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SURVIVAL OF THE VULNERABLE: STRATEGIES EMPLOYED BY SMALL TO MEDIUM ENTERPRISES IN ZIMBABWE TO SURVIVE AN ECONOMIC CRISIS

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ABSTRACT

Small and medium enterprises (SMEs) play a pivotal role in sustainable development through generation of employment, increasing export and industrial production, social uplifting and political stability in developing economies. However, the economic turmoil witnessed in Zimbabwe in the period between 2000 and 2009 gave its hardest punch to the most vulnerable business segment which is the Small to Medium Enterprise (SME). In spite of that, some SMEs managed to survive the economic crisis. This study sought to explore the economic, organisational and psychological survival strategies employed by SMEs in Masvingo to survive the economic pandemonium which plagued the country. A qualitative orientation was adopted in carrying out the study, specifically employing a multiple case research design. Four SMEs were conveniently sampled and their owners and managers interviewed using semi-structured face to face interviews. Results revealed that the mortality of SMEs in the Zimbabwean economic crisis was determined by the extent to which they could be flexible in terms of diversifying their services, products and markets. Maintaining a small, but dedicated and motivated workforce was seen to be critical in ensuring the survival of the SMEs in the economic crisis. Lastly, successful entrepreneurs were found to be optimistic and had volition control.

Key words: Sustainable Development, Small to Medium Enterprises, Economic Crisis, Survival Strategy, Zimbabwe

INTRODUCTION

Small to medium enterprises were the most vulnerable during the economic crisis which plagued Zimbabwe since the late 1990s, yet a number of them managed to survive that economic turmoil. As the Zimbabwean economy continued to struggle in the period between 2000 and 2009, so did many small to medium enterprises (SMEs). Small businesses are the most vulnerable during tough economic times, (Myles, 2010). Unlike their corporate counterparts, small businesses lacked the financial resources which in the case was foreign currency needed to survive a drawn-out economic crisis.

The challenges faced by SMEs in normal economic conditions were compounded by the economic crisis. Even when times are good, many small business owners face challenges such as meeting payroll, maintaining customers, and making long-range plans, (Myles, 2010). These and other challenges are much worse during tough economic times. According to Muranda, (2003), small to medium enterprises in Zimbabwe are largely constrained by size, experience and risk aversion. Muranda further observed five constructs that compounded constraints to growth and competitiveness. These are inadequate experiential knowledge, inadequate technical skills, uncompetitive pricing, operational capacity and an unsupportive business environment.

Since 200 the economic crisis which haunted the country made normal business operations difficult if not impossible not only for SMEs but even for big businesses. In 2007 alone inflation averaged nearly 100% per month, which fits the definition of hyperinflation, (Yin, 1994). Hyper-inflation makes it difficult to conduct any operation with a measurable turnover time. A combination of economic knowledge and psychological strength is critical in enabling a small business to survive an economic crisis, (Mboko and Smith-Hunter, 2009, Myles, 2010, McPherson, 1991). Tough times will require small business owners to have the discipline to control costs, motivate employees, keep loyal customers, and recruit new customers. Manalastas, (2009) argues that in tough economic crisis small to medium entrepreneurs must completely understand the external context of business such as economic, socio-cultural, technological, and political-legal aspects, the competitive environment, and the opportunities and threats the business has to address. Researching on how recession has reduced many organizations to total business extinction will be helpful, and the entrepreneur needs to assess whether or not his business stands to be similarly affected. Myles (2010) is of the view that economic downturns challenge small business owners to consider two important things which are; how to encourage reluctant customers to continue supporting the business and how to reduce business expenditure.

Previous studies reveal that besides the above mentioned economic strategies, psychological strength is also necessary in order for an SME to survive an economic crisis. Organisational teamwork and motivation is critical in sustaining a small business in tough economic times. Manalastas, (2009) postulates that recession affords the opportunity to maximize the utility of each employee. He further argues that as a prudent entrepreneurial move, it is important to substantially minimize, if not completely avoid, manpower cutbacks. Instead, it may be wise to maintain the talents in the organization, and empower them by training and enriching job content. Change job descriptions and task people with new and challenging roles in conjunction with their key competencies and what they love to do.

Corno, (1994) argue that in tough economic conditions, it is important for managers of small to medium enterprises to maintain volition control. Volition is the tendency to maintain focus and effort towards goals despite potential distractions. Hill and McGowan (1999) further argues that recession requires intense business focus and value creation. It is therefore necessary to directly beam the company's key competencies and best resources to specific market segments with the greatest growth potential and highest profitability yields.

This study sought to explore the factors responsible for the survival of SMEs during the tough economic times because the economic history of Zimbabwe shows that they do not usually survive even under normal conditions. According to SEDCO (2004), about 60% of SMEs in Zimbabwe fail in the first year of establishment, 25% fail within the first three years and the remaining 15% are likely to survive. This therefore implies that about 85% of SMEs will eventually collapse. Interest in SMEs was justified because they form the bulk of businesses in Zimbabwe and particularly in Masvingo, where this study was conducted. According to Storey and Westhead (1994), SMEs are regarded as the seed-bed for the development of large companies and are the life blood of commerce and industry at large.

LITERATURE REVIEW

The role of SMEs in Sustainable Development: A Global Perspective

The term SMEs encompasses a broad spectrum of definitions. Different organizations and countries set their own guidelines for defining SMEs, often based on headcount, sales and assets. While Egypt defines SMEs as having more than 5 and fewer than 50 employees, Vietnam considers SMEs to have between 10 and 300 employees. The World Bank defines SMEs as those enterprises with a maximum of 300 employees, $15 million in annual revenue, and $15 million in assets. The European Union definition of SMEs is the most convincing. It defines SMEs as the category of micro, small and medium –sized enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and /or an annual balance sheet total not exceeding 43 million euro. SMEs include a wide range of businesses, which differ in their dynamism, technical advancement and risk attitude. Many are relatively stable in their technology, market and scale, while others are more technically advanced, filling crucial product or service niches. Others can be dynamic but high risk, high-tech start-ups. Researchers have agreed that SMEs are crucial contributors to job creation and economic growth in both high and low-income countries.

Bygrave and Hofer (1992) notes that SMEs are the engine of sustainable growth of economies in developing countries; hence they must be given the necessary tools to increase growth of SMEs. Economic growth is a process of economic transition involving structural transformation of the economy through industrialization, rising GDP and income per head. SMEs have contributed to more effective and efficient resource allocation, and are increasingly important in creating new jobs and in expanding exports. Developments in information and technology and movement towards greater global trade and financial integration, implies even greater opportunities for the expansion and increased competitiveness of SMEs (Corno, 1994). In

Africa, by the 1990s SMEs contributed well over 95% of the continental enterprises and were estimated to have contributed between 50 to 88% of the total employment.

SMEs have played an important role in the sustainable development of emerging economies. SMEs are labour intensive and tend to lead to a more equitable distribution of income than larger enterprises by generating increased levels of employment and thus alleviating poverty. They often provide employment opportunities at reasonable rates of remuneration to workers from poor households and women and women who have few alternative sources of income. Furthermore, SMEs have contributed to a more efficient allocation of resources in developing countries by adopting labour intensive production methods, which more accurately reflect the resource endowments in developing economies where labour is scarce. To the extent that SMEs in informal markets, the factor and products prices they face also provide a better reflection of social opportunities costs than the prices faced by large companies.

In developing economies, SMEs support the building of systematic productive capacities. They help to absorb productive resources at all levels of the country and contribute to the establishment of dynamic resilient economic systems in which small and large firms are interlinked. They also tend to be more widely dispersed geographically than larger enterprises and support the development and diffusion of entrepreneurial spirit and skills.

Factors Affecting Sustainability of SMEs in Developing Economies

Irrespective of the country, SMEs face common problems in respect of their survival. According to statistics, more that 50% of SMEs are collapsing within the first five years of operation (Borkowski and Thorpe, 1994; Corno, 1994; Myles, 2010). In most developing countries the failure rate of SMEs is estimated to be above 60 % and this has negative implications on sustainable development. According to Manalastas (2009) many previous studies for example, hill and Mcgowan, (1999); Yin, 1994; and Muranda, (2003) identified various challenges facing SMEs in a globalised environment. SMEs should mainly focus in overcoming the challenges, which include, among others, recession, barrier from global sourcing, low productivity, lack of managerial capabilities, and lack of financing, difficulty in accessing management, technology and heavy regulating burden. In the same way, Mboko and Smith-Hunter (2009) argued that the major obstacles to sustainable development of SMEs are lack of access to credit, lack of access to formal business and social network.

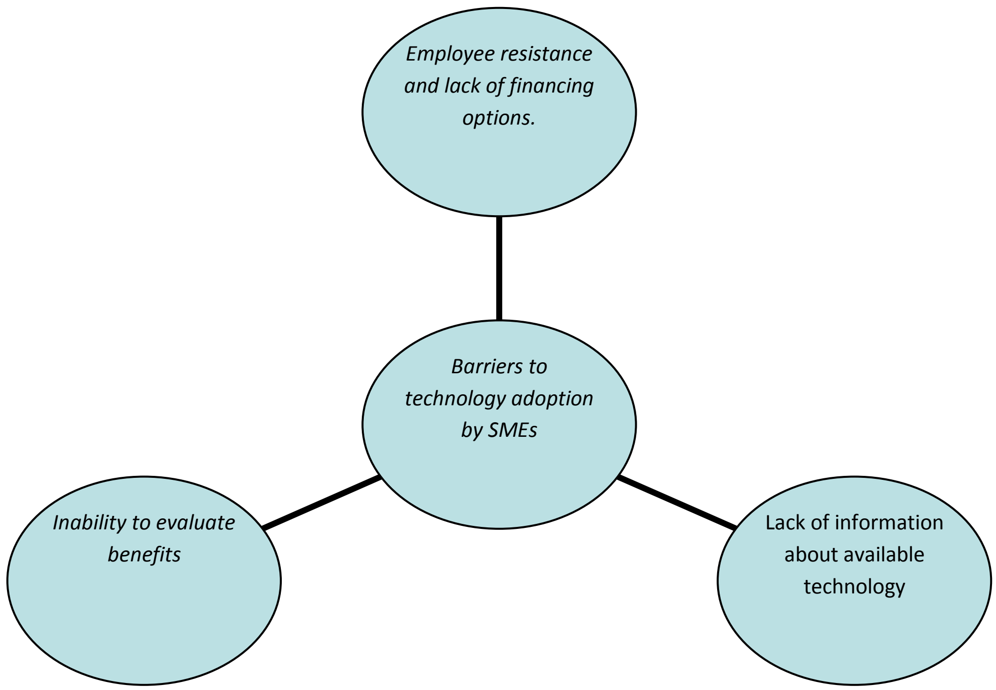
SMEs in developing economies face a financing gap that undermines economic prosperity. SMEs are a fundamental part of the economic fabric in developing countries, and they play a crucial role in furthering growth, innovation and prosperity. Unfortunately, they are strongly restricted in accessing the capital that they require to grow and expand, with nearly half of SMEs in developing countries rating access to finance the major constraint. They might not be able to access finance from local banks at all, or face strongly unfavorable lending conditions. Banks in developing countries are in turn hampered by the lack of lender information and regulatory support to engage in SME lending. The overall result is the absence of well functioning SME lending market, and SMEs are embedded in their growth, with negative consequences for innovation, economic growth and micro-economic resilience in developing economies.

Most SMEs lack access to market information and technology, capital and the low quality of human resources (McPherson, 1991). Despite efforts by financial institutions and public – sector bodies to close funding gaps, SMEs continue to experience difficulty in obtaining risk capital. These funding gaps relate to firm size, risk, knowledge, and flexibility of SMEs. SMEs' borrowing requirements are usually small and do not appeal to financial institutions (Myles, 2010). More collateral may be required than SMEs can pledge. Financial institutions may lack expertise in understanding small and medium knowledge – based business. The flexibility in terms and conditions of financing those SMEs may not be available.

Inadequate management is another commonly cited reason. This particular problem is broad but includes weaknesses in terms of business knowledge, a lack of management skills, poor or inadequate planning and experience. There is an over-reliance on the single owner-manager of most SMEs and there is a reluctance to move away from this managerial tendency on the part of the owner- manager. This translates into poor human resources practices where no new qualified staff is hired or authority and responsibilities delegated to other employees. According to Myles (2010) most SMEs are started because one individual is good at some activity or trade and not because they possess managerial skills. Managers of SMEs must thus be generalists rather than specialists and are thus responsible for allocating resources and cannot afford to make poor decisions. Yin (1994) believes that owners of SMEs do not know how to run the enterprises and this impact on the outcome of their business. McPherson notes that the root causes of either SMEs failure or poor performance is almost invariably a lack of management attention to strategic issues.

In most developing economies, there was a time when SMEs were exempt from a number of government regulations but things have changed to the extent that the same regulations faced by large corporations are now applicable to SMEs. The regulations are often very complex and contradictory which is why SMEs find it difficult to comply with. The South African government has created new channels of bureaucracy which were regarded as major obstacles for SMEs to do business in South Africa. Furthermore, the market structure has a bearing on the sustainability of SMEs. Most SMEs do not have the luxuries of economies of scale which in itself can act as a potent barrier to the entry for potential new small businesses. Furthermore, lack of IT support is big hurdle which hinders the SMEs in upgrading themselves to complete the global and domestic market. Fig 1 shows, the barriers to technology adoption in SMEs.

Fig 1: Barriers to technology adoption by SMEs



Source: Adopted from Storey and Westhand, (1994)

Most SMEs are finding it difficult to finance the adoption of modern technologies which are crucial in increasing production. There is strong shortage of skilled IT and management personnel who can help SMEs to tide over problems.

PURPOSE OF THE STUDY

The purpose of this study was to unveil the survival strategies employed by small to medium enterprises to survive the Zimbabwean economic turmoil.

Specific Objectives

- To reveal the economic strategies employed by SMEs to survive the 2000-2009 economic crisis in Zimbabwe
- To explore the organisational strategies adopted by SMEs to survive the economic crisis.
- To unveil the psychological strategies adopted by entrepreneurs in SMEs to ensure the survival of their organisations.

RESEARCH METHODOLOGY

A qualitative design was used in this study. The Qualitative design helps to understand behaviour and institutions by getting to know the persons involved and their values, rituals, symbols, beliefs and emotions, (Nachmias and Nachmias, 1992). The researchers have taken the position that the entrepreneurial phenomenon will be studied in a context. The context is the Zimbabwean business environment, constituting for this study the entrepreneurial environment. The researcher will focus on meanings and interpretations, (Miles and Huberman, 1994), and will watch and interact with entrepreneurs in their territories (Bygrave and Hofer, 1992).

The qualitative approach adopted here is Hill and McGowan's (1999), which is based on the assumption that the only reality is that actually constructed by individuals involved in the research situation. A multiple case study design guided data gathering. A multiple case design is when the same study contains more than a single case. Each entrepreneur will be the subject of an individual case study and the study as a whole will use a multiple case design (Yin, 1994).

Qualitative methodology was ideal since it best captured the lived experiences of the entrepreneurs concerned, highlighting their narratives, perceptions and challenges that they faced in their business during the economic crisis. A total of four (4) participants took part in this study. Participants were selected using convenience sampling. All the cases were chosen from Masvingo, a relatively small town in Zimbabwe which is largely dominated by small to medium enterprises.

Face to face semi-structured interviews were used to gather data as they vividly captured the views of the participants. This type of data collection method was chosen because it provides the researcher with the opportunity to probe further and get the finer details of the feelings and perceptions of the research participants. The collected data was analyzed using the thematic data analysis approach.

RESULTS

Out of the four cases of SMEs studied two were involved in the retail industry, one was operating in the clothing manufacturing industry whilst one was involved in the transport industry. The sustainability of SMEs during the period under study was very low and as such the four cases studied were among the few that had managed to survive.

A case by case presentation of the qualitative data gathered by the study will be done.

Case 1 involved an SME with a fleet of thirteen (13) mini-buses that plight short routes which are around town. The business was formed in 2002, starting one mini-bus that operated in town. The owner of the enterprise revealed that the turbulent economic environment in which businesses were operating in the period between 2002 and 2009 made planning meaningless. He revealed that during that period what he aimed for was for his business to survive and not expansion. He revealed that in the period concerned he only managed to add three minibuses, making them five by 2009. He revealed that community engagement helped his enterprise to survive during the turbulent years, the business continued to be involved in community functions which helped to keep the business name afloat. The owner further revealed he remained optimistic that some day business would get back to normalcy. He also revealed that he never forgot to reward his drivers when they performed beyond their targets. The entrepreneur ‘diversified’ in the period between 2007 to 2009 by way of exchanging foreign currency which was however illegal. He explained that diversification enabled him to get the foreign currency which was necessary to buy spare parts and fuel.

Case 2 is a clothing manufacturing enterprise formed in 1994. The manager of the firm revealed that they managed to survive the economic turmoil by laying off a large proportion of their workforce remaining with only a core work-force of less than fifteen out of an initial thirty. The firm adjusted their operating times to suit demand. The manager also revealed that they focused on retaining loyal customers by way of giving them big discounts on cash payments. The enterprise also focused on intensive marketing of its products especially in rural areas where big businesses did not usually venture. The manager revealed that in the period between 2007 and 2008 they ‘diversified’ by way of selling fuel which was scarce.

Case 3, a retail enterprise involving one supermarket in town and three in growth points around town was established in 1992. The enterprise did not witness any growth during the period of the economic turmoil but maintained its operations at slightly below average. The owner of the business revealed that he managed to survive the crisis by improving his business appeal. This was largely done by improving the general appearance and cleanliness of the supermarkets. He also invested a lot of resources in motivating employees, for instance, in 2007 and 2008, he would give employees free groceries. He revealed that he managed to attract customers by ensuring that his supermarkets were always fully stocked. The shops also maintained competitive prices, competing with big supermarkets such OK and TM. He also revealed that he managed to remain focused on his core business despite the difficulties.

Case 4 is a grocery retailer with two supermarkets in town and about four others in surrounding business centres. The owner of the enterprise revealed that his business managed to remain afloat during the economic crisis largely because of a variety of flexible strategies that they employed. For instance, he revealed that they adjusted their operating times depending with the demand at the time, sometimes they would close as late as 9pm. Continued advertisement helped to ensure the retail outlets remained visible. The retail outlet was also heavily involved in community projects by way of sponsoring a local football club. The owner revealed that he managed to ensure that his employees continued work as a team. He also remained focused on the business and continued to hope that one day the economy would improve. The business brokered a partnership with a local transporting firm which helped in importing groceries from neighbouring South Africa.

DISCUSSION

The study revealed that maintaining a dedicated and motivated workforce was critical in ensuring the survival of the SMEs. Virtually all of the interviews highlighted that they took steps to ensure that their workforce remained motivated in the economic crisis. Myles, (2010) postulate that improving employee motivation is critical in ensuring the survival of small business in tough economic times. He further argues that motivating your employees with incentives, such as a day off with pay or employee of the month honors, can create an environment of friendly competition. Motivating employees during the economic crisis period was particularly critical because workers could easily leave for the Diaspora which was enticing for most workers. The findings also confirm Manalastas (2009) assertion that in recession small businesses should recognize and never forget to reward achievers, either with gifts that mean something to them, time-offs to spend with their families, or performance-driven incentives that are memorable and financially incremental.

The study also revealed that diversification of services helped small enterprises to remain in business. Diversification enabled the enterprises to source the foreign currency which was scarce during the economic turmoil. This finding concur with Chrisman et al (1998) assertion that a company that battles recession can diversify, either by developing new products or new markets outside of its present coverage. The diversification move must create incremental benefits that serve as cushion against prevailing recessional difficulties.

All cases studied revealed that maintaining loyal customers helped them to survive the economic crisis period. It was critical for the small businesses to remain consistent and in the case of retailers, case 3 and case 4 they had to always fully stock their supermarkets in order to retain customers. This finding is in agreement with Myles (2010) explanation that small business should improve product offering if they wish to survive tough economic periods. He further argues that small business should diversify the goods and services that they offer and become a one-stop shopping experience. They should aim to offer good, quality merchandise and in the case of retailers they should not stock items that nobody wants. Engaging the community was also found to an effective tool in the marketing of the SME. Case 1 and case 2 all revealed that they engaged in community activities to ensure that the name of their business remain visible.

Psychological strengths in the entrepreneurs were found to be critical in ensuring the continued survival of the SMEs during the tough economic times. Optimism was cited in both case 1 and case 4 as critical elements that kept the entrepreneurs focused on the business. Borkowski and Thorpe, (1994), argue that optimism is a critical ingredient the success of every business especially during difficult circumstances. In line with remaining focused they further argue that small entrepreneurs should develop ‘visions of the future and possible selves’. A vision of the future helps in planning how the entrepreneur wants his business to grow. A vision of the future and possible self is the first step in developing self regulation.

CONCLUSION

Diversification of products and markets were seen to be critical elements in helping SMEs to survive under difficult economic conditions. Diversification enables the small business to venture into services or markets that have the least amount of competition and as such they become less vulnerable. Maintaining of a motivated and dedicated workforce, however small, proved to be an effective strategy in ensuring the survival of SMEs in the economic crisis that plagued Zimbabwe. Lastly, psychological strengths in the entrepreneurs were found to be the driving force behind their success, particularly the ability to remain optimistic and maintaining volition.

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