

# **Competitive strategy and business environment influencing performance of Small and Medium Enterprises in the Manufacturing sector: The case study of manufacturing firms in Mucheke light industry**

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## **Abstract**

As an important participant in the Zimbabwean economy, Small and Medium Enterprises are confronted with the task of keeping themselves competitive, which concern their survival and future growth. The research seeks to investigate the competitive strategy and business environment influencing the Zimbabwean SMEs in Mucheke light industry. The research adopted the qualitative research paradigm of which the descriptive survey design, (Babbie, 1997), was employed. The population of study included the SMEs in the Mucheke light industries. Purposive sampling technique was used as a way of conducting only the information rich cases. The findings of the research are that cost, differentiation and innovation strategy are the key competitive strategies used by SMEs. The environment is harsh to the competitive advantage of the SMEs in the form of legal/government, political, economic and social factors. The research recommended that the SMEs make use of strategic alliances (SA) to cover multiple markets, manage the Key Performance Indicators (KPI) and government to relax regulations on the SMEs.

**Key words:** Competition, Strategy, Business environment and SMEs

## **1. Background to the study**

In the study of the competitive advantages by the Small and Medium Enterprises (SMEs) in operations, researchers have acknowledged the generic competitive strategies (Yan, 2010) and suggested that external conditions have their impact on Zimbabwean SMEs performance (Chidoko et al 2011). The outstanding performance of SMEs can be attributed to business environment change in Zimbabwe. Luo in (Yan, 2010) confirms that environmental characteristics have a significant influence on the SMEs' strategic orientations.

Small and Medium Enterprises refer to the segment of the labour market in developing countries that has absorbed significant numbers of jobseekers (Chidoko, Makuyana, Matungamire and Bemani 2011) mostly self employment, and workers in small production units (Cross, 2004). Most people in developing countries have turned for self employment to support themselves and their families (Ball, Geringer, Minor and McNett, 2010). The Small and Medium Enterprises are the result of the individual and family efforts for self reliance and self employment, (Chidoko et al, 2011). Every country defines SMEs differently and the main characteristics common in the definition of this term in many countries are the number of employees, annual sales turnover and the management style. Most businesses world wide that falls under the category of SMEs employs fewer workers as compared to their counterparts in the large business sector (Cronje et al, 1997; Asia-Pacific Economic Cooperation, 1999). Have a small annual sales turnover (Barney and Clark, 2007; Government of Zimbabwe, 2008).

In recent years there has been an increasing awareness and recognition of the importance of the Small and Medium Enterprises (Government of Zimbabwe, 2008). There is wide spread agreement that the SMEs sector represents a growing proportion of economic activity in developing countries like Zimbabwe (Chidoko et al, 2011). Even in the developed economies small business contribute significantly to the economic activities of their countries (Macpherson and Holt, 2007). The SMEs sector is efficient at generation of job opportunities at a very low cost for some segments of the population. Jobs in the large scale corporations in Zimbabwe are showing negative growth, while some jobs in the SMEs sector of the economy are showing positive growth. The contribution of the SMEs sector to the Zimbabwean economy is crucial for the achievement of the broader development objectives such as poverty alleviation, spreading of employment opportunities and increasing

indigenous ownership of resources in the economy (Chidoko et al, 2011). To show the importance of the SMEs sector to the economy, the government of Zimbabwe established the Ministry of Small and Medium Enterprises, and such organs such as Small Enterprises Development Corporation (SEDCO). This is a clear demonstration of the Zimbabwean Government of its realisation of the importance of the sector and the roles it plays to correct the poor performance of the economy.

However there are no definite figures on the SMEs sector of the economy. By the time the research was conducted the Ministry of Small and Medium Enterprises and the SEDCO were busy administering questionnaires to the owners and managers of the SMEs in different parts of the country. This means that the process of registration of these SMEs is not complete and it will not be completed because of the exit and entrances of new businesses into the market at different times (Yan, 2010), but intensive manufacturing also takes place under this sector (Maseko and Munyari 2011). Major players include flea market operators, furniture manufacturers, suppliers and producers of agricultural products, food vendors (Sultan 2007; Veter, Urban and Rwigema 2008), airtime vendors, fruit vendors and many others (Chidoko et al, 2011). Remember that what ever business activity taking place in the large corporation there is always its counterpart in the SMEs (Hortovanyi 2009; Henschel 2010). Zimbabwe is operating a dual economy where the large and the Small and Medium businesses operate along side each other.

Most studies in the SMEs have focused their attention on the developed or advanced market economies (Yan, 2010). Small and Medium Enterprises in the developing countries like Zimbabwe remain by and large an unexplored area. The Zimbabwean SMEs sector faces a dynamic and competitive business environment Chidoko et al 2011; Dumbu and Musingafi 2010). Small and Medium Enterprises are seedbeds for indigenous entrepreneurship as they are responsible for mobilising un-generated capacity (Charantimath 2006), are labour intensive, contribute to the decentralisation of industry (Hutchinson and Quintas 2008) and contribute more to equitable distribution of the national income (Dumbu and Musingafi, 2010). However, little research has been carried out on the competitive strategy and environmental factors affecting the SMEs in Zimbabwe.

## **2. Statement of the problem**

The SMEs sector of an economy is regarded as the seedbed for the development of the entrepreneurial talent. SMEs assist in the distribution of national income and decentralisation of industry. Empirical evidence shows that the Government of Zimbabwe is committed to promoting economic activities of the SMEs. The government established a ministry and some agencies like SEDCO to deal with issues related to SMEs. Although present and past studies focused on SMEs no empirical efforts have been directed at understanding the competitive strategies that the SMEs can employ to enhance their performance in the highly complex contemporary business environment. The central argument advanced by the present study is how the competitive strategies and the business environment are affecting the performance of the SMEs in Masvingo' Mucheke manufacturing Light Industry.

## **3. Purpose of the study**

The primary purpose of this study is to understand the competitive strategies that affect the performance of the SMEs in Masvingo's Mucheke Light Industry.

## **4. Objectives of the study**

The study seek to

- Establish the competitive strategies that are affecting the performance of the SMEs in Masvingo's Mucheke Light Industry
- Examine the environmental factors that affect the performance of the SMEs in Masvingo's Mucheke Light Industry.

## **5. Research questions**

- What are the competitive challenges affecting the performance of the SMEs in Masvingo's Mucheke manufacturing Light Industry?
- What are the environmental variables affect the performance of the SMEs in Masvingo's Mucheke

manufacturing Light Industry?

## 6. Significance of the study

Insights gained in this study are likely to contribute towards the development of policies by the government, the Ministry of Small and Medium Enterprises and other organisations dealing with SMEs in the country. Results generated in this study highlighted the environmental factors and the competitive strategies the SMEs in the manufacturing sector can engage in order to survive in the turbulent business environment which is characterised by globalisation.

## 7. Delimitations of the study

The study is delimited to the manufacturing SMEs in Zimbabwe's Muccheke Light industry area. The reason for dwelling on the manufacturing SMEs in the Muccheke Light Industry is that fact that these firms managed to survive the harsh economic environment of the period 2007-2008. They continued to provide manufactures at the time when large corporations were relocating to other countries in the region and some folding down.

## 8. Limitations of the study

The study was limited by the lack of business knowledge by the respondents. Many of the respondents in this study did not have enough knowledge about business management in a crisis situation as most of them were new players in the industry so they lacked experience

## 9. Theoretical framework: The Systems Theory of business management

This study is grounded in the Systems Theory. The Systems Theory is concerned with understanding the nature of systems, (Gartenstein 2012) which is defined broadly as an integrated whole comprising of interrelated parts. In business management the organisation is an entity that is built of individuals grouped together for a common cause but in the endeavour to achieve that common cause, the organisation is affected by other organization and the environment Leader 2007; Macpherson and Holt 2007; Kotler 2003; Zoephel 2011). What this implies is the business system receives input (Armstrong 2009; Brammer et al 2011), transforms these inputs and release outputs back into the environment. The SMEs employ resources obtained from the environment and transforms these inputs (Mele, Pels and Polese 2010) into out puts that eventually find their way into the environment. The nature of the inputs determines the output and the reaction of the customers who finally consume the products.

Therefore it is expected that managers and the owners of the SMEs must understand fully the operations of the systems (Bowen et al; Barney and Clark; Bozbura 2007), that impact on the performance of the SMEs. Without the necessary skills and knowledge to scan and carry out feasibility study the SMEs remain challenged by the systems working for and against them (Yan 2010; Zindiye 2008). The basic principle of the systems theory is that the whole is more than the sum of its parts (Polese 2010), which the whole determines the nature of the parts, and the parts are dynamically interrelated and cannot be understood in isolation of the whole (Gartenstein 2012). This means that the interaction between the environmental factors, both internally and externally have an effect on the existence and performance of the SMEs.

Systems, (as a business orgainsation) have four major characteristics (Mzikaci 2006) which are systems are goal oriented, systems have inputs from the environment, have outputs to achieve the desired goals and there is feedback from the environment about the outputs (Gartenstein 2012). The operations of business organisation can not be avoided from the open system theory. The Open Systems Theory is the major grounding theory in this current research. Open systems theory is a way of thinking about dynamic systems or systems that interact with their environments (Gartenstein 2012). All businesses are dynamic systems, evolving and changing in response to the general patterns and obstacles. Open systems theory is useful in business management because it provides a framework for thinking about processes such as change which is a regular part of running a business (Meadows 2008).

Change in open systems is the process of adapting to shift circumstances (Golinelli 2010). Open systems theory provides tools for thinking about change, such as descriptions and explanations of general patterns and obstacles. Successful dynamic change involves paying attention to feedback and integrating this information rather than

proceeding with a rigid idea of how change should occur. For example, a business that changes its product line by focusing on its most successful products is affecting change by shifting response to information about customer demand (Dumbu and Musingafi 2010).

In the management of the SMEs it is important to note that there exist loops and link between elements of a system. A business in the form of an SME is a loop, or a series of links that mutually reinforce one another (Gartenstein 2012). A business like SMEs can face a decline in quality of the product offering. This can be attributing to a series of links and loops in the management chain. The resultant low quality might be as a result of the owner cutting costs because is being can strapped but then finds him/her with even less money because existing customers stop patronising the business because the quality of the product has declined (Christopher 2007). Lack of money is likened to lack of customers, which is linked to cutting corners in dealing with customers, which is also linked back to lack of money (Gartenstein 2012).

## **10. Research methodology**

The study used a descriptive qualitative design. The questionnaire used had both closed and open-ended sections that yielded qualitative data. Babbie (1997) says, “Descriptive survey is a method of research that describes what we see over and beyond”. Thus the researchers chose this method as it allowed students to say exactly what they felt about strategies for re-tooling Open and Distance Learning institutions for the purpose of surviving the intense competition that has characterised the higher education environment. Borg and Gall (1989) say descriptive surveys are excellent vehicles for the measurement of attitudes and orientations prevalent in a large population as was the case in this study. One of the characteristics of the descriptive survey method is to investigate the present status of the phenomenon. This was the primary goal in this study.

### **10.1 Population of the study**

In this study only those firms register by Masvingo city Council were considered where the total number is 200 SMEs in the Mucheke Light Industry. The target population was those firms employing from one up to 20 employees.

### **10.2 Sample**

A purposive sample of 50 firms was used in this research and the representativeness of the sample was determined by the category of the SMEs in the Mucheke Light Industry. A Multi stage maximum variation sampling technique was used to make sure each category of business was represented.

### **10.3 Data gathering instrument**

The study used questionnaires and unstructured interviews. The questionnaires contained ten open ended items that solicited information on the strategies and environmental variables that influence the performance of the SMEs in the manufacturing sector, the case of manufacturing firms in Mucheke Light Industry. Unstructured interviews were also used to augment data collected through the open ended questionnaires.

### **10.4 Procedures**

As the participants for the work shop organised by RUDO arrived at take seats, the researchers asked them to fill in a workshop attendance register with a column on whether one owned or manages a business in the Mucheke Light Industry. Then the researchers selected all those names who indicated that they had a business in Mucheke Light Industry and issued the individuals with a questionnaire to respond to on the spot. Unstructured interviews were used to ask participants whether they practice various management functions in their businesses.

### **10.5 Data analysis**

Responses from open-ended questionnaire items and from unstructured interviews were recorded and coded according to themes that emerged. Data was then analysed according to the themes that emerged and findings and conclusions were arrived at.

## **11. Results and discussion**

The study investigated the key competitive strategy variables and showed that cost, differentiation and innovation were the key competitive strategies used by the SMEs in Masvingo urban of Zimbabwe. The major theme that was developed from the responses by the research participants indicated that the SMEs have to adopt the cost leadership strategy, differentiation and innovation for them to perform better. The performance of the SMEs is

indicated by the level of average sales and profit growth rates. The profits and growth model are suitable for the assessment of the performance of the SMEs. There existed a positive relationship between overall firm performance and cost strategy differentiation and innovation (Tang et al, 2007).

### **11.1 Competitive strategies by the SME**

Different respondents in this research said they face the challenge of strategies to survive the heat of competition in the market. The study established that the most commonly used strategies by the SMEs include among others, fair pricing, discounts and special offers, superior customer service and continuously improving quality of service delivery. These strategies lead to cost reduction and differentiation of products and services.

Most of the Owner-managers who responded to the open ended questionnaire in this study voiced that as their businesses approach a certain level of sales their revenues start to diminish. This may be a signal of lack of innovation strategies on the part of owner-managers of SMEs in Masvingo urban. Lack of innovation and search for customer needs reduces the survival of SMEs (Bowen et al, 2009).

Furthermore the study investigated the influence of the environmental factors on the SMEs in Masvingo urban's performance. Environmental dynamism remained the major factor related to the performance of the SMEs in Masvingo urban. Another plausible explanation of the performance of the SMEs in Masvingo urban that cropped up in this research is that the performance of the SMEs is largely attributed to the internal environment of the firm

### **11.2 The internal environment and the performance of the SMEs**

The internal environment of the firm is crucial to the performance of the firm (Chew et al, 2004). The major element of the internal environment of the SMEs is the top managers' ability to develop effective strategies. These strategies that are to be framed by the top management of the SMEs should be compatible with environmental conditions in the broader environment. Small business managers may face dynamism environment that are unclear and presented few well-alternatives and few clear evaluations criteria by which to select among alternatives (Ball et al, 2010).

The study came out with the fact that the SMEs in Masvingo urban lack time, resources and expertise to research and develop new business ideas and innovations. Most of the SMEs in Masvingo urban have no time for carrying out research or even assigning the task to the local academics from the three universities, one Polytechnic college offering a degree programme and three Teachers' Colleges. These institutions boast of highly qualified academics in the field of business management and research that their expertise can be tapped by the SME in their quest for research and development to come up with new business ideas and innovations. Student from the Polytechnic College and the local universities can be of significant use to the SMEs (Craven, 2001).

Owner-managers in SMEs often possess the entrepreneurial drive but lack formal management training in running these businesses. This weakness was unearthed in this study and it is responsible for the limitation of growth and high performance of the SMEs in Masvingo urban. Lack of formal management training in the management of the SMEs is a weakness inherent in these forms of businesses and automatically becomes a critical factor limiting the growth and expansion of such businesses (Yan, 2010).

Another interesting outcome of this research is that SMEs in Masvingo lack an enterprise culture. The lack of an enterprise culture is a particular handicap in the knowledge-driven business environment (Ball et al, 2010). Culture is an important aspect of the business because it determines how business is done in an institution.

One of the most important challenges of the SMEs in Masvingo urban which inhibits their performance is the lack of financial managerial skills. Most of the owner- managers of the SMEs are not conversant with issues related to money management. This is regularly cited as the main difficulty for business operations and performance (Fielden et al, 2000). Problems include a poor understanding of the Value Added Tax (VAT), insurance and bookkeeping. Another major challenge related to the management of money in the SMEs sector in Masvingo is the issue of difficulties in obtaining capital and the absence of a guaranteed income. Owners-managers of the SMEs pointed out in this research that the shortage of capital is the prime cause of poor business performance which at times leads to business closures. The lack of adequate capital has also a 'knock on' effect restricting development of the SMEs by reducing funds available for activities such as advertising, publicity and



acquiring suitable premises.

Issues of finances were followed by the issue of the level of demand for the products and services (Dumbu and Musingafi, 2010). The respondents in this research pointed out that the SMEs face a challenge of identifying and contacting potential customers for their products and services. The nature of competition among the SMEs themselves and the competition from the larger firms leaves a lot to be desired in the business market. SMEs are regarded as being poorly managed, badly organised and reliant on outmoded technologies to produce inferior products and services that do not attract clients (Mason and Harrison, 1990).

Respondents in this study showed that most of their customers are mainly from Masvingo city. Clearly most enterprises have their markets within their locality. This poses a challenge given that they have to compete for the same market with enterprises from other regions due to globalisation. Globalisation presents both challenges and opportunities to SMEs (Bowen, Morara and Mureithi, 2009). SMEs should consider what global trends are affecting availability of resources, increasing or decreasing demand for their products and identify the niche markets. This may prove to be a challenge to the SMEs but the government can step in here to provide information on business trends.

One of the main challenges that affect the performance of the SMEs in Masvingo Urban is the erratic electricity power supply from the main supplier- Zimbabwe Electricity Supply Authority which monopolises the supply of electricity in the country. Power outages affect how the SMEs operate. At time they spend a day without electricity and then to come up for the gap in production will be very difficult.

### **11.3 The external environment**

The study found out that the external environment plays a crucial role on the performance of the SMEs in Masvingo. Issues of critical concern to the performance of the SMEs in Masvingo are the political situation, the economic situation and the technological concern. Competition environmental uncertainty topped the list of the external environment for the SMEs. Most of the respondents who answered the open ended questionnaire in this research said that competition environmental instability that characterised the town of Masvingo for the past decade is affecting business operations. One can not plan in this competitive turbulent environment.

### **12. Recommendations**

The SMEs in Masvingo urban must work in partnership with research departments and the local universities, Polytechnic College and Teachers' colleges. This will lead to new commercial developments that the SMEs sector might not be able to achieve on its own. Attracting students on attachment from the three local universities and the Polytechnic College, offer SMEs access to a wide range of knowledge, expertise and resources. Furthermore the SMEs sector in the Masvingo urban should recruit more graduates who are loitering in the streets unemployed. This will result in a greater flow of talent, energy and innovation in the SMEs sector.

SMEs could make better use of skills available in the graduate labour market (Yan, 2010). Graduates are underrepresented in the SMEs sector in Masvingo urban, but this is seen as the most likely growth area for the future graduate employment. Owner managers must not be wary of employing highly qualified staff as long as they are able to retain those through lucrative incentives which allow the graduate employees to fulfil their career ambitions.

Establishment of business linkages between large corporations and SMEs is a key way in which local firms can boost their competitiveness and become integrated in the global supply chain. This is mainly because the SMEs can attain necessary assets which they are often not able to provide on their own, such as access to international markets, finance, technology, management skills and specialised knowledge. This scope should take both the backward linkages with suppliers and technology partners and forward linkages with customers and other flow-on effects.

Trade Intelligences (TI) and capacity building to identify niche markets must be a priority to the SMEs. It is very important that SMEs look beyond their local catchment area. As much as they remain local, they need to consider markets beyond their national boundaries. In this case the large corporations can assist in overcoming the barriers for trade and act as conduits for SMEs to reach regional and international markets.

Government of Zimbabwe and other international donor agencies can be an important factor in facilitating the establishment of Business Linkages Programmes (BLP) especially through their participation in carefully designing regulations and laws that favour the nurturing of an entrepreneurial culture in the population of Zimbabwe. The government must initiate projects to improve the environment for entrepreneurship, and reduced laws and regulations, officially viewing entrepreneurship as being of high value.

Establishment of the Corporate Social Responsibility (CSR) is critical for the survival of the SMEs in the competitive global environment. It is because the SMEs are always embroidered with labour union issues, media scrutiny, customer attack and many other issues which require them to consider the consequences of their activities on their business. SMEs must introduce CSR measures through management systems and consideration of reconciling respect for the environment, social equity and financial profitability as being good for the business.

It is further recommended in this study that the nation should nurture an entrepreneurial culture in the SMEs. Culture influences both the innovation and resource leverage of entrepreneurs and cultural values are factors in economic performance explaining more than half the cross national variance in economic growth. Entrepreneurship spurs business expansion, technological progress, and wealth creation. Even though governments funnel significant financial resources into fostering entrepreneurship, cultural and societal issues have been mentioned as reasons why an entrepreneurial spirit would be hesitant to exercise that spirit, even though both the economy and society would be better off if that spirit were unleashed.

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