of not doing so cannot be brushed aside.

Extent of employee familiarity with the plan contents

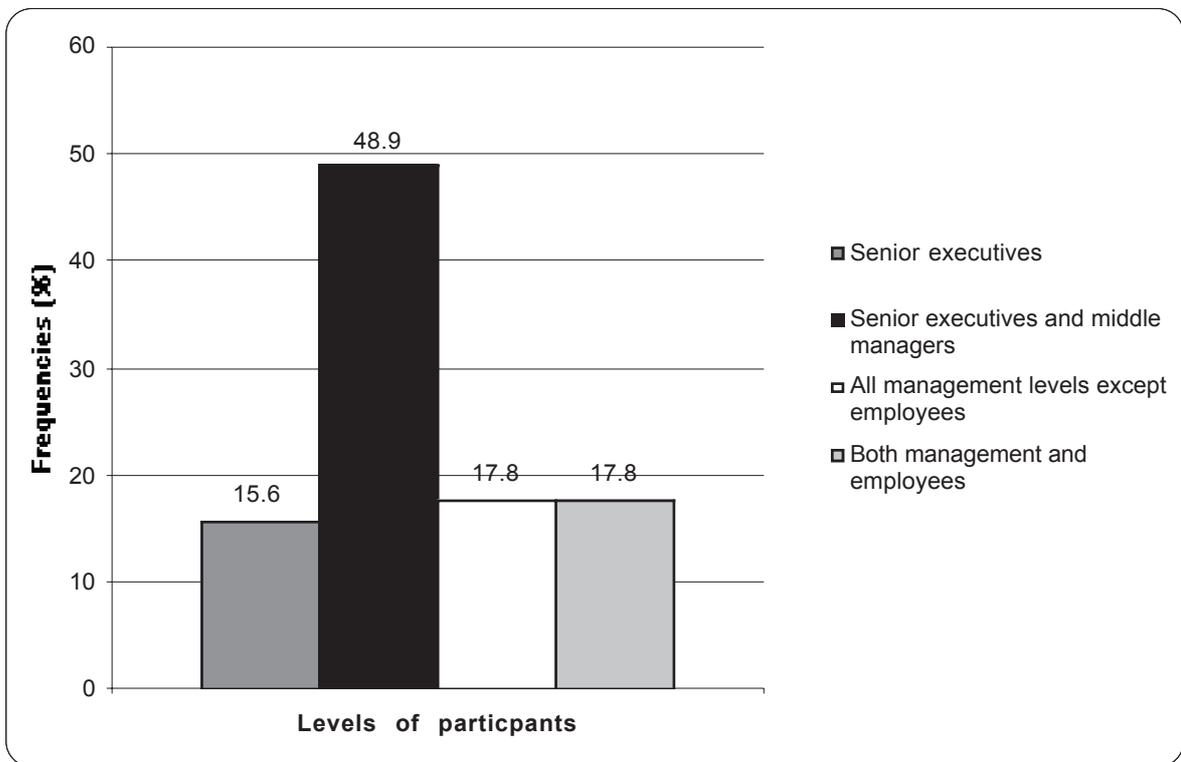
Figure 3: Employee familiarity with strategic plan contents



Respondents were asked on how well their employees were familiar with the contents of their firm's strategic plan documents. Figure 3 above reflects that 16% of the respondents stated that their employees were very familiar with the contents, while 67% of the respondents asserted that the employees were fairly familiar but 18% of the respondents said that their employees were not familiar with the contents. Employees who are familiar with the contents of their firms' strategic plan are an asset to their organisations as they will be able to make decisions that keep the organisation focused on the set goals or identified opportunities. In this case firms are most likely going to miss their set targets as the majority of them are in the range of fairly familiar and not familiar.

Participants' levels

Figure 4: Who Participates?



Respondents were asked on who participates in the strategic planning sessions. Figure 4 shows that:

- 16% of the respondents stated that only senior executives participated in the strategic planning sessions;
- 49% of the respondents said that senior executives and middle managers participated in the strategic planning sessions;
- 18% of the respondents stated that all management levels save employees, participated in the strategic planning sessions; and another 18% said that both managers and employees participated in the process.

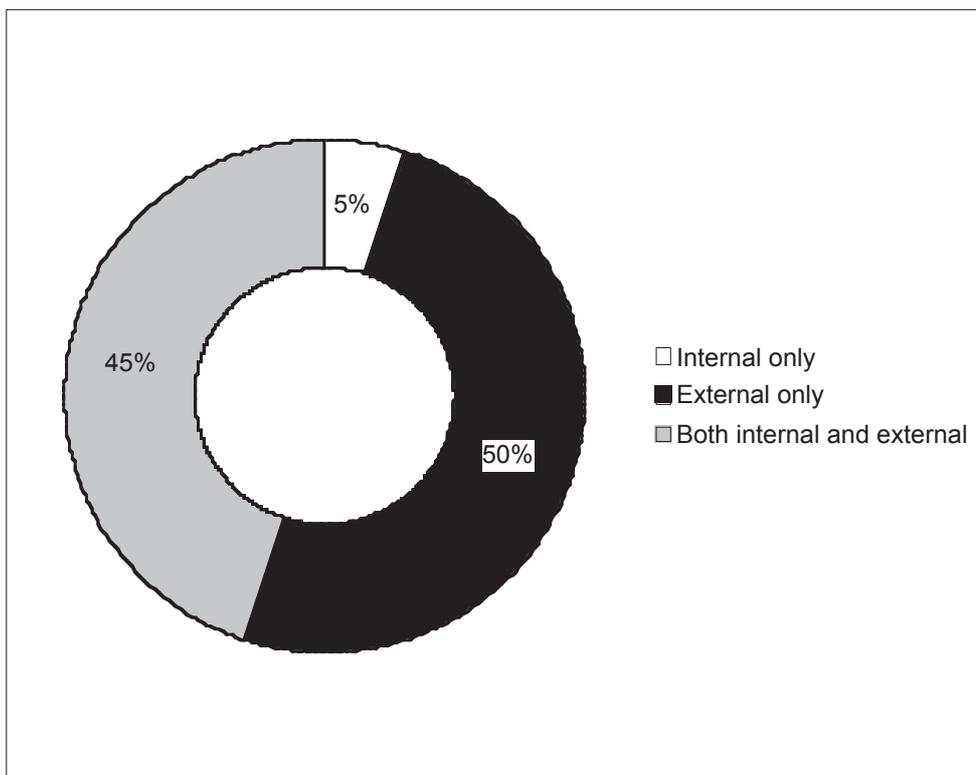
The quality of a strategic plan document is a function of who contributed to its birth as advocated by Barringer and Bluedorn (1999) in their locus of planning theory. The authors argue that organisations who practice deep locus of planning- involve management and employees- are bound to come up with more relevant and useful strategic plan documents than those who leave the task solely to management. The researcher agrees with this argument as managers are constantly sharing information among themselves to the extent that they have almost similar views on challenges facing organisations and the resultant solutions. This is commonly referred to as "group think". To counter the negative effects of "group think" requires bringing in other views from employees who are on the ground and have firsthand experience with the challenges facing the organisation. The result of having these two groups who have asymmetrical information is a thorough and objective analysis of issues leading to a rich strategic plan document.

Sources of market information

On being asked about the sources of market information used in developing strategic plans, figure 1.5 on the next page shows that 5% of the respondents said that they only used internal sources in gathering information for use in developing strategic plans while 50% of the respondents stated that they only used external sources. However, 45% of the respondents said that they used both internal and external sources.

As with who participates in the strategic planning process, where market information is sourced is also critical in determining the quality of the strategic planning process output. Confining oneself to internal sources is the worst error that one can commit in scanning for opportunities or threats. These reside outside the organisation hence will never be identified through internal focus. Similarly an exclusive external focus will facilitate noting of developments in the external environment but will not enable distinction of threats from opportunities. Opportunities and threats can only be assessed through matching internal capabilities (strengths) or internal deficiencies (weaknesses) to the external environmental trends. Therefore, organisations that make use of both internal and external sources of information are better placed to pick market opportunities to exploit and develop ways to mitigate threats thereby developing competitive advantage in the market.

Figure 5: Sources of market information



Planning horizon

Respondents were further asked on how long their strategic planning period was. 67% of the respondents stated that their strategic planning period was between 0-3 years, while 29% of the respondents said that they had a strategic planning period of between 4-6 years and 4% of the respondents reported that their strategic planning period was over 10 years. However, there were no respondents whose strategic planning period was between 7-10 years.

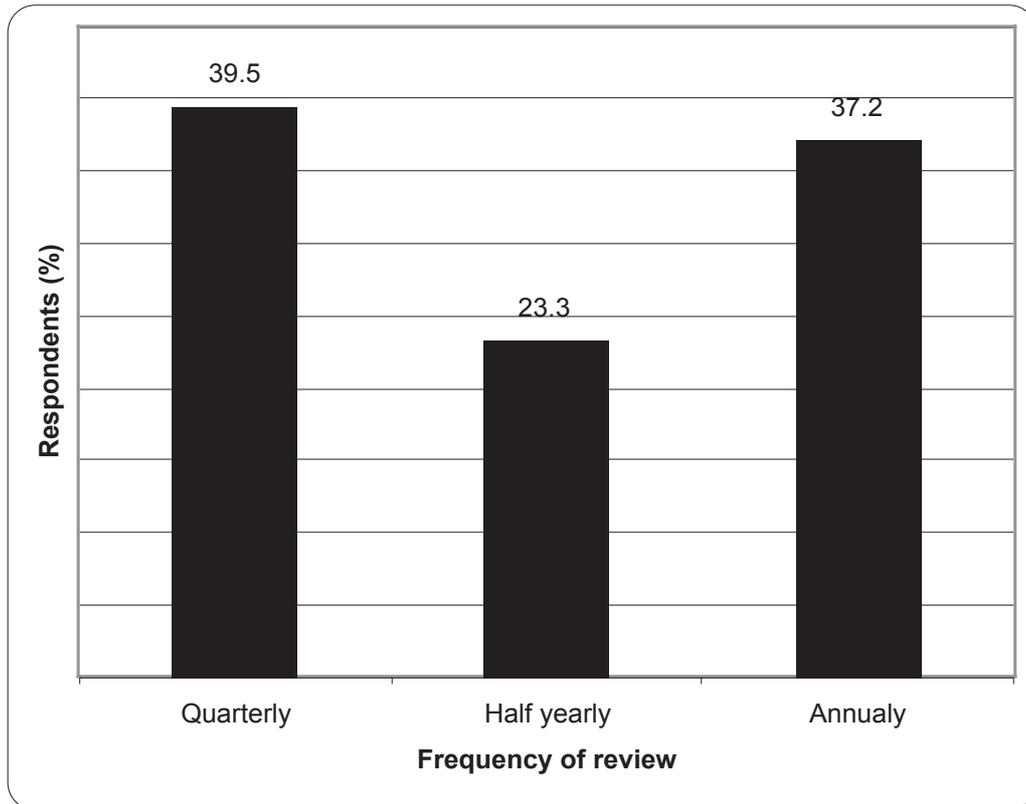
Planning horizons are critical in determining the environmental factors that planners will focus on as they develop their plans. Thompson, Strickland and Gamble (2010) argue that organisations that have short planning horizons tend to focus on environmental factors that will affect them in the short term ignoring those factors that are on the horizon (emerging) but will affect the organisation in the long term. However, a too long planning horizon has the effect of rendering the plan ineffective and unrealistic as they become too futuristic. Thus short planning horizons leave out long term opportunities and threats, while relatively long planning horizons allow for accommodating both short and long term opportunities and threats.

Do firms review their strategic plans?

Respondents were asked if their firms reviewed their strategic plan documents. 96% of them said that they did review their plans while 4% said they did not. To those who reviewed their plans, the researcher sought to establish the frequency of the reviews.

Figure 6 on the next page reveals that 40% of the respondents reviewed their strategic plans on a quarterly basis, while 23% said that strategic plans were reviewed bi-annually. However 37% of the respondents reported that their strategic plans were reviewed on an annual basis.

Figure 6: Frequency of review



Strategic plans are drawn based on developments in the business environment. However, these developments are not constant and there is need to constantly check if the organisations' strategic plan is still in tandem with environmental developments. Where they are not, organisations should make necessary adjustments to remain relevant in the environment. Strategic plans are guides to an organisation's operations in the dynamic environment, hence the need to reflect on the progress in strategic plan implementation. There also exists the need to assess whether the organisation is making progress towards its set objectives.

These benefits can only be achieved if organisations engage in strategic plan reviews. However, the timing of the review is of great essence. Where reviews are delayed or not done at all, the consequences are that the strategic plan is overtaken by events rendering it irrelevant. Over and above that, organisations may have gone off course, resulting in delayed remedial action and in some instances; a great deal of irreparable damage (eg. in the form of losses or lost market share) would have been inflicted on the organisation. Therefore review of strategic plans on a regular basis cannot be overemphasized. Thompson Strickland and Gamble (2010) concur with this assertion, recommending that it should be done on a quarterly basis.

CONCLUSIONS

Data analysis in the previous section revealed that the overall opportunity identification processes used by the sampled Harare manufacturers have major flaws. These flaws put the firms at risk of overlooking or missing opportunities that could make their businesses more competitive. The correlation of this conclusion is that flawed environmental scanning processes can also hamper firms from identifying or anticipating threats that may render them uncompetitive.

RECOMMENDATIONS

The study recommends the following as ways of enhancing environmental scanning processes to the manufacturing firms:

- that they involve all employees in the planning process so that they benefit from the divergent inputs and views;
- that they raise their planning horizon to at least five (5) years from the current three (3) years. This will allow them to incorporate long term environmental factors with a potential to impact on their operations;
- that they review their strategic plans at least on a quarterly basis so as keep abreast with the environmental changes that may take place;
- that they make use of both the internal and external sources of market information to be able to carry out effective and relevant SWOT analysis; and
- that they effectively communicate their plans to all employees to enable employees to be able to make decisions that help the firms to exploit the opportunities of mitigate the impact of threats.

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Impact of capital flight on economic growth in Zimbabwe (1980-2010)

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ABSTRACT

The study empirically examined the impact of capital flight on economic growth in Zimbabwe for the period 1980 to 2010, using the ordinary least squares (OLS) technique. In the estimated model, current and one-period lagged capital flight variables were found to be insignificant. However, two-period lagged capital flight reported a negative and significant impact on economic growth. The findings also indicate that while gross domestic investment positively affects economic growth, the occurrence of droughts has got a negative effect. Therefore, economic growth in Zimbabwe can be sustained through the adoption of policies that lessen the impact of capital flight. These include; drought mitigation measures and tax incentives that promote gross domestic investment.

Keywords: capital flight, economic growth, ordinary least squares, Zimbabwe

1. INTRODUCTION

Capital flight is a subject that has received a lot of attention from academics, especially in the field of Development Economics. While there are several definitions, some define it as all capital that flees irrespective of the motive (Kindleberger, 1987), while Gurasova (2009) defines it as a net illegal outflow of capital from a country of interest (mostly a developing nation). One of the simplified motive-driven definitions was given by Schneider (2003) who defined it as an outflow of resident capital from a country in response to economic and political risks in the domestic economies.

From these definitions, it can be seen that push rather than pull factors are the main determinants of capital flight. The major causes of capital flight can be economic and/or political, which include large public sector deficits, accelerating inflation, slowing economic growth, rising taxes and political instability. While some studies have found capital flight as negatively impacting on economic growth, others have found it otherwise. Ajilore (2010) identified two negative effects of capital flight. Firstly, capital is scarce in the developing world and capital flight contributes to worsening the capital scarcity problem. In addition, it also restricts the capacity and ability of affected countries to mobilise domestic resources and access foreign capital necessary to finance economic growth and development. Secondly, capital flight can lead to negative feedback because of the resulting tightening of capital constraints. Cerven'a (2006) and Gurasova (2009) also found out that higher levels of capital flight slow down economic growth using cross-country studies. Similar results were found in single country studies by Ajayi (2012); Edeme and Samson (2012) both in Nigeria, as well as Njimanted (2008) in Cameroon. On the contrary, Zakeree *et al.* (2012) found capital flight to have a positive effect on economic growth.

Theoretically, the Investment Diversion Hypothesis asserts that capital flight drives away foreign direct investment leading to low savings, low domestic investment and a decline in economic growth. The Debt Overhang Hypothesis accentuates that huge external debt is motivation enough for residents to keep their resources abroad in support of the Investment Diversion Hypothesis. This creates a fiscal gap which is, in turn, filled by external borrowing thus creating a vicious cycle of external debt and capital flight. According to the Tax Depressing Thesis, an increase in capital flight reduces government tax base thereby reducing resources to finance growth and development. This suggests that capital flight negatively impacts growth and development of a nation.

Increased capital flight during the crisis period of 1998 to 2008, resulted in Zimbabwe being classified as one of the most affected countries in Africa (Africa Development Bank, 2012). Despite the increased capital flight over the recent period, no study has been done to quantify the impact of capital flight on economic growth. Makochekanwa (2007) carried out a capital flight study in Zimbabwe and found external debt, foreign direct investment inflows and foreign reverses to be the major causes of capital flight. The focus of

his study was, however, on the determinants of capital flight and not on its impact on growth. Therefore, the principal objective of this study is to determine the impact of capital flight on economic growth in Zimbabwe for the period 1980 to 2010, using ordinary least squares (OLS) methodology.

2. DATA AND METHODOLOGY

Secondary time series annual data for the period 1980 to 2010, were used in the empirical analysis. All the data used were obtained from the World Bank (WB) (2012) except for capital flight which were obtained from Boyce and Ndikumana (2012).

The study employed the ordinary least squares (OLS) technique to investigate the impact of capital flight on economic growth. This was done after testing the variables in the model for a unit root using the Augmented Dickey-Fuller (ADF) test to avoid spurious regression. This study follows Gusarova (2009) and the model which was estimated is shown in Equation 1:

$$RGDPP_t = \alpha_0 + \alpha_1 CAPF_t + \alpha_2 CAPF_{t-1} + \alpha_3 CAPF_{t-2} + \alpha_4 GDI_t + \alpha_5 GFCF_t + \alpha_6 DROUGHT_t + \varepsilon_t$$

Where $RGDPP_t$ is Real Gross Domestic Product per capita; $CAPF_t$ is Capital flight the current period; $CAPF_{t-1}$ is Capital flight at 1 lag; $CAPF_{t-2}$ is Capital flight at 2 lags; GDI_t is Gross Domestic investment; $GFCF_t$ is General Government Final Consumption; $DROUGHT_t$ is a dummy variable to capture the effects of drought; α 's are parameters to be estimated and ε_t is the error term assumed to be stationary and independently distributed.

The dependent variable, economic growth, was proxied by real gross domestic product per capita. The capital flight variable was expressed as a percentage of gross domestic product. The model also included one-year and two-year lagged variables of capital flight. We expected all three variables to have negative coefficients. Gross Domestic Investment captures government and private investment and was expressed as a percentage of GDP. A positive coefficient was expected for this variable. General Government Final Consumption was expressed as a percentage of GDP. Since government consumption has a positive effect on economic growth, we expected the sign of the coefficient to be positive. Drought is a dummy variable which took a value of 1 for drought years (1983, 1984, 1986, 1987, 1992, 2002, and 2003) and 0 otherwise. We expected a negative relationship between drought and economic growth.

3. ESTIMATION AND DISCUSSION OF RESULTS

Before estimating¹ the model, stationarity tests were conducted using the ADF test. As shown in Table 1, all variables except GFCF are stationary. $RGDPP$ is stationary at the 5 percent level of significance while $CAPF$, $CAPF (-1)$, $CAPF (-2)$, GDI , $DGFCF$ and $DROUGHT$ are stationary at the 1 percent level. $GFCF$ was then differenced once and became stationary at the 1 percent level. The results of the estimated model are presented in Table 2.

¹ All tests and estimations were carried out using Eviews version 7.

Table 1: Results of the Unit Root Test

Variables	ADF Prob Level	ADF Prob First Difference	Order of Integration	Level of Stationarity
RGDPP	0.0126	...	zero	**
CAPF	0.0000	...	zero	***
CAPF (-1)	0.0000	...	zero	***
CAPF (-2)	0.0009	...	zero	***
GDI	0.0090	...	zero	***
GFCF	0.2425	0.0000	one	***

** implies stationarity at 5%, and *** implies stationarity at 1%.

Table 2: Regression Results: Dependent Variable: RGDPP

Dependent Variable: RGDPP

Method: Least Squares

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Sample (adjusted): 1981 2010

Included observations: 30 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-8.553279	2.167921	-3.945383	0.0006
CAPF	2.032746	4.069451	0.499513	0.6222
CAPF (-1)	-0.469634	4.344531	-0.108098	0.9149
CAPF (-2)	-10.99452	5.001722	-2.198147	0.0383
GDI	0.668875	0.129868	5.150433	0.0000
DGFCF	0.257190	0.181918	1.413768	0.1708
DROUGHT	-5.149137	1.860835	-2.767111	0.0110
R-squared	0.640659	Mean dependent var		-1.256868
Adjusted R-squared	0.546918	S.D. dependent var		6.581414
S.E. of regression	4.430037	Akaike info criterion		6.015657
Sum squared resid	451.3803	Schwarz criterion		6.342603
Log likelihood	-83.23485	Hannan-Quinn criter.		6.120249
F-statistic	6.834357	Durbin-Watson stat		2.537353
Prob (F-statistic)	0.000293			

As shown in Table 2, R-squared is 0.640659 while the adjusted R-squared is 0.546918. This R-squared shows that about 64% of the variations in economic growth are explained by combined variations in the regressors. Furthermore, the F-test probability value is 0.000293, which is less than 0.01 with an F-statistic of 6.833457, implying that at least one of the independent variables is a determinant of economic growth. The Durbin-Watson calculated value obtained is 2.537353 and the region of no autocorrelation as [1.707, 2.293] at 1% level. The inconclusive region is [2.293; 3.188]. Therefore, there is inconclusive evidence regarding the presence or absence of negative first-order serial correlation (Gujarati, 2004).

Current-period capital flight and one-period lagged capital flight were both statistically insignificant. However, the coefficient of the two-period lagged capital flight was negative and statistically significant at the 5 percent level. A dollar lost now due to capital flight will result in the country losing \$11 worth of GDP per capita in two years time. This implies that the negative impact of capital flight on economic growth is not immediate in Zimbabwe but manifests itself after two years. This result leads to the acceptance of the hypothesis that capital flight negatively affects economic growth. This finding is in line with the Investment Diversion

Theory, Debt Overhang Hypothesis and the Tax Depressing Hypothesis. It is also consistent with empirical findings by Njimanted (2008), Gusarova (2009) and Ajayi (2012). Gross Domestic Investment was found to be positive and statistically significant at the 1 percent level. This shows that increased domestic investment leads to increased economic growth. Drought was found to be negative and significant at the 5 percent level. Continued drought results in a fall in economic growth for Zimbabwe. General Government Final Consumption was found to be statistically insignificant.

4. SUMMARY AND POLICY RECOMMENDATIONS

The study investigated the impact of capital flight on economic growth in Zimbabwe for the period 1980 to 2010, using ordinary least square technique (OLS). The results of OLS show that two-period lagged capital flight, gross domestic investment and drought are statistically significant. General Government Final Consumption, current-period capital flight and one-period lagged capital flight are insignificant. The model estimated passed all other model diagnostic tests. The econometric evidence shows that capital flight negatively affects economic growth. We however observed that this negative impact is not immediate in the case of Zimbabwe but manifests itself after two years.

From our findings, we recommend the adoption of policies that lessen the negative impact of capital flight. These include tax incentives that promote gross domestic investment and the adoption of drought mitigation measures such as irrigation development and conservation agriculture.

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Perceptions of middle managers on talent development and management in business organisations in Zimbabwe

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ABSTRACT

Talent development and management is a subject that has been widely researched. In some organizations, talent development and management is not a conscious process. Organizations approach the practice differently with some organizations having clear policies on talent development and succession planning while others approach it in a casual manner. This study carried out a survey to determine the perceptions of middle managers from various organizations in Zimbabwe on the existence of talent development and management, the existence of talent development and management policies, the extent to which talent management is an integrated process and to identify the approaches used by different organizations in handling talent. It came out that in Zimbabwe, the talent development and management area is a mixed bag with some organizations taking a conscious and well planned approach to it while others approach it in a passive manner. The underlying result, however, is that talent development is present in most Zimbabwean organizations although it is referred to differently. It is recommended that organizations should put relevant talent development and management policies in place and ensure that the organization's approach and expectations are clear to every organization member, if talent is to be harnessed profitably.

Key Words: Talent development, middle management, perceptions, organizations, succession planning

1. INTRODUCTION

Defining the word 'talent' for talent identification, development and management purposes is challenging. Some researchers have argued that "companies do not even know how to define 'talent', let alone how to manage it" (The Economist, 2006:4). The word 'talent' has been taken to mean 'a gift which enables someone to achieve a conspicuously exceptional or above- average performance in a particular field' (Tansley, 2011). Gagne' (2000), notes that the term talent designates the superior mastery of systematically developed abilities and knowledge in at least one field of human endeavor.

Most researchers agree that talented employees can easily work their way out of difficult situations and work faster than ungifted people and that talent has to be identified, nurtured, developed and managed in a strategic way, in order to benefit both the talent holder and the organization (Newhall, 2012; Pruis, 2011; Haskins and Shaffer, 2010). Therefore, talent is a very important attribute in business operations as it enables labour to be more productive and innovative. For talent to be developed and properly managed, the process of talent management and development requires appropriate decision making, leadership and guidance. In most cases, organisations that fail to pay attention to talent development end up losing talent and good operational and strategic results. Key talent necessary for organizational success is found in middle level managers (Sheehan, 2011).

This paper makes a contribution to the body of knowledge on talent development and management in Zimbabwean organizations as perceived by middle level management where key talent of an organization lies.

2. PURPOSE AND OBJECTIVES

The purpose of this study was to establish perceptions of middle managers on talent development and management in business organisations in Zimbabwe.

Specific objectives addressed in the study were:

1. To establish the existence of talent development in any form in Zimbabwean organizations;
2. To ascertain the existence of talent development and management policies in Zimbabwean organisations;
3. To establish the extent to which talent management is an integrated process and
4. To identify the various approaches to talent development in Zimbabwean organizations.

3. LITERATURE REVIEW

Talent development and management is an area that has been widely studied. Tansley (2011) proffers that there is no contemporary definition of talent that is universally accepted. The word talent infers to the most important attributes necessary for management development and excellence. It comprises of the gift of unique knowledge and skills that are necessary to achieve high levels of performance (Tansley, 2011). The same author notes that talent is not only innate but that it can also be developed. Creativity in itself is an element of talent. The extent to which an organization's environment allows for or enables one to be creative, becomes very important for talent development. This means that talent must not only be visible; it must also be stimulated and nurtured. Business organizations should, therefore, be keen to explore how this talent can be identified, nurtured, developed and managed for better performance.

Talent management can be understood to mean a systematic way of attracting and identifying, developing and retaining those individuals in an organization who are regarded as having value to that organization, currently and in the future. This implies that it is important to attract individuals with potential to meet both current and future goals of the organization. Talent management is, therefore, both now and future oriented. To develop, manage and retain those talented individuals requires the organization to have in place a planned strategy for talent development. Particular strengths of individuals need to be identified and developed. A talent development strategy needs to look at the entire workforce of an organization. Apart from use in specialist jobs, talent development is critical for management succession planning (Sheehan, 2012; Pruis, 2011). It is, therefore, important to have a clear assessment of the presence and extent of talent development and management in any organization.

Managers, particularly middle managers, form key talents for organizational success (Sheehan, 2011). Talent development is a major element of management development that is necessary to produce effective 'ready to manage' cadres in organisations (Haskins and Shaffer, 2010). The development of talent in organisations relies on a number of variables such as organizational will, goals, required attributes and the development processes and/or methods put in place (Haskins and Shaffer, 2010).

A worldwide study by Corporate Executive Board (CEB) (2013) on talent management, revealed various levels of manager commitment to talent development, ranging from those who are committed and effective in managing talent to those who are neither committed nor effective. The findings of that study showed that 20% of senior executives lacked commitment to talent development. This lack of commitment to talent development directly impacted on their level of effectiveness in developing talent in their organizations.

Erickson (2012) identified top challenges that face managers when it comes to talent development and management including the following:

1. Attracting and retaining enough employees at all levels to meet the current and development needs of the organization;
2. Creating talent development design that appeals to employees across ages/generations;
3. Difficulty in determining whether individuals who are technical experts and skilled in their fields have the people and leadership capabilities, business breadth and global diversity required in future leadership;
4. Transferring key knowledge and relationships;
5. The exodus of mid-level managers in whom the organization might have invested a lot;

6. Developing talent management programmes that are attractive to young and upcoming managers;
7. The challenge of short tenure and frequent movement and;
8. The challenge of enlisting support from executives who believe in buying talent as opposed to building own talent.

Pruis (2011) offers a five point talent development and designing framework. It clearly spells out the various aspects which should be present in an organization that is developing talent. He contends that there should be the following;

1. Existence of clear policy and strategy ;
2. Integrated process;
3. Organisational needs and goals that drive talent development;
4. Mentoring process and continuous development of talent and
5. Existence of a balance between organisational and individual needs or expectations.

For successful talent development and management to happen, there should be a crystal clear policy and strategy (Pruis, 2011; Newhall, 2012). Talent management has become a strategic priority in today's complex business world. It is an important strategy on its own that business organizations should not underestimate (Newhall, 2012; Sheerhan, 2012).

Talent development and management process requires an integrated effort supported by all key stakeholders in an organisation (Newhall, 2012; Pruis, 2011; Haskins and Shaffer, 2010). This factor requires evident coherence in the planning, identification, recruitment, mentoring and the development and utilization of talent in an organization.

Organisational needs and goals must drive talent development and management. Organisations should aim to satisfy given needs or rather achieve set goals, such as cost savings and superior production techniques. This will give value for money invested in human resources, particularly in talent development (Sheerhan, 2012; Pruis, 2011). Succession planning is a critical strategic aspect in many organisations, as there is a need for leadership renewal all the time. Talent development and management is often associated with succession planning activities in many organisations (Sheerman, 2012).

Mentoring in talent development and management entails a one-to-one relationship between the talent holder and a more experienced professional or mentor or role model. Pruis (2011) contends that mentoring is critical for a successful talent development and management program. Newhall (2012) refers to the mentors as 'talent ambassadors' who have commitment for driving and measuring talent development and management. This will give required results in terms of skills, expertise and operational outcomes.

A serious talent development and management programme should clearly state the expectations of the organization to talent holders and other stakeholders. This is critical in that it allows the talent holders to synchronize their expectations with those of the organization (Pruis, 2011). This requires clear job assignments, clearly laid out career paths, clear competence expectations and management succession, among others (Haskins and Shaffer, 2012; Pruis, 2011; Sheerhan, 2011).

This review of literature on talent development and management shows that there is need to align strategic business plan with talent development plans that meet both individual and organisational goals.

4. RESEARCH METHODOLOGY

This study on perceptions of middle managers on talent development and management in Zimbabwean organizations was based on a survey which was administered to a random sample of 200 middle managers working in private and public sector organizations. Responses were solicited on the following questions;

1. Does talent exist in any form in Zimbabwean organisations?

2. Are there clear policies on talent development and management in Zimbabwean organisations?
3. Is talent management an integrated process in Zimbabwean organisations?
4. What approaches are used for talent development in Zimbabwean organisations?

One hundred and forty two (142) responses were received, giving a 71% response rate. Data was analysed using IBM SPSS version 22 software. The analysis was done through factor analysis, correlations, Chi-square, and frequencies. Reliability analysis was done using Cronbach's Alpha, with a value of 0.850 being obtained. According to Santos (1999) and Nunnally (1978), a Cronbach's Alpha value lower than 0.7 is a sign of a weak tool whose results are not reliable.

5. FINDINGS

The study used data collected from middle managers picked randomly from various organizations and varying fields.

5.1 Existence of talent development in Zimbabwean business organizations

The first objective of the study was to establish whether talent development and management exists in Zimbabwean organizations. The following variables were used in the questionnaire to assess the availability of talent development;

1. Availability of a clear talent policy
2. Organizational talent management effort
3. A clear mentoring process for talent development
4. Succession planning
5. Talent holders are mentored by role models
6. The talent pool is collectively harnessed for profitability
7. Talent holders are offered attractive jobs, positions and projects
8. Management always talk about talent
9. Talent holders collaborate actively with each other in the organization and
10. Talent holders are given jobs in areas in which they are talented

The frequencies obtained in relation to the above factors are shown in Table 1.

Table 1: Frequencies of factors that show existence of talent development in Zimbabwe.

Variable	% Frequency (Agree)	% Frequency (Disagree)	% Frequency (Not sure)
Availability of a clear talent policy	42	43	15
Organisational talent management effort	53	18	29
A clear mentoring process for talent development	50	36	14
Succession planning	47	32	21
Talent holders are mentored by role models	75	15	10
The talent pool is collectively harnessed for profitability	60	19	21
Talent holders are offered attractive jobs, positions and projects	65	17	18
Management always talk about talent	47	38	15
Talent holders collaborate actively with each other in the organisations	64	22	14
Talent holders are given jobs in areas in which they are talented	60	27	13

Overall, although talent development and management is evident in Zimbabwean business organizations. Perceptions differ from organisation to organisation, with some people not even sure of its existence. This may be as a result of situations where there are no clear policies on talent development and in some cases management do not talk about talent development and management. Talent development comes in varying forms with some organisations having succession plans, while others simply give talented people attractive jobs, positions and projects.

The analysis showed a strong correlation between some of the variables used in answering this objective.

1. In organisations where a clear talent policy is available, organisational talent management effort is most significant.
2. Where there is a clear talent development policy and significant talent management effort, management always talks about talent in the organisation.
3. In organisations where talent management efforts are put in place, there is a high probability that there will be a clear mentoring process for talent development.

Principal component analysis was done to establish the major determining factors for the presence of talent development and management in organisations. Table 2 shows the primary determinants or indicators which reveal that talent development is present in an organisation.

Table 2: Indicators for the existence of talent development in an organisation

Indicators	Primary Indicators	Secondary Indicators
A clear talent policy	.756	-.374
Organisational talent management effort	.808	-.368
Clear mentoring process for talent development	.689	-.205
Succession planning	.613	.129
Talent holders are offered attractive jobs, positions and projects	.538	.733
Management always talks about talent in the organisation	.725	-.104
Talent holders are given jobs in the areas which they are talented	.729	.443

Whereas all the indicators in Table 2 show the existence of talent development in an organisation, the fact that talent holders are offered attractive jobs, positions and projects is not necessarily a primary indicator. Giving attractive jobs and positions to people who are thought to be talented may not be regarded as talent development but maybe just a way of motivating staff members. Also, according to Newhall (2012), mentoring is an important component of talent development. Therefore, an attractive job or position without the mentoring process may not necessarily be regarded as talent development or management.

5.2 Presence of crystal clear policies on talent development and management in Zimbabwean Organizations

Results show that there is an almost equal distribution of organizations where a clear talent policy is available (42%), and the ones where a clear policy is not available (43%), with 15% being not clear.

A mean of 2.01 on a 3 point scale also shows that the results are evenly distributed. A T-test was done to measure the reliability of the mean with respect to 1 (Present) and 3 (Not present) to establish the stronger side, with results of 12.860 and 12.490, respectively. This showed that neither side is strong enough and that there is a balance between organisations with a clear talent policy and those without a clear talent policy.

5.3 The extent to which talent management is an integrated process in Zimbabwean Business Organisations

The study used the following variables to measure the extent to which talent management is an integrated process in an organization;

1. Accountability for talent management lies with the board;
2. Talent development addresses a strategic objective ;
3. Career development for succession planning is sought and developed from within;
4. The organisation is clear about its expectations on talent holders;
5. The talent pool is collectively harnessed for profitability and
6. The talent holders in an organization actively collaborate with each other.

Table 3: The extent to which talent development is integrated in Zimbabwean organisations

Variable	% Frequency (Agree)	% Frequency (Disagree)	% Frequency (Not sure)
Accountability lies with the board	39	53	18
Talent development addresses a strategic objective	79	10	11
Career development for succession is developed from within	69	24	7
Organisation is clear about its expectations on talent holders	50	30	20
Talent pool is collectively harnessed for profitability	59	19	21
Talent holders collaborate with each other	64	22	14

The statistics in Table 3 show that middle managers perceive that accountability for talent development and management does not lie with the board. A significant number of respondents indicated that they were not sure whose responsibility it is to develop talent in their organisations (18%). The majority of respondents indicated that talent development in their organisations lead to addressing a strategic objective or challenge (79%). In 69% of the cases, career development for succession planning is sought and developed from within the organisation. Although in some organisations succession planning is available at an operational level (55%), a significant number of respondents (29%) disagreed with this, showing a variation of practices in organisations. A resounding number of respondents agreed that talent development is necessary for middle managers (93%) while 73% also agreed that talent holders should be mentored by role models. Half of the respondents (50%) indicated that their organizations make clear expectations on talent while a significant number were not sure (20%). This may be an indication of communication challenges in organisations where some managers may not be sure about how certain issues are handled within the organizations. In 60% of most organizations, talent is harnessed collectively for profitability. However, a significant fraction of respondents (21%) were not sure whether or not this happens within their own organizations. Results also show that talents collaborate actively with each other in organizations (64%). Basing on frequencies, results generally show that most boards of business organisations in Zimbabwe are not living up to their role as policy makers in this area. It may also indicate that some top management do not initiate policies on talent development to the boards and they use salaries to attract and keep talent.

Six factors emerged as major determinants or reliable indicators showing that talent development and management is an integrated process as shown in Table 4.

Table 4: Indicators showing that talent development is an integrated process

Indicators	Primary indicators	Secondary indicators	Other indicators
Accountability for talent management lies with the board	.330	.536	-.469
Talent development in the organisation leads to addressing a strategic objective and/or challenge	.554	.273	.434
Career development for succession is sought and developed from within	.701	.038	-.199
Succession planning is available at operational level	.483	.112	-.314
Talent development is necessary for middle managers	.194	.339	.725
Talent development is mentored by role models	.222	.659	-.062
The organisation clearly makes its expectations on talents	.732	-.207	-.034
The talent pool is collectively harnessed profitably	.782	-.261	.108
The talents collaborate actively with each other in the organization	.769	-.345	.024

As indicated in Table 4, six factors were found to be key in showing whether or not talent development is an integrated process in an organization and these are;

1. Talent development in the organisation leads to addressing a strategic objective and/or challenge;
2. Career development for succession is sought and developed from within;
3. Succession planning is available at operational level;
4. The organisation clearly makes its expectations on talent;
5. The talent pool is collectively harnessed profitably and
6. The talents collaborate actively with each other in the organisation.

The Correlation analysis of the data showed that

1. Where organizations make clear expectations on talent, the talent pool is most likely harnessed profitably.
2. When talents collaborate actively in the organization, the talent pool is harnessed profitably.

5.3 How Zimbabwean organisations approach talent development

The following variables were used to indicate the approach used by different organizations

1. Talent is based on a broader pool of talent;
2. Most young talent comes from university;
3. Career development for succession is sought and developed from within;
4. Succession planning is available at top management;
5. Succession planning is available at middle management;
6. Succession planning is available at operational level;
7. Talent management is necessary for executives;
8. Talent management is necessary for middle managers;
9. Talent development is necessary for specialists and
10. Talent development is mentored by role models.

Table 5: Approaches to talent development and management in Zimbabwean business organisations

Variable	% Frequency (Agree)	% Frequency (Disagree)	% Frequency (Not sure)
Talent is based on a broader pool of talent	74	20	6
Most young talent comes from university	73	21	6
Career development for succession is sought and developed from within	69	24	7
Succession planning is available at top management	57	24	19
Succession planning is available at middle management;	56	24	19
Succession planning is available at operational level	56	28	16
Talent management is necessary for executives	84	4	12
Talent management is necessary for middle managers	94	2	4
Talent development is necessary for specialists	89	5	6
Talent development is mentored by role models	75	15	5

Results show that most organizations believe that talent should be based on a broader pool of talent (74%). About three quarters of respondents (73%) also believe that most young talent comes from university. Almost two thirds of respondents (64%) agree that career development for succession planning should be sought and developed from within. An overwhelming number of respondents (84%) also agreed that talent management is necessary for executive level, middle management (94%) and specialists (89.3%). Most respondents also believed that talent should be mentored by role models (75.4%).

From the foregoing analysis, it can be concluded that;

1. Where career development is sought and developed from within, succession planning is evident at both middle and top management levels and
2. Generally, organisations which feel that succession planning is necessary for top executives will also find it necessary for middle managers. Succession planning at middle management should be the basis for succession planning at top management level. The crop of talent that is admitted at middle levels should have potential for promotion to top management.

CONCLUSIONS AND RECOMMENDATIONS

It is evident from the study results that talent development and management exists in Zimbabwean business organisations. The nature of the existence of talent development and management in these organisations varies across the organizational spectrum. In some organisations, it is more meaningful and the factors that measure it are well defined and reliable, such as organizational talent management effort and clear talent policies. This is a good development in the area of talent development and management as it is the middle managers themselves that are giving this evidence. If things were really bad, the middle managers would have indicated it.

The presence of clear policies on talent development and management in Zimbabwe also varies across organisations, confirming the variation in the presence of talent development and management in the same organisations. What is shown by the 41.6% availability and 43.1% of non-availability of clear policies on talent development and management is that not all middle managers have been exposed to these policies. Top managers may not be exposing these policies in a clear manner to 43.1% of the respondents. There is a need therefore to encourage organisations to clearly spell out their talent development policies.

An integrated process for talent development and management is critical (Pruis, 2011). About a third (34%) of the middle managers surveyed is not familiar with what happens at corporate levels regarding the board's position on talent development and management. At times the board's feelings and actions fail to permeate

below top managers for a variety of reasons. Written comments from some of the respondents tend to suggest that middle managers were at times not aware of the real position of the board on talent development and management. This is a major concern in talent development and management.

The fact that 93% and 73% of the respondents agreed that talent development is necessary for middle managers and should be mentored by role models respectively, shows that they were an interested party. Nevertheless, this result stands valid in supporting the situation on integrated approach to talent development and management, as it is validated by the six factors that determine talent development as discussed above. The observation by the respondents that talent development in organisations leads to addressing a strategic objective and/or challenge (Factor value .554) shows that middle managers believe that the board and top managers are strongly involved in talent development. Succession planning in most organisations is an important theme (Gonzalez, 2013; Pruis, 2011) as it deals with managers, particularly at top level, having to be replaced from below when they depart for a variety of reasons such as retirement or incompetence. As a result, some senior managers would rather delay their departure by slowing down talent development in organisations, where they doubt their competence. Nevertheless, it is important for talent development and management that career development for succession planning is sought and developed from within and that clear policies are available and visibly communicated to all stakeholders.

The results of this study are a sound foundation for more studies on the subject, such as on the perceptions of human resources executives and other top managers on talent development and management in Zimbabwean business organisations. Six factors that show that talent is an integrated process have been identified in this study. These factors which include; addressing of strategic objectives or challenges, succession planning, clear expectations on talent, collectively harnessed talent pool and collaboration of talent, are critical for any meaningful talent development and management campaign in any business.

The approaches to talent development and management from this study in Zimbabwe include; seeking and developing career development from within organisations and that succession planning is necessary at all levels and is also done from within. This is a positive development for talent development as talent holders will be assured of the right treatment. Middle managers believe in mentoring and look forward to working with role models in their organisations.

The factor of accountability for talent development and management at board level is lowly rated for determining an integrated approach for talent development and management. This is a cause for concern as board initiative and support is critical in this endeavor for strategic purposes (Pruis, 2011). The low rating may be due to poor communication of board business below top management level. On the other hand, it could be a matter of poor board accountability for this strategic area. What is important is the fact that the issue of accountability for talent development and management is critical in organizations.

This study also indicated that attractive jobs, positions, projects and packages are important ingredients of talent development and management. These aspects provide a good occupational environment for talent development. They encourage talent as they feel rewarded as well as challenged by top job assignments. Talking about talent development and management in organizations, assists in clarifying board and top management positions on the matter.

It is pleasing to note from this study that talent development and management in Zimbabwe is positive. This gives hope to young career people in organisations. It also gives hope for continued success and prosperity in organisations as leaders are replaced through home grown managers.

Successful talent development and management in Zimbabwe requires clear policies. Zimbabwean organizations should, therefore, come up with these clear and meaningful policies in order for them to benefit from this strategic endeavor. In addition, there is a need for visible management efforts in organizations pursuing talent development and management. This should take into consideration expectations of both talent holders and the organisations. Talent holders would be more productive if management would make them feel important through challenging job assignments and attractive salary packages. Organisations in

Zimbabwe will make the talent development and management process easy if they utilize role models or mentors in this exercise. Corporate support, including board participation, is vital for talent development and management and organisations are advised to sincerely ensure this. To ensure cooperation from top managers who may feel threatened by succession planning outcomes, talent development and management should be all encompassing. It should be a collective endeavor, inclusive of all managers.

Further studies on this strategic subject are recommended, such as on the perceptions of top managers on talent development and management. Zimbabwe still requires such studies in order to produce more effective and productive managers in business organisations.

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Pricing in the Informal Sector: Evidence from Zimbabwe's urban informal metal firms

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ABSTRACT

The main purpose of this paper is to investigate the price-setting behavior of Zimbabwe's urban informal metal firms. In order to achieve this objective, data collected from 647 urban informal metal entrepreneurs is used. The study reveals that the majority of urban informal metal enterprises' customers are households and individuals. Empirical results indicate that urban informal metal entrepreneurs do not set their prices in a chaotic manner but use established economic principles of setting prices. Cost-plus and bargaining are the most popular theories recognized by the entrepreneurs. The cost-plus technique is the dominant strategy used by entrepreneurs followed by the bargaining strategy. While the cost-plus technique suggests uniform prices, this is rejected by the bargaining strategy which suggests that prices are set on a case-by-case basis. Evidence suggests that the entrepreneurs' pricing decisions are mainly influenced by cost factors. Apart from covering production costs the entrepreneurs' pricing decisions also emphasize 'ethical objectives' by charging 'what the market will bear.' From the two dominant pricing strategies, two issues are central to the entrepreneurs' pricing decisions that is, covering costs of production and minimizing the loss of customers.

Key words: Informal sector, pricing, metal enterprises

1. INTRODUCTION

The importance of the informal sector cannot be overemphasized especially in developing countries where there are high unemployment and poverty levels. Hence, the analysis of informal sector firms has mainly focused on issues of employment and poverty alleviation. Over the years, Zimbabwe's informal sector has emerged as a major force contributing to the livelihoods of many Zimbabweans. The Government also recognizes the importance of the informal sector² in employment creation as well as poverty alleviation. Its support has increased with the establishment of the Ministry of Small and Medium Enterprises and Cooperative Development. Government has also intensified research into informal sector activities.³ Zimbabwe's 2014 National Budget also acknowledges that the informal sector is an important feature of the Zimbabwean economy. A major step of 2014 National Budget has been the decriminalization of informal small scale mining activities and extension of financial support to that sector.

Despite Government efforts to promote informal sector activities, very little is known about the way Zimbabwe's informal entrepreneurs conduct their businesses. Recognition of informal sector activities requires that more research be conducted in this sector. This is important for policy makers. Pricing is critical as it produces revenues for the firm. Hence, pricing is important for the profitability and long term survival of the firms. The way firms set prices is also critical to the functioning of any economy. Amirault, *et al* (2004-2005) and Park, *et al* (2010) note that the way firms set prices can be a key determinant of the dynamics of the inflation process in the economy. There is limited research, especially in developing countries on how firms and especially informal firms set prices. With the growing informalization of the Zimbabwean economy, it is critical that we understand the price-setting behavior of informal firms. It is a fact that a large part of the Zimbabwean population now obtains products from the informal sector. Hence, it is important that we

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² In his 2014 National Budget Statement Zimbabwe's Minister of Finance and Economic Development proposed to decriminalize small scale mining activities and extend financial support to small scale miners.

³ A recent comprehensive study on the Zimbabwe's informal sector was undertaken by FinScope on behalf of the Zimbabwean Government.

understand how these products are priced. This paper contributes to the area of price-setting by focusing on Zimbabwe's urban informal metal firms. The main objective is to investigate how Zimbabwe's urban informal metal firms set their prices.

This paper is divided into five sections. Section two provides a review of the theoretical and empirical literature on pricing methods. Section three discusses the research methodology. Section four considers the survey's empirical evidence. Section five concludes this paper.

2. LITERATURE SURVEY

Pricing is important to firms as it generates turnover for them. There are established economic principles that firms can use in setting prices. Theoretical approaches to price-setting emphasize profit maximization as being critical when setting prices. Theoretically, pricing should take into account many factors including; fixed and variable costs, competition, firm objectives and clients' willingness to pay. Kotler (1991) argues that firm owners should establish the customers' perceptions of the product, be aware of the competitors' actions and know their profit margin.

Pricing theory identifies three major pricing techniques (Avlonitis and Indounas, 2005). Firstly, the cost-plus (or mark-up) pricing technique involves the firm determining the price by adding a fixed amount or percentage to the cost of production. Apart from its simplicity, this technique's main advantage is that the firm's costs will be covered. Its main disadvantage is that products may be priced un-competitively. Zimbabwe being a high cost producing country⁴ is facing a lot of competition in all sectors. Competition is more pronounced in manufacturing and firms are unlikely to adopt the cost-plus technique as there is likely going to be price takers.

The second pricing technique is the customer or demand based pricing. Under this method, the product price is determined by what the firm believes customers are prepared to pay. Firms may adopt this technique in order to increase their market share of the product. Under this pricing technique, prices are set to satisfy customers' needs. Given the high level of competition and the low incomes characterizing the economy, Zimbabwean firms are likely to adopt this technique.

The third pricing technique is the competition-based pricing which is common in markets where there is strong competition. In a highly competitive environment, customers can either buy from the cheapest provider or from where they get the best customer service. Under this pricing technique, competitors' prices have an influence on the firm's price. The firm has three options: (a) price its product according to its competitors' prices, (b) price its product above its competitors' prices or (c) price its product below its competitors' prices. In reality, most firms do not have enough power to set prices above their competitors' prices. They tend to use the 'going rate' that is, a price that is in line with their competitors' prices. Such firms can be referred to as 'price takers.' Zimbabwe's informal sector firms operate in a highly competitive environment and hence are likely to charge a price that is influenced by their competitors' prices. Competition for informal sector products comes from formal sector firms and imports.

Most empirical studies of firm pricing behavior have been conducted in developed economies, especially in the USA and the UK. Some empirical evidence suggests that small and medium enterprises (SMEs) owners do not manage their businesses in a functional way (Carson, 1993, Hankinson, 1991). This suggests that they are likely to take pricing decisions in a chaotic manner. A number of studies however point at the dominance of the cost-plus pricing method because of its simplicity and easiness to use. In the USA, Schlissel (1977) found out that out of 43 firms, 24 used the cost-plus pricing method. In the USA again, Goetz (1985) concluded that 36 firms out of 56 firms employed the cost-plus pricing technique. Zeithaml *et al* (1985) studied a total of 323 firms drawn from 13 different sectors of the USA economy. They concluded

⁴ In his '2014 National Budget Statement' Zimbabwe's Minister of Finance and Economic Development attributed the high cost of production to a number of factors including the high cost of capital, obsolete machinery and equipment and the erratic supplies of power and water.

that 63% of the firms used the cost-plus pricing technique. Morris and Fuller (1989) found out that out of the 71 USA firms that they studied, 75% used the cost-plus pricing method. Fabiani *et al* (2005) found out that smaller firms tended to rely on mark-up pricing. Hankinson (1991) concluded that the major determinant of price among small engineering firms was cost with market conditions acting as influences.

Although cost-plus pricing appears to be the dominant pricing approach used by small firms, literature also suggests the use of other approaches. Lance (1982) concluded that firms base their pricing on a combination of what the market will bear and cost-plus. Scarborough and Zimmerer (1984) are of the view that a firm's pricing policy should be market-driven. It has also been argued that the pricing policies of small firms reflect the views of the owners/managers. For example, Redinbaugh and Neu (1980) argued that the manager's intuition and judgment is the dominant factor in small firms pricing. Watkins and Blackburn (1986) appear to agree with this view by suggesting that a firm's pricing policy may be guided by the owner's feel for the market.

3. RESEARCH METHODOLOGY

This study uses primary data that was collected under the International Development Research Centre (IDRC) sponsored project⁵ in Zimbabwe. This project was undertaken by the Centre for Applied Social Sciences (CASS) Department, University of Zimbabwe. The data was collected from Zimbabwe's urban informal metal entrepreneurs operating in Harare,⁶ Bulawayo, Mutare and Rusape. The sample firm information is summarized in table 1 below.

Table 1: Sample firms by location

Location	Sample size	Percent
Harare	471	72.8
Bulawayo	96	14.8
Mutare	53	8.2
Rusape	27	4.2
Total	647	100

Selected areas with the largest concentration of informal metal firms in the four cities were visited during the survey. In Harare interviews were conducted in Mbare, Gazaland and Makoni business centres while in Mutare, two business centres; Sakubva and Dangamvura were visited. In Bulawayo, interviews were conducted in Belmont and Renkin business areas. Rusape has one major area where informal sector businesses are concentrated, the bus terminus area. These areas are designated by the local authorities for SMEs operations.⁷ An attempt was made during the survey to cover all informal metal firms operating in the visited areas.

The survey data was collected by a group of enumerators⁸ through face to face interviews using an IDRC approved structured questionnaire. Interviews were conducted with urban informal metal entrepreneurs between January and March 2013. By the end of the survey, a total of 647 urban informal metal entrepreneurs

⁵ The data was collected using financial assistance from the International Development Research Centre (IDRC). This project was conducted in three other African countries namely, Tanzania, Rwanda and Uganda on 'Sharing Growth through Informal Employment in East and Southern Africa.'

⁶ For the purposes of this study Harare includes Chitungwiza.

⁷ Although the firms operating in these areas are expected to be formally operating these firms do not fulfill the conditions of formal firms in terms of registration/licensing and observation of labour laws and regulations.

⁸ The enumerators used to collect the survey data were all University of Zimbabwe postgraduate and undergraduate final year students from the Faculties of Social Studies and Agriculture.

had been interviewed. The survey collected a wide range of information from entrepreneurs' backgrounds, employment and remuneration data, entrepreneurs' pricing techniques, their perceptions on stakeholders and their problems and constraints⁹. However, for purposes of this study, a part of the questionnaire with questions on entrepreneurs' pricing techniques was selected for analysis. This part of the questionnaire collected information on the entrepreneurs' customer base, their competitors and their pricing techniques. The analysis was done using the SPSS and Excel statistical packages.

4. EMPIRICAL RESULTS

Informal metal firms mainly produced building and farming materials. Building materials included; windows and door frames and gates while farming equipment included; hoes, axes and scotch-carts, among others. Other common products included; grinding mills, cooking utensils and braai stands. Table 2 indicates the diverse customer base that includes formal and informal sector customers. Most firms sold their products to households and individuals.

Table 2: Customer base of urban informal metal firms

Customer type	Sample size	Percent
Public sector	25	3.9
Formal enterprises	34	5.3
Informal enterprises	22	3.4
Households/individuals	561	87.4
Total	642	100

The nature of informal metal firms' products makes households and individuals their biggest clients. As indicated above, these firms generally produce small items suitable for use by households and individuals. Most entrepreneurs (89.4%) had no contracts with their clients. Contracts are unlikely to be used where the major customer base is households and individuals as these customers prefer buying on a cash basis and usually ask for price concessions.

Generally, urban informal metal enterprises charge lower prices compared to their formal sector counterparts. As indicated in table 3, 65.5% and 2.2% of the sample firms charged lower and higher prices, respectively compared to their formal sector counterparts. The 32.3% of the sample firms that charged average prices can be described as price takers as their prices are determined by their competitors' prices.

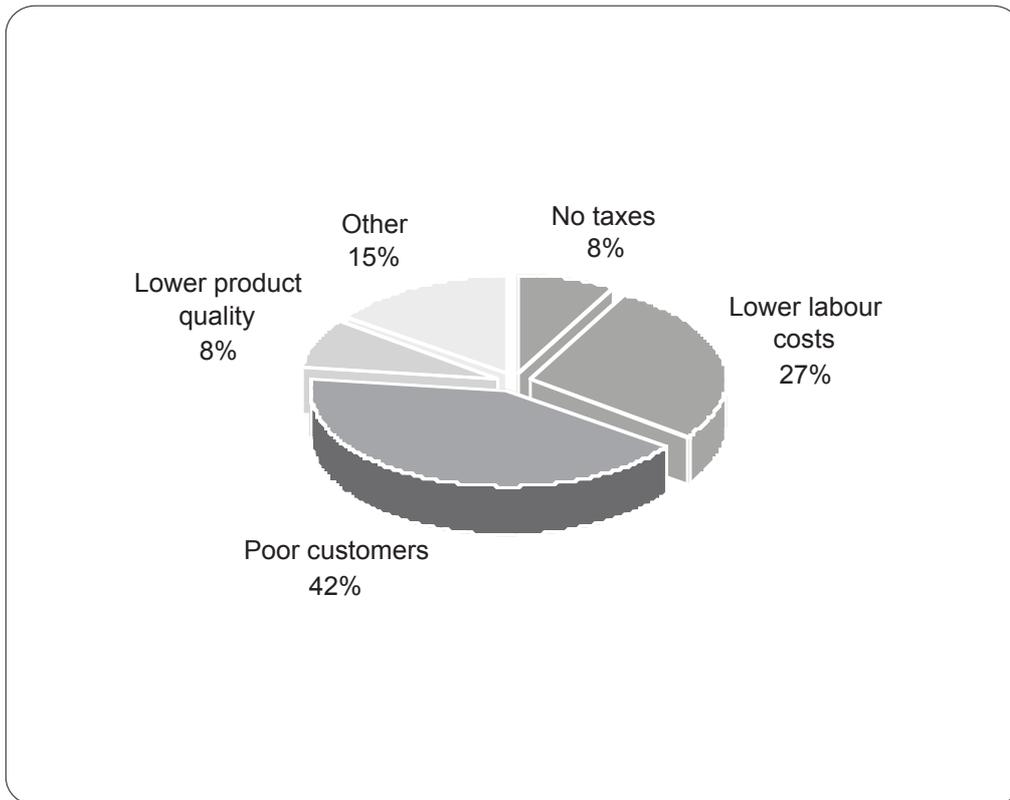
Table 3: Informal metal firms prices comparisons with formal sector competitors

Price comparison with formal competitors	Sample size	Percent
Higher	14	2.2
Average	208	32.3
Lower	421	65.5
Total	643	100

⁹ For more detailed information see the report 'Sustaining livelihoods through informal sector activities: evidence from Zimbabwe's urban informal metal sector.'

Out of the 14 firms that charged higher prices, 87.5% indicated that their products were of higher quality while 7.1% had higher production costs. A number of urban informal metal entrepreneurs gave a number of reasons for charging lower prices compared to their formal sector competitors. Figure 1 indicates that the entrepreneurs' knowledge of their customer base has a strong influence on the entrepreneurs' pricing decisions. Knowledge by entrepreneurs that their customers are less rich has a strong influence on the sample firms' pricing decisions.

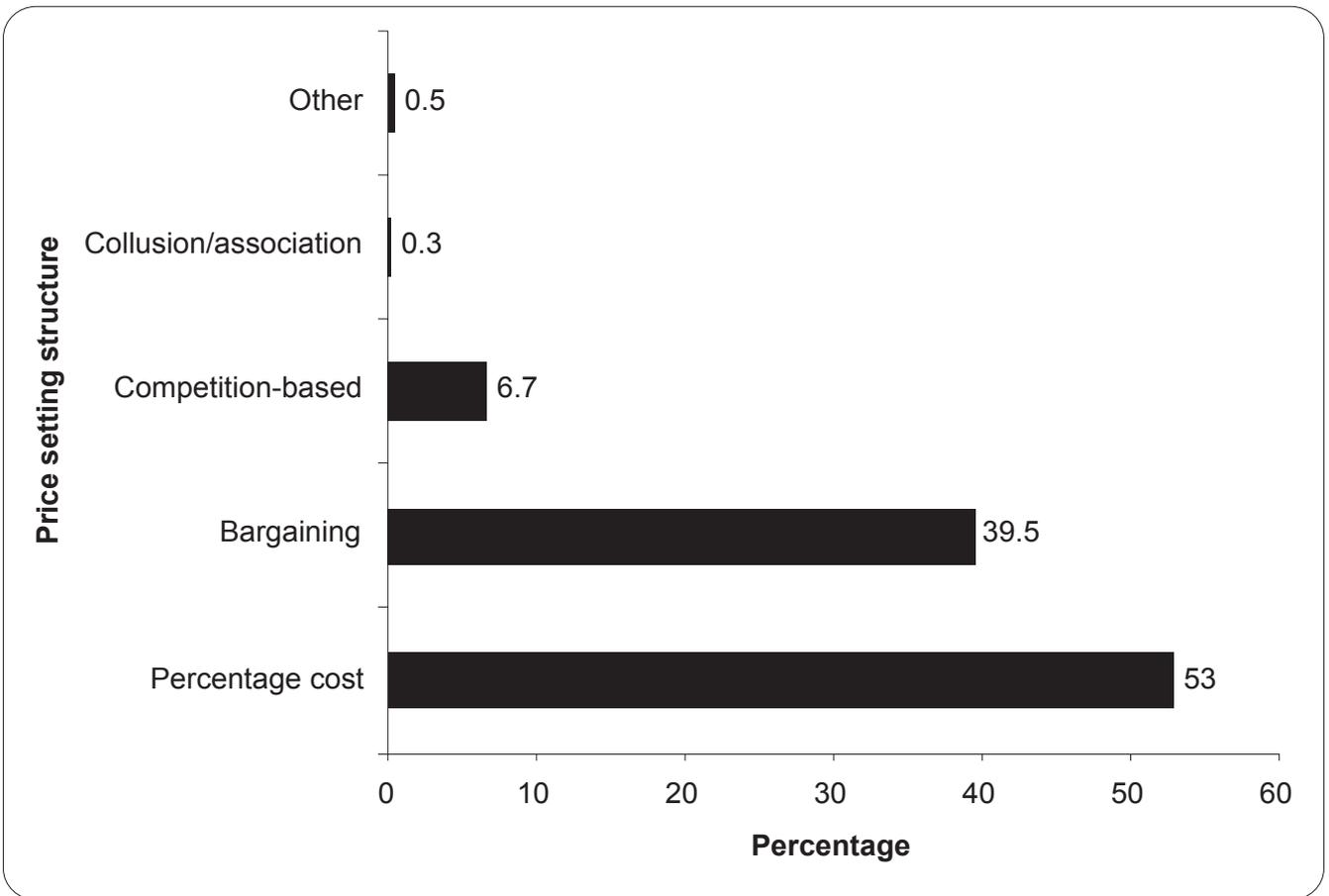
Figure 1: Reasons for charging lower prices



Information based on 621 informal urban metal entrepreneurs' pricing strategies is summarized in figure 2. Empirical evidence indicates that the cost-plus pricing technique is the dominant pricing method. The concepts of mark-up and marginal costs referred to in literature may be difficult for most entrepreneurs to understand. To avoid confusion, the technique of cost-plus was translated into profit margin during the survey. As discussed in the literature section, these results are consistent with results obtained from a number of developed countries' studies such as those by Schlissel (1977), Goetz (1985), Zeithaml (1985) and Morris and Fuller (1989).

Figure 2 indicates that the most popular pricing strategy is the cost-plus technique. There are possible reasons why entrepreneurs prefer the cost-plus method even under competitive conditions. Its major advantage is that production costs are covered first and then the owner determines his/her profit margin. Secondly, entrepreneurs do not need to gather extra data besides production costs. Covering costs seems to be the major reason why the cost-plus technique is preferred by most entrepreneurs. The major disadvantage of the cost-plus method is on consumers' side as entrepreneurs can quickly pass on any increases in input costs to consumers. Mark-up pricing is unlikely to be adopted by firms operating in a highly competitive environment as firms are likely to be price takers. As indicated above, the 32.3% of the sample firms that charge average prices can be described as price takers. For the entrepreneurs running these enterprises, competition is likely to have a strong influence on their pricing decisions.

Figure 2: Informal metal sector pricing setting methods



The second most popular pricing strategy is the bargaining strategy. This is a strategy that works well in a highly competitive environment as it involves entrepreneurs negotiating with their clients over prices. The bargaining strategy is demand driven as it suggests that entrepreneurs are prepared to charge what the market can bear. It also suggests that entrepreneurs set their prices on a case-by-case basis and that prices are flexible downwards. This strategy is common in weak economies characterized by low incomes and weak demand. Zimbabwe is currently in a similar situation. Bargaining minimizes the loss of customers. Price bargaining allows entrepreneurs to price discriminate and this benefits the customers with good negotiating skills. This strategy is now commonly practiced especially by Zimbabwe's retail formal businesses.

A small proportion of entrepreneurs (6.7%) had their prices determined by the prices of their formal competitors. For these entrepreneurs, their formal sector competitors' prices have a strong influence on their product prices and this is evidence of competition based pricing. Overall, the impact of the formal sector competitors' prices does not have a strong influence on the majority of the informal entrepreneurs pricing decisions. Less important is the adoption of prices set by the producers' associations as only 0.3% of the entrepreneurs adopted this approach. For the remaining 0.5% of the entrepreneurs, prices were set according to 'other' pricing techniques.

A number of entrepreneurs used a combination of pricing techniques with the majority using the cost-plus and the bargaining techniques (table 4). Most urban informal metal enterprises (78.1%) used the cost-plus technique as their first pricing technique. The same pricing technique was used by 3.2% of the metal entrepreneurs' as their second pricing strategy. The bargaining strategy was used by 17.4% of the metal entrepreneurs as their first pricing method. The majority of the entrepreneurs (76.2%) used the bargaining strategy as their second pricing technique.

Table 4: Informal metal entrepreneurs using more than one pricing technique

Second pricing method	First pricing method						Total	
	Cost-plus		Bargaining		Producer price			
	Sample	Percent	Sample	Percent	Sample	Percent	Sample	Percent
Cost-plus	0	0	4	2.6	1	0.6	5	3.2
Bargaining	112	72.3	0	0	6	3.9	118	76.2
Producer price	9	5.8	23	14.8	0	0	32	20.6
Total	121	78.1	27	17.4	7	4.5	155	100

It is clear from the empirical evidence that most entrepreneurs choose a price that represents a mark-up over costs and leave some room for adjusting prices when faced with clients seeking price concessions. This suggests that informal metal entrepreneurs climb down from their set prices to meet the needs of their customers hence suggesting that informal metal enterprises product prices are flexible downwards. This is done in order to minimize the loss of customers. It still remains clear that input costs play an important role in the entrepreneurs' pricing decisions. The empirical evidence thus indicates that informal metal entrepreneurs are concerned with covering production costs and what the clients can afford. These two factors are important for the survival of Zimbabwe's urban informal metal enterprises. The empirical evidence also suggests that Zimbabwe's urban informal metal entrepreneurs do not set their product prices in a chaotic manner but follow the established principles of setting prices. This is important for the long term survival of Zimbabwe's urban informal metal sector.

5. CONCLUSIONS

This paper's objective was to investigate the price-setting behavior of Zimbabwe's urban informal metal entrepreneurs. To realize this objective, primary data from the International Development Research Centre (IDRC) sponsored project was used. The survey data sheds light on price-setting practices of Zimbabwe's urban informal metal enterprises. The empirical evidence indicates that the largest customer base of the urban informal metal enterprises is households and individuals. Empirical evidence further suggests that the urban informal metal enterprises are free to set their prices. In determining prices, the entrepreneurs use established economic principles of setting prices. The cost-plus approach is the dominant strategy followed by the bargaining strategy. The empirical evidence indicates that the competitors' prices play a minimal role in the urban informal entrepreneurs' pricing decisions.

The dominance of the cost-plus pricing technique indicates the importance attached to cost factors by urban informal metal entrepreneurs. This result is consistent with results of similar studies as discussed in the literature survey section. The cost-plus approach suggests that firms have some market power and that prices are uniform. The second dominant strategy, the bargaining strategy refutes the notion that firms may have market power. Bargaining implies prices are flexible downwards as entrepreneurs charge prices on a customer-by-customer basis. The strategy also suggests that demand factors are critical in the entrepreneurs' pricing decisions. The bargaining method also suggests that competition matters. The bargaining strategy is associated with economies undergoing an economic meltdown. Entrepreneurs bargain in order to minimize the loss of customers. Minimization of customer loss is done with the idea of covering production costs in mind. Customer relations are a key feature of the metal entrepreneurs' pricing decisions. Price flexibility is also another key feature. Market conditions that is, demand factors and competitors' prices are the major driving forces behind price flexibility.

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Production operations management in small-firm clusters: An alternative view from the Zimbabwean experience.

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ABSTRACT

In Zimbabwe, like in most countries, there is a significant number of small manufacturing firms operating in “clusters” or industrial districts located in the vicinity of major towns and cities. It has been suggested that the competitive advantage of such firms over other small firms operating in isolation is their ability to apply “flexible specialisation” techniques and division of labour in the management of production operations. This study shows that Zimbabwe’s small-firm clusters are unique in that they do not apply these methods in their conventional forms, resulting in the ability of each firm to minimise the investment required in plant and machinery. The study then recommends that the competitiveness of such firms should be further enhanced by introducing policy interventions that attract private capital into the cluster and are targeted at groups of firms rather than individual firms in the cluster.

Key words: Flexible specialisation; division of labour; spatial concentration; sectoral specificity; industrial district

1.0 INTRODUCTION

A notable feature of Zimbabwe’s economic landscape today is the existence of a large number of small-scale businesses and many “informal” entrepreneurial activities in both the central business district and residential areas of its cities and towns (Chirisa, 2009; Fashoyin, 2008). A large proportion of these activities are found in several “clusters” of small businesses. In both industrialized and developing countries, there is increasing awareness that isolation, rather than size, is the key obstacle preventing small and medium-scale enterprises (SMMEs) from boosting their competitiveness (Belussi, 2009 and UNIDO, 2006) and that clustering and networking can help such enterprises to raise their competitiveness (Berry, 2002; Dessing, 2009; Humphrey and Schmitz, 1995).

1.1 Background to the study

Agglomeration economics and lately, studies on collective efficiency and flexible specialization (Rabellotti and Van Dijk, 2002; Sverrisson, 2006; McCormick, 1998; Bagachwa, 2001) have brought to the fore the issue of small-scale enterprises operating in close proximity to each other. Specific reference has been made to whether such clusters can contribute to the economic prosperity of developing countries (Morris and Barnes, 2003; Oyelaran-Oyeyinka and McCormick, 2006; Romjin, 2000). Thus, this study is an attempt to contribute to this debate in the context of small-scale enterprises in Zimbabwe.

The United Nations Industrial Development Organisation defines a cluster of firms as a sectoral and geographical concentration of enterprises that produce and sell a range of related or complementary products and thus face common challenges and opportunities (UNIDO, 2001). The terms *cluster* and *industrial district* are often used interchangeably in the literature. These terms do not, however, refer to the same phenomenon because all industrial districts are clusters but not all clusters are industrial districts. Several studies (eg Cuervo-Garcia and Montoro-Sanchez, 2009; McCormick, 1997 and 1998; Schmitz and Nadvi, 1999) clearly make this distinction by defining an industrial district as a sectoral and spatial concentration of small and medium-sized firms or a sectorally-specific, and geographically-bound agglomeration of firms. *Sectoral specificity* or sectoral specialization refers to the existence of firms engaged in a distinct industrial activity. *Spatial concentration* refers to the location of firms in the same geographic area in close proximity to each other. The firms within the locality can be competing with each other as well as other large and medium-scale enterprises outside it (Breschi and Lissoni, 2001; Winter, 2004) An industrial district is therefore a cluster of firms with *sectoral specificity* and *spatial concentration*. It is a specially advanced case of clustering.

Studies on small-firm agglomeration tend to suggest that business enterprises located in close proximity to each other are likely to exhibit “collective efficiency”, wherein the individual enterprise is viewed as part of an interrelated system of production and distribution (Cuervo-Garcia, Montoro-Sanchez, and Romero-Martinez, 2009; Giuliani, 2002; Van Dijk and Rabellotti, 2004). As a collective, the enterprises are more efficient than they would be operating in isolation. Firms operating within an industrial district are said to have a competitive advantage over other similar firms operating in isolation because of their ability to employ flexible production techniques and division of labour.

Flexibility in production can be evidenced by the sophistication of production technology. In the case of carpentry workshops in Mutare (Zimbabwe), a study carried out by Sverrison (1994) found that technological capability ranged from the simple use of hand tools to fully mechanized production units. However, most of the firms produced varied types of furniture, piece by piece and the design was variable, depending on customer needs. They did not produce standardized products in batches. “A single craftsman using one machine after another in the process of shaping wood prior to assembly, which is then carried out by hand, was the most common practice” (Sverrison, 1994:43). Following studies on a cluster of small furniture making firms in Mutare (Zimbabwe) and another cluster of small garment making firms in Nairobi (Kenya), Sverrison (1994: 43) defines flexible specialisation to mean the existence of a production operations management system in which *each firm in the cluster produces various types of products, piece by piece using variable designs depending on customer needs*. This definition of flexible specialisation implies that the firm would always be producing *all* the product types that were found in the cluster, depending on market contingencies.

Division of labour is also used as a means of achieving production flexibility. This phenomenon arises when the production network is not geared permanently to a particular product. Division of labour entails the allocation of tasks to workers in the firm’s production unit wherein the production process is subdivided into several parts and each part or some parts are allocated to each worker or several workers. The workers then become experts in the use of the equipment and machinery that are used on their part of the process. The production unit is a plant with multi-purpose machines and equipment which can be used to produce a wide range of products, reducing the enterprise’s dependence on one product. This then, in turn, allows the firm to adapt its operations to any changes in the external environment over which it has little control (Breschi, Malerba and Orsenigo, 2000; Visser, 2004). For example, a fall in the demand for, or restrictions in the supply of inputs for a certain product, would not be disastrous for the firm as it can easily switch to other products.

As reported in studies by Sverrison (1994), production operations for small manufacturing firms operating in clusters are managed through a system of division of labour. It was reported in these studies that division of labour consisted of a production operations management system in which tasks were allocated to artisans in the production unit such that the product transformation process was subdivided into several routines and each routine or some of them, were allocated to each artisan or several artisans. The result of such an arrangement would be that each artisan became an expert in the use of the machines that were used on his or her part of the process. According to Sverrison (1994), the artisan became a ‘node’ in a social network connected by several machines. His or her skills level would be relatively low and local rather than global with respect to the complete product (Uzor, 2004).

1.2 Statement of the problem

As a result of the colonial legacy, like in other African countries, at independence in 1980 Zimbabwe’s informal economy was very small, accounting for less than 10% of the labour force. This legacy consisted of various laws and by-laws that had been put in place to prohibit the free movement of indigenous people, especially from rural to urban areas. Most of these laws continued to be applied even after the attainment of independence in 1980, to the detriment of the growth of small-business entrepreneurship. The most prominent of them were: the Regional Town and Country Planning Act, Chapter 29:12/1976, the Housing

Standards Control Act, 1972, Chapter 29:08 and the Urban Councils Act, Chapter 29:15/1995 (Tibaijuka, 2005).

This very restrictive policy environment tended to thwart the development of small-scale enterprises as confirmed by many studies (Chirisa, 2009; Kapoor, Mugwara and Chidavaenzi, 1997; Moyo, 1995; McPherson, 1998 and Tibaijuka, 2005). These studies suggest that there were significant barriers to entry into business by new small players which perpetuated the high levels of concentration of ownership of productive assets inherited from the colonial era. The socialist inclinations of the political leadership tended to discourage entrepreneurship by the private sector by placing greater emphasis on co-operatives and large state-owned enterprises. Like in many other African countries, small-business operators continued to be viewed in a negative social light, being regarded as "informal sector employees", or people without a "proper job". This term has also been applied in particular reference to small business enterprises that are not formally registered in terms of the law.

1.3 Objectives of the study

It has been stated above that the competitiveness of small firms in industrial districts is the result of flexible specialisation and division of labour in production operations management. The purpose of this study was to find out whether small-firm clusters in Zimbabwe possess the "typical" characteristics of industrial districts in order to discover the source of their competitive advantage over other small firms. The study therefore had two objectives: to characterise the structure of the cluster in terms of flexible specialisation and division of labour and to recommend ways in which the competitiveness of the firms in the cluster can be improved.

1.4 Research questions

The study had the following two research questions:

- What range of products do the firms in the cluster produce and what is the distribution of the product types among the firms?
- How do the firms in the cluster manage their production operations with respect to the product transformation process, task allocation and the management of machine-time?

2.0 RESEARCH METHODOLOGY

Though several small-firm clusters can be identified in some of Zimbabwe's major cities and towns, this study was based specifically on small furniture making firms located at the Glenview cluster in Harare. The Glenview cluster was selected because of its relatively large size and apparent dynamism compared to the other clusters as well as its unique location. Glenview is a low-income suburb which is about thirty kilometers south-west of Harare's central business district. The focus of the study was on furniture making firms since this is the dominant activity of the firms found in this cluster. These are the firms that constitute the relevant population of the study for sampling purposes. The other firms that are also located in the cluster and are involved in various ancillary activities such as; transport and the supply of production inputs like timber, cotton wool, nails and glues, were not sampled. For example, more than 1 500 firms are located in the Glenview cluster but only 1 300 are involved in the actual manufacture of furniture, mainly wood and steel furniture. This is the population that was sampled at the cluster.

2.1 Sample selection

It was clear at the onset that the primary variable distinguishing the firms in the Glenview cluster is the type of activity: steel furniture making or wood furniture making. Thus, the study used stratified random samples because, as noted by Israel (2002), stratified random sampling is considered to be more statistically efficient than simple random sampling where the population consists of distinct strata. The statistical efficiency of

stratification arises from the fact that each stratum is internally homogeneous, consisting of more or less similar cases, but is externally heterogeneous with other strata. The firms that are engaged in wood furniture manufacturing make up about 70 per cent of the total population and the other 30 per cent consists of those involved in steel furniture making. The sample was therefore proportionally divided into two strata consisting of wood furniture making firms (70 per cent) and steel furniture making firms (30 per cent). The firms from these strata were then selected using a simple random sampling method using the register from the local authority as the sampling frame.

Thus, from the total population of 1 300 furniture making firms at the cluster, a total of 248 firms were sampled, of which 174 (70 per cent) were selected from the wood furniture manufacturers and 74 (30 per cent) were selected from the steel furniture manufacturers.

2.2 Data collection instruments

The primary data collection instrument for this study was a questionnaire. The results from the questionnaire were complemented with data collected through in-depth interviews with selected owners or managers of the firms. A total of 248 interviewer-administered questionnaires were distributed with a response rate of 86 per cent of the total number of questionnaires. This was a fairly high response rate which can be attributed to the close proximity of firms in the cluster.

3. FINDINGS

3.1 Product range and types

In the wood furniture category, the product range consisted of sofa-sets, cabinet-type furniture and base beds and mattresses. Twenty different types of products were reported within the product range. In the steel furniture category, there was only one product range (steel kitchen sets) with two product types (Table 1).

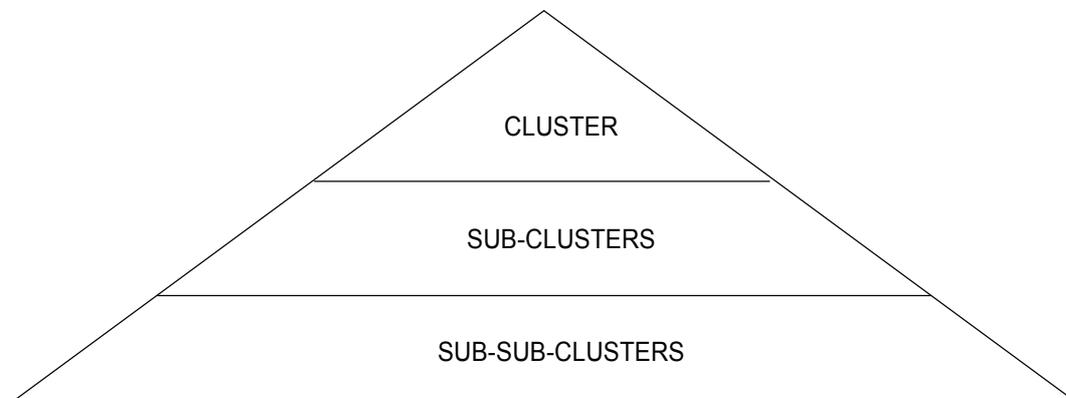
Table 1: Product range and types found in the cluster

Product Range	Product Type
SOFA SETS	Culture sofa-set
	Madeira sofa-set
	Hamilcourt sofa-set
	St. James sofa-set
CABINETS	Wardrobe, 4-door
	Wardrobe, 3-door
	Wardrobe, 2-door
	Room divider, 4-piece
	Room divider, 3-piece
	Room divider, 2-piece
	Kitchen unit, 1-piece
	Kitchen unit, 2-piece
Kitchen unit, 3-piece	
BASE BEDS	Bed, single, spring
	Bed, single, foam
	Bed, $\frac{3}{4}$, spring
	Bed, $\frac{3}{4}$, foam
	Coffee table
STEEL	Steel kitchen set, 8-piece
	Steel kitchen set, 5-piece

3.2 Distribution of product types

The cluster was subdivided into sub-clusters and sub-sub-clusters of firms according to product types, resulting in three levels as illustrated in Figure 1.

Figure 1: Levels of specialisation in the cluster



At the *cluster* level, all the respondents indicated that their firms produced only household furniture. They did not produce any other type of furniture. This implied that the cluster as a whole specialised in the production and sale of household furniture only.

At the *sub-cluster* level, the respondents who said that their firms produced wood furniture reported that they did not also produce steel furniture and the respondents who said that their firms produced steel furniture reported that they did not also produce any wood furniture. All the respondents stated that they did not have the technological capabilities to produce *both* types of furniture. Thus there were two distinct *sub-clusters* of firms within the cluster: firms producing wood furniture and firms producing steel furniture. It was reported that, 27 per cent of the firms specialised in steel and 73 per cent specialised in wood furniture.

All the respondents from the cluster of firms that produced wood furniture reported that they could produce *all* types of wood furniture: wood cabinets, sofa sets and base beds and mattresses. However, they further reported that though they could produce various types of wood furniture, they did not actually produce all of them. Each firm specialised in only one type of wood furniture, such as cabinets, or sofa sets or base beds and mattresses. There was no firm that was reported to be producing *all three types* of wood furniture at the same time (cabinets, sofa-sets, or beds and mattresses). It was reported that 32 per cent of the wood furniture makers specialised in cabinets only, 47 per cent specialised in sofa-sets only and 21 per cent specialised in base beds and mattresses only. The distribution of firms according to these *sub-clusters* at the Glenview cluster is shown in Figure 2.

The respondents stated that there was further specialisation even within the sub-cluster of firms specialising in wood furniture cabinets, resulting in a *sub-sub-cluster* of such firms. Three distinct sub-sub-clusters were reported within this sub-cluster: firms specialising in wardrobes; firms specialising in kitchen units and firms specialising in room dividers.

The respondents from the firms that specialised in cabinet making reported that they could manufacture all types of cabinet furniture, such as room dividers, wardrobes and kitchen units. They, however, stated that though they had the technological capabilities to make these products, they only specialised in one type of cabinet furniture. The majority of the firms (62 per cent) were reported to specialise in room dividers. The other 28 per cent, specialised in wardrobes and the balance of 10 per cent specialised in kitchen units. The distribution of firms according to the sub-sub-clusters of cabinet-making firms is shown in Figure 3.

Figure 2: Sub-cluster specialisation at the Glenview cluster: wood furniture makers

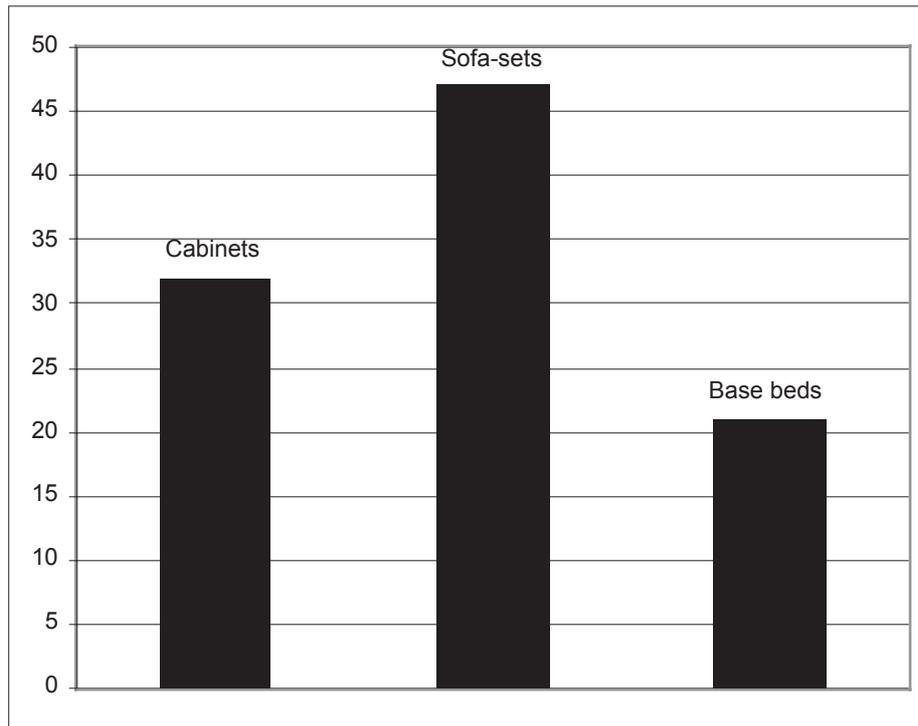
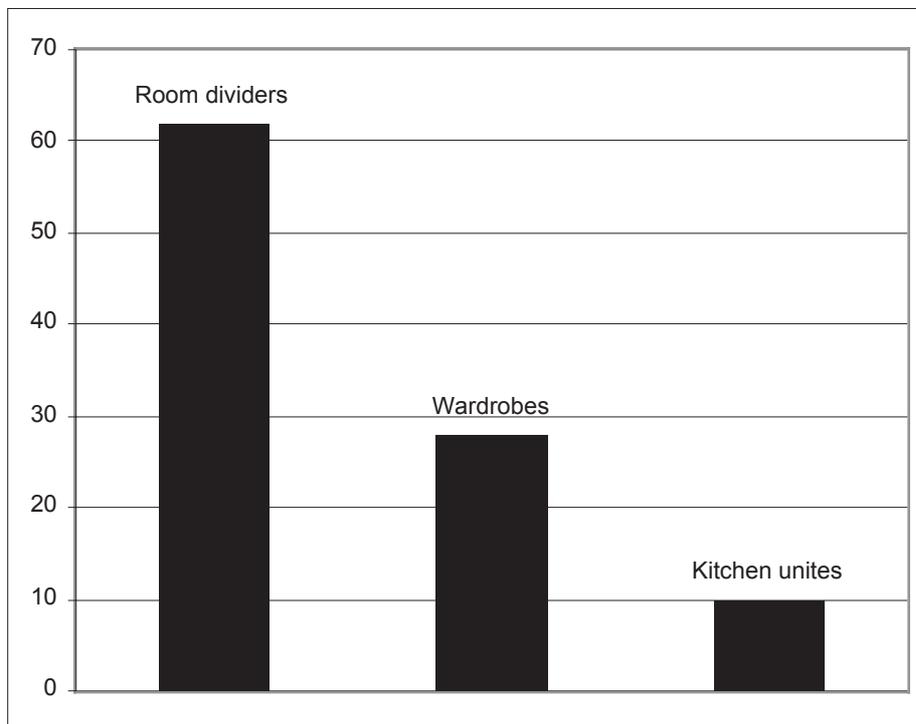


Figure 3: Sub-sub-cluster specialisation: cabinet makers



Sub-sub-clusters of firms were also reported in the sub-cluster of firms specialising in sofa-sets: firms specialising in low-value sofa-sets and firms specialising in high-value sofa-sets. Though the respondents from these firms stated that their firms had the technological capabilities to produce all types of sofa-sets, they specialised in only one type. Some respondents stated that they only specialised in low-value sofa-sets,

whereas others reported that they only specialised in high-value sofa-sets. In the Glenview cluster, the majority of the respondents (90 per cent) stated that their firms specialised in the production and sale of low-value sofa-sets only and the rest (10 per cent) stated that their firms specialised in the production and sale of high-value sofa-sets only.

The final level of specialisation was only reported within the wood furniture sub-cluster and not in the steel furniture sub-cluster in that in the steel furniture sub-cluster, there were no further sub-clusters.

3.3 Product transformation process and task allocation

It was reported that each product had a standard transformation process with standard routines and that each artisan specialised in a particular routine in the transformation process and passed on the item to another artisan who performed the next routine until all the routines in the process had been completed. It was reported that each artisan within the production unit was multi-skilled and was capable of performing *most* of the routines in a particular transformation process for *all* the products manufactured by the firm when required to do so. Each artisan, however, specialised in only one or two routines on each process for each product. Table 2 is an example of the reported routines in the transformation process for two products: a set of six sofas and a kitchen unit consisting of steel chairs and a table.

Table 2: Routines in the transformation process for two products

Set of six sofas	Set of six steel chairs and a table
1. Construction of the wooden frame	1. Bending and framing steel tubes
2. Cutting and designing of covers	2. Welding pieces into frames
3. Tailoring	3. Cutting and shaping boards
4. Cutting and shaping of wings and panels	4. Painting the frames
5. Staffing and covering the frame	5. Upholstering and tailoring

It was reported that the transformation process with the five routines shown in Table 2 was normally shared among three or more artisans within the firm. In the transformation process for a sofa set in Table 2 for example, some artisans would specialise in making the frames, whilst others would specialise in cutting, designing the fabric and staffing the frame. However, it was reported that each artisan could perform all the routines when required to do so. It was also reported that this production method would, however, be used only when a large order had been received and when lead times for the delivery of a product were short. In slack periods such as when there was low demand for the product or when there was a shortage of inputs, the artisans would revert to performing all the routines in the transformation process.

This division of labour was also reported in the cluster of firms specialising in steel furniture making. Three distinct groups of artisans were reported in this cluster. It was reported that some artisans specialised in bending the steel tubing into chair and table frames according to the style and design, whilst a second group specialised in welding the pieces together and a third group specialised in painting and upholstering the finished product.

A unique feature distinguishing the steel furniture making firms from the wood furniture making firms was that, whereas in the wood furniture firms *all* the routines were reported to be performed by the artisans within the firm, this was not the case in the steel furniture firms. The respondents from the steel furniture firms stated that the firm itself did not perform any of the different routines in the transformation processes of their products. Instead, the firm would hire the labour for each routine when required. Thus, there was a pool of artisans which was always available to carry out all the routines that might be required by the firms in the sub-cluster.

3.4 Machinery and equipment

The respondents were requested to provide a list of the equipment and machinery that they considered “essential” to the firms’ operations and the list in Table 3 was provided.

Table 3: List of machines required for essential production routines

Item	Value of machine (\$)
Lathe machine	3 500
Spindle molder	3 000
Thickness (surface) plane	4 000
Circular saw	1 000
Rip saw	1 000
Industrial sewing machine	300
Euro-bending machine	1500
Welding machine	150
TOTAL INVESTMENT	\$14 450

Though they considered these machines and equipment to be essential for the operations of their businesses, the respondents stated that their firms did not have any significant investments in any of them. They stated that their firms did not have to buy these machines and equipment in order to carry out most of the routines in their production processes. Instead, they simply bought the output of such routines from other firms within the cluster that specialised in those routines, or paid for the machine-time required to perform the routines.

The respondents, however, reported that their firms did have a small investment in small hand tools and equipment for the purposes of carrying out minor routines such as putting finishing touches to their products. The list of such tools and their values is contained in Table 4.

Table 4: Hand tools and equipment used in minor production routines

Type of tool/equipment	Average years in use	Replacement value (\$)
Claw hammer	3	10.00
Router	5	20.00
Hand saw	3	10.00
Brace	2	35.00
Staple gun	1	10.00
Jake plane	6	15.00
TOTAL INVESTMENT	3	100.00

The respondents stated that their firms had invested in at least two of each of the items listed in Table 4, implying that the total investment by each firm, on average, was only about \$200, consisting mainly of small hand-held tools and equipment.

4 DISCUSSION OF THE FINDINGS

The findings from this study seem to be at variance with what has been reported in other studies on the nature of the division of labour and flexible specialisation in small-firm clusters. The results of the study

seem to confirm the existence of *flexible specialisation*. The findings, however, seem to bring a new dimension to the phenomenon of flexible specialisation. It was reported that the firms operating within the cluster environment did not produce varied types of furniture products but each firm concentrated on producing and selling just one type. The firms were however, flexible in their ability to produce any other types of products found in the cluster when called upon to do so by market contingencies. It was also reported that the firm's production unit was not geared permanently to the production of a particular product such as wood furniture cabinets but was also capable of producing other products, such as sofa-sets on the request of a customer or another firm within the cluster.

These findings imply that the phenomenon of flexible specialisation did exist in Zimbabwe's clusters in that the firms were capable of producing various product types. However, even though the firms possessed these capabilities, they did not, in fact, use them all the time. It was only on those rare occasions when market contingencies demanded that a firm would deviate from its usual product type. Thus, flexible specialisation under these circumstances would mean simply the *ability* of the firm to deviate from its 'normal' activity into other related activities.

The type of flexible specialisation as reported in this study is more efficient than previously thought because it enables the firm to hone its capabilities to the production and sale of a single product type. Just like the cluster was operating as a 'differentiated entity' (an entity producing a single product type) in relation to other small-firm clusters, the firms were also operating within 'differentiated' sub-clusters in relation to other sub-clusters in the main cluster. It was reported that all the firm's artisans and production management systems would be dedicated to the single product type produced by firms in that sub-cluster, resulting in high operating efficiencies and superior technological capabilities.

By questioning the conventional wisdom on the nature of flexible specialisation in the cluster, these findings show that, in fact, the small firms located in Zimbabwe's clusters are using *differentiated flexible specialisation*, which entails the complete dedication to the production and sale of a single product type (regardless of the fact that the firm might possess the capabilities to produce and sell other product types made in the cluster).

The findings in this study also question the conventional wisdom with regards to the nature of division of labour in the context of small firms located in a cluster. Rather than challenge the existence of the division of labour within the cluster environment as defined above, the findings seem to add a further perspective to the phenomenon by pointing to the existence of two dimensions to the division of labour: *flexible division of labour* and *extended division of labour*.

Flexibility in division of labour is implied from the fact that each artisan within the production unit was reported to be multi-skilled and capable of performing *most* of the routines in a particular transformation process for *all* the products manufactured by the firm when required to do so. Each artisan, however, specialized in only one or two routines on each process for each product. Market contingencies, such as when a large order had been received and when lead times for the delivery of a product were short, required that all artisans be flexible in their skills level. This flexibility in the division of labour, coupled with the demands of the market, implied that the skills level of the artisan would not actually be local with respect to the complete product, but global in that he or she could perform all the transformation routines for all the products produced by the firm, contrary to the suggestions made by previous studies.

The extended dimension to the division of labour, which is the second dimension, is implied from the findings wherein it was reported that division of labour within the cluster environment was not limited to the confines of the firm's internal production unit as described by Sverrisson (1994), but was extended further to the whole cluster. It was reported that the transformation process for each product was not completed wholly within the firm's production unit but was further shared with other firms that specialised in certain specific routines.

Two lists of machinery and equipment were produced in response to the request for a list of the machinery and equipment used by the firms in the cluster. The first list (Table 3) consisted of machinery and equipment

which was said to be “essential” to the firm’s production routines with a total investment of \$14 450 being required. Though deemed to be “essential”, the firms in the cluster did not invest any capital in these assets. The second list in Table 4 consisted of small hand tools and equipment in which most firms had invested only \$200 each on average.

The existence of global (cluster-wide) rather than simply local (within-firm) division of labour provides the explanation for this apparent anomaly. The production units did not need to invest their capital in the assets listed in Table 3 because all the essential routines in their production processes were being carried out by the firms that had invested their capital in these assets. The production units would either hire the machine time required to carry out the routines or buy the output of the routine from these ‘specialist firms’. In this way, division of labour was extended further to the rest of the cluster. Thus the term *extended division of labour* is applicable in this context.

The previous studies on small-firm clusters in Zimbabwe and Kenya by Sverrison (1994) referred above, had indicated that firms operating within a cluster environment tended to invest in multi-purpose machines which they would use to carry out all the routines in their production processes. The findings from this study, however, suggested that the firms in Zimbabwe’s clusters did not have to invest significant amounts of capital in any machinery at all. This was because the division of labour within the cluster environment was not simply local but global.

The implication of these findings is that it is not the purported investment in multi-purpose machines that provides flexibility to the firm. Rather, it is this extended dimension to the division of labour which allows the firm to adapt its operations to changes in the external environment by switching from product to product, in line with market contingencies. For example, a fall in the demand for a certain type of sofa-set, or restrictions in the supply of inputs for that product, would not be disastrous for the firm as it could easily switch to other products by buying the output of the required routines or hiring the machine-time for those routines from the specialist firms.

5. Conclusions and recommendations

The suggestion that small firms in general should be singled out for special attention in development policies is still a contentious issue given that despite the existence of a wide variety of programmes intended to assist such enterprises in many countries, the success rate of such policies has been rather disappointing (Alila and Pedersen, 2001; Altenburg and Meyer-Stamer, 2009). Notwithstanding this finding, however, some studies suggest that small firms located in clusters are good candidates for special policy attention (eg Ffowcs-Williams, 2000; Kharbanda, 2001; Morris and Barnes, 2003; Ramamurthy, 2008). Thus, as confirmed in this study, due to their geographic proximity to each other, the small manufacturing firms in Zimbabwe’s clusters are well-placed to take up a significant role in the future growth of the economy through proper policy interventions.

As the study suggests, the most critical factor in such interventions should be the attraction of more capital into the cluster. Traditionally, the government of Zimbabwe has assisted SMEs by providing subsidized credit facilities through the Small Enterprises Development Corporation (SEDCO) and the Ministry of Small and Medium Enterprise Development (MSMED). The government has also assisted by providing funds to commercial banks for on-lending to SMEs as well as credit guarantee schemes to enable the firms to borrow.

These approaches should, however, not be used with respect to firms operating from the cluster. Instead, measures should be taken to attract private capital into the cluster. The process of attracting private investor capital into the cluster should begin with the formal registration of the firms in the cluster so that they become limited liability companies that can issue shares to investors. Limited liability attracts capital into the firms because of the limited exposure of the investors to the risks in their companies.

The registration process can commence with the identification of groups of firms according to product type within the product range and then registering each group of firms as a single limited liability company. The

advantage of this approach is that it will drastically reduce the number of companies that would need to be registered, thus simplifying the whole exercise. The other advantage is that it is easier to register a few large entities rather than a large number of small ones. As a result, the 1300 small firms at the Glenview cluster would be transformed into the five limited liability companies shown in Table 5.

Table 5: The Glenview cluster transformed to five limited liability companies

Type of Activity	Number Of Firms
A company making base beds and mattresses	Formerly 191 firms
A company making cabinet-type furniture (Kitchen units, wardrobes and room dividers)	Formerly 291 firms
A company making all types of sofa-sets	Formerly 428 firms
A company making steel furniture	Formerly 390 firms

A sixth limited liability company should also be created from the group of firms that were reported earlier to be specialising in the investment of capital required to buy the “essential” machines and equipment in Table 3 on behalf of all the other firms in the cluster. The reason for creating this company is that the injection of more capital into the cluster for the purpose of strengthening capital utilization would be more effectively done if the initiatives in this direction are aimed at this community of ‘investment firms’ rather than at all the individual firms in the cluster. By so doing, the profitability of the cluster as a whole would be lifted.

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The relationship between strategic planning and business performance: Theoretical perspectives

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ABSTRACT

The importance of strategic planning to small-and-medium-sized enterprises (SMEs) is well documented in many developed economies and emerging countries including South Africa, yet there seems to be an unresolved debate about its effect on business performance. To address this gap, the current study attempts to review the literature on previous studies that were carried out to examine the relationship between strategic planning and business performance. The findings indicate that previous studies report conflicting results. Some found a positive relationship while others report about the negative and no relationships between strategic planning and business performance. However, a thorough analysis of these studies has noted that the majority of studies found a positive relationship. The study therefore concludes that strategic planning exhibits a positive relationship with business performance. Therefore, the managerial implication of the research findings is that businesses should implement strategic planning practices in order to improve their performance. The findings also provide a basis for further future research studies that seek to address the relationship between strategic planning practices and business performance.

Key words: Strategic planning practices, SMEs, business performance, South Africa, Competitive Advantage

1. INTRODUCTION

Given the vigorous global and domestic completion as well as the dynamic conditions, many businesses are looking for ways to improve their performance in order to achieve competitive edge over competitors. Strategic management scholars advocate for the practice of strategic planning as an effective business tool to enhance business performance (O'Regan and Ghobadian, 2004 and Elbanna, 2008). According to Hughes *et al.* (2008), strategic planning contributes to business performance by generating useful information, promoting long-range thinking, generating new ideas, and assisting the business to identify and evaluate strategic alternatives. However, other scholars such as Mintzberg (1994) and Saffu and Manu (2003) discourage strategic planning practices due to its tendency to be formalized and inflexible to quickly adapt to environmental changes. Strategic planning, therefore, has continued to receive attention from both the academic and the business communities because of the need to establish if it has positive impact on business performance.

2. PROBLEM INVESTIGATED

Studies that have attempted to elucidate the relationship between strategic planning and business performance have produced results that are fragmented, conflicting and inconclusive (Andersen 2000; Elbanna 2008; Hughes *et al.*, 2008). Some studies have reported a positive relationship (Desai 2000, Baker 2003; O'Regan and Ghobadian 2004), while others show that the relationship is negative (Nwokah 2008). Others report mixed results (Saffu & Manu 2003; French *et al.*, 2004). Falshaw *et al.* (2006) show that the relationship is actually non-existent. Other recent studies such as the one by Sandada (2012) found out a positive but weak relationship. This shows that no evidence has emerged to unequivocally substantiate the notion that strategic planning improves business performance (Andersen 2000).

3. PURPOSE OF THE STUDY/OBJECTIVES

The purpose of this paper is to review literature on the relationship between strategic planning and business performance. The following sub-objectives have been formulated:

- To review literature on the positive relationship between strategic planning and business performance;
- To carry out literature review on the negative relationship between strategic planning and business performance,
- To conduct literature review on the mixed relationships between strategic planning and business performance; and
- To make suggestions for future research.

4. IMPORTANCE OF THE STUDY

The paper makes both academic and practical contributions. To the academic community, the paper contributes to the existing strategic planning and business performance body of knowledge by reviewing literature and by suggesting avenues for future research. To the business practitioner, the paper provides some insights that may assist strategic planners to be more effective in their strategic planning duties.

5. LITERATURE REVIEW

Literature review of various previous studies on the effect of strategic planning on business performance was carried out.

5.1 Positive relationship between strategic planning and business performance

Advocates of formalised strategic planning indicate that several performance benefits are attributed to strategic planning (Desai 2000; Kraus *et al.* 2006). A major claim of such an argument is that not only does strategic planning create a viable link between a business organisation's objectives, goals and resources, but it also contributes to performance by generating relevant information, creating a better understanding of the business environment and by reducing uncertainty. McIlquham-Schmidt (2010) argues that strategic planning results in a better match between the external environment variables and the changing internal organisational conditions of the business.

According to McIlquham-Schmidt (2010), a match is necessary to ensure a continuous realignment between a business' objectives and strategies with the environmental changes and this will ultimately improve business performance. In a related view, Hughes *et al.* (2008) note that strategic planning enables businesses to be initiative, to take some risks and capitalise on identified market opportunities, resulting in an increased level of intelligence generation and responsiveness and hence, competitiveness. Furthermore, Hughes *et al.* (2008) mention that strategic planning contributes to improved business performance by generating useful information, promoting long-range thinking, generating new ideas, and assisting the business to identify and evaluate strategic alternatives.

French *et al.* (2004) agree that strategic planning is vital to small businesses as it ensures an efficient allocation and control of resources. This results in the success and sustainability of SME business. This view is also reflected by McIlquham-Schmidt (2010) who presented both the process and personal advantages of strategic planning as follows:

Process advantages:

- Ensuring the identification and capitalisation of market opportunities;
- Providing guidelines on the strategic plan implementation, evaluation, and control;
- Cushioning the business from effects of adverse environmental conditions and changes;
- Helping the business to align its business decisions and objectives;
- Helping to integrate all business functions;
- Aiding the business in the prioritisation of activities; and
- Improving the general competitiveness of the business over competitors.

Personal benefits:

- Facilitating teamwork among personnel within the business organization;
- Helping to motivate employees by providing a basis to clarify responsibilities of each employee;
- Encouraging employees to have future focus;
- Motivating employees to solve problems and approach opportunities in a collective, integrated and cooperative manner;
- Stimulating desire for change; and
- Enforcing employee discipline and formality to the management of the business.

Beaver (2007) also contends that besides improving business performance through performance assessment, strategic planning also facilitates improvements in business processes, and innovation activities, which consequently increase the business' profitability. Wilson and Eilertsen (2010) assessed the role of strategic planning during the 2009 financial crisis by asking line managers and professional staff what they perceived as key advantages of utilising strategic planning during the crisis. Among the key findings, the respondents indicated that:

- Businesses that utilised strategic planning were better able to pursue growth strategies as compared to non-planners;
- Organisations that used strategic planning during the crisis are more confident about chances to grow;
- Regular strategic planners were more prepared for the economic crisis; and
- Strategic planners had better chances to earn more revenues.

A similar study by Phillips (2000) of the strategic planning and finance interface in UK hotels found the benefits of strategic planning at hotel unit level to be:

- Providing greater control over the hotels' future;
- Setting priorities for the hotel's future;
- Encouraging a long term focus;
- Identification of strengths and weaknesses of hotels;
- Improving the deployment of scarce resources in hotels;
- Providing a better understanding of competitors;
- Improving internal communication, co-ordination, synergy and teamwork in hotels; and
- Providing a better understanding of the external environment.

According to Beaver (2007), strategic thinking and planning are a prerequisite for business success because of three reasons. First, strategic planners are able to cope with dynamic markets. Secondly, businesses that use strategic planning can strategically position themselves to fight competition and to have a deep knowledge of customer needs. Thirdly, utilising strategic planning helps a business to have a focus, cohesion, clear vision and a common purpose that results in business success. Brinckmann *et al.*, (2010) synthesise various advantages of strategic planning. The authors argue that strategic planning allows more rapid decision making since information gaps can be anticipated and closed, assumptions can be verified without expending the resources, resource flows can be optimised, and bottlenecks can be averted. Brinckmann *et al.* (2010) proceed to point out that strategic planning helps a business to clearly formulate its goals and strategies, control goal achievement, identify and correct any deviations from the required standards, and finally to reduce uncertainty in dynamic and turbulent market environments. From the foregoing discussion, there appears to be substantial theoretical support for the hypothesis that numerous performance benefits are ascribed to strategic planning.

Several studies have found empirical support for the positive relationship between strategic planning and business performance. Wood and LaForge (1979) published one such research study. They examined the relationship between formal planning procedures and financial performance using a sample of large US banks. The results revealed that the sample of banks that engaged in comprehensive long range planning,

significantly outperformed those that had no formal planning system. The study concluded that the large banks that develop and make use of long-range plans have a competitive advantage over similar financial institutions that do not. Bracker *et al.*, (1988) examined the relationship between planning process sophistication and the financial performance of a select group of small firms in a US growth industry. Multivariate analysis of variance was used to statistically identify significant differences between businesses that utilise sophisticated plans and those that do not. The results support the hypothesis that strategic planning positively influences business' financial performance.

In deciding whether formal planning is useful to manufacturing companies, Armstrong (1991) conducted a quantitative critique of 28 studies, which concludes that formal planning is valuable for business organisations. Phillips' (1996) exploratory study of the relationship between strategic planning and business performance on 63 hotel units in the UK, found out that key strategic planning characteristics of thoroughness, sophistication, participation and formality were positive and in most cases significantly related to indicators of business performance, such as effectiveness that was measured by occupancy percentage, average room rate and growth in sales per room, efficiency that was indicated in terms of return on investment and profit margin and lastly; adaptability that was also measured by the number of successful new services/products introduced and percentage of sales accounting for new services/products.

Phillips and Moutinho's (1999) study of the effectiveness of strategic planning in the UK hotels included a detailed examination of components of strategic planning such as the use of SWOT analysis, setting of goals, commitment to long-term planning, assigning implementation responsibilities to individuals, participation of all employees and functions and use of benchmarking. The results confirm the positive contribution of strategic planning to business performance but cautioned that strategic planning must not be viewed as a panacea to business success.

Andersen (2000) authored a comprehensive study of the relationship between strategic planning and corporate performance across different industry groups. The study provides evidence that strategic planning that focuses on elements of the conventional strategic management process is associated with higher performances in all industries of different sectors. Specifically, the results confirm that the performance effects of strategic planning do not significantly vary between businesses of different sectors. The study concluded that strategic planning processes are crucial business performance driver in businesses of all industrial sectors and it recommended that businesses should employ strategic planning.

Desai (2000) found empirical support for the relationship between strategic planning and business performance by examining whether or not strategic planning creates value in the stock market. The study found that, on an average, organizations that institutionalise strategic planning, usually experienced an increase in stock price increases. The results document a strong relationship between strategic planning and stock market returns. The study recommends the utilisation of strategic planning in businesses as it increases shareholder value. Baker (2003) executed a survey of 200 executives in five food-processing industries to examine the relationship between formal strategic planning and financial performance. The study indicates positive results in terms of strategic planning and business performance.

The study assessed the utilisation of seven strategic planning tools, namely mission statement, trend analysis, competitor analysis, long-term goals, annual goals, short-term action plans and ongoing evaluation. Measuring financial business performance in terms of the average pretax return on assets (ROA) for the previous 3-year period, the study concludes that strategic planning is a business tool that can be used to improve business performance for a wide range of food processors. Delmar and Shane (2003) noted in a survey of 223 Swedish SMEs, the ability of strategic planning to facilitate the development of new ventures. They challenged the negative view of past researchers, that strategic planning interferes with the efforts of firm founders to undertake more valuable actions to develop their enterprises.

The results show that by helping businesses to make decisions, strategic planning reduces the probability of business failure and accelerates the chances of new product development and new venture creation. Sanchez and Marin (2005) examined 1 351 Spanish SMEs and linked strategic orientation to business performance.

The typology of three strategic orientations of a defender, prospector and analyser were adopted to assess the effect of each strategy adopted on business performance. The study presented findings that indicate that SMEs with a prospector strategy, perform better than those who adopted the analyser and defender strategies. According to Sanchez and Marin (2005), businesses with a more prospector orientation perform better than the rest because they are more proactive and flexible to adapt to environmental changes and easily capitalise on their internal resources and capabilities, resulting in improved performance. A study examining the importance of capabilities for strategic direction and business performance in 194 United Kingdom (UK) manufacturing SMEs by O'Regan and Ghobadian (2004), presents findings that generic capabilities help a business to manage for the future by focusing on the needs of customers, while at the same time adapting to the changing environment. The study suggests that businesses that seek high business performance need to consider their generic capabilities as essential in determining their strategic direction. Briefly, the results confirm that alignment of the generic capabilities and strategic planning is needed to achieve high performance.

Similarly, Gibson and Cassar (2005), based on the results of the longitudinal analysis of Australian businesses over a four-year period, conclude that business performance indicators related to employment growth and sales growth are positively correlated with strategic planning. The results further indicate that regular planners are associated with higher levels of performance across all periods that were examined. Although this study has established a positive correlation between strategic planning and business performance, it did not establish a causal relationship between formal planning and an improved business performance.

Another study confirming the positive linkage between strategic planning and business performance was that of Kraus *et al.* (2006), whose results show that planning formalisation has a positive and highly significant impact on the chances of belonging to the group of growth businesses. However, the results also show that the other components of strategic planning, such as time horizon, strategic instruments and control, did not contribute to business performance. In addition, Racelis (2006) exploratory study of Philippine companies to investigate the relationship between strategic orientation and business performance, found out that financial performance indicators related to profit margin and debt ratio had a significant relationship with strategic planning variables, such as consistent brand and image strategies, the offering of products with competitive advantages and increasing investment in the development of core business areas.

Supporting a positive relationship, Veskaisri (2007) executed a survey on Thai SMEs and found strategic planning to be statistically related to performance indicators relating to sales, expanding customer base, establishing new locations and increasing staff in using strategic planning. The study, therefore, concluded that the significant correlation between strategic planning growth linkages implies that SMEs employing strategic planning increase their chances to grow. Cortes *et al.* (2007) conducted a study to examine the impact of strategic behaviours on performance in Spanish hotels. The results indicate that strategic planning variables, namely; size, type of hotel management, category and competitive advantage, positively impact on hotel performance. A study examining the joint effects of market orientation and planning flexibility on business performance in Turkish manufacturing SMEs by Alpkın *et al.* (2007) found out that both market orientation and strategic planning positively influenced business performance.

Therefore, the study recommended that SMEs need to develop both proactive market-orientedness and a flexible strategic planning process because strategic planning flexibility, necessitates generation of new ideas and the acquisition of new sources of information and new alternatives. The study also encourages the use of flexible strategic plans in order to ensure the constant revision of the plans to capitalise on opportunities and to manage various risks, as well as increasing the business' ability to adapt to environmental dynamics. The results in Gruber's (2007) study of new ventures in Germany also support the hypothesis that strategic planning is beneficial in new venture creation. In a survey involving 500 Turkish manufacturing companies, Glaister *et al.* (2008) found a great deal of support to the study's hypothesis that- there is a strong and positive relationship between strategic planning and business performance.

The study further confirmed the hypothesis that the bigger the size of the business, the higher the changes of strategic planning practices and that the more turbulent the environment is, the higher is the probability to utilise strategic planning. Rudd *et al.* (2008) applied a cross-sectional approach to administer 2 300 questionnaires to a database of medium to large UK manufacturing businesses to study the mediating effects of four types of flexibility (operational flexibility, financial flexibility, structural flexibility and technological flexibility) on the strategic planning and performance relationship. The results indicate that flexibility of the strategic planning process mediates the relationship between strategic planning and performance.

Specifically, both operational and financial flexibility mediate the influence of strategic planning on performance, whereas structural and technological flexibility mediate the influence on non-financial performance. According to Rudd *et al.* (2008), the process of flexibility and strategic planning work hand-in-hand in order to improve business performance. First, flexibility enables a business to anticipate and monitor environmental changes over the strategic plan period and take necessary actions. Secondly, when a business is flexible, it is able to compare various alternatives and eventually come up with the best option with respect to operations, finance, structure and technology, in order to minimise the adverse effects of environmental turbulence. Thirdly, flexibility forces managers to, at times, make unfamiliar decisions given the opportunities and threats that arise due to cyclical changes in the environment. Fourthly, flexibility helps a business to quickly adapt to new opportunities and threats, and hence becomes more efficient than its competitors. Finally, when a business is flexible, it is better positioned to efficiently and effectively implement changes that are important. Such adaptations, according to Rudd *et al.* (2008), are beneficial to the business because quality products or services are offered in the marketplace, financial standing of the business improves, management of the business improves and consequently, the business becomes more competitive.

Supporting a positive strategic planning and performance relationship, Mazzarol *et al.* (2009) examine the management practices of 204 Australian small business owners or managers with an objective of establishing the association between strategic planning behaviour and business performance. The results of the study reveal that businesses that possess formal written business plans were found to be better networked, employed more quality assurance standards and achieved an above-average level of annual sales turnover. Furthermore, results in a study by Wilson and Eilertsen (2010) show the line managers' and professional staff perceived benefits of strategic planning during the 2009 financial crisis. Four major benefits were mentioned.

First, business organisations that utilised strategic planning during the financial crisis are better positioned to pursue growth opportunities during the crisis. Secondly, strategic planners are more confident about their future growth prospects than non-strategic planners are. Thirdly, regular strategic planners were more prepared for the economic crisis and therefore, were less affected by the crisis than non-regular planners were because they were prepared for it. Finally, businesses that employ strategic planning involve management in strategic planning, and as a result achieve more revenue growth. The survey concluded that the use of strategic planning in decision-making enhances business success.

Similar findings about the positive impact of strategic planning on business performance are reported by other scholars such as McIlquham-Schmidt (2010), who employed a comprehensive meta-analysis procedure on 88 individual studies representing a total sample size of 32 472 observations. The study presents findings that suggest that strategic planning has a positive influence on business performance. The study, however, points out that the positive relationship is weaker than the existing strategic management literature proclaims it to be. The results also show that the effect of strategic planning on business performance is stronger when quantitative performance measures are used, as compared to qualitative measures. The conclusion of the study is that the determination of whether there is a relationship between strategic planning and business performance depends on the performance measure selected.

The results in the meta-analysis (Brinchmann *et al.* 2010), indicate that strategic planning is a value creating activity, but contextual factors such as newness of the business and business culture, and the nature of

business planning, do moderate the relationship between strategic planning and business performance. The strategic planning variables that are found to significantly augment business performance are written plans, market and scenario analysis, use of computers and portfolio analysis.

Another recent study by Efendioglu and Karabulut (2010) on the impact of strategic planning on financial performance of companies in Turkey, highlights and reinforces the importance of strategic planning activities on business performance. The findings show that strategic planning components such as involvement of top management in the process, having a mission statement, organisational capabilities and a focus on similar markets, have a positive and statistically significant impact on business performance measures, namely average sales growth per year, average profit per year and average export growth rate per year.

5.2 Mixed or no relationship between strategic planning and business performance

Contrary to the proponents of strategic planning, other academics are pessimistic about the value of strategic planning and; therefore, have argued on several fronts as well, to prove that explicit strategic planning is dysfunctional or irrelevant (Desai 2000; McIlquham-Schmidt 2010). Strategic planning has been criticised for stifling creativity through its over-emphasis on rational analysis that has resulted in the formulation of strategies that are old, imitative and irrelevant to the current situation. Desai (2000) opposes strategic planning for institutionalising and regulating innovation, thereby inhibiting the ability of the business to come up with new ideas.

A management theorist, Mintzberg (1994), accuses strategic planning for its rigid focus on analysis and quantification which makes it inflexible and incapable to predict important environment changes. This, according to Mintzberg (1994), reduces the ability of a business to adapt to environmental changes that are taking place at an accelerated pace. The author also criticises strategic planning for discouraging the involvement of employees, as it is mostly top managers who dominate the strategic planning process. In this regard, strategic planning is viewed as a management tool that is diametrically opposed to the new ethos of employee empowerment (Desai 2000).

Brinckmann *et al.* (2010) argue that in the face of a dynamic environment, formalised and predictive behaviour are of less value, as they create unnecessary rigidities which result in lower degrees of adaptation to environmental changes, and hence lower business performance. In addition, Brinckmann *et al.* (2010) assert that the instability of the business environment creates information gaps as there is uncertainty about the market conditions and therefore, the ability of the business to develop reliable strategic plans is minimised. The authors proceed to mention that rather than wasting valuable time in trying to predict the future, the business should, instead, focus on leveraging the resources it currently controls and make efforts to acquire more resources. To this, Mintzberg (1994) argues, "while certainly not dead, strategic planning has long since fallen from its pedestal."

While studies discussed above have shown that strategic planning has a positive and statistically significant effect on business performance, conversely, other studies question the relationship. For example, Saffu and Manu (2003), relying on the results from a study of strategic capabilities of 171 Ghanaian female business owners, find no association between strategic planning and performance. The study indicates that no performance benefit is ascribed to the level of planning sophistication of businesses operating in uncertain economic environments like Ghana. The study further points out that rather than a sophisticated strategic planning regime, a business places more emphasis on short-term plans in order to tackle the continuing business environmental changes.

In a study involving a sample of small and regional professional service businesses operating in New South Wales and Australian economies, French *et al.* (2004) found mixed results. No significant relationship between performance measures (sales growth and net profit after tax) and strategic planning components (vision, mission, capabilities, competitor analysis and market analysis), was identified. However, a significant relationship between net profit and informal planning was identified. French *et al.* (2004), therefore,

questioned the value of strategic planning elements for SMEs namely, vision and mission statements, business capabilities, competitor analysis and market analysis. In this regard, French *et al.* (2004) argue that what is important is the process of planning, not the plan itself. Other scholars using data from 113 UK companies (Falshaw *et al.* 2006) also found no association between strategic planning and subjective business performance.

Similarly, Kraus *et al.* (2006) found a mixed association between strategic planning and business performance. The results indicate that planning formalisation has a positive and significant effect on the growth of a business, whereas other strategic planning aspects do not have an effect on business performance. Nwokah (2008) failed to find any strong association between strategic planning components of customer focus, competitor analysis and inter-functional coordination of food and beverage business organisations in Nigeria and their performance measured by sales growth, profitability and market share.

The foregoing discussion shows that empirical studies on the relationship between strategic planning and business performance revealed conflicting and varied associations between the two variables. This demonstrates that there is still lack of clear evidence about the relationship between strategic planning and business performance.

6. RESULTS

The study findings indicate that the majority of studies that were reviewed found a positive relationship between strategic planning and business performance. Furthermore, recent studies have also reported a positive and significant influence of strategic planning on business performance (Murimbika, 2011; Murimbika and Urban, 2013). Therefore, the results show that generally, strategic planning improves business performance.

7. RECOMMENDATIONS

Business organisations should not think that it is irrational to plan. From the analysis of past studies, it shows a positive correlation outweighing a negative or no association. Businesses should practice strategic planning to improve their performance. This happens because strategic planning cushions businesses from the turbulent environment, as it generates relevant information that is helpful in identifying weaknesses and strengths, as well as opportunities and threats to the business. Consequently, a business is able to devise appropriate strategies to achieve goals that ensure its survival and growth, and hence a competitive advantage. However, due to constant changes in the market, there is a need to make use of strategic plans that are flexible so that changes to the strategic plans may be implemented in accordance to market changes.

Further research should be conducted in order to provide evidence about the relationship between strategic planning and business performance. While the majority of studies have been carried out in developed countries, more studies should be done in developing countries like Zimbabwe, to establish the relationship between these variables.

8. CONCLUSION

The purpose of this chapter was to review literature on the relationship between strategic planning and business performance. The review shows that the debate on whether strategic planning improves business performance is still prominent and ongoing. However, the majority of studies prove that strategic planning improves business performance. Perhaps what is more compelling to conclude that strategic planning enhances business performance is the fact that recent studies are reporting a positive and even significant relationship between the two variables. Supporters of strategic planning argue that it cushions businesses from the turbulent environment, as it generates relevant information that is helpful in identifying weaknesses and strengths, as well as opportunities and threats to the business. Consequently, a business is able to devise appropriate strategies to achieve goals that ensure its survival and growth, and gain a competitive advantage.

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Turnaround strategies choice and effectiveness: The case of the manufacturing sector in Zimbabwe

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ABSTRACT

This study evaluates the effectiveness of turnaround strategies implemented by firms in the manufacturing sector in order to turnaround their businesses in the prevailing operating environment in Zimbabwe. The environment is characterized by many challenges which make it difficult to operate. The objective was to identify the strategies that were actually implemented and how effective they were. A survey of 120 firms in the manufacturing sector was done. Results reveal that most of the firms used retrenchment and asset reduction as turnaround strategies. However, these strategies seemed not to be working effectively as there are no improvements in revenues, profitability, productivity and economic returns. The study concludes that turnaround strategies were partially effective as many companies are not performing well and may close down. The study recommends use of other strategies such as cash refinancing, redefining core business and production related strategies such as quality initiatives and change of packaging as well as robust strategies such as change of company executives, in order to bring a new style and culture to organizations.

Key Words: Retrenchment, Downsizing, Refinancing, Cash Management, Manufacturing Sector, Turnaround Strategies.

1. INTRODUCTION

Zimbabwe has a highly diversified manufacturing base. The broadly based manufacturing sector produces in excess of 6,000 products or commodities, ranging; from food and clothing to fertilizers and chemicals, metal products of all kinds, electrical machinery and equipment and motor vehicle assembly (www.ziminvestment.com: accessed, 12/12/13). The manufacturing industry is closely linked to agriculture with an excess of 60 percent of manufacturing value added either related to agro-industry or to the provision of inputs to the agricultural sector. State participation exists in some parts of the sector but is, in most cases, being gradually reduced through privatisation.

The study assesses the turnaround strategies that have been implemented by the manufacturing sector in Zimbabwe. Zimbabwe's economy is very turbulent, characterised by massive business closures (more than 700 businesses closed in 2013), streamlining of processes and job cuts. The introduction of the multi-currency system in 2009, saw many companies embarking on turnaround strategies to reposition themselves. Notable strategies include; cost and asset reduction, retrenchments, improved communication channels, and quality improvements. The question that follows then is: what strategies can be implemented given the hard economic operational environment?

1.1 Background of the Zimbabwe Manufacturing Industry

Zimbabwe had a well developed industrial infrastructure and manufacturing sector, which was one of the strongest and most diversified in Sub-Saharan Africa in the 1980s (Ministry of Finance, 2012). The Zimbabwean manufacturing sector was developed under import substitution industrialization policies of the white minority regime prior to the attainment of independence in 1980 (ZimTrade, 2013). The country was under sanctions from 1965 to 1980 and import substitution was used as a strategy to ensure self sufficiency for most of the basic consumer products. The import substitution industrialization strategy was carried forward into the post-independence period until the adoption of the Economic Structural Adjustment Programme (ESAP) in 1991. The performance of the manufacturing sector in the post- independence period has been mixed with brief periods of substantial growth interspersed with decline in other years.

The manufacturing sector's contribution to the economy has fallen to the current levels of about 14 percent of Gross Domestic Product (GDP), but it remains an important sector for the economic development of the country (ZimTrade, 2013). The sector employs about 15 percent of the total formal sector labour force and accounts for 20 percent of total exports in 2002.

The Confederation of Zimbabwe Industries (CZI) Manufacturing Sector Survey Report (2012) reported that the manufacturing sector in Zimbabwe was the biggest contributor to GDP between 1980 and 1990 at 22 percent, followed by agriculture at 14 percent. It is estimated that more than 40 percent of manufacturing output is used as inputs in mining and agriculture. However, due to challenges relating to low capacity utilisation, foreign currency shortages and rising inflation over the years up to 2009, the manufacturing sector's contribution to GDP declined from 22 percent in 1991, to about 16 percent in 2007 (CZI, 2009). The CZI Manufacturing Sector Survey (2013) reported stagnant performance in the sector with an average manufacturing output growing below two (2) percent. The survey further noted that the worst performing manufacturing sub-sector, leather and allied products, for 2012 was operating at capacity utilisation of as low as 27,5 percent while the best performing sub-sector, battery, is operating at 76 percent. Capacity utilization, availability and cost of funding, infrastructure in particular power shortages and cost, economic policy instability, high labour cost and rigid labour laws were identified as factors negatively affecting the sector (CZI, 2012). The manufacturing sector remains highly import dependent, requiring a wide range of imported inputs ranging from packaging materials to components used in the manufacturing process.

The Reserve Bank of Zimbabwe's Monetary Policy Review Statement (2013) revealed that at its peak, the manufacturing sector used to contribute 15 percent to formal employment and contributed exports and foreign exchange earnings of up to 37 percent. Further, the statement also shows that average capacity utilisation as at the end of the first half of 2010, stood at 43.7 percent, compared to 32.3 percent at the end of the first half of 2009 as shown in Table 1.

Table 1: Manufacturing sector capacity utilisation

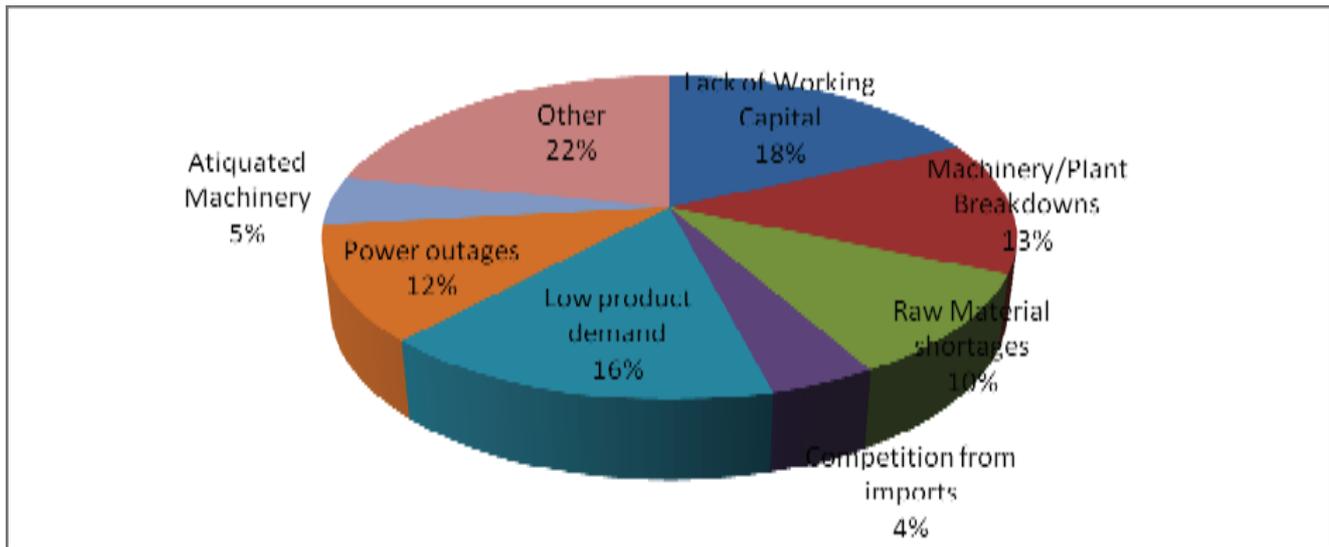
Year	% Capacity utilization
2006	33,8
2007	18,9
2008	10,0
2009	32,3
2010	43,7
2011	57.2
2012	44.2

Source CZI, (2013)

Figure 1 shows a number of constraints that the manufacturing sector was facing prior to the introduction of the multi-currency system.

Zambia remains the top export destination for manufactured products receiving 30 percent of manufacturing's share of exports (ZimTrade, 2013). Mozambique comes second to Zambia while South Africa has dropped to fourth position (*ibid*). The lack of competitiveness of Zimbabwean local products on the export market is attributed to high production costs. The sector is facing stiff competition from both regional and international producers and suppliers. Among countries that pose the most competition for the Zimbabwe Manufacturing sector, South Africa tops the list because subsidies, export incentives and tariff protection are still in existence (Table 2).

Figure 1: Constraints faced by the manufacturing sector.



Source: CZI, (2013: 18).

Table 2: Competitors of Zimbabwean Manufacturing Sector by Country

Country	Indication of Competition by Percentage (%)
South Africa	28%
China	24%
India	22%
Brazil	14%
Others	12%
Total	100%

Source: Zimtrade (2013); ZIA (2013); CZI (2013) and RBZ (2013)

1.2 Problem Statement

The manufacturing sector in Zimbabwe was on the free fall till the introduction of the multi-currency regime. Firms in the sector faced stiff competition from imports hence they lost market share. Firms implemented different strategies for them to remain competitive on the market. However, there are still problems such as; low productivity, losses, low economic returns and low quality products. The questions that emerge for the sector are: Did firms in the sector not carry out turnaround strategies in line with expectations? Did management adopt the turnaround strategies without consultations with the key stakeholders or participants? Where there some inhibitors to the implementation of the turnaround strategies? What should firms in the sector do to benefit from a successful turnaround? It is against this that the study seeks to identify and critically evaluate the turnaround strategies adopted by firms in the sector.

1.3 Research Objectives

The objectives of the study are to determine the different forms of turnaround strategies adopted by firms in the manufacturing sector and to assess the effectiveness of the turnaround strategies adopted.

2. LITERATURE REVIEW

2.1 Turnaround Strategy

A turnaround strategy is a set of consequential directive, long term decisions and actions targeted at the reversal of a perceived crisis that threatens the survival of a firm (Mintzberg, 1994). According to Platt (2004), there is the strategic turnaround, operating turnaround and financial restructuring turnaround. Platt (2004) explains that strategic turnaround attempts either to change the strategy for competing in the same business or to define how to enter a new business. He further asserts that most strategic turnarounds focus on marketing, production or engineering functions. Chowdhury (2002) states that strategic turnaround focus on strategy changes sought, with the performance improvement being a derivative of the strategy change. They involve a change in the company's strategy for either competing in the same business or entering a new business.

Operating turnaround is concerned with increasing revenue, reducing costs or reducing assets. Platt (2004) suggests that performance becomes a derivative of strategy change. Operating strategies focus on performance targets, and any actions that can achieve them are considered whether they make good long-run strategic sense or not (Quinn, Mintzberg and James, 1998). These include revenue increasing, cost cutting, asset reduction and combination strategies, none of which changes the company's business level strategy.

Financial turnaround strategy refers to financial restructuring with a view to strengthening the balance sheet and/or provides funding (Miller & Modigliani, 1958). Chowdhury and Lang (1996) contend that financial restructuring is a process in which a firm with excess debt exchanges new shares of its equity for a portion of its outstanding debt. It can also arrange for creditors to modify the terms of debt by lengthening its maturity date or lowering its interest rate.

2.2 Generic Turnaround Strategies

Platt (2004) noticed that the effects of the environment, as well as crisis within the company, were important if a firm was to employ a successful turnaround strategy. The firm will need to spend time making itself crisis-secure, employing methods such as monitoring changes in the environment and conducting audits of the company's performance before and during the crisis. They will also need to establish Crisis Management Teams (CMT) to create built in redundancy in communications (back up plans). Finally, a firm needs to develop a favourable culture with improved management control and communications. Platt (2004) cited the following turnaround stages and their corresponding strategies;

Table 3: Turnaround stages and strategies

Stage	Strategies
Preparatory stage	Restructure leadership, organisation and culture
Short term fix stage	Cost reduction Asset redeployment Selective product/market strategies
Growth stage	Repositioning strategies.

Source: Platt, (2004:9).

Slatter and Lovett (1999) agree with Hoffman but they go on to develop an approach for achieving a successful turnaround that consists of seven essential ingredients and an implementation framework consisting of seven key work streams.

Table 4: Slatter and Lovett's turnaround stages and strategies

Key Ingredient	Generic Turnaround Strategies
Crisis Stabilisation	<ul style="list-style-type: none"> • Taking control • Cash management • Asset reduction • Short term financing • First step cost reduction
Leadership	<ul style="list-style-type: none"> • Change of CEO • Change of other senior management
Stakeholder support	<ul style="list-style-type: none"> • Communications
Strategic Focus	<ul style="list-style-type: none"> • Redefine core business • Divestment and asset reduction • Product/market refocusing • Downsizing/Retrenchment • Outsourcing
Organisational change	<ul style="list-style-type: none"> • Structural changes • Key people changes • Improved communications • Building commitment and capabilities • New terms and conditions of employment
Critical process improvements	<ul style="list-style-type: none"> • Improved sales and marketing • Cost reduction • Quality improvements • Improved responsiveness • Improved information systems and control • Packaging changes
Financial restructuring	<ul style="list-style-type: none"> • Refinancing • Asset reduction

Source: Slatter and Lovett (1999:30)

2.2.1 Crisis Stabilisation

Slatter and Lovett (1999) assert that stabilisation can be achieved by reintroducing predictability to the operations by setting performance targets, establishing information systems, and tracking progress. Stabilisation ensures legal and fiduciary compliance under circumstances where corporate governance often has been neglected or is deteriorating.

The situation analysis enables a company to come up with the best turnaround that would best suit the prevailing industrial condition and thereby increasing the chances of a successful turnaround (Slatter and Lovett, 1999). This is in line with Thompson et al. (2010) who highlighted that the best option depends on the prevailing industry conditions, the company's strengths and weaknesses, its competitive capabilities compared to its competitors, and the extent of the crisis situation. Therefore, a situation analysis of the industry, major competitors and the firm's own competitive position and its own competencies and resources are prerequisites for action.

The first step in crisis stabilisation is to generate enough cash and to survive the short term (Slatter & Lovett, 1999). This cash may be necessary to pay wages and creditors which may be due or to manage the working capital. This can be done in the following four ways: prepare a detailed short-term budget on a strict receipts and payments basis, developing cash-generating initiatives to bridge the short term funding gap between

existing facilities and forecast cash requirements, implement emergency cash-management controls day-to-day, and implement cash rationing where authorisation for payment becomes centralised.

2.2.2 Leadership

Managers attempt to turn around their organisations, through structural changes in the organisation and/or market repositioning (Banaszak-Holl, 2000). In addition, there is a wide variety of managerial responses used during periods of crisis and decline that reflect more general processes, routines, and rituals of managerial decision making. Foster and Stamford (1998) identifies three substantial areas of managerial action that are key in turnaround situations which are; decision making processes, lines of communication and market repositioning. Earlier models of organisational decision making during periods of decline and turnaround focused on the retrenchment of managers during these periods and the prevalence of "threat-rigidity" in handling crisis situations (Slatter & Lovett, 1999).

The turnaround literature supports the role of external management expertise as an important factor in successful turnaround strategies. Carter (2008) says managers tend to be very knowledgeable about their current operations but they often lack broader knowledge and capabilities to initiate and guide organisational changes. Gowen and Tallon (2002) affirm that effective turnarounds require that firms hire a new management team or shrink operations to regain profitability. However, Barker (2004) found out that the common practice of replacing the firm's Chief Executive Officer (CEO) during turnaround attempts had conflicting and paradoxical effects on firms' abilities to enact strategic reorientations. Adams (2001) state that a change in leadership ensures that those techniques which resulted in the company's failure are not used. The new leader has to motivate employees, listen to their views and delegate powers.

2.2.3 Stakeholder support

Slatter and Lovett (1999) define a stakeholder as any party with an interest, financial or otherwise, in a company, and hence an interest in or an ability to influence the outcome of a turnaround. This includes equity and debt providers, bankers, suppliers, customers, management and staff, and government regulatory institutions. Support from each group of stakeholder is a prerequisite for any turnaround to be successful. These diverse stakeholders have different aspirations and the objective is to gain stakeholder confidence and support by demonstrating a viable strategy, which is responsive to their aspirations.

2.2.4 Strategic Focus

This involves re-evaluating the company's business and deciding which ones to change and which to retain. According to Slatter and Lovett (1999), before a turnaround specialist makes any major changes, the individual must determine the chances of the business's survival, identify appropriate strategies, and develop a preliminary action plan. A more detailed assessment of strengths and weaknesses follows in the areas of competitive position, engineering and research and development, finances, marketing, operations, organisational structure, and personnel. The situation analysis stage steps are taken to weed out or replace any top managers who might impede the turnaround effort. Birger (2001) adds that once the major problems are identified, the turnaround professional develops a strategic plan with specific goals and detailed functional actions.

Gladwell (2002) states that although the assets are profitable, sometimes they must be liquidated to contribute to the strategic focus. The cash received from the sale of such assets should be used to repay debts. Slatter and Lovett (1999) add that a positive operating cash flow must be established as quickly as possible. Sufficient amount of cash to implement the turnaround strategies must be sourced. Often, unprofitable divisions or business units are sold as a means to raise cash.

Porter (1980) identifies three generic strategies, which can be used successfully to protect a firm against the forces that drive competition in an industry. These are; cost leadership, differentiation and focus. The latter

involves the firm focusing its limited resources on one or a few product-market segments in which it competes on the basis of cost leadership and or product differentiation. This is usually the only strategy available for the distressed company in the short-term, since it is unlikely to have the large financial resources required for industry leadership based on either cost or product differentiation.

Slatter and Lovett (1999) state that product-market refocusing for a distressed company may involve any or all of the following: addition or deletion of product lines, addition or deletion of customers by type or geographical area, changes in the sales mix by focusing marketing efforts on specific products and or customers, complete withdrawal from a market segment, and entry into a new product-market segment.

Retrenchment is a process in which a firm consolidates its current strategic and financial position in order to buy time for organisational change efforts (Slatter & Lovett, 1999). Keith (2004) defined retrenchment as a set of organisational activities undertaken to achieve cost and asset reductions and disinvestment. Pearce and Robbins (1993) defined retrenchment as either improving efficiency or changing the firm's basic strategy in order to achieve a fit with environmental conditions. Retrenchments and downsizing are painful processes of organisational change because they follow periods of organisational decline (Burke & Cooper, 2000). Retrenchment implies a reduction to the essential elements of a company that have the best chance of producing a profitable operation. According to Pearce and Robbins (1993), it entails deliberate reductions in costs, assets, product, product lines and overhead. Francis and Pett (2004) add on that retrenchment incorporates the basic reduction of assets and expenses within the firm and necessitates many turbulent actions such as layoffs or divestments.

Organisational downsizing was defined by De Meuse, Bergmann, Vanderheiden and Roraff (2004) as consisting of a set of activities that are undertaken on the part of management, designed to improve organisational efficiency, productivity and/or effectiveness. It represents a strategy that affects the organisation's work force and its work processes. Barker (2004) recognises that the success of managerial attempts to turn around companies through downsizing may be dependent on market conditions. Downsizing occurs either proactively or reactively in order to contain costs, enhance revenue or to bolster competitiveness. Barker (2004) finds out that downsizing occurs in a large number of firms that face decline, including those that turn around and those that do not.

2.2.5 Organisational change

Successful corporate turnarounds involve significant organisational change (Slatter, 1982). These involve changes to the organisational structure, people, processes and systems brought about by the strong leadership of the top management team. The starting point for organisational change is the appointment of a suitable turnaround manager and team (Ofek, 1993). The combined effect of strong leadership and changes in the components of an organisation will bring about a new organisation culture. He adds that the new organisational culture will, in the short term bring about a change in behaviour while, in the long run, bringing about a change in corporate culture.

Birger (2001) argues that "people mix" becomes more important as the company is restructured for competitive effectiveness. It means a rebirth of the corporate culture and transforming negative attitudes to positive and confident ones as the company maps out its future. Survival, not tradition, determines the new shape of the business. This step cannot be successful without a psychological shift as well.

Improved communications, particularly between employees and management, bring about a workforce that is likely to be happier, more productive and have a stronger sense of ownership and commitment to the business. If the staff have positive perception of the company, they will act as ambassadors. Key messages should be delivered to the employees simultaneously (Pettigrew, 1992).

In response to performance shocks, firms can also lay-off personnel and introduce new employment conditions for those remaining (Iverson & Pullman, 2000). Dennis and Kruse (2000) hold that business consolidation into few distinct business units is also an important turnaround strategy. The multi-tiered

management structure will now be replaced by a much smaller management structure comprising of those that carry the company's vision and with vast skill and experience. They add that corporate culture will be revised through the elimination of bureaucratic structures and a re-orientation of compensation towards performance based stock options and salary awards thereby aligning employee interests firmly with those of the shareholders.

2.2.6 Critical process improvements

In this stage, turnaround efforts are directed toward making the remaining business operations effective and efficient. The company must be restructured to increase and sustain profitability and its return on assets and equity. To achieve this, the company has to take drastic steps (Adams, 2001).

During the turnaround, the product mix may have changed, requiring the company to do some repositioning. This stage focuses on institutionalising an emphasis on profitability and return on equity, and enhancing economic value (Burke & Cooper, 2000). The company may initiate new marketing programs to broaden the business and customer base and increase market penetration. It may increase revenue by carefully adding new products and improving customer service. Strategic alliances with other established organisations may be explored. Financially, the emphasis shifts from cash flow concerns to maintaining a strong balance sheet, securing long-term financing, and implementing strategic accounting and control systems.

Slatter and Lovett (1999) state that the success of a company largely depends on the profit that it can realize from operations. The profit is determined by the costs that are made and the extent to which these costs are recovered. Therefore, it is essential for a company to know the future costs and being able to control them. When the future costs are known throughout the entire product development cycle, the engineers can make use of cost information during the decision-making processes. Corrado (1997) also supports the notion and asserts that it is necessary to integrate the cost estimation activities in the product development cycle. Ramey, Valerie and Shapiro (2001) also argue that besides the use of cost estimation for decision-making, it can also be used to control costs. When the costs can be controlled, it is possible to propose specific product changes thereby reducing the costs.

Dale (1999) states that quality improvements involve the mutual co-operation of everyone in an organisation and associated business processes to produce products and services, which meet and, hopefully, exceed the needs and expectations of customers. He holds that if the customer's expectations are not fulfilled, customers will usually switch over to a competitor for the satisfaction of their expectations. Hofstede (1991) points out that quality culture nurtures high-trust social relationships. He adds that the culture develops a shared sense of membership as well as a belief that continuous improvement is for the good of everyone within the organisation

Slatter (1982) notes that the development of systems of human resource management practices can be powerful tools for improving the effectiveness of organisations that compete on the basis of knowledge in manufacturing. He argues that of the many strategic capabilities that a firm can use to successfully implement its competitive strategy, the development of systems and processes for managing knowledge-based resources has been recognised as among the most important for creating a sustainable competitive advantage. This requires firms to embark on a variety of competitive strategies, including the creation of new products, production of high quality products and having employees with the right customer care attitude.

Packaging is defined as the science, art, and technology of enclosing or protecting products for distribution, storage, sale, and use (Oakland, 2001). Slatter and Lovett (1999) state that if a firm has successfully differentiated its packaging from those of its rivals, it can charge more than them and still register significant sales and earn higher profits. Alternatively, it can charge a similar price as less differentiated rivals but use the superior packaging appeal of its products to gain market share and increase its profits faster than rivals, or, it can do some combination of these two tactics. Ofek (1993) states that profitability can be enhanced by setting a different packaging for a product from like competitors. He further says that it is very necessary to

develop the habit of continually examining and reexamining the packaging of the products and services, to make sure they're still appropriate to the realities of the current market and attractive to customers.

2.2.7 Financial restructuring

A firm can recover from a performance shock by properly evaluating its cash generation strategies to ensure the availability of funds to sustain regular operations (Ofek, 1993). Firms can increase their cash flows by increasing sales revenue, reducing dividend payments and controlling operating costs. Pant (1987) shows that revenue generation strategies account for most profit turnarounds. In addition, a reduction in dividend payments will allow firms to preserve internal funds for normal operations whilst a decrease in operating costs are associated with improved operating margins (Lie, 2004).

Slatter and Lovett (1999) suggest that a company may also restructure its debt obligations in response to performance shocks or distress. Debt restructuring could result in either an increase or a decrease in the proportion of debt in the capital structure. An increase in debt, according to Jensen (1989), can improve liquidity, and also provide incentives for management to improve performance.

Asset reduction through closure or sale of business units, divisions, operations and assets and outsourcing of value chain activities in order to focus on the remaining profitable or potentially profitable business units, is a potential way for turnaround (Slatter & Lovett, 1999). Firms experiencing performance decline can restructure their operations through asset reduction strategies. By getting rid of redundant assets, a firm can concentrate on core businesses and eliminate negative synergies with the divested assets to improve performance (Samwell, 1982). The sale of the assets can provide cash to fund ongoing operations or to pay debt. Firms can implement asset reduction in a variety of ways which include closure of plants, sale of periphery assets and sale of subsidiaries.

3. RESEARCH METHODOLOGY

The study focused on firms in the manufacturing sector. Both large and small organizations were incorporated in the study. The study population includes all firms registered with the CZI and Ministry of Small and Medium Enterprises. The main reason for using such a list is because they are known firms and their location are also known. Since the sector is broad and study requires a wider coverage of the firms in the sector, a survey was used as the research method to assess the different forms of turnaround strategies implemented by the firms. The study targeted all the people at different managerial levels. The sample size was reached by applying the Yamane (1967:886) approach to sample size determination. This approach makes an assumption that there is normal distribution of the sample error. If population sizes (N) are known, the minimum required sample size can be computed as follows:

$$n = \frac{n_0}{1 + \left[\frac{n_0 - 1}{N} \right]} \quad 1$$

$$n_0 = \frac{N}{1 + N(e)^2} \quad 2$$

Where:

n_0 = first approximation of n

n = is the minimum required sample size

N = population size (sample frame)

e = level of precision

In order to populate these formulas, the relevant precision, confidence or risk level and degree of variability in the attributes need to be specified. The researcher assumed a 10% level of precision. A sample size of 120 firms was obtained using the formulas. The 120 firms were then selected from the CZI list and Ministry of Small and Medium Enterprises using simple random sampling by using random numbers from the list provided. Questionnaires were used as the main research instruments in the study. The questionnaire was pre-tested before actually distributed to respondents. Recommendations from the pre-test were incorporated in the questions. The questionnaires were personally administered to the respondents.

4. FINDINGS AND ANALYSIS

4.1 Demographic Issues

4.1.1 Response Rate

Out of the 120 questionnaires sent out, 87 were returned, reflecting a response rate of 73 percent. These questionnaires were targeted to senior managers, middle managers, and lower level managers.

4.1.2 Period of Employment in the organization

Figure 2. Period of employment

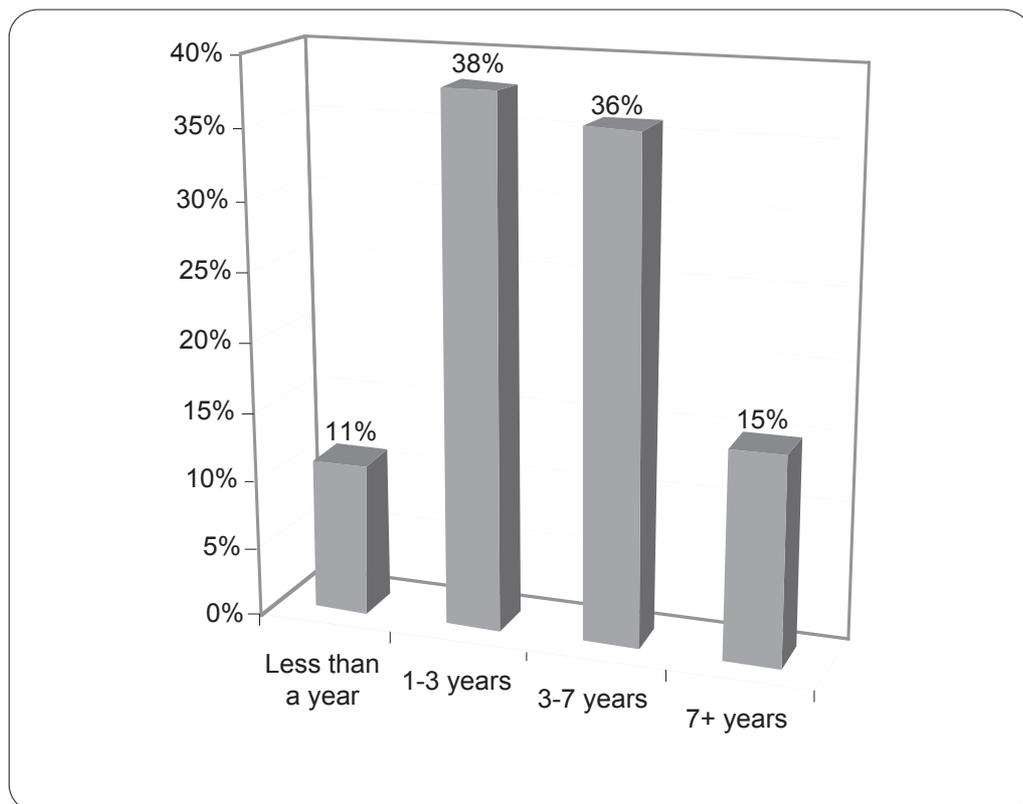


Figure 2 shows that 11 percent of the respondents have been engaged with organisations for less than a year, 38 percent for 1-3 years, 36 percent between 3-7 years and 15 percent for more than 7 years. This implies that quite a number of respondents are knowledgeable about their organizations.

4.1.3 Industry Category

Firms were asked to show the industry category or nature of manufacturing that they are in. The results are shown in Table 5.

Table 5: Industry Category

Industry	Frequency	Percentage (%) of respondents
Food and Beverages	12	14
Clothing and Leather	8	9
Plastics and Packaging	7	8
Drugs and Pharmaceuticals	2	2
Engineering and Construction	12	14
Chemicals and Fertilizers	5	6
Wood and Rubber	10	11
Tobacco Processing and Agro-based	4	5
Others	27	31
Total	87	100

In terms of specific sectors, the highest number of respondents came from food and beverages and engineering and construction subsectors with 14 percent each, followed by wood and rubber, with the highest overall coming from others with 31 percent of respondents.

4.2 Turnaround Strategies Implemented by Firms in Manufacturing Sector

Table 6: Turnaround Strategies Implemented by Firms in the Manufacturing Sector

Turnaround Strategy	S. Agree	Agree	Neutral	Disagree	S. Disagree
Cash Management	30%	26%	4%	22%	18%
First step cost reduction	19%	40%	9%	18%	14%
Change of CEO	0%	5%	9%	46%	40%
Communication to stakeholders	10%	22%	33%	20%	15%
Redefine core business	21%	30%	8%	25%	16%
Retrenchments	40%	41%	6%	10%	3%
Key people changes	22%	28%	1%	30%	19%
New terms and conditions of employment	16%	32%	6%	28%	18%
Quality initiatives	4%	31%	13%	30%	22%
Change of packaging	3%	6%	10%	50%	31%
Asset reduction	29%	42%	16%	11%	2%

S. Agree – Strongly Agree and S. Disagree – Strongly Disagree

Retrenchment strategy top the strategies implemented by organizations as turnaround strategies with 81 percent (40% strongly agree and 41% agree) of respondents agreeing that they implemented the strategy, followed by asset reduction with 71 percent (29% strongly agree and 42% agree) agreeing. Change of CEO showed the lowest response rate with none strongly agreeing and five (5) percent agreeing. From the results, it is clear that when organizations in Zimbabwe talk of turnaround it is all about retrenchment and asset reduction.

4.3 Ranking of the Turnaround Strategies Implemented

Concerning the most turnaround strategy implemented by the organizations, retrenchment ranked first, followed by asset reduction (that is disposal of non-core business and unused assets) while change of CEO

ranked last (See Table 7). This implies that the majority of the organizations have implemented retrenchment and assets reduction as their main strategies.

Table 7: Ranking of Turnaround Strategies implemented by Manufacturing Firms

Rank	Total Percentage (%) agreeing	Turnaround Strategy
1	81%	Retrenchment
2	71%	Asset Reduction
3	59%	First Step cost Reduction
4	56%	Cash Management
5	51%	Redefine Core Business
6	50%	Key People Changes
7	48%	New Terms and Conditions of Employment
8	35%	Quality Initiatives
9	32%	Communication to Stakeholders
10	9%	Change of Packaging
11	5%	Change of CEO

4.4 Assessment of the Effectiveness of each Turnaround Strategy Implemented

Table 8: Effectiveness of each Turnaround Strategies Implemented by Organisations

Turnaround Strategy	Effective	Neutral	Ineffective
Retrenchments	81%	6%	13%
Asset reduction	61%	16%	23%
Redefine core business	50%	8%	42%
Cash Management	46%	6%	48%
New terms and conditions of employment	40%	12%	48%
Quality initiatives	41%	14%	45%
Key people changes	35%	18%	47%
First step cost reduction	35%	15%	50%
Communication to stakeholders	30%	33%	37%
Change of packaging	29%	7%	64%
Change of CEO	20%	9%	71%

Table 8 shows that retrenchment was the strategy observed by respondents to be effective, with 81 percent stating that it is effective, followed by asset reduction with 61 percent. However, change of CEO shows the least effectiveness as 20 percent of respondents regard it as an effective strategy.

4.5 Turnaround Strategy and Improved Performance

Table 9: Effectiveness of Turnaround Strategies on Performance Aspects

Aspect Of Performance after Turnaround	Improved	Remain the same	Worsened
Revenues	58%	22%	20%
Profitability	56%	28%	16%
Productivity	30%	26%	44%
Quality of Products	14%	80%	6%

From Table 9, 58 percent of respondents stated that revenues have improved after implementing turnaround strategies, 22 percent stated it remains the same and 20 percent stated the situation actually worsened. In terms of profitability, 56 percent stated that it has improved as a result of turnaround strategies, 28 percent stated it remains the same while 16 percent said that it got worse. For quality of products, 14 percent stated that it improved, 80 percent remains the same and six (6) percent stated that it got worse. In terms of productivity, 30 percent of respondents said it improved, 26 percent stated that it remained the same and 44 percent said it got worse. These results imply that the effectiveness of turnaround strategies implemented by firms in the manufacturing sector in Zimbabwe is partially effective.

5. CONCLUSIONS

The study revealed that firms in the manufacturing sector had implemented different turnaround strategies. Some of the strategies adopted were; retrenchments, cost reduction, asset reductions and implementing quality improvements. Therefore, the study concludes that - the most common strategies implemented by the firms are retrenchments and asset reduction.

It is also concluded that the strategies implemented to turnaround the organizations were partially effective. This was because a number of measures were not taken chief; among them was the failure to change the CEO. This meant that the performance decline in organizations was due to the fact that they did not get fresh ideas from new people as they continue with the same management styles.

6. RECOMMENDATIONS

The study recommends that firms in the sector should carry out a proper situation analysis first before implementation of a turnaround strategy or strategies. A situation analysis should be carried out as it enables a company to come up with the turnaround that would best suit the prevailing industrial condition thereby increasing the chances of a successful turnaround. The best turnaround option depends on; the prevailing industry conditions, the company's strengths and weaknesses, its competitive capabilities compared to its competitors- and the extent of the crisis situation. Therefore, a situation analysis of the industry, major competitors and the firm's own competitive position and its own competencies and resources, are prerequisites for action.

Firms facing difficulties should change top management for an effective turnaround as this results in a new culture and new style of management. The most important restructuring action in response to performance decline is the appointment of a new CEO who can provide a new sense of direction, develop new financial and reporting strategies and revitalise the firm. The removal of a poorly performing chief executive officer, for example, provides some assurances to shareholders that the board has taken a prudent action to address the performance problem.

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