AN INVESTIGATION INTO HOW THE MACRO-ECONOMIC ENVIRONMENT AFFECTS PROFITABILITY OF THE SUPERMARKET INDUSTRY IN ZIMBABWE: A CASE OF SPAR ZIMBABWE (PVT) LTD

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DEDICATION

To Mwenye Bwahera, my dad. His sweat enabled me to conquer in the seemingly fierce academic jungle.

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I would like to thank God, the Almighty, my sole source of knowledge, wisdom and life. Dr. Kaseke my supervisor, thank you for the great support. To my beautiful girls, Nancy and Dalitso, thank you for being great partners in the academic jungle. Dr. “Dean” Chilunjika you worked so hard to support me during the research, and you have always been inspiratory since the number 13 days! Mr. O. Runesu, I am grateful for the resources you offered for the success of this research. Lastly, I would like to thank SPAR Management and all participants who spared their valuable time responding to the never-ending questions.

ABSTRACT

Based on the vital contribution of supermarkets on the distribution chain, the aim of study was to ascertain how macroeconomic factors affect profitability of supermarket businesses with SPAR Zimbabwe being the case study. SPAR Zimbabwe, a retail chain has been operational for more than five decades. The research aimed at understanding how the business challenges caused by the country's macroeconomic environment affect the business operations of supermarkets. This is because many businesses in the country have been shutting down and reducing operation capacity citing macroeconomic challenges to be the major cause. The study relied on primary data that was collected from a carefully non-probabilistic chosen sample (purposive sampling) of 212 employees who were at least on a supervisory level. Data was analysed using SPSS Version 24. The research instrument passed the internal consistency tests as measured by the Cronbach's alpha coefficient and normality tests conducted that showed that data was not normally distributed. Since the data was not normally distributed, Spearman's rank correlation analysis (non-parametric) was performed to check the strength and direction of the association between the macroeconomic variables and profitability. Regression analysis helped to ascertain the causal relationship between macroeconomic variables and profitability. By employing descriptive statistics, correlation and regression analysis the research concluded that inflation, unemployment and exchange rates had positive influence on supermarket profitability. Both Interest rates and economic growth had no impact on supermarket profitability. Essentially, the research findings were consistent to literature. The main recommendation from the research was that supermarket management must be conscious of the macroeconomic statistics if they are to improve or maintain profitability of the business to which they are stewards. Improvement of shareholders wealth in the supermarket business is highly dependable on the macroeconomic environment and management cannot afford to be ignorant on issues of macroeconomics.

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LIST OF ABBREVIATIONS AND ACRONYMS

AFDB – African Development Bank

ANOVA – Analysis of Variance

APM - Arbitrage Pricing Model

CPI - Consumer Price Index

FDI – Foreign Direct Investments

GDP – Gross Domestic Product

GP – Gross Profit

GNP – Gross National Product

ILO – International Labor Organization

NPR – Net Profit Ratio

PPP – Purchasing Power Parity

QSR – Quick Service Restaurant

RBZ – Reserve Bank of Zimbabwe

ROE – Return on Equity

ROI – Return on Investments

SME – Small to Medium Enterprises

SPAR - *Door Eendrachtig Samenwerken Profiteren Allen Regelmatig*

ZIMSTAT–Zimbabwe National Statistics Agency

CHAPTER 1
INTRODUCTION

1.1 Introduction

Supermarket industry is a key element of the retail sector and plays a very pivotal role in the distribution of goods and services from manufacturers/producers to final consumers. Retailing involves selling goods or services directly to final consumers for personal and non-business use (Kotler & Keller, 2012). One of the reasons why retail chains and particularly supermarkets have become important in the value chain or distribution chain is their ability to integrate all levels (manufacturers, market intermediaries and final consumers). The importance of supermarkets goes further to the general economic development by participating in commerce as well as employment creation. To avoid fatalities that accrue due to a deficient distribution chain, management and national policy makers must formulate strategies and policies to ensure that supermarket business is viable during different macroeconomic conditions.

Macro-economic variables are external, management has no control over them, and their effects on profitability are unique from industry to industry (McConnell & Brue, 2002). Osoro & Ogeto (2014) declare that previous studies on how macroeconomic variables affect performance of companies have concentrated on banking industry as well as listed firms. The five common macro-economic factors that are of interest to this study are inflation rates (price changes), interest rates (cost of capital), rate of unemployment (affects disposable income), rate of growth in GDP (affects the domestic demand for national output) and exchange rate (the value of currency). Profitability is a financial indicator that shows how much one unit of turnover generates units of benefits (Bekeris, 2012). Profit is the difference between incomes (revenue) earned, and expenses (costs) incurred over a given period. Profitability is necessary for firm survival hence the reason why low-profit making businesses lack the financial resources needed for expansion and further investments (Venkatraman & Ramanujam, 1986). Therefore, they need to be cognisant of how various macroeconomic variables affect the profitability levels of the supermarket business.

The mysteries behind the success of retail supermarkets in different macroeconomic environments need to be explored by all the stakeholders of the industry, and these

stakeholders include shareholders, management, employees, government and manufacturers (who uses supermarkets to merchandise their products). This research targeted all these stakeholders of the supermarkets industry. Management and shareholders should use the research findings to make corrective actions to improve their financial performance and counter the effects of poor macro-economic environment. The research should also work as a policy advice tool to the national authorities so that they formulate policies conducive for the viability of supermarket industry during varying economic conditions. Other industries and sectors such as the manufacturing industry and state owned enterprises whose performances have been below expectation, can also pick up some lessons from the supermarket (retail sector), identified in the research, to improve their performance for the benefit of the economy at large. Such an investigation would require a case of a retail chain supermarket that is reputable and has distinct performance measures and SPAR Zimbabwe, a retail chain company that has been operating in the country since 1967 became the ultimate choice for this research.

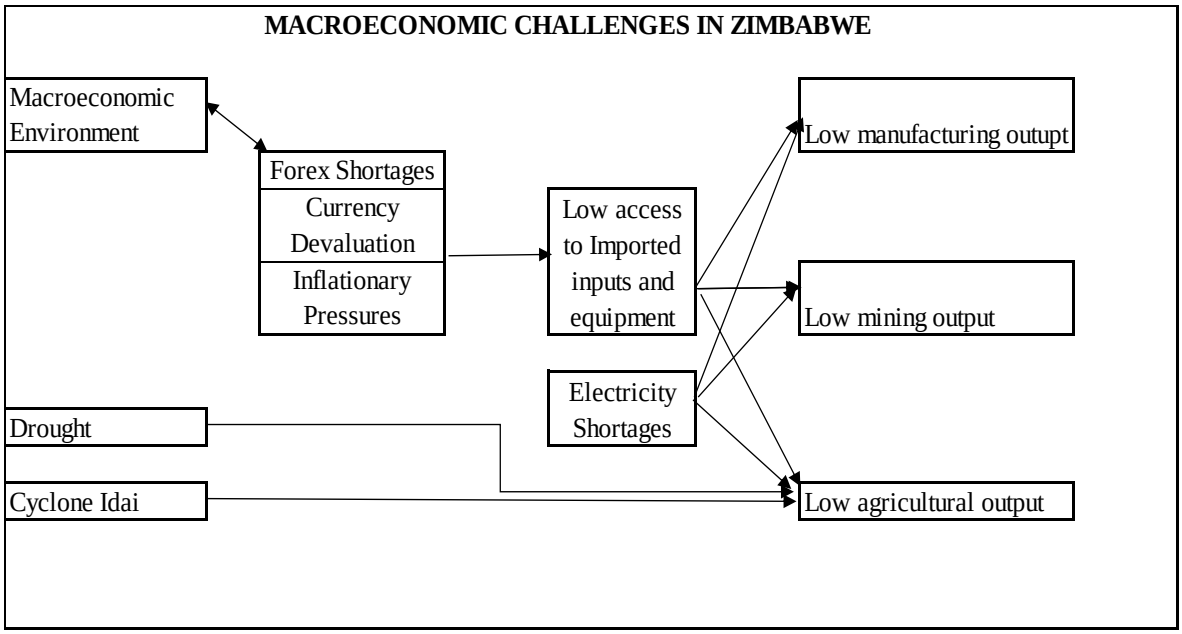
1.2 Background to the Study

The performance of both private and public investments depends on the country's macroeconomic environment hence the reason why policy makers around the world enact policies that maintain macroeconomic stability, promoting favourable environments for private investment and ensuring the availability of adequate budgetary resources to priority sectors to support economic growth (Maghyereh, 2002). One of the key objectives of firms is to improve profitability, thus it is vital to understand how the economic environment affects the supermarket business. Bhutta & Hasan (2013) emphasises the importance of maximising profitability by firms as one of the primary objectives of the firm. One of the reasons why profitability is of great importance to any firm is that it is a measure of the success of the business and augments the reputation and goodwill of the firm. Maximisation of profits translates to maximisation of stakeholder and investor value, and profitability is one of the tools that management use to fight against competition (Kotler & Keller, 2012). Dewi *et al.* (2019) express the importance of financial performance in fighting competition by firms in the globalisation era as they pin point that profitability affects sustainability of the firms. Therefore, it is not startling that profit maximisation is one of the key objectives for those charged with governance of corporates. (Bhutta & Hasan, 2013).

1.2.1 Background and Analysis of the Zimbabwean Economy

The AfDB Report on 2020 Economic Outlook states that the economy of Zimbabwe has been characterized by heavy macroeconomic gales especially between the years 2000 and 2019 (AfDB, 2019). The monetary and fiscal authorities confirm this analysis where the monetary policy statement issued by the RBZ in February 2019 acknowledges that the economy is in a currency crisis exhibiting indicators of an inflationary environment (Mangudya, 2019). The national budget for the year 2020 further admits that the fiscal year 2019 was associated with a very tough economic environment deepened by a severe 2018/19 drought, which caused food insecurity and the depressed power generation affected national productivity (Ncube, 2020). The figure 1.1 below summarises the challenges faced by the nation.

Figure 1.1: Macroeconomic Challenges



Source: Ministry of Finance (2019)

The 2020 national budget also reveals the macro-economic challenges faced by Zimbabwe, where it states that the cash shortages in the banking system are evidence of crisis (Ministry of Finance, 2019). The fiscal authorities further state that by the end of 2019 average industry capacity utilisation was about 35%, while industrial output was below 60% compared to that of 1980 showing high import dependence (40% of GDP) and high unemployment. This complex macro-economic environment characterised by foreign currency shortages, overdue external debt, market distortions and inflation has resulted in the economy operating under

high uncertainties and costs, complicating investments and operations (Ncube, 2019). Ncube (2020) further explains that from the beginning of 2020, the economy of Zimbabwe encountered a number of shocks that include:

- Climatic shocks (drought and the Cyclone Idai that hit Manicaland);
- Energy (electricity and fuel) challenges;
- Instability of the local currency; and
- COVID-19 pandemic.

These macroeconomic ills have not been favourable for capital inflows as supported by Zimbabwe's poor ranking on the World Bank's ease of doing business index of 140 as of February 2020 (World Bank 2020). The above economic analysis makes private investment seemingly impossible and hence the desire to understand how the economic environment affects the performance of the retail sector.

Theory states that the effects of unstable macroeconomic variables in a country are detrimental and include financial crisis, collapse of businesses and negative economic growth (Fisher, 1933). However, in the recent past Zimbabwe has witnessed an upsurge in supermarket investments as evidenced by the opening of new branches by the traditional supermarkets and even coming in of new retail chains such as Choppies and Food Lovers supermarkets. The country has witnessed the rejuvenation of TM supermarkets through its collaboration arrangements with Pick n Pay South Africa to become TM Pick n Pay supermarkets, which has become a giant in the local supermarket industry. According to SPAR International (2020), SPAR Zimbabwe had a busy year in 2019, opening five new stores in the country despite the macroeconomic challenges reported by the fiscal authorities.

The financial year 2019 annual report for OK Zimbabwe states that despite the increasing harsh operating environment, the group recorded an improved performance in both sales growth and profitability compared to prior year, opened two branches and revamped several others, whose results have been pleasing. The opening and expansion of the supermarket stores has been a common feature in the country's news headlines for the past two decades, a period when the country experienced a lot of macroeconomic instability. It is therefore worthy to assess and understand whether the macroeconomic variables of inflation, unemployment, exchange rates, interest rates and economic growth have any influence on the financial performance of supermarkets in Zimbabwe

The macroeconomic challenges faced by the Zimbabwean economy should have some effects on the performance of businesses as shown in Figure 1.1 above, which exhibits the declining of manufacturing, mining and agricultural output. This decline in output must have some negative effects on supermarkets. Despite these challenges, the country has seen a growing number of supermarkets over the years. This has been puzzling and particularly so when companies from other sectors like the manufacturing have been shutting down or reducing operation capacity. This brings in the multi-million dollar question of whether the macro economy affects supermarket business. Therefore, it is prudent to investigate how the macroeconomic environment affects the profit performance of the supermarkets in the country.

1.2.2 Overview of SPAR Zimbabwe

The name SPAR is an ellipsis of the Dutch statement "*Door Eendrachtig Samenwerken Profiteren Allen Regelmatig*" translated to mean By Working Together in One Way all Benefit Regularly. SPAR Zimbabwe is one of the leading, dominant supermarket retail chains in Zimbabwe and just like many other supermarket chains, its business covers groceries, butchery, health and beauty products, bakery, fresh, and frozen products, house wares, fruit and vegetables as well as liquor. The company also introduced the SPAR Pay Zone, financial services booth that allows customers to perform some mini-banking activities in-store.

Zimbabwe joined the SPAR International family in 1967. As at June 2020, SPAR Zimbabwe had 37 branches across the country owned by various independent retailers, who apply to become sub-licensees of the SPAR brand. The license holders in Zimbabwe have 18 corporate stores, implying that the other 19 stores belong to independent retailers. The total trade area of SPAR Zimbabwe by the end of 2019 was 28,430 square meters. OK Zimbabwe and TM Pick n Pay are arguably the biggest competitors of the company and the two control the significant market share of the industry. In a challenging economic environment, SPAR Zimbabwe continues to grow its store network and remains actively involved in corporate social responsibility (SPAR Zimbabwe, 2020).

SPAR Zimbabwe has many sub-brands emulating the SPAR International best practice. These brands depend on the store area as well as the types of products sold. The trading areas range from 250 square meters (SPAR Express) to above 1800 square meters (Super SPAR) as

illustrated by figure1.2 below. The SPAR's "tops" brand sells liquor while the chikka brand is for fast foods restaurants. (SPAR Zimbabwe, 2020).

Figure 1.2: SPAR Brands

Selling/ Trading Area (Square Metres)	Supermarket Brand	Products Sold
250 - 650	SPAR Express/ Savemor	fast moving consumer goods
650-1800	SPAR	fast moving consumer goods
1800 and above	SuperSPAR	fast moving consumer goods
Any area	tops! at SPAR	liqour
Any area	CHIKKA CHICKEN at SPAR	fast foods restaurants

Source: SPAR Zimbabwe (2020)

1.3 Statement of the Problem

According to The Standard newspaper (2019), over fifty companies liquidated since November 2017. These include Laputa Trading, GT Tavarura Bus Services, Oil Seed Processing (Pvt) Ltd, Gramlex Investments P/L, Bush Mills, Chegutu Canners (Pvt) Ltd, Zimbabwe Oil Soap Manufacturing, Malacoe Investments and BCL Ltd. AFDB (2019) reports that value added by Zimbabwe's manufacturing sector has decreased from 15.78% of GDP in 2007-09 to 9.55% of GDP in 2016. The report goes further to state that growth in the manufacturing sector has also slowed down and continues to be constrained by the prevailing scarcity of foreign currency, overvalued exchange rate, power (fuel and electricity) shortages

and inefficient transport infrastructure. The current account balance as a percentage of GDP deteriorated from -13.3% in 2009 to -15.1% in 2014 and as of 2016, the current account deficit stood at USD 552.8 million or -4.0% of GDP.

The performances of the retail sector and particularly the supermarket industry have a significant influence on the development of an economy because manufacturers can only reach their clients effectively through a supermarket (Kotler & Keller, 2012). The continued success or improvement of supermarkets operations would pose benefits to the Zimbabwean economy. It is daunting to know that the economy of Zimbabwe is facing some challenges and the ease of doing business is very low, as measured by the World Bank's ease of doing business index. This is a threat to the perpetual success of the supermarkets industry, just as other sectors that are victims of economic instability and continue to feel the pressure of macro-economic instability.

The effects of the macroeconomic environment that affected other industries in Zimbabwe as seen by the closure and downsizing of such business will one day face the supermarket business. If the benefit of having efficient supermarket industry in the economy is to continue accruing, this closure of companies must not be found affecting the supermarket retail. The Chronicle newspaper (2019), reports that the cost of doing business in the country has been going up and this has affected business operations, evidenced by retailers buying generators to remain operational during extended load shedding times. This has an effect of increasing the operating costs consequently eroding business profit margins. While it is discreet to make an academic guess on how the different macroeconomic environments affect the profitability levels of the retail sector, the magnitude and direction of the effects to Zimbabwe's supermarkets is not clear both in theoretical and empirical literature.

1.4 Research Objectives

The main aim of this research was to investigate the effects of the macroeconomic environment on profitability levels of the supermarket retail industry in Zimbabwe.

Other objectives include:

1. To examine the impact of inflation on the profitability of the SPAR Zimbabwe supermarkets.

2. To assess the strength and direction of association between unemployment and profitability of the SPAR Zimbabwe supermarkets.
3. To analyse the relationship between interest rates and profitability of the SPAR Zimbabwe supermarkets.
4. To evaluate the relationship between exchange rates and profitability of the SPAR Zimbabwe supermarkets.
5. To explain the relationship between economic growth and profitability of the SPAR Zimbabwe supermarkets.

1.5 Research Questions

The main research question is:

How does the macroeconomic environment affect the profitability of the supermarket retail business in Zimbabwe?

Research Specific Questions

1. Does inflation have any impact on profitability of Zimbabwe's supermarkets?
2. How do the unemployment levels in Zimbabwe affect the supermarket profitability?
3. What is the relationship between interest rates and profitability of supermarkets?
4. Is there any relationship between exchange rates and supermarket profitability?
5. What is the nature of association between economic growth and profitability?
6. What strategies can be employed by supermarkets in Zimbabwe to improve or maintain profitability levels given the fluctuating economic variables?

1.6 Research Hypotheses.

The main research hypothesis:

$H_{0:}$ The macroeconomic environment significantly affects the supermarkets profitability.

$H_{1:}$ The macroeconomic environment does not significantly affect supermarket profitability.

Hypothesis 1

$H_{0:}$ Inflation has a positive effect on supermarket profitability.

$H_{1:}$ Inflation has a negative effect on supermarket profitability.

Hypothesis 2

$H_{0:}$ Unemployment rates in the country have positive impact on supermarket profit levels.

$H_{1:}$ Unemployment rates in the country have negative impact on supermarket profitability.

Hypothesis 3

$H_{0:}$ Prevailing interest rates in the country negatively affect supermarket profitability.

$H_{1:}$ Prevailing interest rates in the country positively affect supermarket profitability.

Hypothesis 4

$H_{0:}$ There is a positive correlation between exchange rates and profitability.

$H_{1:}$ There is a negative correlation between exchange rates and profitability.

Hypothesis 5

$H_{0:}$ The country' economic growth rate has a positive impact on supermarket profitability.

H1: The country's economic growth rate has a negative impact on supermarket profitability.

1.7 Justification of Research

The financial performance of the supermarket industry has both direct and indirect effects to its numerous stakeholders. This research is particularly of paramount importance to managers, investors (shareholders), national policy formulators, researchers and academics. This topic is worth investigating given that so many businesses in Zimbabwe have been shutting down, reducing capacity utilisation and withholding their investment plans, waiting for a conducive macroeconomic environment to invest. The consequence of this is further collapse of the economy as national output continues to significantly decline. Supermarkets directors and managers have the responsibility of deploying different forms of capital with an objective of maximizing shareholders wealth. This study will significantly benefit them by providing insights on how changes in macroeconomic variables affect the financial performance of the entities they manage. This will ultimately help them to adopt strategies that enhance performance of the economy at any given time.

Investors and shareholders are mainly concerned with maximisation of their welfare. This study enlightens them on the effects of changes in the economy on their investments. This would therefore play an investment advisory role since it would give investors some leading lights on when to invest or reduce investments in the supermarket business, given of course the varying economic environment. The government plays a significant role in creating an enabling environment for operation of businesses. This study would be a revelation to the government on how monetary and fiscal policies influence industry performance and hence contribute in improvement of macroeconomic policy-making. The findings would influence effective formulation of economic policies by government statutory bodies. Since

supermarkets play an important role in the distribution chain, because producers use supermarkets to merchandise their produces, exploration of the strategies for supermarkets to improve capacity and efficiency in the distribution chain are of utmost importance.

To the academic and researchers, the study would provide a platform for quality and theoretical discussion, debate amongst academicians and economic and retail professionals. It would provide a basis for further research regarding the relationship between macroeconomic variables and supermarket industry profitability. Perhaps more importantly, this research will also attempt to find solutions for the other industries in the retail sector, like the retail banking and clothing retailers industries, which also face viability challenges in harsh economic environments.

1.8 Scope of Research

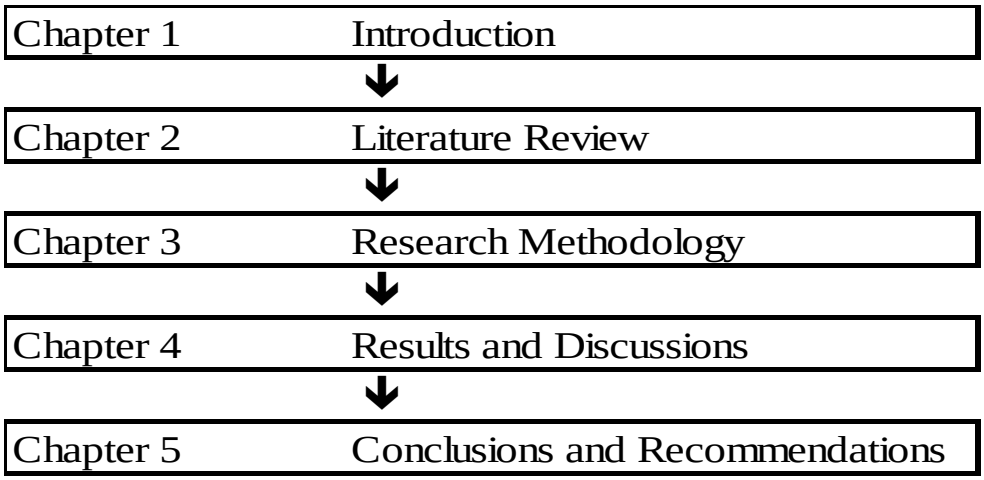
The research covers cross sectional profitability performance of SPAR Zimbabwe, which has branches nationwide in both urban and rural areas. SPAR Zimbabwe has a multi-ownership structure through some franchise arrangements, although the franchise holders control about 50% of the 37 SPAR stores in the country. This multi-ownership eliminates the impact of ownership and management on the research findings.

Top-level management of the retail chain were engaged for profitability assessment during the varying economic environments. The research sought to check whether the macroeconomic environment has low, high or no impact on profitability. Key macroeconomic statistics were collected from RBZ, ZIMSTAT and Ministry of Finance to help the researcher and participants relate the profit levels of the supermarkets to varying economic phases.

1.9 Dissertation Outline

Figure 1.3 below exhibits the structure of this dissertation

Figure 1.3: Dissertation Outline



1.11 Chapter Summary

The aim of this chapter was to introduce the subject of the research of whether macroeconomic variables that include unemployment rates, exchange rates, inflation rates, interest rates and economic growth affect profitability performance of supermarkets. The chapter presented the background of the study, the research problem, the research questions, research objectives, as well as the justification of the research. The next chapter presents both theoretical and empirical literature review regarding the topic.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The previous chapter played a vital introductory role to the research. The effects of macroeconomics variables on profitability of firms in different sectors have attracted great interest in both theoretical and empirical literature. The main aim of this chapter is to review existing theoretical and empirical literature on the effects of macroeconomic environment on profitability of the supermarket business.

2.1.1 Definition of Key Terms

Macroeconomic Variables

Macro-economic variables refer to economic factors that are applicable to a large population such as a country or even a region as opposed to microeconomic variables that affect individuals, households and firms (Bilal *et al.*, 2012). These variables include growth in GDP (economic growth), unemployment and inflation; usually closely monitored by governments, businesses and consumers (Khalid *et al.*, 2012). Exchange rate is the domestic currency price of a foreign currency (Beardshaw *et al.*, 2001 & Parkin, 2012). Unemployment refers to that situation where work is not available to a person who is willing and able to work at the prevailing wage rate (ILO, 2020). Economic growth is the increase in the national income as measured by the Gross Domestic Product. Simiyu & Ngile (2015) defines GDP as an inflation-adjusted measure of economic growth that shows the value of goods and services produced in a given year, expressed in base-year prices, and that inflation adjusted GDP is called real GDP or GDP at "constant-price". Interest rate is the price paid for abstinence and inconveniences that one endures while parting with a high liquid asset (McConnell & Brue, 2002). The inflation rate refers to the change in the general level of prices in the economy over a given period of time (Simiyu & Ngile, 2015).

Profitability

Profitability is the firm's ability to generate new resources from its day-to-day operations, measured by a number of indicators such as Gross Profit Ratio (GPR), Operating Profit Ratio

(OPR), Net Profit Ratio (NPR), Return on Investment (ROI) and Return on Capital Employed (ROCE) (Nishanthini & Nimalathasan, 2013 & Venkatraman and Ramanujam, 1986).

2.2 Theoretical Review

A considerable number theories and models are available in literature to assist in explaining the effects of macroeconomic factors on business profitability. Relevant theories selected to help evaluate the phenomenon under review are the arbitrage pricing model, liquidity preference theory, the quantity theory of money, debt deflation theory and the purchasing power parity. Table 2.1 below summarises these theories and a detailed analysis of the theories follows.

Table 2.1: Summary of Theoretical Review

Key Concept/ Theory	**Principal Author**	**Key Concept Relevant to study**	**Research Gaps**
Arbitrage Pricing Model	Stephen Ross (1976)	The return on security depends on a number of macroeconomic factors such as inflation and interest rates.	• Applicability of the theory to the supermarket industry. Does the return of supermarkets depend on macroeconomic factors?
Liquidity Preference Theory	John Maynard Keynes (1936)	Money is demanded for three main reasons which are: a. transactional; b. precautionary and; c. speculative motives.	• The effects of speculation on the sales revenue for supermarkets. • The extent to which interest rates levels resulting from the changes in money demand affects supermarket business profitability.
Quantity Theory of Money	Irving Fisher , Milton , John Maynard Keynes	Changes in money supply affects price levels, given that velocity of money and real GDP are constant.	• Does the economy's liquidity levels have a significant effect on supermarket revenue (which translates to profitability levels)?

Debt-Deflation Theory	Irving Fisher (1933)	Over indebtedness has an effect of falling price levels and reduced net worth of businesses.	• How the changes in prices affect supermarket profitability.
Purchasing Power Parity	David Ricardo Gustav Cassel (1916)	The law of one price. Exchange rates between countries are determined by their relative price levels	• The extent to which exchange rates influence the profitability of Zimbabwe's supermarket retailers.

2.2.1 Arbitrage Pricing Model

Stephen A. Ross propounded the Arbitrage Pricing Theory (APM) in 1976. The theory states that there is a positive relationship between risk and expected return of a security and that that the return on security is depends on factors that are independent of each other. According to Ross (1976), the multi-regression equation below reckons the return of the security.

$\mathbf{R = E\,(R_{1)} + \beta_1 F_1 + \beta_2 F_2 + \beta_2 F_2 + \beta_2 F_2 + \ldots.\varepsilon}$ where:

F = the difference between the expected and actual values of factors;

β = sensitivity to changes in factors;

E ($R_{1)}$ = the expected return from the security and;

ε = a random error term.

The APM uses factor analysis to determine the factors to which returns on the securities are sensitive. Ouma & Muriu (2014) highlights that the identified factors include macroeconomic variables such as changes in the expected level productivity, interest and inflation rates.

Relevance of the APM and the Research Gaps

The relevance of the APM to this research is justified by its acknowledgement that returns (profitability) of securities depend on various macroeconomic factors such as changes in interest rates, inflation and productivity. The theory would apply in checking if the macroeconomic factors identified to be affecting returns of securities also affect the profitability of the supermarkets. However, the APM has been mainly used in the financial services sector and its applicability to the supermarket industry especially those that are not

listed remains an area of interest for research. It is therefore not clear whether the factors identified by the theory have any significant effect on the actual profitability of the supermarket business.

2.2.2 Liquidity Preference Theory

John Maynard Keynes presented the liquidity preference theory in 1936 and its focus is that the rate of interest is purely a function of demand and supply of money. The main area of interest in the theory is its assertion that people demand money for three reasons namely transaction motives, precautionary motive and speculative motive (McConnell & Brue, 2002). Beardshaw *et al.* (2001) explain that the transaction motive refers to the people's desire to hold money balances for day-to-day transactions, while the need to hold money for unforeseen emergencies is the precautionary motive. Transaction and precautionary money balances are also known as active balances. The liquidity preference theory defines the speculative demand of money as the need by economic agents to keep money to take advantage of the changes in the prices of securities i.e. people hold cash for the purchase of bonds and securities if they think it is profitable to do so (Parkin,2012). If the prices of the bonds and securities were to rise, speculators would purchase them in exchange of money balances, and if prices of the bonds and securities were to fall, people will like to keep cash with them and sell the bonds and securities (Beardshaw *et al.,* 2001). This means that liquidity preference will be more at lower interest rate (where the opportunity cost of holding cash balances would be low) and higher when interest rates are low. The liquidity preference theory also explains how an increase in money supply can cause the rate of interest to fall, and this fall of interest rates results in increase in investments.

Applicability of the Liquidity Preference Theory and Research Gap

McConnell & Brue (2002) clarifies that the amount of money held as transaction balance at any point in time depends upon the level of income (GDP). The changes of prices (inflation and deflation) also determine the amount of balances that held for transaction purposes. If income rises, people tend to buy more goods and services and hence hold larger transaction balances. If prices increase people would hold larger cash balances because the goods and services they buy would now cost more. In relevance to the study, liquidity theory explains the role of liquidity on price levels in the economy. The price levels are a key component of profitability since prices affect demand of products (according to the both the consumer and

producer theories) (McConnell & Brue, 2012). Transactional and precautionary balances (active balances) are the source of supermarket revenue since supermarkets sell goods used on a day-to-day basis (consumer goods).

According to the liquidity preference theory, changes in money supply have an impact on the interest rates. An increase in money supply results in the decrease in interest rates, which increases investments (spending on capital goods), and a decrease in money supply increases interest rates which results in disinvestments. This phenomenon is applicable to this research because if a supermarket firm increases its investments by increasing number of branches it may translate to increase in revenue that can further result to improvements in profitability. This is despite the fact that the Keynesians believe that the changes in money supply have marginal effect on investments (McConnell & Brue, 2002).

However, it is not clear if the macroeconomic factors explained by the liquidity theory of interest rates and the various motives of money demand aforementioned have any direct influence to the supermarket business. Furthermore, it is not apparent if behaviours such as speculation in the economy can translate to profitability of the supermarkets. The issues that need clarity are evidence of research gaps in relationship to the liquidity preference theory.

2.2.3 The Velocity of Money Theory (Irving Fisher)

The quantity theory of money is the proposition that changes in money supply in the economy causes proportionate changes in price levels (Parkin, 2012). The theory is summarised by the equation of exchange, which is:

MV=PY where:

M is the currency unit in circulation in the economy,

V is the velocity of money,

P is the price level and,

Y is the real value of purchases during the year (interpreted as the real GDP).

According to this theory, the quantity of money in circulation is proportional to price levels. This implies that if there were an increase in money supply economic agents would hold more money, provided that the demand of money and real GDP constant (McConnell & Brue, 2002). Similarly, households and firms would reduce their money holdings by increasing their rate of spending on goods and services, increasing the nominal GDP. The major take

home point from the theory is that a stable velocity means that any change in money supply would have a direct and significant effect on the aggregate demand for goods and services.

Applicability and Research Gaps of Quantity theory of money.

According to the quantity theory of money, increases in the quantity of money in the economy results in the increase in the general prices (inflation) and a decrease in the quantity of money results in the decrease in prices (deflation). This theory therefore can explain changes in the financial performance of businesses since price changes affect the revenues and expenditures of businesses. While the changes in the money supply affect the aggregate demand for goods and services this is likely to affect the revenues of businesses like supermarkets and hence their profit levels.

However, the theory does not show how macroeconomic changes triggered by changes in money supply affect profitability of businesses, particularly of supermarkets. The expectation is that the effects of inflation on business should be on both revenues and expenditure. If revenues grow by an inflation level, operating expenses should grow by the same magnitude and hence there should be no effect on profitability. The theory does not clearly explain how these changes in price levels eventually affect profitability.

2.2.4 Debt-Deflation Theory - Fisher's Formulation (1933)

The debt deflation theory is from the work by Irvine Fisher in 1933 and explains the sequence of events that take place when the debt bubble occurs in the economy. Fisher (1933) believes that a state of over-indebtedness in the economy leads to distress selling, contraction of deposit currency, a fall in the level of prices resulting in currency depreciation. The consequences of this is a greater fall in the net worth of business, triggering bankruptcies and tumble in profits, a reduction in output, in trade and increase in unemployment. The deterioration the macroeconomic variables finally lead to cynicism and loss of confidence with the economy, which in turn causes hoarding and slowing down of the velocity of money circulation causing disturbances in the interest rates (Fisher, 1933).

Relevance and Research Gaps

In relevance to the study, the theory explicitly shows that a state of over-indebtedness results in deflation, unemployment, exchange rate depreciation, stifled economic growth,

unemployment and corrosion of other macroeconomic variables. Reduced inflation rates would lead to reduced supermarket sales, reduced profitability and can lead to the collapse of the supermarkets businesses. Other consequences of the debt bubble like currency depreciation, hoarding, and fall in net-worth are an interesting area for research since they affect any business and supermarket business is not spared.

The applicability of this theory to the supermarket business in Zimbabwe remains an area commendable for research. It is not clear whether the economic meltdown explained by the theory improves or deteriorates profitability levels of supermarkets. This make this study of supreme importance since it seeks to close this seemingly apparent research gap.

2.2.5 Purchasing Power Parity

Taylor and Taylor (2004) states that early works of the Purchasing Power Parity PPP was by Gustav Cassel in 1916 and was developed by many other economists in later years. According to the PPP, the exchange rate between two currencies should be equal to the price levels of those two countries hence the purchasing power of a unit of one currency would be the same in both countries (McConnell & Brue, 2002). Relative PPP, based on the law of one price, holds when depreciation of one currency relative to another match the difference in cumulative price changes between the two countries (Taylor & Taylor, 2004). This shows that exchange rate fluctuations affect price levels in the economy; otherwise, people would make riskless arbitrage profits by buying goods and services in the country where they are relatively cheaper to sell them in a country where they are relatively more expensive.

Relevance and Research Gaps

The purchasing power parity is a very powerful theory that explains how prices between two countries adjust to movements in the exchange rates. The changes in prices to conform to the law of one price as per the PPP theory affect the revenues of the supermarkets and hence profitability. Supermarkets such as SPAR Zimbabwe, who import a substantial amount of their stocks, cannot undermine the effect of exchange rate fluctuations on profitability. OK Zimbabwe (2019) annual report acknowledges that the scarcity of foreign currency in the country brought about escalations in product prices driven by the exchange rate; hence, the theory is relevant in explaining pricing and profitability of related businesses. Although PPP determines price levels and exchange rates in an economy, the extent to which the price

fluctuations and exchange rates affect profitability levels of the supermarket business in Zimbabwe remains an area worthy of research.

2.3 Macroeconomic Factors Affecting Profitability

2.3.1 Inflation

Anyanwu (1993) defines inflation as a state of affairs in which there is excess demand for commodities in the economy, hence there would be increases in prices. Inflation is the increase in the general price levels while persistently falling price levels is deflation, measured by the consumer price index (CPI) Parkin (2012). According to Ajagbe (2012), economists, central bankers and other policy makers globally agree that inflation stability is one of the fundamental objectives of economic policies in both developed and developing economies.

Inflation has a negative impact on public welfare as it erodes savings and reduces purchasing power (Chugunov *et al.* (2019). According to Osoro and Ogoto (2014), the effects of inflation are two sided: effect on the aggregate demand and effect on the cost of production. During periods of high inflation, consumers with fixed income have a low purchasing power due to the reduced value of money hence reduced demand for products. This affects sales revenue for businesses like supermarkets and therefore reducing profitability. Osoro and Ogoto (2014) further state that inflation increases the cost of production and the general operating costs and this imposes a further blow on profitability levels. Boyd and Champ (1996) argue that when inflation makes nominal values uncertain firms and households become reluctant to enter contracts, especially long-term contracts. The averseness to enter contracts over time will inhibit investment and entrepreneurship and this has adverse effects on financial performances of businesses.

Beardshaw *et al.* (2001) explain that the costs of inflation can be categorised into two: costs where the rate of inflation is perfectly anticipated and those where the inflation rate has not been anticipated. The unanticipated burst in the inflation rate results in the redistribution of income and wealth. The redistribution of income occurs because the increase the prices of goods and services needed by households does not immediately commensurate the changes in salaries and wages. This implies that workers become worse off because their wages buy less than they bargained for when they signed the employment contracts, given that the review of

these contracts take long periods. However, employers are better off because their profits rise due to sticky wages and improved revenues caused by changes in the price levels.

An unexpected period of deflation has the opposite effect in that the sticky wages rates lowers the profits of businesses, given that revenues would have fallen (McConnell & Brue, 2002). Workers are better off because their fixed wages buy more than they bargained for (Parkin, 2012). This therefore means that there would be redistribution of income from workers to employers and from employers to workers during inflation and deflation times, respectively. The unexpected burst of inflation results in the borrower repaying less in real terms, implying that the lender buys less than the money originally loaned. The interest paid on the loan would not compensate the lender for the loss in the value of the money loaned while an unanticipated deflation results in the lender paying more in real terms, than that borrowed. Another effect of inflation is that it raises firms' profits in the short term bringing a rise in investment and a boom in production and employment. However in the rise in investments will not sustain and profitable investment dries up, spending falls, real GDP falls below potential GDP and the unemployment rate rises (Osoro and Ogoto,2014).

2.3.2 Unemployment

Aminu and Anono (2012) conceptualized the term unemployment to mean total number of people who are willing and able to work, and make themselves accessible for work at the prevailing wage but cannot find the job. This definition is consistent to the International Labour Organisation (2019) definition, which states that unemployment is a state of joblessness that occurs when people are without jobs and they have actively sought work within the past four weeks .Therefore unemployment can be seen as a condition whereby workers are involuntarily out of work Balami (2006). Bekeris (2012) shows that high unemployment, as regarded from only the company's point of view has an advantage in that it results in cheap and free labour and results in low staff or labour costs for companies. This results in improvement in profitability levels since corporate profitability depends on the salaries and wages paid to employees, among other cost drivers.

Unemployment yields widespread costs for the economy because if people are not working they are not producing anything hence, total output in the economy would be less than it would be when the unemployment rate is low. There is also the loss in tax revenue to the fiscal authorities because the unemployed pay no income tax (PAYE) (Beardshaw *et al.*, 2001). Unemployment is a major contributor to poverty and unequal distribution of incomes.

Increasing unemployment results in decrease of income per capita and that further negatively impacts on consumer purchasing power, diminishing the demand of products, ultimately reducing profit level of companies (Tandelilin, 2010). On the other hand, low unemployment rate shows that people have incomes and their purchasing power and consumption levels will increase company's sales value and its profitability. Therefore, unemployment has an impact on profitability. Masunda (2011) concurs with this assertion as he states that high level of employment increases aggregate demand due to an increase in money in the economy.

Although unemployment has clear economic implications the study performed by Mpofu & Chimhenga (2016) on the unemployment and implications to social and political conflict in Zimbabwe shows that there are social and political costs that are associated with unemployment. Mpofu and Chimhenga (2016) states that in Zimbabwe, dissatisfaction and frustration of youth, especially educated urban youth has been the main cause of social unrest and violent uprisings in the country on several occasions. Political tensions, strikes and demonstrations can also have impact on the general operations of businesses like supermarkets. This is because national tranquillity is one of the important factors that affect investments and the general success of businesses.

2.3.3 Interest Rates

Interest rate refers to the value that is gained from the financial resources saved or invested and there are both short and long-term rates (Lygnerud, 1999). Interest rates represent the cost of borrowing capital for a given period borrowing capital for a given period of time (Muthama, *et al.* 2013). The national monetary authorities like the RBZ determine short-term rates while long-term rates show the condition of the economy and the possibility of inflation. Simuyu & Ngile (2015) points out that real interest rate is the rate of interest that is adjusted for inflation and is described formally by the Fisher equation, which states that the real interest rate is the nominal interest rate minus the inflation rate.

The effects of interest rates on business profitability and value of the business are numerous. Changes of interest rates may also affect the underlying value of assets and liabilities; and present value of future cash flows (Osoro & Ogeto, 2014). The fisher effect that explains the relationship between inflation, real and nominal interest rates shows that interest rates have a significant impact on the economy. The theory states that an increase in the growth rate of the

money supply will result in an increase in inflation and an increase in the nominal interest rate, which will match the increase in the inflation rate (Maigua and Mouni, 2016).

High interest rates have the effect of reducing investment because they represent a high cost of borrowing and this affect the pooling in of business production resources. Since interest rate is the price of money and it is what must be paid to borrow someone else's money for a given period of time, the increase in the interest rate results in less borrowing by consumers and less investment in capital by firms (McConnell & Brue,2002). Ajagbe (2012) points out that high interest rate make borrowing of capital expensive thus; companies that are highly geared would have high costs of finance charged in their income statements hence reducing profitability.

High interest rates often have the effect of appreciating the domestic currency, reducing the demand for local products, while low interest rates have an effect of depreciating the local currency, resulting in the growth in the demand of imports (Beardsaw *et al.*, 2001). On the other hand, low interest rates are a disincentive to savings and the reduced savings may imply an increase in spending which might have an effect on the revenues of businesses like supermarkets, especially if the spending is on consumer goods.

Interest rates do not affect domestic investments only but also foreign direct investments as per the revelations from the study by Fora and Yuehua (2017) on the effects of interest rates on foreign direct investment (FDI) in Sierra Leone. The results from the study showed that interest rates have a significant impact on FDI inflows. This tumbling of FDI has effects on financial performance (including profitability performance).

2.3.4 Exchange rate

Exchange rate is the price at which a currency exchanges for another currency in the foreign exchange market (McConnell & Brue, 2002). One of the fundamental characteristics of the exchange rate is that it fluctuates (rises and falls) depending on several factors such as growth prospects and interest rates. Appreciation of the exchange rate means the rise in the value of the currency and a fall in the exchange rate is depreciation (Parkin, 2012). Exchange rates have fluctuated since the breakdown of the Bretton Woods system of fixed exchange rates and most economies have adopted the free-floating exchange rate system, where market forces of demand and supply determine the exchange rate (McConnell & Brue, 2012). However, the free floating of exchange rates can be detrimental since it brings about

uncertainty, which will inevitably depress the volume of international trade by increasing the riskiness of such trade.

Acaravci & Calim (2012), quoted by Dewi *et al.* (2019) concluded that there is a positive relationship between real exchange rate and profitability on Turkish commercial banks. These movements in exchange rates have effects on companies' production and operation costs relative to those of foreign counterparts. The effect on profitability is imminent if the company is involved in international business. The country experiencing real currency depreciation attracts more investments because the exchange rate depreciation improves the overall rate of return to foreigners (Parkin, 2012). When currencies fluctuate wildly, they can create economic uncertainty and instability, affecting capital flows and international trade. Exchange rate fluctuations also have effects on other macroeconomic fundamentals such as capital flows, interest rates, and inflation. A nation needs to have a relatively stable currency to attract investment capital from foreign investors. A devalued currency has an effect of imported inflation for countries that are net importers.

According to Madura (2013), various strategies exist that businesses can use to mitigate the risks of exchange rates. These include leading, lagging, matching and invoice hedges, amongst many others. Leading involves making a payment before it is due and lagging refers to the postponement of a payment beyond the due date. If settlement of debt is in the payer's currency, then leading would be beneficial to the payer if this currency were weakening against the payee's currency and lagging would be appropriate for the payer if the payer's currency were strengthening against the payee's (Madura,2013).

2.3.5 Economic Growth

Economic growth is the increase of the national income and involves the increase of the GDP and GNP (Parkin, 2012). Economic growth is the process of increasing the sizes of national economies, productive capacities and national wealth. Beardshaw *et al*. (2001) emphasises that economic growth is the increase in the real GDP of a nation and while it is an important factor in determining the standards of living, other things important to the quality of life such as health care and literacy are important when measuring living standards. According to Balami (2006), economic growth, epitomized by GDP is increase in output of an economy's capacity to produce goods and services needed to improve the welfare of the country's citizens. Therefore, an increase in economic growth may not be the same as an increase in

economic welfare but other aspects such as the distribution of income and the abuse of the environment should also be taken into account.

Simuyu and Ngile (2015) explains that without any adjustment, inflation distorts GDP and unadjusted GDP is known as the nominal GDP or GDP at current prices. It is therefore important to use real GDP, which takes into account any effects of inflation especially in an inflationary environment. Although it is an objective of most economic policies to increase their GDP in order to increase their standard of living, growth in GDP does not result in increased purchasing power if it is due to inflationary factors or population increase (McConnell & Brue, 2002). GDP per capita becomes an important measure to counter the aforementioned effects of population.

Beardshaw et al. (2001) goes further to state that investment is crucial to economic growth but there is no simple relationship between the rate of investment and the rate of economic growth. By analysing the relationship between GDP and aggregate corporate earnings in the United States of America from 1929 to 2008, MCSI Barra Research (2010) concluded that over the long run, aggregate corporate earnings tend to grow at the same pace as GDP. This shows how important economic growth is to the growth of business profitability. Poor economic growth conditions worsen the quality of the finance portfolio of firms, thereby reducing profitability Balami (2006). The growth in GDP is a pointer of the expansion of the domestic market providing opportunities to increase both sales volume and profit for businesses like supermarkets. Bekeris (2012) states that GDP is a direct link to corporate incomes, but it is important to study if this translates to the profitability of the supermarket business. Strategies that businesses use to improve sales during poor economic growth times are numerous. According to Kotler & Keller (2012), these strategies include building a niche, use of competitive pricing strategies, being innovative and improving customer service.

2.4 Empirical Review

Literature has a considerable number of studies done to understand the relationship between macroeconomic variables and profitability of firms in different sectors of many countries. Most of these researches indicate significant relationships between exchange rate, interest rate, inflation rate, GDP fluctuation, among other economic variables and financial performances of firms in terms of their profitability.

Osoro and Ogeto (2014) acknowledges a dearth of knowledge in the existing empirical literature pertaining to effects of macroeconomic variables on financial performances of firms other than the banking industry and the stock exchange market. They go further to state that the nature and extent of the effects macro-economic factors are unique from one industry to another. The findings of their research on the effects of macroeconomic fluctuations on the financial performance of listed firms in Kenya show that foreign exchange, interest rate and inflation rate have significant effects on the performance of the firms in the construction and manufacturing sector.

Dewi *et al.* (2019) performed a research to understand the impact of macroeconomic factors on the profitability of fast moving consumer goods firms in Indonesia. The macroeconomic factors under the study (independent variables) were inflation rate, unemployment level, Gross Domestic Product (GDP) and exchange rate, and the dependent variable used was the return on asset (ROA) ratio to measure profitability from the period 1998 to 2016. Using multiple regression analysis they concluded that all independent variables have influence on ROA ratio (firm profitability) and the partial t-test result showed that only Gross Domestic Product level has the significant influence on firm profitability, while other three macroeconomic factors have no significant influence.

The study by Bilal *et al.* (2013) on influence of bank specific and macroeconomic factors on profitability of Pakistan Commercial Banks showed that net interest margin, industry growth rate and real gross domestic product had positive and significant impact on profitability while inflation had negative significant impact on profitability. They employed descriptive statistics, correlation and regression analysis and the dependent variables were return on assets and return on equity (measuring profitability) while various macroeconomic variables were the independent variables.

Gilchris (2013) investigated the impact of macroeconomic factors on profitability of 25 commercial banks profitability from 2007 to 2011 in Pakistan. The conclusion from the regression analysis indicated that net interest margin, and production growth rate had positive and significant impact on the profitability as measured by the return on asset and return on equity ratios. The results also showed that inflation has a negative and significant impact on profitability; and GDP positively correlates with profitability. Still in Pakistan Gul *et al.* (2011) examined the factors that influence commercial banks profitability from 2005 to 2009 using a regression model, panel data estimation and Pooled Ordinary Least Square (POLS)

method of computation. The results from the study showed that GDP and inflation have significant positive influence on banks profitability.

Sufian & Kamarudin (2012) concluded that growth in GDP and inflation significantly affect profitability of Bangladesh banks. The study was on the effects of bank-specific and macroeconomic determinants of profitability of Bangladesh's commercial banks over the period 2000 to 2010 .The study used generalised least square method consisting of fixed effect model, and was tested using the Hausman test. By employing multivariate regression analysis on study of the impact of firm specific and macroeconomic factors on profitability of food sector in Pakistan for the period of 2002-2006, the study by Bhutta and Hasan (2013) results show food inflation positively and significantly influence profitability of the food sector. Although the researchers acknowledge the limitation of considering only one macroeconomic variable as the independent variable (i.e. food inflation) they state that empirical results provide evidence that the profitability of food sector in Pakistan is influenced by firm specific factors and not macroeconomic variables.

Simiyu (2015) investigated the effect of macroeconomic variables on financial profitability of listed commercial banks in the Nairobi Securities Exchange (NSE) from 2001 to 2012. The research applied panel data analysis using Fixed Effects model on the data to examine the effects of Gross Domestic Product (GDP), exchange rates and interest rates on profitability of the listed commercial banks. The results indicate that real GDP growth rate had a positive but insignificant effect on profitability, interest rates have a significant negative influence on profitability and the exchange rate had a positive significant effect on the profitability of listed commercial banks.

Bekeris (2012) evaluated the macroeconomic impact on Lithuania SMEs' profitability using independent variables such as exports and imports, foreign direct investments, GDP, unemployment and inflation. The results showed that most of the selected macroeconomic indicators such as inflation, average wages, the number of enterprises, and the monetary base are not statistically significant and had no strong correlation with corporate profitability while interest rates and the unemployment have the greatest impact on profitability. According to the study by Bekeris (2012), unemployment has the biggest impact on profitability on SMEs with a negative correlation. Accordingly, the assertion shows that a high unemployment rate helps businesses to easily find skilled labour at a reasonable price and improve the financial performance failed.

Gatsi & Gadzo (2013) investigated the effects of macroeconomic variables on the performance of insurance companies in Ghana from 2005 to 2011. The study used panel least square regression and concluded that inflation was a significant determinant of performance of insurance companies in Ghana. This is despite the fact that they also noted that firm level characteristics such as gearing and liquidity had effects on the performance of such firms. In terms of other macroeconomic variables, the study revealed that the performance of insurance firms in Ghana had a statistically insignificant relationship with GDP and exchange rate.

Aktuson *et al.* (2018) proved that unemployment does not directly affect profitability of businesses but has indirect contribution on how it affects economic growth. They examined the relationship between unemployment and economic growth in Nigeria by analysing unemployment and economic growth using the ARDL Bound Testing and the Parsimonious Error Correction Model (ECM) of the ARDL Model to test the relationship and analyse the effect, respectively. The results indicated that there is no long- run relationship between unemployment rate and Economic growth in Nigeria; although, with effective policies, the long run increase in unemployment has a growth enhancing mechanism on economic growth.

The empirical review performed shows that much of the studies about the impact of macroeconomic variables on profitability performed outside Zimbabwe. In Zimbabwe, a number of researches show the relationship between and among economic variables. Moreover, there is scant literature to show how profitability of supermarkets depend on the fundamental macroeconomic variables. Many studies have concentrated on financial institutions, SMEs and listed firms. This study therefore aims to fill in the gap that exists in the current literature and assist relevant supermarket industry stakeholders understand how external economic factors affect the profitability of the supermarket business.

2.4.1 Empirical Literature Synthesis

Table 2.2 below summarises the results from empirical literature.

Table 2.2: Summary of Empirical Review

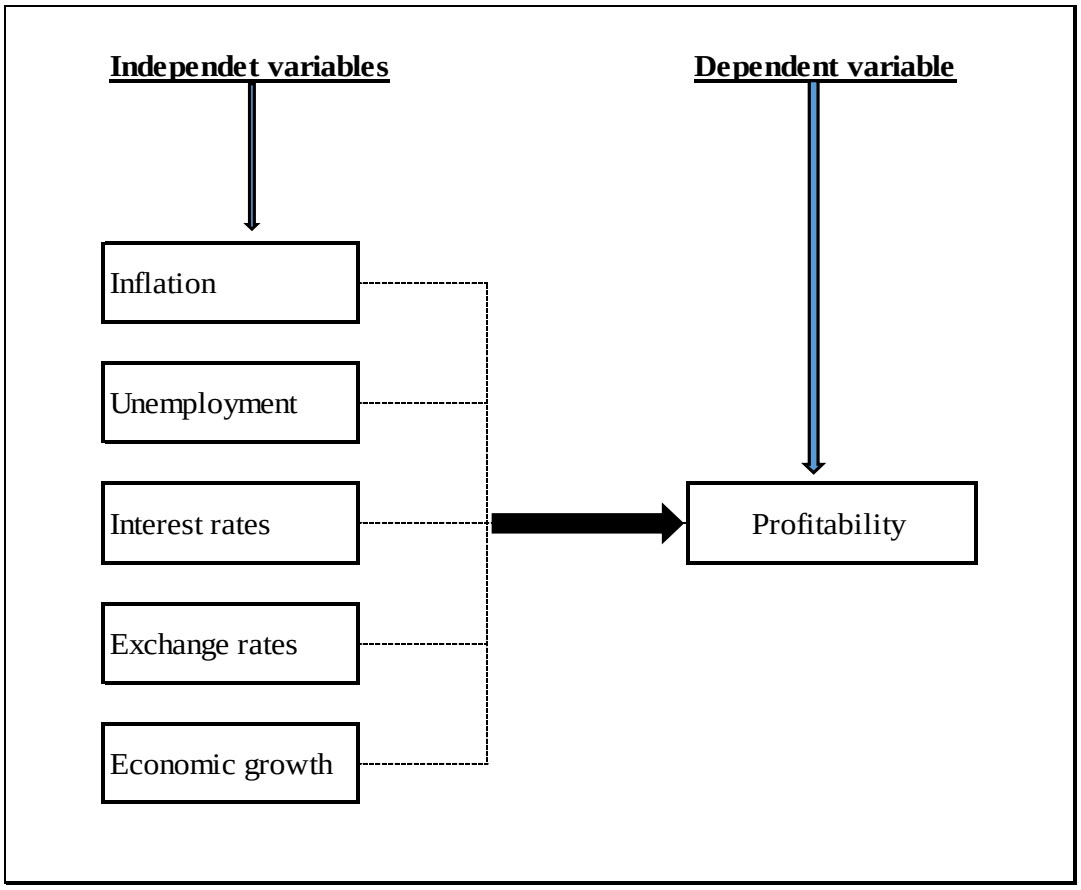
			Macroeconomic Variable Relationship with Profitability				
Researcher (s)	**Country**	**Industry**	**Inflation**	**Exchange Rates**	**Interest Rates**	**Unemployment**	**Economic Growth (GDP)**
Dewi *et al.* (2019)	Indonesia	Listed Fast Moving Consumer Goods	insignificant	insignificant		insignificant	significant
Bilal *et al.* (2013)	Pakistan	Commercial Banks	significant		significant		significant
Gul *et al.* (2011)	Pakistan	Commercial Banks	significant				significant
Sufian and Kamarudin (2012)	Bangladesh	Banks	significant				significant
Bhutta and Hasan (2013)	Pakistan	Food Industry	positive and significant				
Osoro and Ogeto (2014)	Kenya	Construction and manufacturing	significant	significant	significant		
Bekeris (2012)	Lithuania	SMEs	insignificant		significant	significant	
Gatsi and Gadzo (2013)	Ghana	Insurances	insignificant	insignificant			insignificant
Aktuson *et al.* (2018)	Nigeria		No direct relationship				

Accordingly, it shows from literature that the impact of inflation on profitability or financial performance is an area of great interest with researchers. Although the researches have been performed in different economies and sectors, studies by Bilal *et al.* (2013), Gul *et al.* (2011), Sufian & Kamarudin (2012), Bhutta & Hasan (2013), and Osoro & Ogeto (2014) show that inflation has significant impact on corporate profitability. On the other hand, investigations by Dewi *et al.* (2019), Bekeris (2012), and Gatsi & Gadzo (2013) reveal that inflation has an insignificant effect on profit levels. Dewi *et al.* (2019) and Gatsi & Gadzo (2013) examined Indonesia's fast moving consumer goods and Ghana's insurance companies, respectively reveal that exchange rates have no significant effect on profit levels of companies. The results are contrary to those by Osoro & Ogeto (2014) who concluded that exchange rates significantly influence the construction and manufacturing industry of Kenya. Bilal *et al.* (2013), Osoro & Ogeto (2014) and Bekeris (2012) all agree that the impact of interest rates on firm profitability is significant. The impact of GDP on corporate profitability cannot be ignored since most researches agree to the assertion that GDP affect profitability (Dewi *et al.*, 2019; Bilal *et al.*, 2013; Sufian & Kamarudin, 2012; and Gul *et al.*, 2011). The effects of unemployment on profitability cannot be ignored from both theoretical and empirical viewpoints.

2.5 Conceptual Framework

Analyses of theoretical and empirical literature above resulted in the formulation of the conceptual framework depicted by figure 2.1 below. The conceptual framework has profitability as the dependent variable and macroeconomic variables of inflation, interest rates, unemployment, exchange rates and economic growth as the independent variables.

Figure 2.1: Conceptual Framework



2.6 Chapter Summary

The chapter reviewed literature from both theoretical and empirical framework and this is an important tool for comparison with research findings. The major concepts under discussion were to do with how corporate profitability is affected by macroeconomic variables namely inflation, interest rates, exchange rates, unemployment and economic growth (GDP). This research would bridge some of the literature gaps that currently exist. The next chapter outlines the study research methodology.

CHAPTER 3:

RESEARCH METHODOLOGY

3.1 Introduction

The previous chapter analysed literature on the macroeconomic factors that affect profitability of companies. This literature review helped to appreciate the relevance of the macroeconomic variables on profitability of businesses as well as the available research gaps. The chapter also looked into the conceptual model that was used to test influence of the macroeconomic factors (independent variables) on profitability (dependent variable). The purpose of this chapter is to give an overview of the research methodology used to investigate the effects of macroeconomic variables of profitability of SPAR Zimbabwe.

Research methodology is a systematic process that consists of sequential steps to find the solutions to the research problem (Saunders, *et al.* 2009). This methodology chapter will analyse the research design, research philosophy, research approach, research strategy, research methods, population sample frames, and data collection and analysis methods. Knox (2004) points out that the need to justify and align the research philosophy to the research strategy is of paramount importance, therefore, the chapter highlights and justifies the

research method and instruments chosen, reveals the target population, sampling technique and procedures taken to come up with results and conclusions.

3.2 Recap of the Research Objectives and Questions

The research problem in this study revolved around the need to explain whether various macroeconomic factors affect the profitability performance of supermarkets in Zimbabwe, especially given that most industries in the country have been performing below capacity. This research had various objectives as highlighted in the previous chapters, but the main aim of this research was to investigate the effects of the macroeconomic environment on profitability levels of the supermarket retail industry in Zimbabwe. This is against a background that the magnitude and direction of how the various economic factors affect the financial performance of the Zimbabwe's supermarket business is not clear both in empirical and theoretical literature. The major research question was how the macroeconomic environment affects the profitability of the supermarket retail business in Zimbabwe. The following sub questions were formulated:

1. Does inflation have any impact on profitability of Zimbabwe's supermarkets?
2. How do the unemployment levels in Zimbabwe affect the supermarket profitability?
3. What is the relationship between interest rates and profitability of supermarkets?
4. Is there any relationship between exchange rates and supermarket profitability?
5. What is the nature of association between economic growth and profitability?
6. Which strategies do supermarkets in Zimbabwe employ to improve or maintain profitability levels given the fluctuating economic variables?

The main hypothesis for this research is:

H_0: The macroeconomic environment significantly affects the supermarkets profitability.

H_1: The macroeconomic environment does not significantly affect supermarket profitability.

3.3 Research Design

A research design is a preparation of information gathering process, guiding researchers on the collection and analysis of data as well as interpretation of the findings (Degu & Yigzawf, 2006). According to Yin (2008), the research design is the logical sequence that links the empirical data to the study's initial research questions and eventually to its conclusions. It is

therefore a broad plan or blueprint for the collection, measurement and analysis of data. Saunders *et al.* (2009) indicate that numerous types of designs have different strengths and weaknesses and some are better for answering some types of questions than others. Just like any other planning technique, research design poses many advantages and helps with:

a) Resource (including time) budgeting;
b) Identification of methods of research to be undertaken;
c) Choosing the relevant data collection methods;
d) Proper structuring of the research;
e) Planning on the intensity of the study;
f) Selection appropriate sampling techniques and sample size.

Depending on objectives, research can be either exploratory, descriptive or explanatory. Explanatory research aims to establish the causal relationship between independent and dependant variables and hence seeks explanations of observed variables (Saunders *et al.*, 2009). The purpose of the exploratory research is to seek new insights that are useful in clarifying and developing an understanding of a situation or phenomenon. The descriptive research purpose is mainly concerned with describing things and ordinarily complements both explanatory and descriptive approaches. Descriptive research answers who, what, how, where and when type of questions (Saunders *et al.*, 2009). The research design adopted for this study is the explanatory research since the research sought to explain the relationships between the variables, i.e. relationships between profitability and macroeconomic variables. The Explanatory research is useful in explaining why things are the way they are and why some variables affect others. This is consistent to the objective of this research in that it seeks to explain the relationships between macroeconomic variables and profitability of SPAR Zimbabwe.

3.4 Research Philosophy

Saunders *et al.* (2009) describes research philosophy as the development of knowledge based on how one views the world. The researcher's beliefs, norms, values and assumptions about the world determine the approach used for the research (Cooper & Schindler, 2008). The understanding of the research philosophy assists with choosing the most suitable design for a particular study. Yin (2008) declares that there are two main approaches to scientific

research, which are quantitative (positivist) and qualitative (phenomenological method). Positivism considers the power of science, of rational thought, evolves from rejection of the subjective ideas, and is concerned only in the tangibles (Saunders *et al.*, 2009). Accordingly, the idea of positivism holds that accurate and value-free knowledge is feasible (Fisher, 2010). Phenomenological approaches on the contrary, is particularly concerned with understanding behaviour from the people's own subjective terms of reference and describe, explain and interpret events from the perspectives of the people who are the subject of the research (Saunders *et al.* 2009).

This study attempted to bring out the veracity of the relationship that exists between macroeconomic variables and profitability of supermarket business through the positivism philosophy. This research falls under the positivist because of the highly structured methodology, which facilitates replication (Saunders *et al*., 2009). It is concerned with testing a hypothesis that macroeconomic variables affect profitability of supermarkets. In addition, the variables considered in the study, like inflation and interest rates, are factual and quantitative nature. The positivist approach is deductive and seeks to explain causal relationship between variables (Saunders *et al.* 2009). Therefore, positivism approach became the definitive choice for this particular study.

3.5 Research Approaches

Saunders *et al.* (2009) show that there are two major research approaches namely the inductive and deductive approaches. Inductive approach involves inference of generalised conclusions from particular instances, and involves the process of determining if it is possible to combine the clues to give a reasonable solution. On the contrary, deductive approach starts with a general theory or hypothesis, tested through searching for empirical evidence that either confirms or rejects it (Bryman & Bell, 2003 & Yin, 2008). Therefore, in inductive research the collection of data is for the purposes of developing a theory, while in deductive approach theory and hypothesis are tested.

The deductive approach is associated with the quantitative method of carrying out research while the inductive approach is associated with qualitative research. Quantitative research provide answers to questions of who, where, how many, how much and relationships between variables. Saunders *et al.* (2009) explain that the quantitative approach is factual, value free, makes use of quantitative data. A positivist researcher uses a mathematical and statistical method to evaluate the results. On the other hand whilst qualitative research provides

answers of why and how questions. Erickson (1986) describes qualitative research as that research which pursue to identify behaviour, beliefs, attitudes, or knowledge that are implicit as well as explicit in a social set up. Qualitative research is mainly for investigating the reasons for human behaviour such as motivation research, with the aim of discovering the underlying motives and desires by use of in-depth interviews. This is consistent to the views of Saunders *et al.* (2009) who articulates that qualitative research as subjective that includes examining and reflecting on perceptions in order to gain understanding of social and human actions.

This study adopted the quantitative approach due to the explanatory and deductive nature of the research as it sought to establish and understand the cause and effect relationship between the independent and the dependent variable, profitability of the supermarket business and macroeconomic variables. Kothari (2008) highlights that data generated from the quantitative research are usually from a large sample and can be manipulated using mathematical or arithmetic processes; hence, the results from the data are usually objective and reliable. However, quantitative data is susceptible to some weaknesses that include its inability to provide details on behaviour, attitudes and motivation. Furthermore, quantitative research assumes that there are specific answers to each question and this is against the beliefs of qualitative data proponents who assume that there could be many answers to a research question.

3.6 Research Strategy

According to Greener (2008), research strategy refers to the methods used to gather and analyse data, hence gives light on how to achieve the research objectives and how to solve the problems encountered in the research. It involves responding to the research questions and contending to the fact neither deductive nor inductive methods is superior (Saunders *et al.*, 2009). Saunders *et al.* (2009) clarifies that the application of these methods depends on the research questions and objectives and whether it will enable the researcher to meet his objectives. Therefore, research strategy provides the overall course of the research including the process by which the research is to be conducted.

Bryman & Bell (2003) asserts that major research methods include ethnography, surveys, experiments, case studies, and grounded theory. Yin (2008) confirms the assertion by Bryman & Bell (2003) that case studies, experiments, surveys, histories and the analysis of archival information are some of the many ways of doing research. The author states that

these research strategies have peculiar advantages and disadvantages depending on three conditions namely:

I. The type of research question;
II. The focus on contemporary as opposed to historical phenomena; and
III. The control the investigator has over the actual behavioural phenomena.

Accordingly, Yin (2008) summarises relevant situations for the different research strategies as per table 3.1 below.

Table 3.1: Research Strategies

Strategy	**Form of Research Questions**	**Requires Control of Behavioral Events**	**Focuses on Contemporary Events**
Experiment	How, Why?	Yes	Yes
Survey	Who, What, Where, How many, How much?	No	Yes
Archival Analysis	Who, What, Where, How many, How much?	No	Yes/No
History	How, Why?	No	No
Case Study	How, Why?	No	Yes

3.6.1 Rationale of Using a Survey

The nature of the research problem and objectives of this study requires a research strategy that answers who, what, where, how much and how many type of questions as well as one that allows for the analysis of quantitative data. Therefore, survey research strategy became

the ultimate choice. O'Leary (2005) states that survey is the organised collection of raw data and responses usually by the use of a questionnaire, from a sample of respondents. This definition is consistent to that by Pinsonneault & Kraemer (1993) which states that a survey is a mechanism for the gathering data relating to the characteristics, actions, or opinions of a large group of people. This research strategy is common in business and management research and is most frequently used to answer who, what, where, how much and how many type of questions (Saunders *et al.*, 2009). According to Kumar (2005), there are two types of surveys, i.e., descriptive surveys and analytical surveys. Descriptive surveys are concerned with identifying and counting the frequency of a particular response among the survey group whilst analytical surveys analyse the relationship between different elements or variables in a sample group (Saunders *et al.* 2009; Kumar, 2005).

One of the strengths of surveys is that it allows for the economic collection of large amounts of data from a sizeable population. Saunders *et al.*, (2009) points out that the survey strategy allows collection of quantitative data that can be analysed quantitatively using descriptive and inferential statistics and this is consistent to the research design and philosophy of this study. In addition, since opinions from experts and participants in the supermarket industry were sought in order to generalise the results, the survey strategy was the most suitable for this study (Cohen *et al.*, 2007).

3.7 Data Collection and Data Collection Instruments

This research mainly used primary data. Secondary data statistics were used to understand the key macroeconomic statistics that prevailed in the country to enable participants to relate these statistics to their profit levels.

3.7.1 Primary Data Collection: The Questionnaire

This study is partly descriptive and explanatory, quantitative in nature and adopted a positivist philosophy and hence the research tool that suited the collection of primary data was a questionnaire. Wegner (1999) points out that primary data is data expressly collected for the exact purpose at hand and congregated directly from the elements of the population. Primary data on the variables under study were collected using a structured questionnaire distributed to the cautiously selected sample of respondents, made up of people who have knowledge in the subject of profitability in the supermarket industry. The sample elements were people who have the responsibility of ensuring that the business is profitable (regardless

of the macroeconomic environment). The choice of this type of data collection was essential due to the need to get first-hand information from personnel exposed to the revenue and cost structures of the supermarket business.

Primary data has many advantages that include improved reliability of the data since the researcher can pinpoint the aspects he or she wants to focus on while omitting details that are not pertinent to the study. Furthermore, primary data is more up-to-date- than secondary data, which is usually historical and hence less reliable to answer the research questions. The data collection tool used to collect primary data in this research is the structured questionnaire, frequently used method in social science (Yin, 2008 & O' Leary, 2005). Saunders *et al.*, (2009) postulates that structured questionnaires include all techniques of data collection in which each person respond to the same set of questions in a predetermined order.

The choice of the questionnaire was because of its efficiency and effectiveness in collecting quantitative data, backbone of this study. Some of the reasons of adopting questionnaire, as a primary data collection tool, is that it is cost effective and respondents take their time to think about the answers (Greener, 2008). The respondents had twenty-one days to fill in the questionnaire, and that sufficient time was necessary due to mobility restrictions emanating from the outbreak of COVID-19. The use of self-administered questionnaires also intended to eliminate interviewer bias. The major problem with questionnaires is the possibility of low response rates and some form respondent bias since respondents may provide inaccurate information (Greener, 2008). Distribution of the questionnaire was mostly through electronic channels, although a few hard copies were printed to cater for those that did not have access to internet.

3.7.2 Primary Data Collection: Interviews

To elicit the views of the participants that could not be captured satisfactorily by the structured questionnaire, interviews were conducted to top management randomly selected by the researcher. The researcher prepared a research guide that was used for reference purposes, although during the interview responses directed to further probing of some issues that were not stated on the guide.

3.7.3 Secondary Data Collection: Macroeconomic Statistics

According to Cooper (2008), secondary data already exists, and is collected and prepared for another purpose other than for what it was originally gathered. Average annual net profit figures from SPAR Zimbabwe were collected together with macroeconomic statistics from

the RBZ, World Bank and Ministry of Finance and Economic Development official websites. All this data was collected for the period 2012 to 2018.The purpose of collecting the secondary data was to validate the results of primary data collected. These sources of secondary data were useful in providing information to the survey respondents about key statistics of the variables under consideration in this research study.

Secondary data collection method has numerous advantages compared to primary data that include:

- Collection of data is less time consuming;
- Fewer resources (both financial and non-financial) are required to access such data;
- Longitudinal or time series studies may be possible;
- Can provide comparative and contextual data; and
- The data are available in a permanent form hence can be checked easily.

Despite these strengths, secondary data collection methods suffer from weaknesses as compared to primary data collection methods. These disadvantages include the following:

- Data may be collected for a purpose that does not match the requirements of the particular research.
- The researcher does not have real control over data quality.
- Initial data collection purpose may affect how data are presented

3.8 Population and Sample

Population refers to the cumulative number of the objects, subjects or members that encompasses data and conform to a set of specifications that the researcher is interested in acquiring knowledge (Polit & Beck, 2017 & Wegner, 2007). The population of this research consisted of all the employees of SPAR Zimbabwe branches across the country. The staff complement for SPAR Zimbabwe as at 30 April 2019 was 2,510. A sample is a subset of the population and sampling is the process of identifying the population, determining the sample size, and employing the appropriate sampling strategy to come up with a true representation of the population (O'Leary, 2004 & Wegner, 2007).

3.8.1 Sampling Techniques

Cooper and Schindler (2008) articulate that there are two main sampling techniques namely random (probability) and non-random (non-probability) sampling. Probability sampling include simple random, stratified random, cluster random and systematic random sampling while non-random sampling techniques include convenience, judgemental, snow ball and quota sampling whilst types of (Wegner, 2007). The researcher opted for the non-probability sampling technique due to the nature of the research topic. The researcher realised that not all the members of the population had knowledge about profitability and macroeconomics and hence non-probability sampling was carried to extract the needed data from those that are charged with the responsibility of ensuring that the company is profitable. The researcher chose purposive non-probability sampling. At the time of conducting this research, SPAR Zimbabwe had 212 employees that were either departmental managers, branch managers, top company managers or those that worked in the administration such as accountants and purchasing officers. Although the purpose of purposive sampling is to get reliable responses from all the respondents chosen, those in the administration department and having worked for the company for at least five years were presumed to have excellent knowledge on the profitability of the company. Therefore, the sample size was 212 and the same number of questionnaires were distributed.

3.8.2 Purposive sampling

Purposive sampling is a non-probability sampling technique whereby the researcher uses his/her judgement to select elements that best answer the research questions and to meet the research objective (Saunders *et al.,* 2009). Denzin and Lincoln (2005) argue that purposive sampling technique involve grouping participants as per the pre-selected criteria relevant consistent to the research question. Although Polit and Beck (2017) believe that purposive sampling approach is practical and economic, not every element of the population has an equal opportunity of being included in the sample, therefore the sample cannot claim to be representative thus limiting the generalizability of the research results.

3.9 Data Analysis

SPSS version 24 was used to analyse cross section data collected from the returned questionnaires. Data collected was sorted according to the research questions as well as hypotheses under tests. The data was tested for reliability using the Cronbach's alpha coefficient, a measure of internal consistence. The Cronbach's alpha coefficient threshold

recommended for data to be reliable is 0.7. Normality tests were also done using the SPSS package because the sample was not large enough to assume that data is normally distributed. The aim of the normality tests was to test whether the data is normally distributed or skewed, to assist on whether to perform parametric or non-parametric tests. Parametric tests can only be conducted for normally distributed data, while non-parametric tests are for skewed data. (Gujarati & Dawn, 2009). Correlations were performed to test the strengths of associations between variables.

The regression model derived from literature had one dependant variable and five independent variables; hence, it was a multi- regression model as shown by the equation below.

Profitability = $C + \beta_1 INFL + \beta_2 UNE + \beta_3 EXCH - \beta_4 INT - \beta_5 GDP$; where

INFL= inflation; UNE; = unemployment; EXCH = exchange rates; INT = interest rates; GDP = economic growth; C = constant; and β represents beta coefficients.

The regression equation shows that Inflation, unemployment, exchange rates have a positive impact on profitability, whilst interest rates and economic growth have a negative influence on profitability. The model was tested for statistical significance in order to accept or reject the null hypotheses. . ANOVA F-test at a significance level of 0.05 was conducted in order to test the statistical significance of the regression model (Gujarati & Dawn, 2009).

3.10 Research Limitations

One of the research assumption is that SPAR Zimbabwe is a true representative of the supermarket industry in Zimbabwe. Although the company is indeed one of the giant retailers in the country, its modus operandi and operation model may be very different from other retailers. The organisation is made up of independent retailers and this retail operating structure may pose challenges in generalisations. The research thus assumes that firm specific factors that affect profitability of SPAR Zimbabwe apply to the other supermarkets in the economy.

This research also suffered from methodological limitations. The nature of the study would have required time series studies using numerical data in terms SPAR Zimbabwe profitability, which the company was not at liberty to provide in detail. Instead, those responsible for profitability provided information of whether profitability was high or low

during different macroeconomic times. In addition, the University of Zimbabwe's Graduate School of Management does not encourage usage of secondary data and hence the study was restricted to primary data.

During the course of this study, the country was on a lockdown emanating from the worldwide COVID-19 pandemic. The country imposed very strict human movement restrictions and this affected the gathering of the data from the respondents. The majority of the respondents were working from home and could not be accessed easily, especially for interviews.

The country at some time stopped officially publishing some statistics, which are pivotal for this study. Examples of missing statistics in Zimbabwe include 2008 and 2019 annual inflation rates which the fiscal authorities suspended publishing. Unavailability of such statistics affect reliability and validity of the research results.

3.11 Ethical Considerations

Ethics is the appropriateness of the researchers' behavior in relation to the rights of the participants of a particular research study Saunders *et al.* (2009). The researcher addressed all the material ethical issues by notifying and seeking permission from the relevant authorities the intention to conduct the study. Participation from relevant respondents was voluntary and information from recipients was treated with high confidentiality. Permission from SPAR Zimbabwe top management was sought through the group human resources manager and the finance executive. It was made clear to the organization representatives that the research was purely for academic purposes and the results thereof can be availed to them upon request.

A cover letter seeking consent from all the participants assured them of anonymity and confidentiality. As such, no confidential information such as name of the respondent was requested by the questionnaire. The questionnaire only asked generic information like designation and years served in the organization. The researcher respected the concern that SPAR Zimbabwe had in terms of disclosure of some sensitive profitability statistics as aforementioned in the limitations section. The researcher fully acknowledged all work and ideas from other researchers and scholars incorporated into this study to avoid plagiarism

3.10 Chapter Summary

The chapter presented the research methodology adopted for this research. The study adopted the explanatory research design due to the need to explain the causal relationship between the variables. Quantitative research methodology was used to explain the relationship between macroeconomic variables and profitability. Structured questionnaires from a sample of 212 SPAR employees, chosen through a non-probabilistic purposive sampling technique, were used to collect data. Data from the returned questionnaires was analysed using SPSS version 24 software. The chapter also expressed the ethical issues as well as limitations associated with this study. Chapter 4 presents the results and discussions of the findings.

CHAPTER 4
QUANTITATIVE ANALYIS, RESULTS AND DISCUSSIONS

4.1 Introduction

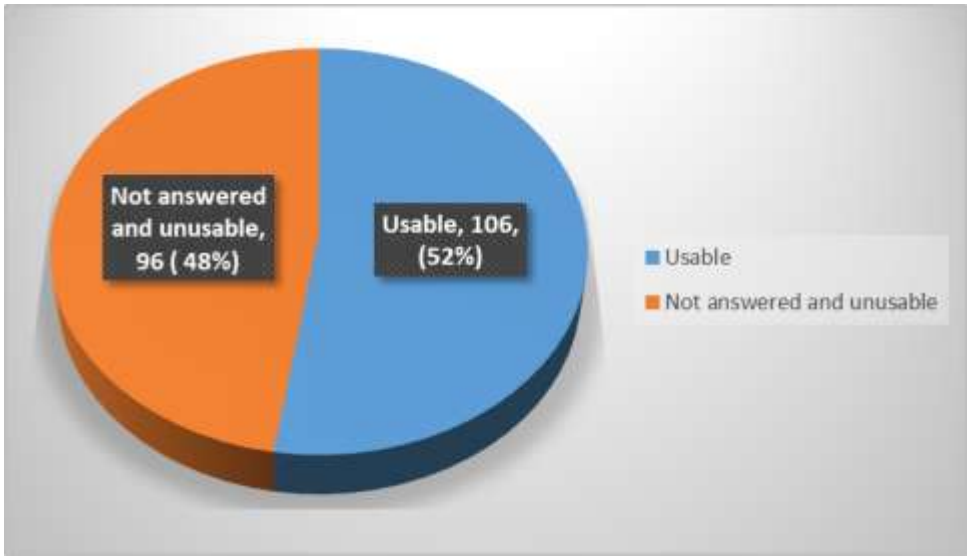
The previous chapter presented the research methodology and the purpose of this chapter is to summarise and present the results of the macroeconomic factors that affect the profitability of the SPAR Zimbabwe supermarkets. Primary data was collected using structured questionnaires and interviews. The researcher captured raw data collected from SPAR Zimbabwe and analysed it using the SPSS version 24 package. This chapter presents results from reliability tests, normality tests, correlations, regression analysis and detailed discussions of the findings. The results from this analysis provided a basis for a comprehensive conclusion on the macroeconomic factors affecting the profitability of supermarkets in Zimbabwe as well as a modified conceptual framework.

4.2 Descriptive Analyses

4.2.1 Response Rate

The researcher distributed 212 questionnaires, which reflects the total sample size. Of the 212 questionnaires distributed, respondents returned 117 questionnaires and of these, 11 were not usable. This translated to a response rate of 52% as shown by Figure 4.1 below.

Figure 4.1 Questionnaire Response Rate



Source: Primary Data

The anticipation by the researcher of poor response rate attributable to the movement restrictions caused by the COVID-19 outbreak came up to be a reality. Most of the respondents could not access internet facilities to answer the electronic questionnaires and those that used hard copies could not deliver within the time that the researcher had to conclude the study. However, the usable data was enough for the quantitative analysis that the researcher adopted for this research.

4.2.2 Interview Response Rate

The researcher managed to conduct 80% of the 20 confirmed interviews with the senior management. The response rate is summarised by the table 4.1 below.

Table 4.1: Interview Response Rate

	Number of respondents	**Percentage**
Interviews performed	16	80%

Interview not performed	4	20%
Interviews confirmed	**20**	**100%**

This response rate was satisfactory for the purposes of getting data needed for the analyses that the researcher needed to perform. The success was mainly attributable to the telephone channel, which was one of the few substitutes of face-to-face interviews available due to social distance measures implemented during the national lockdown. The COVID-19 restrictions made it dreadful to conduct the traditional face-to-face interviews.

4.2.3 Gender Analysis

68 (64.2%) males and 38 (36%) females constituted the usable questionnaires. Table 4.2 below shows the gender distribution of the respondents.

Table 4.2: Gender Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	68	64.2	64.2	64.2
	Female	38	35.8	35.8	100.0
	Total	106	100.0	100.0	

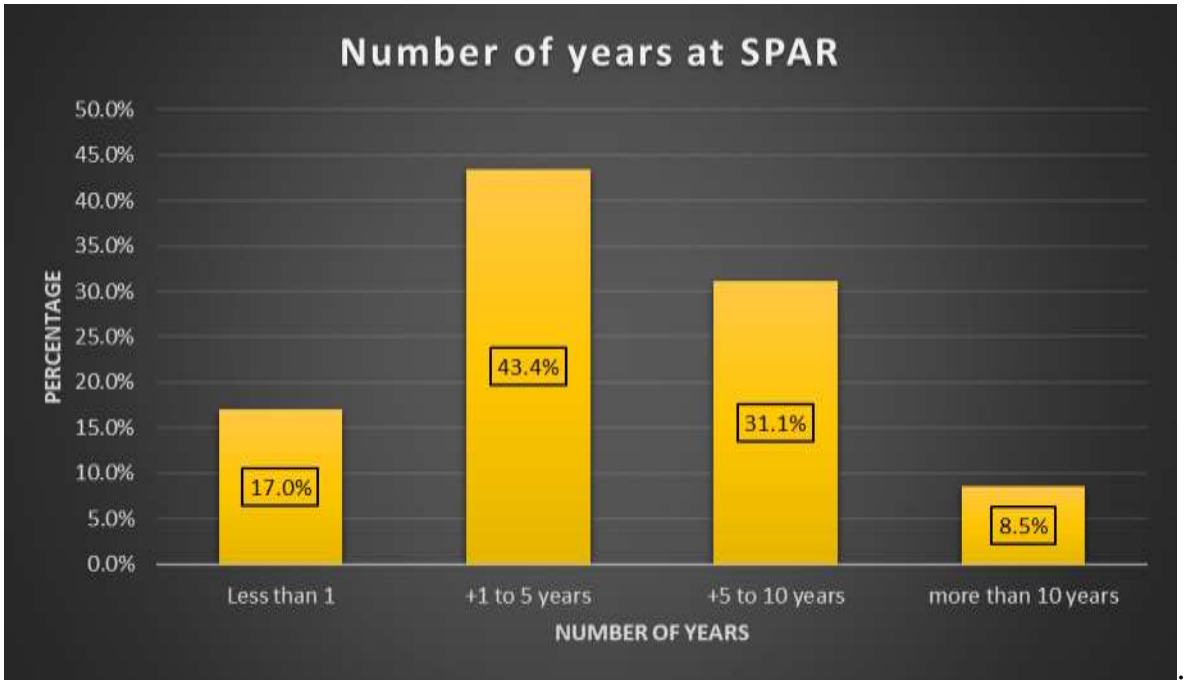
Source: Primary Data

The results showed skewness of gender distribution exhibiting the fact that males dominate SPAR's administration and management. This was an interesting finding and shows that females are yet to be equally represented in employment circles compared to their male counterparts.

4.2.4 Number of Years at SPAR

Most respondents (83%) were at least one year at SPAR. The company employed about 40% of the respondents for more than five years as shown by figure 4.2 below.

Figure 4.2: Number of Years



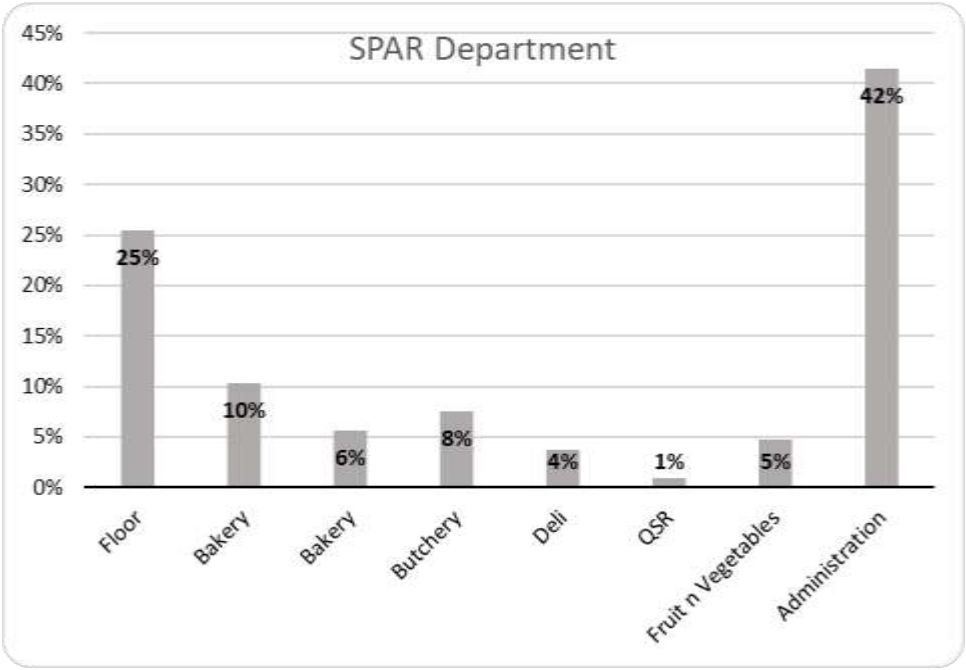
Source: Primary Data

These results were very encouraging, mainly because the subject of the research needed people who have personally experienced the profitability performance of the organisation in varying macroeconomic environments. The assumption being that the greater the period an individual is with the organisation and exposed to the financials thereof, the more he/she understands the profitability traits of that particular company. Therefore, reliability of the data was enriched by having the majority having worked many years at SPAR.

4.2.5 SPAR Department

Figure 4.3 below shows the distribution of the respondents in terms of their work departments.

Figure 4.3: SPAR Department



Source: Primary Data

Respondents in the administration department dominated the sample (42%) as shown on figure above. This group of people constituted of accountants, purchasing, marketers, branch managers and other top-level managers that included executives. Although the researcher expected respondents to be well informed about the profitability of the company, those that are in the administration were assumed to have the best knowledge about the subject, hence the observations on the matter supports the researcher's view that the more the sample constitutes administrators the more the reliability and validity the results. The results also shows that in terms of the trading departments, QSR had the least number of respondents (1%) confirming the fact that this department is still new in the SPAR family.

4.2.6 Level of Education

Table 4.3 below illustrates that 75% of the respondents have at least a diploma. This was very emboldening and supported the assertion by the researcher that the research topic need someone with basic knowledge on the subject of macroeconomics. The assumption was that people with at least a diploma have elementary understanding of the subject at hand and this gave credence to the research.

Table 4.3: Education Level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	High School and below	26	24.5	25.0	25.0
	Diploma	43	40.6	41.3	66.3
	Degree	28	26.4	26.9	93.3
	Masters	7	6.6	6.7	100.0
	Total	104	98.1	100.0	
Missing	System	2	1.9		
Total		**106**	**100.0**		

Source: Primary Data

4.3 Reliability and Validity

4.3.1 Reliability Tests

The reliability of the research instrument for internal consistency was evaluated using Cronbach's alpha. An analysis of the findings exhibited by the table 4.4 below shows that the instrument was reliable since the alpha statistics were at least the minimal acceptable level of 0.7.

Table 4.4: Reliability Tests

Variables	**Cronbach's Alpha**	**Number of Items**
Profitability	0.963	6
Inflation	0.963	5
Unemployment	0.852	4
Interest rates	0.764	4
Exchange rates	0.676	4
Economic growth	0.826	3
Total scale of reliability	**0.902**	**26**

4.3.2 Validity

The validity of the questionnaire was further analysed using "content validity", where a pilot study was performed and the participants of the pilot study expressed their views on the questionnaire, as to whether the questions were attending to detail on SPAR's profitability in relation to the economy. Furthermore, validity of the research instrument was by subject expert analysis by the senior lecturer and economist with the University of Zimbabwe, seasoned in the subject of macroeconomics. The final research instrument therefore included the contributions from the pilot study as well as from the expert.

4.4 Normality Tests

The returned questionnaires used for data analysis were not large enough to presume that the data was normally distributed. Normality tests were conducted with the use of SPSS and results shown in table 4.5 below shows that data collected was not normally distributed. The p-values from both Kolmogorov-Smirnov and Shapiro-Wilk tests are less than 0.05. For data to be normally distributed the p-values should be at least 0.05. Therefore, non-parametric tests were performed for this study. Non-parametric tests are more robust than parametric tests, since they can perform tests on skewed data.

Table 4.5: Normality Tests

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Profitability	0.352	106	0.000	0.645	106	0.000
Inflation	0.271	106	0.000	0.799	106	0.000
Unemployment	0.223	106	0.000	0.821	106	0.000
Interest rates	0.208	106	0.000	0.786	106	0.000
Economic growth	0.284	106	0.000	0.867	106	0.000
Exchange rates	0.228	106	0.000	0.835	106	0.000

a. Lilliefors Significance Correction

4.5 Cross Tabulations

The cross tabulations helped with further analysis and understanding of the characteristics of the respondents. Table 4.6 shows cross tabulation results for the participants' job title against

their level of comprehension on profitability issues of SPAR Zimbabwe. The table shows that out of the 105 participants who provided all the requested information (there was one item missing), 45 respondents had good understanding of the company's profitability, 30 were excellent and none had a bad comprehension on the subject. All the mangers had either good or excellent profitability grasp. Six of the departmental managers and two of the administrators had a fair understanding of the subject. These results were so favourable for reliability of the research findings since the majority of the respondents confirmed that their understanding on the issues of profitability was very good.

*Table 4.6: Job Title*Profitability Understanding Cross Tabulation*

		Job title * Profitability understanding Cross tabulation					
		Count					
			Profitability understanding				
		Bad	Fair	Satisfactory	Good	Excellent	Total
Job title	Senior Manager	0	0	0	2	5	7
	Branch Manager	0	0	2	4	6	12
	Departmental Manager/Supervisor	0	6	13	30	12	61
	Administrator	0	2	7	9	7	25
Total		0	8	22	45	30	105

Source: Primary Data

Table 4.7: Cross Tabulation: SPAR Department Job Title*

		SPAR department								
		Floor	**Bakery**	**Tops**	**Butchery**	**Deli**	**QSR**	**FnV**	**Admin**	**Total**
Job title	Senior Manager	0	0	0	0	0	0	0	7	**7**
	Branch Manager	0	0	0	0	0	0	0	12	**12**
	Departmental Manager	27	11	6	8	4	1	4	0	**61**
	Administrator	0	0	0	0	0	0	0	25	**25**
Total		**27**	**11**	**6**	**8**	**4**	**1**	**4**	**44**	**105**

Source: Primary Data

According to the table 4.7 above, the modal department in terms of participants is the administration department and all of the senior management, administrators and branch managers of the company are in this department. These are the people that are directly charged with either governance or profitability issues and their participation improved the reliability of the findings of this study. In terms of the trading departments, floor had the largest number of respondents with all the 27 respondents being departmental managers or supervisors. This shows that floor is the greatest trading department of the organisation and hence has the greatest impact on profitability performance of the overall company. Only one departmental manager from the Quick Services Restaurant responded, reflecting the size of the department and its least contribution to the overall profit levels of the company, and this confirmed the interview results that showed that the SPAR's Quick Service Restaurant is still in initial growth stages.

4.6 Correlations – Spearman's Correlation

Correlation analysis determines the association between two variables (Gujarati & Dawn, 2009). For the purposes of estimating the correlation coefficients between two variables, bivariate correlations between the two variables were done at a time, ignoring the effects of the other variables. Correlation analysis help to check the direction and magnitude of movement between variables i.e. whether when one variable increase the other variable decrease or decrease. Spearman's rank correlation "rho" (a non-parametric test) was used to test this linear association between the variables. Spearman's rank correlation ranges from -1 (perfect negative relationship) to +1 (perfect positive relationship), whilst a 0 correlation shows no relationship between the variables. Absolute values of between 0 and 0.4 shows a weak relationship, values of between 0.5 and 0.6 shows a moderate relationship and values above 0.7 shows a strong relationship. (Gujarati and Dawn, 2009). The level of association between profitability and the macroeconomic variables in question are shown in the table 4.8 below.

Table 4.8: Correlations Results

Correlations							
		Profitability	Inflation	Unemployment	Interest rates	Economic growth	Exchange rates
Spearman's rho	Profitability	1.000					
	Inflation	0.725**	1.000				
	Unemployment	0.518*	-0.377**	1.000			
	Interest rates	-0.026	0.446	-0.147	1.000		
	Economic growth	0.210*	0.159	-.0548**	-0.246*	1.000	
	Exchange rates	0.535	0.103	0.230*	-0.383**	0.142	1.000
**. Correlation is significant at the 0.01 level (2-tailed).							

The correlation coefficient of 0.725 (72.5%) shows a strong statistically significant positive relationship between inflation and profitability of SPAR Zimbabwe ($p < .05$). This result is consistent to empirical literature (Bilal *et al.*, 2013; Sufian & Kamarudin, 2012; Bhutta & Hasan, 2013 & Osoro & Ogeto, 2014). However, some researchers such as Aktuson *et al.* (2018) and Gatsi & Gadzo (2013) found either no or insignificant relationship between inflation and profitability.

The correlation coefficient between unemployment and profitability of SPAR Zimbabwe came up to be 0.518 or 51.8%. This result shows a moderate statistically significant relationship between the two variables (where $p < 0.5$) and shows that as unemployment increase profit levels of supermarkets also increase. This concurs to the findings of Bekeris (2012), who investigated on the effects of unemployment on profitability of Lithuanian SMEs. Findings from research showed that there is a weak negative relationship between interest rates and profitability of SPAR. The t-statistic is 0.793 and confirms how insignificant the relationship between profitability and interest are. The correlation coefficient came up to be -0.026 (2.6%). This was not consistent to most empirical literature that found out the relationship to be positive and significant (Bilal *et al.*, 2013; Gilchris, 2013; Sufian & Kamarudin, 2012).

The research results showed a weak relationship between economic growth and profitability of SPAR Zimbabwe. The coefficient of correlation was -0.21 (21%) implying that when economic growth increases profitability decreases. This agrees to the findings by Bilal *et al.*

(2013) and Gatsi & Gadzo (2013) although results from the research by Dewi *et al.*, 2019 & Gilchris, 2013) found the relationship to be positive.

The correlation between exchange rates and SPAR profitability was a strong positive relationship. The correlation coefficient between the two variables was 53.5% ($p<0.05$) and this shows a statistically significant result. This is consistent the findings by Osoro and Ogeto (2014) who found exchange rates to have a significant impact on profitability of Kenya's construction industry.

4.7 Regression Analysis

Correlations analysis simply measures the strengths of associations between variables but does not tell anything about the predictive relationship between the variables (Gujarati and Dawn, 2009). This desire to understand the cause-effect predictive relationship between macroeconomic variables and profitability prompted the researcher to perform regression analysis using version 24 of the SPSS software. Regression analysis is a statistical tool that provides a functional relationship between two or more variables of which the researcher can easily estimate or predict the unknown values of one variable from the known values of another variable (Wonnacott & Wonnacott, 1970). Gujarati & Dawn (2009) explain that when a regression model has at least two independent variables it is known as multi-regression model. This study had five independent variables and hence multi regression analysis was performed.

4.7.1 ANOVA

Results from ANOVA exhibited in table 4.9 below shows the F- value of 161.807 at p-value less than 0.05 demonstrates that the relationship between the variables is significant. F-value is significant when the significance value is less than 0.05, and the interpretation thereof is that the relationship between the macroeconomic variables and profitability of SPAR is significant.

Table 4.9 ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	77.946	5	15.589	161.807	.000[b]
	Residual	9.634	100	0.096		
	Total	87.580	105			

a. Dependent Variable: Profitability

b. Predictors: (Constant), Exchange rates, Interest rates, Economic growth, Inflation, Unemployment

4.7.2 Model Summary

Table 4.10 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.743[a]	0.790	0.684	1.31039

a. Predictors: (Constant), Exchange rates, Interest rates, Economic growth, Inflation, Unemployment

The model summary table 4.10 above exhibits adjusted R-squared value of (0.684), showing that the model is a strong predictor of profitability, i.e. The predictors in the model explain 68% of the variance in profitability. Adjusted R-squared explains total variability of a dependent variable that is explained and it takes into account caters for sampling errors (Wonnacott & Wonnacott, 1970).

4.7.3 Regression Coefficients

The beta (β) coefficients of the variables indicate the amount of change in profitability given one unit of change in the value of that particular variable, given that all the other variables in the model are held constant. Table 4.11 below displays the Beta coefficients for the independent variables.

Table 4.11: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-0.299	0.236		-1.269	0.204
	Inflation	1.262	0.057	0.997	22.264	0.000
	Unemployment	0.541	0.054	0.465	10.038	0.000
	Interest rates	-0.075	0.034	-0.073	-2.172	0.032

	Economic growth	-0.055	0.044	-0.060	-1.267	0.208
	Exchange rates	0.792	0.061	0.549	16.125	0.000

a. Dependent Variable: Profitability

Accordingly, a single unit increase in inflation result in profitability increasing by 1.262; a unit increase in unemployment increases profitability by 0.541; a unit increase in interest rates decreases profitability by 0.075; one unit increase in economic growth results in profitability decreasing by 0.055; and a unit depreciation in exchange rate results in 0.792 decrease in profitability. Changes in interest rates and economic growth do not cause significant changes in profitability. As such, interest rates and economic growth are not variables to consider when predicting profitability of SPAR Zimbabwe.

Based on the research findings, the final regression model was found to be:

Profitability= -0.299+ 1.262INF+0.541UNE +.792EXCH;

Where **INL**= inflation; **UNE**=unemployment; and **EXCH** = Exchange rate.

Profitability is the dependent variable while inflation, unemployment and exchange rates are the independent variables.

4.8 Discussion of Results

The purpose of this section is to discuss the respondents' views of how the macroeconomic factors affecting the profitability of SPAR Zimbabwe in relation to literature. The section also encompasses an analysis of whether to accept or reject hypotheses.

4.8.1 Responses on Inflation and Profitability

The questionnaire contained questions that measured the respondents' opinions on the vulnerability of the company to national inflation levels, as well as the extent to which inflation affect profitability of the same. The respondents' degree of agreement with each of the statement was measured on a five point Likert scale-rating system, whereby 1 represented "strongly disagree" and 5 represented "strongly agree". Table 4.12 below summarises the respondents' opinions.

Table 4.12: Responses on Inflation

Statement	Strongly disagree (%)	Disagree (%)	Not Sure (%)	Agree (%)	Strongly agree (%)
The extent to which inflation affects profitability of SPAR is very significant.	0	9.43	20.75	62.26	7.55
Inflation makes consumers' income lag behind increases in cost of living, reducing their purchasing power in SPAR.	0	9.52	23.81	56.19	10.48
The Zimbabwe's hyperinflationary environment of between 2007 and 2008 increased demand of groceries.	0	9.43	22.64	56.60	11.32
The hyperinflation of 2007 and 2008 significantly increased revenue relative to costs	0	9.52	21.90	60.00	8.57
SPAR management should be familiar with inflation rates.	0	9.43	20.75	60.38	9.43

About 80% of the respondents agreed to the assertion that the extent to which inflation affects the profitability of SPAR is very significant. These findings agree to empirical literature (Bilal *et al.*, 2013; Sufian & Kamarudin, 2012; Bhutta & Hasan, 2013, Osoro& Ogeto, 2014) where researchers proved that inflation has a significant impact on profitability of various business types. This is despite the fact that some researchers such as Aktuson *et al.* (2018) and Gatsi & Gadzo (2013) found either a non-existent or an insignificant relationship between inflation and profitability.

Majority of the respondents (67%) confirmed to the notion that during times of high inflation consumers' income lag behind increases in cost of living, reducing their purchasing power in SPAR. Most respondents also agreed that the demand for groceries increases and that revenue grow at a slower rate than operating costs. This agrees to literature that employers are better off because their profits rise due to sticky wages and improved revenues public welfare as it erodes savings and reduces purchasing power (Chugunov *et al.* 2019). There is the

distribution of income from households to businesses because households usually have fixed incomes. Liquidity preference theory confirms this viewpoint, which states people hold money balances for transaction purposes. If prices increase people would hold larger transaction cash balances because the goods and services they buy would now cost more. The proclamation by the deflation theory that debt bubble in the economy results in deflation (among other consequences), which in turn cause reduction in net worths of businesses is also confirmed by the research findings.

The fact that 70% of the respondents agreed to the statement that management should be wary of inflation rates shows that indeed inflation has effects on the value of the firm, and particularly, on profitability. Interview probing showed that the profitability benefits that accrue during inflationary times are short term and this approves literature, which state that the sticky wages and other fixed costs will eventually increase in line to inflation rates. (Parkin, 2012).

4.8.2 Responses on Unemployment and Profitability

The Likert scale that ranged from 1 (strongly disagree) to 5 (strongly agree) was used to measure the respondents' opinions on how unemployment impacts the profitability of SPAR. The results are illustrated on table 4.13 below.

Table 4.13: Responses on unemployment

Statement	Strongly disagree (%)	Disagree (%)	Not Sure (%)	Agree (%)	Strongly agree (%)
Management should be worried about national unemployment.	2.83	23.58	16.98	55.66	0.94
Labour costs are a significant component of SPAR's total costs.	3.77	21.70	19.81	51.89	2.83
Labour costs of SPAR reflects the country's unemployment rates.	0.94	30.19	17.92	49.06	1.89
The higher the unemployment rates the purchasing power declines.	1.89	26.42	16.04	53.77	1.89

Out of the 106 respondents, 56% agreed to the statement that management should be worried about national unemployment rates. This shows that unemployment rates have some effect on the operations of SPAR. About 55% of the respondents agree to the contention that labour costs are a significant component of SPAR's total costs, while only 26% of the respondents did not agree to that particular statement. According to literature, the effects of unemployment are twofold: reduction of costs and reduction of revenues. Bekeris (2012) shows that high unemployment has an advantage in that it results in cheap and free labour. However, literature also shows that unemployment produces widespread costs for the economy because if people are not working they are not producing anything hence, total output in the economy would be low and the people have low purchasing power (Beardshaw *et al.*, 2001; Parkin, 2012).

Interview probing showed that unemployment may reduce purchasing power of consumers, but people still need buy basic commodities, whose demand is very inelastic. SPAR sells most of these inelastic basic goods (as shown by the size of the floor department, which sells most basics) and hence unemployment rates may not have a significant impact on sales. However, according to the questionnaire results in table above, 51% of the respondents agree that labour costs of the company are a true reflection of the prevailing unemployment rates. Accordingly, labour costs will be low, which ultimately result in high profits, during times of high unemployment. This is particularly so because 55% of the respondents showed that labour costs are a significant portion of SPAR's total costs. This is consistent to literature where high unemployment rates result in cheap labour costs (McConnell & Brue, 2002).Therefore, the findings from the questionnaire as well as interviews confirm that there is a positive relationship between unemployment and profitability.

4.8.3 Responses on Interest rates and Profitability.

Table 4.14: Responses on Interest Rates

Statement	**Strongly disagree (%)**	**Disagree (%)**	**Not Sure (%)**	**Agree (%)**	**Strongly agree (%)**
Management must be cognisant of interest rates.	11.40	48.11	13.21	17.92	9.36
SPAR Zimbabwe is highly geared.	9.89	44.34	17.92	22.64	5.21
Interest expense is significant.	8.49	42.45	14.15	24.53	10.38

Interest income is significant.	10.94	50.94	16.04	18.87	3.21

Table 4.14 above shows the results from the questionnaire that contained statements measuring the extent of SPAR's interest rate risk exposure. A Likert scale that ranged from 1 (strongly disagree) to 5 (strongly agree) was used to measure the magnitude of that exposure. Results exhibited on table above indicate that 60% of the respondents disagree or strongly disagree to the decree that management must always be cognisant of the prevailing interest rates in the country. This result was confirmed by about 56% of respondents who disagree to the statement that SPAR is highly geared, and there are no significant interest costs and income that are accrued and earned by the company. Interview results on the same questions indicated that although a significant portion of its inventories are acquired on credit, this credit is interest free and interest are only charged if the company fails to honour the agreed payment terms.

Interview probing also showed that the company uses mostly internally generated capital because its long-term capital needs are immaterial. As such, interest rates do not have a significant influence on the profitability of the company. This is contrary to some constituencies of literature (Bilal *et al.*, 2013; Gilchris, 2013; Sufian & Kamarudin, 2012; Osoro & Ogeto; 2014; Gatsi & Gadzo, 2013) which shows that interest rates effect on profitability is significant. The grounds of this discrepancy could be the fact that most of these studies were to financial institutions and highly geared companies who are much exposed to interest rate risks. This is in harmonious agreement to some literature (Ajagbe, 2012; Beardshaw, 2001; Parkin 2012) which clearly state that high interest rate make borrowing of capital expensive thus; companies that are highly geared would have high costs of finance charged in their income statements hence reducing profitability. Therefore the findings from this research confirms to literature that the higher the gearing the higher the interest rates that ultimately causes profits reductions.

4.8.4 Responses on Exchange Rates and Profitability

Table 4.15: Responses on Exchange Rates

Statement	**Strongly disagree (%)**	**Disagree (%)**	**Not Sure (%)**	**Agree (%)**	**Strongly agree (%)**
SPAR Imports significant amounts.		16.04	8.49	65.09	10.38

Usage of other currencies is very significant.		21.70	11.32	55.66	11.32
Base currency depreciation materially increase operational costs.		20.75	10.38	54.72	14.15
SPAR does not recover exchange losses by increasing margins.		15.09	10.38	65.09	9.43

According to table 4.15 above 75% of the respondents agreed to the statement that SPAR's volumes of imports are material. 67% of the respondents agree to the notion that SPAR's usage of other currencies, other than the local Zimbabwean dollar is very significant. These statements display the fact that the company's exposure to exchange rate risk is very high. Depreciation of the company's base currency materially increase operational costs as confirmed by 69% of the respondents. Interview probing showed that the company imports most of its equipment such as refrigeration plants and a significant amount of its inventories. Interviews conducted also showed that most of the company's significant operating costs like repairs, fuel and salaries are indexed to the United States Dollar and 75% of the questionnaire respondents agree that the company do not recover exchange losses by increasing its margins.

The depreciation of the local currency also causes the translation exchange losses for the company. This is because it has a considerable amount of foreign currency creditors whose balances are revalued as the exchange rate changes. Therefore, exchange rates changes have a significant effect on the profitability of the company. This is consistent to empirical literature (Osoro and Ogeto, 2014) who founded that exchange rates have significant effect on Kenya's construction industry. However, studies by Dewi *et al.* (2019) on Indonesian fast moving consumer goods (FMCG) industry show that exchange rates do not have a significant effect on profitability. The findings from this research confirms the Purchasing Power Parity theory that depreciation of one currency relative to another match the difference in aggregate price changes between the two countries (Taylor & Taylor, 2004).

4.8.5 Responses on Economic Growth and Profitability

Table 4.16 below displays the Likert scale results on statements that sought to understand the susceptibility of the company's profits to the prevailing unemployment rates.

Table 4.16: Responses on Economic Growth

Statement	Strongly disagree (%)	Disagree (%)	Not Sure (%)	Agree (%)	Strongly agree (%)
Management significantly uses GDP statistics	9.47	40.53	16.60	30.57	2.83
GDP growth has direct link to SPAR profitability	5.40	44.60	8.49	35.85	5.66
Increase in GDP increases sales revenues	9.43	36.79	5.66	46.23	1.89

The question on whether management of the company significantly uses GDP statistics sought to assess the significance of economic growth on the operations of the company. A considerable number of respondents (50%) did not agree to this statement and almost the same number of respondents did not agree on the assertion that there is a direct link between economic growth and profitability. This shows that there is no a significant relationship between economic growth and profitability of the company. The results are however not consistent to literature which shows significant relationship between economic growth and profitability of businesses (Dewi *et al*., 2019; Bilal *et al*., 2013; Gul *et al*., 2011 and Sufian & Kamarudin, 2012).

4.8.6 Responses on SPAR Profitability Assessment Model

This section sought to understand the nature of the relationship between macroeconomic variables and profitability. The responses were measured using a Likert scale that had the lowest value of 1 (strongly disagree) and the highest value of 5 (strongly disagree). The findings are summarised on the table 4.1below.

Table 4.17: Profitability Assessment Model

`Statement	Strongly disagree (%)	Disagree (%)	Not Sure (%)	Agree (%)	Strongly agree (%)
Management should analyse the	4.72	4.72	3.77	66.98	19.81

macroeconomic environment.					
During periods of high inflation rate, the profits for SPAR increase.	8.49	0.94	3.77	64.15	22.64
National income growth results in increases SPAR's profits	6.60	2.83	4.72	58.49	27.36
Loss of value of SPAR's base currency results in poor profits.	4.72	3.77	2.83	60.38	28.30
If average interest rates decrease SPAR becomes more profitable	5.66	4.72	1.89	58.49	29.25

Out of 106 participants 87% of the respondents agreed to the statement that management should analyse the macroeconomic environment to enhance the viability of the company. This result supported the view that the macroeconomic environment has an effect on profitability of the company. The relationship between inflation and profitability of SPAR is positive according to 87% of the respondents, and this agrees to the findings by Bilal *et al.* (2013) and Bhutta & Hasan (2013).

As the economy grows (increases in GDP), SPAR's profits increase. This positive relationship between GDP and profitability was confirmed by 86% of the respondents. Out of the 106 participants, 89% of the respondents agree to the assertion that there is a positive relationship between exchange rates and profitability, i.e., when the local and base currency depreciates, profits for the company decline; and when the base currency appreciates the profits of the company increase. The questionnaire results showed that there is a negative relationship between interest rates and profitability as confirmed by 88% of the respondents.

The responses from the assessment model above confirms to the assertion by the Arbitrage Pricing Model that returns of a security depends on various factors. Taking Profitability to be a proxy of the return on investments and macroeconomic variables to be the various factors affecting profitability of supermarkets, the research findings validate the applicability of the Arbitrage Pricing Model. This is because the results of the research confirm that various macroeconomic factors affect the supermarket profitability.

4.8.7 Responses on Strategies to Mitigate the Negative Effects Macroeconomic Environment on Profitability

Table 4.18: Responses on Strategies

		Frequency	Percent	Valid Percent	Cumulative Percent
Strategies to manage exchange rate risks	Leading	9	8.5	8.5	8.5
	Lagging	51	48.1	48.1	56.6
	Matching	25	23.6	23.6	80.2
	Invoicing hedge	21	19.8	19.8	100.0
	Total	**106**	**100.0**	**100.0**	
Strategies to manage losses due to inflation	Price adjustments	74	69.8	69.8	69.8
	Reduce credit sales	12	11.3	11.3	81.1
	Improve cash flows	15	14.2	14.2	95.3
	Use technology	5	4.7	4.7	100.0
	Total	**106**	**100.0**	**100.0**	
Strategies to manage interest costs	Investing in high various rate performers	15	14.2	14.2	14.2
	Investing in short and floating bonds	29	27.4	27.4	41.5
	Reduce debt	62	58.5	58.5	100.0
	Total	**106**	**100.0**	**100.0**	
Strategies to manage loss of income in times of low GDP	Build a niche	71	67.0	67.0	67.0
	Use competitive pricing	34	32.1	32.1	99.1
	Be innovative	1	0.9	0.9	100.0
	Total	**106**	**100.0**	**100.0**	

Table 4.18 above shows the results on the strategies that supermarkets use in order to mitigate the negative effects of macroeconomic environment on profitability. The strategies selected for the questionnaire were common in literature.

Amongst the most common used strategies to mitigate the negative effects of exchange rate risk, 48% of the respondents showed that SPAR uses the lagging strategy while 24% of the respondents indicated that the company uses matching. The findings show that lagging is the most dominant strategy used by the company and this is consistent to literature and research findings on how exchange rates affect SPAR's profitability. According to Madura (2013), lagging strategy works well when the payer's currency is weakening against the payee's currency. This is true for the Zimbabwean dollar (SPAR's base currency), which has been depreciating against major currencies like the United States Dollar (Ncube, 2020).

Four strategies on how the company mitigate the negative effects of inflation were selected from literature. These strategies are price adjustments in line with the increase in inflation, avoiding or reducing credit, improving cash flows by reducing debtor payment days and increasing creditor payment days and adoption of technologies to improve and speed up business processes. Majority of the respondents (70%) pointed out that SPAR adjust its prices in line with the inflation rates. Interview results showed that the business' sales are on cash while its purchases are on credit. This shows that that they already have improved cash flows in as far as day-to-day business operations are concerned, and reduction of credit sales as a strategy may not be applicable to the company because they rarely offer credit sales.

Among the strategies picked up from literature, reducing debt was selected by most of the strategies (62%) participants to be the most effective way to reduce the costs of interests. Interview findings confirmed that interest costs for the company usually emanate from overdue payments to creditors; hence reducing debt becomes the best strategy. The survey results showed that the most common strategy to improve profitability during periods of poor economic growth in the SPAR fraternity is niche marketing. Among the strategies chosen by the researcher from literature (Kotler & Keller, 2012), 71% of the participants chose niche marketing ahead of pricing strategies (32.1%) and innovation strategies (0.9%).

4.9 Chapter Summary

This chapter covered the presentation, analysis and discussion of the primary data collected from the sample using questionnaires and interviews. The analysis of the results was done in reference to literature in chapter 2 and was for the purposes of answering research questions, determining whether the research objectives were met as well as testing the hypotheses. The next chapter will cover the conclusions deduced from the research; recommendations based on the results; the limitations of the study and recommended areas for further research.

CHAPTER 5
CONCLUSION AND RECOMENDATIONS

5.1 Introduction

The primary objective of the research was to ascertain whether macro-economic environment affects profitability of supermarkets. The macroeconomic factors analysed were inflation, unemployment, economic growth, interest rates and exchange rates. This chapter presents a summary of the main conclusions and recommendations drawn from the research; the modified conceptual framework; and highlights the study limitations and suggestions for further research.

5.2 Conclusion

Section 1.4 highlighted the objectives of this study, where the main research objective was to investigate the effects of the macroeconomic environment on profitability levels of the supermarket retail industry in Zimbabwe. Correlation and regression analyses were performed as explained and illustrated in chapter 4 in order to address the research objectives and questions as well as accepting or rejecting research hypotheses. The following conclusions were provided.

5.2.1 Inflation and Profitability

One of the research objectives of this study was to investigate whether inflation has any impact on profitability of supermarkets. The study concludes that inflation negatively affects the profitability of the business. This has been proved by significant positive betas from the regression (β =+1.262; t statistic= 22.264; p value =0.000). The results from correlation analysis confirmed the regression results by producing a significant positive correlation coefficient ($r= 0.725$; $p<0.1$).

These results answered the first research question, “Does inflation have any impact on profitability of supermarkets?” The results from regression and correlations analysis show that indeed inflation has an influence on profit levels of supermarkets. The impact is very significant as shown by both regression and correlation results. The Beta coefficient of +1.262 show that 1 unit change in inflation results in 1.262 units changes to inflation rates. Accordingly, deflation is very detrimental to supermarket profitability performance. These

results were consistent to literature, which shows that inflation has a significant influence on profitability.

The following hypothesis related to inflation and decision was made based on the regression and correlation results.

H_0 : Inflation has a positive effect on supermarket profitability.

H_1: Inflation has a negative effect on supermarket profitability.

After performing the regression and correlation as indicated above the following decision was made against the hypothesis:

Decision: Accept the null hypothesis and conclude that the relationship between inflation and profitability of supermarkets is positive.

5.2.2 Unemployment and Profitability

The second research objective akin to unemployment and profitability was to understand the strength and direction of association between unemployment and profitability of supermarkets. The conclusion drawn from the study is that there is a moderate positive linear relationship between unemployment and profitability of the business as measured by the Spearman's rank coefficient "rho" of +0.518. This correlation coefficient together with the beta of coefficient of +0.541 from regression analysis shows that unemployment and profitability of supermarkets move in same direction, i.e. when unemployment increases profitability decreases and when unemployment decreases profitability decreases, holding all the other factors constant.

These results formed a basis for accepting or rejecting hypothesis number 2.

H_0: Unemployment rates in the country have positive impact on supermarket profit levels.

H_1: Unemployment rates in the country have a negative impact on supermarket profitability.

Decision: Accept the null hypothesis and conclude that unemployment has a positive impact on profit levels of supermarket.

5.2.3 Interest Rates and Profitability

This research sought to establish and ascertain the relationship between interest rates and profitability of supermarkets in Zimbabwe. Correlation analysis results showed a very weak but negative association (r= -0.026) between the two variables. The regression analysis results were consistent to the correlation analysis results where the beta coefficient was found

to be -0.075. The conclusion from the study therefore is that there is a weak negative association between interest rates and profitability of the business.

These findings successfully answered the research question number 3, "what is the relationship between interest rates and profitability of supermarkets?" The answer to the research question is that there is no material relationship between interest rates and profitability because a unit change in interest rates causes a small change (7.5%) in the level of profitability, holding all the other factors constant.
These results also became basis for either accepting or rejecting the null hypothesis of hypothesis number 3.

H_0 : Prevailing interest rates in the country negatively affect supermarket profitability.
H_1: Prevailing interest rates in the country positively affect supermarket profitability.
Decision: Accept the null hypothesis and conclude that there is a negative relationship between interest rates and profitability. This was despite the fact that the relationship between these two variables was found to be very weak.

5.2.4 Exchange rates and Profitability

The research objective that related to exchange rates was to establish the relationship between exchange rates and profitability of supermarkets. The study concludes that there is a moderate association between exchange rates and profitability, with a correlation coefficient of + 0.535 as measured by the Spearman's rank correlation. The beta coefficient from regression analysis was +0.792. It was drawn from these results that indeed, there is a relationship between exchange rates and supermarket profitability and the relationship is positive answering the research question of whether there is any relationship between exchange rates and profitability. According to the research findings, depreciation of the base or transacting currency results in declining profit levels.

These results were used to accept or reject the following hypothesis.
H_0: There is a positive correlation between exchange rates and profitability of supermarkets.
H_1: There is negative correlation between exchange rates and profitability of supermarkets.
Decision: Accept the null hypothesis and conclude that there is positive relationship between exchange rates and profitability of supermarkets.

5.2.5 Economic growth and Profitability

Research work done on economic growth sought to answer the question, "what is the nature of the association between economic growth and profitability?" In trying to answer this question, the objective of explaining the relationship between economic growth and profitability was achieved. The results from regression and correlation analyses formed a basis of conclusion whereby economic growth and profitability are weakly correlated (correlation coefficient of -0.21 and beta coefficient of -0.055). It is interesting to note that both regression and correlation results show a negative relationship between economic growth and profitability.

The results therefore formed a root for rejecting or accepting hypothesis number 5 as shown below.

H_0: The country's economic growth has a positive impact on supermarket profitability.

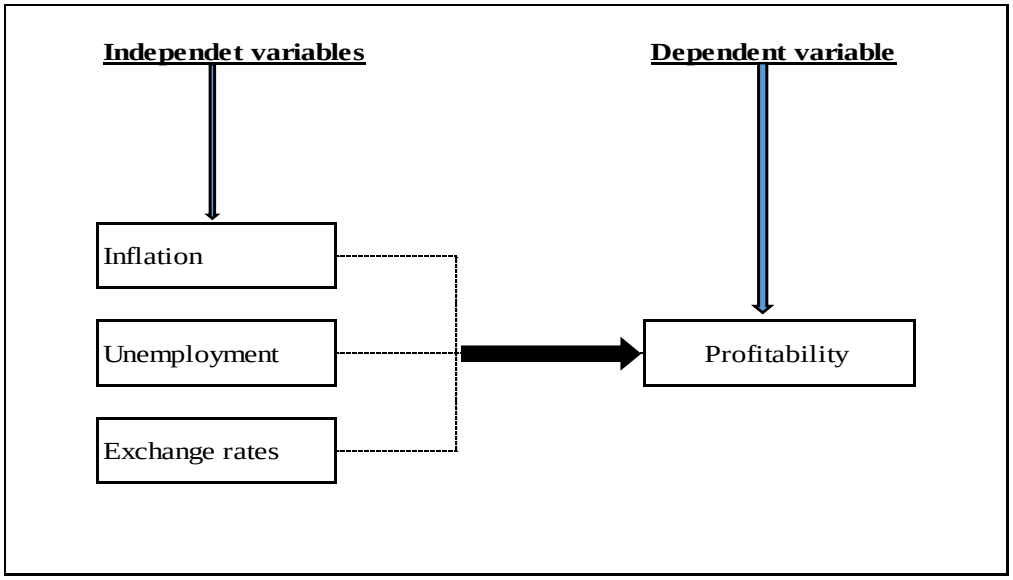
H_1: The country's economic growth has a negative impact on supermarket profitability.

Decision: Reject the null hypothesis and adopt the alternative hypothesis to conclude that the country's economic growth has a negative impact on supermarket profitability.

5.3 Modified Conceptual Model

The results from hypothesis testing led to the revision of the conceptual framework formulated in chapter 2 and a modified conceptual framework is presented by the figure 5.1 below.

Figure 5.1: Modified Conceptual Model



The modified conceptual framework above shows that the macroeconomic factors that affect profitability of supermarkets are inflation, unemployment and exchange rates. Interest rates and economic growth were eliminated from the conceptual model since the findings showed weak influence on profitability.

5.4 Research Contributions

5.4.1 Theoretical Contributions

This research confirms the Arbitrage Pricing Model, which explains how the return on security depends on a number of factors. The research findings showed that the Arbitrage Pricing Model can be applied to the supermarkets industry where the macroeconomic factors affecting return (profitability) of supermarket investment are inflation, unemployment and exchange rates. Investors need to be conscious of these macroeconomic factors in order estimate or forecast the returns that they are likely to get by investing in a supermarket.

The Liquidity Preference Theory was also supported by this research. The theory explains the role of liquidity on price levels in the economy. This research concluded that the price levels are a key component of profitability because as prices increase profitability of supermarkets also increases. Transactional and precautionary balances (active balances) held by economic agents are a source of supermarket revenue and the more these balances the more the revenues which should translate to profitability. During inflationary period savings by households is discouraged and there is an increase in spending, and this booms the supermarket business.

The strength of the relationship between exchange rates and profitability proves that the purchasing power parity theory holds, particularly in the supermarket retail business. The assertion by the purchasing power parity that depreciation of one currency relative to another matches the difference in cumulative price changes between the two countries shows that exchange rate fluctuations affect price levels in the economy and thereby affecting supermarket revenues and profit levels. This has been proved by the fact that supermarkets' usage of currencies other than their base currencies is material and any changes in exchange rates increase the exchange rate risk.

5.4.2 Empirical Contributions

Review and analysis of literature showed that there is scant literature to explain the relationship between macroeconomic variables and profitability of supermarkets, especially in Zimbabwe. Most literature that attempts to explain the relationship between macroeconomic variables and profitability concentrate on the financial services sector, listed companies and SMEs. This research augments the available literature particularly in Zimbabwe and brings in more "academic light" to the subject of profitability in the supermarket industry. Therefore, this research brings in a foundation of anticipated researches about the subject.

5.5 Managerial Implications and Policy Recommendations

The aggregate significance of the effects of macroeconomics on supermarket profitability cannot be overstressed. Consequently, the outcomes of this empirical study are anticipated to offer rewarding implications to those that are charged with governance of supermarkets. Management must be conscious and wary about the macroeconomic statistics if they are to improve or maintain profitability of the business to which they are stewards. Improvement of shareholders wealth in the supermarket business is highly dependable on the macroeconomic environment and management cannot afford to be ignorant on issues of macroeconomics. Various strategies have been exhumed from literature that can be adopted by management during different macroeconomic environments. This research prompts management to adopt such measures if the businesses they manage are to be more viable.

The importance of this research findings are not just vital to supermarket industry management but also to other retail industries and even other sectors that form the global distribution chain in the country. It is anticipated that the knowledge proffered by this study on the effects of macroeconomics on profitability will go a long way in improving viability of businesses. News headlines of businesses shutting down or reducing operating capacity must be thrown in the dustbin of history if the revelations from this study are adopted. The study revealed why supermarkets business has been growing over time while some businesses particularly in other sectors were shutting doors.

To investors, the research is a revelation in as far as investing decisions in the supermarket industry are concerned. Poor economic growth and prevailing interest rates should not discourage investments in the supermarket industry and likewise, high economic growth rates should not be a source of investment inspiration. This is because the results showed that the

economic factors do not pose a significant threat to supermarket profitability. In a nutshell, the research makes investors more wiser.

It has been shown from the study that supermarkets play a vital role in the distribution chain and hence policy makers must ensure that their policies do not harm the industry. This research therefore acts as a policy advice tool and a convenient macroeconomic environment for supermarket growth must be enhanced if the benefits that accrue to the bigger economy are to be enjoyed sustainably. The research proved that deflation is harmful to supermarket business and therefore monetary and fiscal authorities must not implement policies that result in deflation. Depreciating of the local currency or reporting currency was found to have significant effects on profitability. This perhaps shows the country's huge appetite of imported groceries and other products sold by supermarkets. To this end, policy makers need to rejuvenate the local manufacturing sector to reduce the risks of exchange rates exposed to businesses like supermarkets.

To the academic, this study provides a significant input to literature by methodically explaining and exploring the relationship between profitability and macroeconomic variables. In particular, the current study findings offer a cautious backing to the proposition that macroeconomic variables affect supermarket profitability. The conceptual framework in the current study contributes to the Zimbabwe's supermarket industry by providing to the body of knowledge on supermarket profitability. This conceptual frame has closed the identified gap of whether the macroeconomic environment affects profitability of supermarkets.

5.6 Research Limitations and Areas of Further Research

The research was done during the time that the nation faced strict movement restrictions due to the Covid-19 pandemic. The researcher faced difficulties in obtaining questionnaire responses due to these lockdown measures and a smaller sample than required was used. Interview set up was not easy as well, since people were carefully maintaining the social distance measures necessitated by the Covid-19 pandemic. For future research, respondents need to be given even more time to respond to the questionnaires, while technology usage for interviews has to be improved.

Secondly, the research was confined to SPAR Zimbabwe for generalisation to other supermarkets in the country. Although the structure of SPAR Zimbabwe is similar to other retail chains in terms of franchise arrangements, most retailers in the country have different

structures. This makes generalisation of results difficult. There could also be some challenges in generalising to small supermarkets, which do not enjoy the benefits of economies of scale. Therefore, for future research samples need to be collected from more than one retail chains.

This research also suffered from methodological limitations. Due to the nature of the topic, time series analysis with company profit data and macroeconomic statistics over a given period were supposed to complement the primary survey conducted. Therefore, future research need to include such time series analysis. Furthermore, for future studies, broader selection of economic conditions such as taxation can expose some new issues. It is also advisable to include business specific factors such as gearing and size of the company.

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APPENDIX 1: QUESTIONNAIRE

UNIVERSITY OF ZIMBABWE – GRADUATE SCHOOL OF MANAGEMENT

25 July 2020

Dear Sir/Madam

RE: MBAFC RESEARCH QUESTIONNAIRE

My name is Michael Bwahera, a student with the University of Zimbabwe's Graduate School of Management. As a requirement for the fulfilment of the degree programme, I am conducting a research on the topic: **An Investigation into how the macroeconomic environment affects the profitability of supermarkets in Zimbabwe: a case of SPAR Zimbabwe**

You are one of the people selected to give the researcher your opinion on the attached survey questionnaire. May you kindly spare a few minutes to give your opinions on the research.

Please note that this research is purely for academic purposes only and the responses will be treated with the strictest confidentiality. The findings of this survey will not be used for any other purpose besides that intended for this research. For further clarifications regarding this study, please feel free to contact the Researcher on the following telephone numbers **+263773242199** or email address: **mike.bwahera@gmail.com**

Your cooperation to ensuring that the results of this survey are reliable and valid is appreciated.

Yours faithfully

Michael Bwahera

RESEARCH QUESTIONNAIRE

Research Topic: An Investigation into how the macroeconomic environment affects the profitability of supermarkets in Zimbabwe. A case of SPAR Zimbabwe.

Instructions

i. *There is no right or wrong answer hence feel free to answer in a way that expresses your most objective opinion in each case.*
ii. *Tick (✓) as applicable in the boxes provided.*

A. BACKGROUND INFORMATION

A1. Gender: Male [ ] Female [ ]

A2. Job Title:

Senior Manager [ ] Branch Manager [ ]
Departmental Manager/Supervisor [ ] Administrator e.g. Accountant [ ]

A3. Number of years held at that position:

Less than 1 year [ ] +1-5years [ ] +5-10 years [ ] more than 10 years [ ]

A4. SPAR Department:

Floor [ ] Liquor/Tops [ ] Bakery [ ] Butchery [ ] Deli [ ] Quick Service Restaurant [ ] Fruit and Vegetables [ ] Administration [ ]

A5. Education Level:

High School and below [ ] Diploma [ ] Degree [ ] Masters [ ]
Other (Specify) _____

A6. How do you rate your level of understanding of profitability for SPAR Zimbabwe?

Bad [ ] Fair [ ] Satisfactory [ ] Good [ ] Excellent [ ]

For the questions in SECTION B to H below, rank your opinion on a Likert scale of 1-5 as guided below:

Strongly disagree	Disagree	Not sure	Agree	Strongly agree
1	2	3	4	5

NB – Profit in this case is measured by Net Profit Ratio (NP %) calculated as Profit after Tax (PAT) as a percentage of revenue.

A. SPAR PROFITABILITY ASSESSMENT MODEL	1	2	3	4	5
B1. Management's should analyse the macroeconomic environment manage profitability.					
B2. During periods of high inflation rate, the profits for SPAR increase.					
B3. National income growth results in increases SPAR's profits.					
B4. Loss of value of SPAR's base currency results in poor profits. *NB – Base currency is the currency you use for financial reporting.*					
B5. If average interest rates decrease, SPAR becomes more profitable.					
B6. The higher the unemployment rate in Zimbabwe the higher the SPAR profits.					

B. INFLATION AND SPAR PROFITABILITY	1	2	3	4	5
C1. The extent to which inflation affects profitability of SPAR is very significant.					
C2. Inflation makes consumers' income lag behind increases in cost of living, reducing their purchasing power in SPAR.					
C3. The Zimbabwe's hyperinflationary environment of between 2007 and 2008 increased demand of groceries.					

C 4. The Zimbabwe's hyperinflationary environment of between 2007 and 2008 increased SPAR's revenue relative to operating expenses.					
C5. SPAR's management should be familiar to inflation rates.					

C. UNEMPLOYMENT AND SPAR PROFITABILITY	**1**	**2**	**3**	**4**	**5**
D1. SPAR's management should be worried about unemployment statistics.					
D2. SPAR's labour costs are a significant component of total costs.					
D3. SPAR's labour costs reflect the unemployment rates in the country.					
D4. High unemployment reduces SPAR customers' purchasing power.					

D. INTEREST RATES AND SPAR PROFITABILITY	**1**	**2**	**3**	**4**	**5**
E1. SPAR's management should be cognisant of interest rate statistics.					
E2. SPAR Zimbabwe is highly geared. *					
E3. SPAR's total costs significantly increase due to increase in interest costs.					
E4. SPAR Zimbabwe's income significantly increase by lending money					

***Gearing refers to the extent to which a company is financed by debt capital**

E. EXCHANGE RATES AND SPAR PROFITABILITY	**1**	**2**	**3**	**4**	**5**
F1. SPAR imports a significant amount of inventories.					
F2. SPAR significantly uses foreign currency for day-to-day transactions.					
F3. Depreciation of the base currency significantly increases operation costs.					

F4. SPAR does not recover foreign exchange losses by increasing margins.					

F. ECONOMIC GROWTH (GDP) AND SPAR PROFITABILITY	**1**	**2**	**3**	**4**	**5**
G1. SPAR management significantly uses economic growth (GDP) statistics.					
G2. The growth of Zimbabwe's economy has a direct link to SPAR's profits.					
G3. Zimbabwe's economic growth has a significant effect on revenues.					

G. STRATEGIES TO COUNTER NEGATIVE EFFECTS OF MACROECONOMIC VARIABLES ON PROFITABILITY

1. **Below are some of the strategies used by businesses to manage the risk of exchange rate fluctuations.**
   i. Leading – making payments before due dates.
   ii. Lagging – delaying payment after due dates.
   iii. Matching - use of receipts in a particular currency to meet payment obligations in the same currency.
   iv. Invoicing hedge - Invoicing using a relatively stable currency.

Of the above strategies, which <u>one</u> does SPAR Zimbabwe mainly use to manage exchange rate risk?

Leading [ ] Lagging [ ] Matching [ ] Invoicing hedge [ ]

2. **Below are some of the strategies used by businesses to reduce the losses that can occur due to inflation. Show by a way of a tick (✓) which <u>one</u> of these strategies is mainly used by SPAR Zimbabwe.**
   i. Price adjustments – adjust prices in line with the inflation rates. [ ]
   ii. Reduce or avoid credit sales. [ ]
   iii. Improve cash flows – e.g. by borrowing. [ ]

iv. Use technology to reduce costs – e.g. automation of some processes. [ ]

3. **Below are some of the ways that businesses uses to make profits when interest rates increase. Show by a way of a tick (✓) which <u>one</u> of these strategies is mainly used by SPAR Zimbabwe.**
   i. Investing in companies that do well in higher rates. [ ]
   ii. Investing in short term and floating rate bonds. [ ]
   iii. Reduce debt (both long term and short term). [ ]
4. **Below are some of the marketing strategies that businesses uses to make profits when there is reduced demand due to low average national income. Show by a way of a tick (✓) which <u>one</u> of these strategies is mainly used by SPAR Zimbabwe.**
   i. Build a niche - offer something unique for your customers. [ ]
   ii. Use competitive pricing strategies. [ ]
   iii. Be innovative. [ ]
   iv. Improve customer service. [ ]

THANK YOU FOR YOUR PARTICIPATION!

APPENDIX 2 – INTERVIEW GUIDE QUESTIONS

Dissertation Research Topic: **An investigation into how the macroeconomic environment affects profitability of the supermarket industry in Zimbabwe: A case of SPAR Zimbabwe**.

1. What is the profit measure mainly used by SPAR Zimbabwe?
2. Do you enjoy more profits during high inflationary environments? Explain your answer.
3. What is the impact of unemployment on SPAR profits?
4. Why do you think the relationship between SPAR profitability and unemployment stated in (4) above exist?
5. Is there a relationship between interest rates and SPAR profitability?
6. Does economic growth (GDP growth) affect the profit levels of your company? How it affects those profit levels?
7. Are you ever worried that the depreciation of the local currency or your base currency would affect your profits?
8. What strategies do you use to counter the effects of changes in:
    a) Inflation(prices changes)
    b) Unemployment?
    c) Interest rates
    d) Economic Growth
    e) Exchange rates.

APPENDIX 2 – MACROECONOMIC STATISTICS

Year	Unemployment Rates (%)	Average Inflation (%)	GDP Per Capita (USD)
2012	5.37	3.7	1,223.20
2013	5.3	1.6	1,225.60
2014	5.27	-0.2	1,232.90
2015	5.19	-2.4	1,234.10
2016	5.18	-1.6	1,224.30
2017	4.9	0.9	1,263.30
2018	4.9	10.6	1,305.80
2019	4.9		1,183.10

Source: RBZ and World Bank

Graph showing interest rates

Source: RBZ