

Challenges And Strategies To Survive In Zimbabwe's Hostile Business Environment. The Case Of Manufacturing Firms In Harare

Maxwell Sandada
University of Zimbabwe

ABSTRACT

The quantitative study sought to ascertain the strategies that manufacturing firms adopted in order to survive in Zimbabwe's hostile business environment. The survival of a firm in such an environment depends on its capacity to deal with a number of challenges that threaten its survival. Through factor analysis the main challenges being faced by the 192 manufacturing firms that were identified through stratified random sampling are cheap imports, liquidity crunch, corruption, political instability, inadequate infrastructure and restrictive labor regulations. The underlying strategies that are being used to survive include downsizing, partnerships, offshore financing, alternative sources of water and power, and retrenchments. The results of the study can serve as a guide to policy makers in their endeavour to formulate policies of formalising the informal sector.

INTRODUCTION

The poor performance of the Zimbabwean economy continues to threaten the survival and sustainability of the manufacturing sector. Rusvingo (2015) predicts that more companies will close shop. This is due to the continued decline in the average capacity utilization, the prolonged effects of power cuts and costs, liquidity challenges, low domestic demand and obsolete machinery. At the beginning of 2014, the economy was projected to record a strong growth of about 6.1%, premised on the implementation of the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIMASSET) programme. Positive projections were also anchored on strong recovery in the agricultural sector and improved performance in the mining and construction industries. However due to the persistence of the negative factors mentioned above, the GDP growth rate has been revised down to about 3.1% by December 2013 (CZI, 2014). CZI (2014) also reports that in 2012, 2013 and 2014, the percentage capacity utilization levels stood at 44.2%, 39.6% and 36.3% respectively.

The economy continues to face challenges which reflect some structural rigidities, inadequate domestic and foreign investments and lack of long-term funding. Economic activity decelerated from 10.6% in 2012 to an estimated 4.5% in 2013, in real terms.

The survival of the manufacturing companies is largely dependent on how they deal with these challenges. While on the one hand several firms have closed shop, on the other hand, some have managed to thrive in the harsh business environmental conditions. However, little is known as to how these firms have managed to at least survive. It is against this backdrop that the current study sought to ascertain the strategies adopted by manufacturing firms to survive in an uncertain environment. The results of the study provide invaluable insights to leadership of manufacturing companies as well leadership of firms in other sectors on how they can manage their organizations in hostile business environments. The results also provide useful information for policy makers on how they can devise policies to create a conducive business environment to support business. To achieve the objective of the study, a survey research design was used as it allowed the collection of large amount of research information from a sample in a way that is economical.

METHODOLOGY

The target population was all the manufacturing companies in Zimbabwe's capital, Harare. Since most manufacturing business in Zimbabwe are concentrated in the capital, the diverse products from the industry gives a good enough representation of the whole country. According to latest information from ZimStat, of the total 656 manufacturing companies in Zimbabwe, 369 of them are located in Harare. The target participants were production managers because they are directly involved in the day-to-day operations of the production process and they are also at managerial level making them the best source of research data as they understand the importance of production to company performance.

The current list of manufacturing companies obtained from ZimStat forms the sampling frame. Stratification was first done to categorise non-homogeneous companies into 12 main different product sectors (as defined by the Confederation of Zimbabwe Industries) within the manufacturing industry, namely: (1) Bakers, (2) Building (construction and related), (3) Electrical Appliance Manufactures, (4) Engineering Iron and Steel, (5) Food, Dairy and Beverages, (6) Grain Millers, (7) Chemical, (8) Pharmaceu-

ticals and Cosmetics, (9) Plastic, Packaging and Rubber, (10) Paper, Printing and Publishing, (11) Textile and Clothing, and (12) Timber Processors. Simple random sampling was then used to select companies from each stratum and this enabled adequate representation of all manufacturing sectors in the country. The appropriate sample size was determined by the formula:

$$n = \frac{N}{1 + Ne^2}$$

Where: N = population size

n = sample size

e = sampling error or precision level

In this study, the population size (N) was 369. Using a margin of error (e) of + 5%, the sample size calculated was 192 companies. The number of respondents for each stratum was calculated as follows: $192/12 = 16$. Therefore, for each of the 12 strata, 16 respondents were randomly selected from the ZimStat companies' records. Physical delivery method was used to distribute the questionnaires in order to ensure a high response rate. 192 questionnaires were hand-delivered to the participants and later collected in person. A total of 139 questionnaires were returned representing a response rate of about 72%.

Factor analysis was used to identify the underlying challenges and strategies that manufacturing firms are using to deal with the challenges.

RESULTS

Challenges highlighted by the companies included reduced local demand for locally manufactured products, cheap imports flooding the market, liquidity challenges and failure to recapitalize, corruption, political instability, inadequate infrastructure and restrictive labor regulations. The biggest challenge companies faced was liquidity challenges. This was mainly due to the liquidity crunch that has incapacitated the banks' function as sources of credit. Policy inconsistency was also highlighted as another major cause of problems in the industry. Other contributory challenges highlighted included reduced demand for products due to reduced disposable income by consumers, corruption, cheap influx of imports, inadequate supply of electricity and water, poor infrastructure and restrictive labor regulations, low Foreign Direct Investment levels, high retrenchments packages, stiff competition, and absence of credit lines.

The strategies that firms use to try to overcome these challenges included more credit purchase options, reduction in the quality of products, stocking cheap imports, cutting down on production, productivity related compensation, use of ICT, downsizing, partnership with foreign businesses, offshore borrowing, government lobbying on policy consistency, alternative sources of water (borehole drilling, and electricity (solar power and genera-

tors), and leadership changes.

MANAGERIAL AND POLICY IMPLICATIONS

The results of the study provide fruitful information to the academics as well as managers and policy makers in the manufacturing sector. On the academic side, this study makes a significant contribution to the business environment literature by systematically exploring how firms may deal with threats emanating from the external business environment.

On the practitioners' side, this study therefore submits that managers in a manufacturing environment can benefit from the devising innovative strategies to deal with environments that are unstable. For instance, firms may come up with alternative sources of credit, water, electricity and cost cutting mechanisms. As regards policy, there is need for policy makers to come up with consistent and conducive policies that promote business. In times of need, the government may need to identify critical organizations that need to be supported with resources to make sure that there is continual supply of products.

LIMITATIONS AND AREAS OF FURTHER STUDY

Despite the usefulness of this study aforementioned, the research has its limitations. First and most significantly, the study can be strengthened by including other sectors of the economy. Second, the current study was limited to Zimbabwe. Subsequent research studies perhaps could contemplate replicating this study in other developing countries. All in all, these suggested future avenues of study stand to immensely contribute new knowledge to the existing body of business environment in Sub Saharan Africa - a context that is has continues to lag behind in ensuring the growth is economy.

CONCLUSION

It is important for manufacturing managers to craft strategies which help them to survive in harsh business environments. Through innovative strategies, manufacturing companies in Zimbabwe may create and sustain competitiveness in this competitive and unstable business environment.

REFERENCES

- Confederation of Zimbabwe Industries Manufacturing Survey, 2014. Taking industry to next level. The Financial Gazette: 18.
- Rusvingo, S. L. (2015). Zimbabwe Economy in Autopilot Aeroplane as More Companies Close Shop (2013-14). *Global Journal of Management And Business Research*, 14(9).
- Saunders, M. N., Saunders, M., Lewis, P., & Thornhill, A. (2009). *Research methods for business students*, 5/e. Pearson Education India.