UNIVERSITY OF KWAZULU-NATAL

Strategy Formulation and Financial Performance in Selected Small and Medium Enterprises in Zimbabwe

By

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DECLARATION

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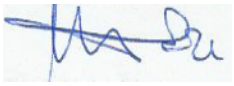
Signature: 

Date: 15 August 2020

DEDICATION

This thesis is dedicated to my beloved wife Chiedza, my ‘boys’, Kudakwashe Bright and Joshua “Jolo” Kudzaishe. May the dear Lord bless you!!!!!! Thank you.

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"And the LORD answered me, and said, write the vision, and make it plain upon tables, that he may run that readeth it. For the vision is yet for an appointed time, but at the end it shall speak, and not lie: though it tarry, wait for it; because it will surely come, it will not tarry".

Habbakuk 2:2-3

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ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank
CBZ	Commercial Bank of Zimbabwe
CGCZ	Credit Guarantee Company of Zimbabwe
CZI	Confederation of Zimbabwe Industries
DRC	Democratic Republic of Congo
EC	European Commission
ESAP	Economic Structural Adjustment Programme
EU	European Union
FDIs	Foreign Direct Investments
GDP	Gross Domestic Product
GNU	Government of National Unity
GoZ	Government of Zimbabwe
ICT	Information and Communications Technology
IDBZ	Infrastructure Development Bank of Zimbabwe
IFIs	International Financial Institutions
PCSMECD	Portfolio Committee on Small and Medium Enterprises and Cooperative Development
VCCZ	Venture Capital Company of Zimbabwe
IMF	International Monetary Fund
MBV	Market Based View
MNCs	Multinational Corporations
MSMECD	Ministry of Small and Medium Enterprises and Co-operative Development
MTP	Medium Term Plan
OECD	Organisation for Economic Co-operation and Development
RBI	Reserve Bank of India
RBV	Resource-Based View
RBZ	Reserve Bank of Zimbabwe
SADC	Southern African Development Community
SEDCO	Small Enterprise Development Corporation (Zimbabwe)
SMEs	Small and medium enterprises
SMEAZ	Small and Medium Enterprise Association of Zimbabwe
SMME	Small, Medium and Micro-sized Enterprise
SPSS	Statistical Package for the Social Sciences
UK	United Kingdom

UKZN	University of KwaZulu-Natal
UN	United Nations
UNDP	United Nations Development Programme
UNDPAD	United Nations Development Policy and Analysis Division
USA	United States of America
WBC	World Bank Commission
ZANU PF	Zimbabwe African National Union – Patriotic Front
ZB	Zimbabwe Bank
ZBC	Zimbabwe Broadcasting Corporation
ZEPARU	Zimbabwe Economic Policy Analysis and Research Unit
ZIMASSET	Zimbabwe Agenda for Sustainable Socio-Economic Transformation
ZIMRA	Zimbabwe Revenue Authority
ZimStat	Zimbabwe National Statistics Agency

ABSTRACT

Despite the growing concern for the development and growth of the SME sector in Zimbabwe, it continues to face challenges that negatively affect its performance, in particular financial performance. Strategy formulation is a tool that is useful in enhancing SMEs' financial performance and ultimately growth. Studies on strategy formulation in SMEs in the developing world are scanty, especially in Zimbabwe. The aim of the study was to establish the impact of strategy formulation on financial performance of manufacturing SMEs in Harare, Zimbabwe.

The study adopted a case study strategy in which manufacturing SMEs in Harare, Zimbabwe were studied. Samples for the study were recruited from manufacturing SMEs in Harare. Stratified random sampling was employed to draw 368 questionnaire respondents while purposive sampling was used to draw 15 interview participants. Questionnaires were personally administered to the manufacturing SMEs, while in-depth interviews were conducted with the selected manufacturing SMEs at their workplaces. Quantitative data were analysed with the help of the IBM Statistical Package for Social Sciences (SPSS) version 23 while qualitative data were analysed by content analysis.

The study established that strategy formulation was adopted by manufacturing SMEs in Harare to a certain extent and this had a positive and statistically significant relationship with both short term and long term financial performance. It was further revealed that most manufacturing SMEs in Zimbabwe employ emergent approach to strategy formulation and this style had had a positive influence on both short term and long term financial performance. It was also established that of all the three generic strategies, cost leadership was the most commonly adopted business strategy and, it had a strong and positive association with financial performance.

It is recommended that SME owner/managers consider the influence of strategy formulation to ensure the growth of financial performance, and contribute meaningfully to the economic development of Zimbabwe. However, strategy development in SMEs should marry planned approach and emergent approach to balance professionalism and responsiveness. It is also hoped that future studies will develop strategy formulation models that are applicable to SMEs in the developing economies, Zimbabwe in particular.

KEY WORDS: Strategy formulation, Manufacturing SMEs, Strategy formulation approach, Business strategy, Financial performance, Zimbabwe

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CHAPTER ONE

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

Chapter one discusses the nature and background of the problem associated with strategy formulation and financial performance in Zimbabwean SMEs, specifically Harare. Thus, the chapter presents the research gaps and how the study seeks to close them. The rationale and contribution of the study are also given while highlighting the theoretical and practical significance of the study. The chapter exposes the reader to the research delimitations and limitations and the mitigatory measures to make the study a success. The chapter concludes by presenting the ethical considerations and the structure of the study.

1.2 BACKGROUND TO THE STUDY

Traditionally, the economic development of many developing countries has been essentially driven by national policies that favour foreign direct investment (FDIs) (Nyamwanza, 2015) and the multinational corporations (MNCs) (Song Ng & Hung Kee, 2017). These strategies have direct spill-over effects on national economic development indicators such as employment creation, gross domestic product (GDP) growth, and poverty alleviation (Nyamwanza, 2015; Ey, 2015). However, these growth models have been castigated by Zimbabwe's late former President, Robert Gabriel Mugabe for allegedly exploiting the continent's vast natural resources (Nyamwanza, 2015). Hew and Loi cited in Desjardins (2014) note that these developmental strategies were later changed due to the global financial crisis of 1997–1998 and the regional economic slowdown in 2001.

According to Nyamwanza (2013), the beginning of the 21st Century has witnessed many African countries initiating economic structural reforms, putting in new policies to foster economic development through indigenous entrepreneurship and the local Small and Medium Enterprises (SMEs) (Song Ng & Hung Kee, 2017:01). Developed economies such as Singapore, Italy, Brazil, and the United Kingdom (UK) owe their success on a vibrant SME base (Bomani, 2017). SMEs are a significant component of many countries in the world (Shemi & Procter, 2018) as they expedite regional economic innovation and development (Mageto, 2018; Jones & Beynon, 2011). Thus, they favourably affect the economic growth of their countries (Shemi & Procter, 2018).

In Africa, SMEs are predominantly considered as the engine of growth to enhance economic growth (Nyamwanza, 2014) and employment creation amid the global economic stagnations (Ey, 2015). The

future development of developing countries depends largely on the SME sector (Bomani, Fields, and Derera, 2015). Thus, in Zimbabwe SMEs have the potential to contribute to the development of the economy, especially manufacturing SMEs as they are a pillar for both industrial and economic growth. In Zimbabwe, manufacturing enterprises of the SME sector have been hailed for filling the gaps left by their large counterparts (Mabenge, Ngorora-Madzimure, & Makanyeza, 2020; Bomani et al., 2015; Mageto, 2018).

The manufacturing SME sector creates an avenue through which many more enterprises flow (Abo & Quarterly, 2010; Musso & Francisiano, 2014 cited in Mageto, 2018). The manufacturing sector of SMEs in Zimbabwe is engaged in the production of a variety of products and found mainly in the following sectors: food products, clothing and footwear, wood and furniture, chemical and petroleum, and metals. All these sub-sectors are expected to contribute collectively and positively to the country's economic growth, thus, the need for proper and well thought out management. According to the country's economic blueprint, Vision 2030, the manufacturing sector is one of the key sectors that will transform Zimbabwe into a newly industrialized middle-income country by the year 2030 (GoZ, 2019).

Zimbabwe is aiming at increasing the level of value addition and at the same time reducing the importation of manufactured goods. According to the GoZ (2017), the manufacturing SMEs contributed 6.9 % of GDP and provided more than 45.0 % of employment in both the formal and informal sector in 2017 (RBZ, 2017). While this appears to be a decent performance, it is way below the projected target of 10.0 % per annum expected in the country's economic blueprint. Chivasa (2014) notes that most of the SMEs' financial performance falls short of expectations.

The review of the empirical literature on the status of manufacturing SMEs in Zimbabwe indicates that many of them fail before or by the first year of their operation while the majority shut down before their second year (Nyamwanza, 2013; Chivasa, 2014; Nyamwanza, 2015). Van Praag (2003: 21) supports this claim and succinctly adds that "Of every 100 start-ups only 50 firms survive the first three years". Nyamwanza *et al*. (2015) highlight that the gross under-performance of SMEs in Zimbabwe has undermined their contributions to the nation’s economic growth and development. Thus, most of the manufacturing SMEs have remained survivalists (Bomani, 2017).

The key challenges attributed to this below-average performance include competition from larger enterprises as well as from cheap imports, insufficient capital, and an unstable business environment just to mention a few (Tinarwo, 2016; Bomani, Ziska and Derera, 2019). The sector is facing exceptional challenges in today's complex business environment (Bomani, 2017; Tinarwo, 2016). The government, through its policy interventions, has failed to provide effective solutions to the challenges bedeviling the SMEs sector in Zimbabwe (Chigwenya & Mudzengerere, 2013; Nyamwanza, 2015; Bomani *et al.,* 2015). Bomani *et al.* (2019) claim that the impact of support policies by the government of Zimbabwe seems to be short-lived, despite the continued changes in the wider business environment.

Ehinomen and Adeleke (2012) cited in Bomani (2017) acknowledge that despite policy interventions by the GoZ, the SMEs sector continues to face performance problems.

There is a tendency among SMEs to believe that someone, especially the government, should support them; this creates a dependence syndrome (Bomani, 2017; Nyamwanza, 2013). SMEs should take the initiative themselves. SMEs need to plan their future to survive and prosper in these unstable market conditions (Nyamwanza, 2015). SMEs have been called to use internal mechanisms to enhance their financial performance (Mufudza, Jengeta & Hove, 2013). In the face of challenges, manufacturing SMEs' survival and performance depends upon adopting proper strategies. Kumar (2015) is clear that aspects of firm strategic management are required to ensure firm success in today's complex marketing landscape. Simba and Nyandoro (2016) concur and add that managing a business in Zimbabwe demands dynamic strategic management competencies. The current volatile business environment in Zimbabwe requires SMEs owners/managers to adopt proper management practices, mainly those relating to strategy development (Ntiamoah, Opoku, Abrokwah, Baah-Frimpong & Agyei-Sakyi 2014; Nyamwanza, Paketh, Mhaka, Makaza & Moyo, 2015). Mufudza *et al*. (2013) assert that this is essential for SMEs to improve their performance and consequently contributing positively to economic transformation (Nyamwanza, 2015).

Strategy formulation, a key facet of strategic management, is one of the main processes through which firms can grow and survive (Zhao, 2010; Germanos, 2012; Majama & Magang, 2017). Ansoff (1980) cited in Germanos (2012) strategy formulation refers to the process of identifying and interpreting strategic issues and events that may have a potential impact on organizational performance. The literature on strategic management shows that the terms strategy formulation, strategy making, strategy development, and strategic planning are interchangeably used to mean the same thing (Klatt, Schlaefke and Moeller, 2011). In this study, strategy formulation has been defined as the process of selecting the most appropriate course of action for the attainment of organizational goals and objectives and thereby realising the organizational vision and mission (David, 2015; Auka & Langat, 2016; Harshim, 2016).

Kraus, Harms, and Schwarz cited in Sandada (2015) assert that SMEs can adopt strategy formulation to harness their competitiveness in the current unstable and complex business environments. Hudson-Smith and Smith (2007) cited in Nyamwanza (2015) claim that strategy formulation in SMEs is a combination of systematic and opportunistic behaviours. Ates and Bititci (2009) on the other hand claim that strategy development practices in SMEs pose unique attributes, as SMEs are not 'scaled-down' versions of large enterprises. Germanos (2012) concurs and adds that the strategy-making process of firms has been one of the most hotly debated issues in strategy. Thus, it requires further investigation and more understanding.

Strategy formulation plays an important role in explaining firm performance (Zhao, 2010). The goal approach calls for owner-managers of SMEs to concentrate their attention on financial indicators of

performance (Sarkissian, 2015). Financial performance reflects the strategic choices made by owners/managers (Carton & Hofer, 2010 cited in Husnah, Subroto, Aisjah & Djumahir, 2013). The current study classifies financial performance according to duration as either long term or short term (Solakivi, Toyli, Engblom & Ojala, 2011). Short term financial performance (less than 12 months) is measured through annual sales, returned profits, and cash-flows while long term financial performance (more than 12 months) is assessed through the growth in sales revenue, growth in cash-flows, growth in profits, and return on capital employed (Tseng & Liao, 2015 cited in Mageto, 2018). Chong (2008) cited in Mageto (2018) affirms that cash generation even in the short run can be a significant indicator of the firm's capacity to attain its long term goals such as growth and survival.

Several studies have been conducted on strategy formulation and financial performance (Germanos, 2012). A previous study by Auka and Langat (2016) in Kenya established that strategy formulation and firm financial performance are significantly and positively correlated. However, Nyamwanza *et al.* (2015) claim that greater financial performance in SMEs is normally a consequence of successful operational planning and not long term strategic planning. Dauda, Akingbade and Akinlabi (2010) reviewed literature and discovered that while some studies report a positive relationship, others showed no connection between the use of formal strategy formulation and financial performance.

There is an ongoing dispute in the academic literature about the strategy formulation behaviour of SMEs (Germanos, 2012; Husnah *et al.*, 2013; Papulova & Papula, 2014; Adendorff, Appels & Botha, 2011). The main disagreement between researchers is whether SME strategy formulation should be a planned (prescriptive) or emergent (descriptive) procedure, to enhance organisational financial performance. The prescriptive approach is the traditional approach to strategy development which emphasises that strategy formulation should be long term and rational (David, 2013; Papulova & Papula, 2014). The descriptive (emergent) view proposes that strategy formulation is reactive and often strategies emerge as a cumulative pattern of actions (Hashim, 2016; Lynch, 2015).

Empirical research has not managed to clarify this issue and several studies have produced mixed results. For instance, Adendorff *et al.* (2011) conducted a study to examine the strategic management practices among construction SMEs in Eastern Cape, South Africa, and established that South African SMEs adopt a more prescriptive approach to strategy making. Another study conducted by Majama and Magang (2017) to examine the strategic planning practices of SMEs in Botswana discovered that emergent strategy making is widely adopted. This is testimony that some studies support the rational approach to strategy formulation in SMEs (Hin, Kadir & Bohari, 2013; Bozkurt & Kalkan, 2013; Wiesner & Millett, 2012; Irungu, 2011) while others claim that SMEs employ the emergent approach to strategy formulation (Chen & Liu, 2012; Menzel & Günther, 2012). A study by Leitner (2007) in Austria, aimed at investigating the nature and role of different strategy-formulation modes in 91 SMEs concluded that SMEs combine different strategy-making modes concurrently.

Those organisations that support the notion of a planned approach to strategy making argue that the approach enhances financial performance (Mazzarol, Reboud & Soutar, 2009) while those employing the emergent approach claim that the approach allows quick decision making and their organisations are adaptive and flexible and ultimately enhance short term financial performance (Majama & Magang, 2017). While these empirical studies help to highlight significant findings from the literature on the strategic approaches adopted by SMEs, they are also evidence that there is yet to be an agreement on the approaches adopted by SMEs in strategy development and their implications on firm performance (Germanos, 2012; Papulova & Papula, 2014). In the same spirit, Germanos (2012) adds that there are arguments in the academic circles on the extent of adoption of strategy formulation by SME owners/managers and the extent of formality of strategic processes in SMEs.

Ocloo, Akaba, and Brown (2014) note that in the face of the increasing complexity of the business environment, the survival and growth of SMEs lie in the formulation of sustainable business strategies. In the same vein, Ocloo *et al.* (2014) assert that SMEs are required to take either an inward or an outward-looking approach to survive, grow, and ultimately enhance their economic performance. Raduan, Jegak, Haslinda and Alimin (2009) state that firms that do the business distinctively are likely to be more profitable than their rivals. Hence, O'Regan and Ghobadian (2006) claim that small and medium businesses should carefully consider strategic approaches that give them competitive advantage.

The strategic choices for SMEs is a subject of great debate (Yanney, Annan-Dennis & Awuah, 2014). To this effect, numerous competitive strategy models have been proposed and tested empirically (Miles & Snow, 1978; Hayes & Schmenner, 1978; Porter, 1980; Spanos & Lioukas, 2001; White, 2004). In spite of the various strategy frameworks in the discipline of management, this study is moored on Porter's generic strategy typology to investigate successful strategic choices for SMEs in Zimbabwe. Porter claims that there are only three fundamental strategic orientations that any business could adopt for sustainable competitive advantage (Lynch, 2015). These are differentiation strategy, overall cost leadership strategy and focus strategy (Porter cited in Thompson jnr, Strickland, Gamble & Jain, 2015).

The effect of Porter's generic business strategies on firm performance has been extensively studied (Blackmore & Nesbitt, 2013; Rukia, 2015; Parnell *et al.,* 2015) and has generated a great deal of debate (Miller, 1992; Bowman, 2008; Michail, 2012). Empirical findings are inconsistent as to the impact of Porter's generic strategies on firm financial performance (Pertusa-Ortega *et al.,* 2009; Leitner & Guldenberg, 2010). Other studies support Porter's claim that the financial performance of firms adopting either of the three strategies is superior to those that employ the hybrid strategy (Nandakumar, Ghobadian and Regan, 2011; Valipour, Birjandi & Honarbakhsh, 2012; Birjandi, Jahromi, Darabi & Birjandi, 2014; Chelanga *et al.*, 2017).

Teeratansirikool, Siengtha, Badir and Cheroenngam (2013) established that not all strategies result in high financial performance. For example, cost leadership may not be effective with multinational companies in developed countries (Baack & Boggs, 2008). On the other hand, Koo, Song, Kim & Nam (2007) claim that differentiation is the best strategic option to achieve higher financial performance for online marketers. Focus strategy is the best strategic option in the service industry to enhance financial performance (Koseoglu *et al.*, 2013). This inconsistency forms part of the groundwork of the current study.

Various studies have shown that strategy formulation is a challenging task (Simba & Nyandoro, 2016; Edvardsson & Teitsdottir, 2015), but there seems to be uncertainty regarding the true rate of strategy formulation in SMEs, the strategic approaches and choices of SMEs (Sandada, 2015; Sandada, Pooe & Dhurup, 2014; Dandira, 2011).

There are gaps in the extant literature on strategy formulation and financial performance from an international perspective. But, more particularly, in a Zimbabwean context, no studies were found in the literature on the key dimensions in strategy formulation and the predictive relationship between the strategy approaches, and business strategies on SME's financial performance. Thus, the current investigation sought to close this gap. Hence, the problem statement in 1.4 below raises the pertinent issues to be addressed in this study.

1.3 RATIONALE FOR THE STUDY

The study's rationale is based on two factors. Firstly the SMEs' sector is important to the developing world and more importantly to Zimbabwe as they depend much upon a vibrant SME sector (Bomani *et al.*, 2015). The sector of late has become the key driver of economic development in Zimbabwe (Tsarwe, 2017; Chivasa, 2014). However, the lack of sustainability of the SME sector has necessitated the researcher to look at the management of these firms to enhance their financial performance.

Simba and Nyandoro (2016) observed that many of these small businesses fail to graduate into being larger businesses or even to achieve financial sustainability (Husnah *et al.*, 2013). They attribute this to the failure to carefully craft breakthrough strategies in the face of constant changes of their environments. Nyamwanza (2015) notes that the provision of financial assistance and policy implementation by the government of Zimbabwe may not be effective in improving the financial performance of SMEs unless the entrepreneurs are equipped with strategic management skills. Thus, the study promotes the practice of strategy formulation to enhance performance.

Furthermore, while researchers acknowledge the role played by SMEs, researchers also cite many obstacles hindering the growth and development of the sector (Tinarwo, 2016). Among them is poor management. A review of the literature shows that most of the studies on strategy focus on large

businesses rather than SMEs. Germanos (2012) indicates that strategy formulation in SMEs has been somewhat limited with many tools and models having been developed for large businesses.

Berry (2016) notes that these models might not apply to small entrepreneurial businesses because of the limited resources that SMEs have. Thus, because of this insufficiency in knowledge about strategy formulation in SMEs, more studies that can help strategy formulation in SMEs are needed. It is envisaged that the study will propose recommendations that are relevant to SMEs' strategy formulation and enhance financial performance. Because of this, the study becomes indispensable.

1.4 RESEARCH PROBLEM

The Zimbabwean SME sector plays a critical role as discussed in the background above. Despite its contribution, the sector has been performing financially well below average to affect economic development (Small and Medium Enterprise Association of Zimbabwe (SMEAZ), 2014; Government of Zimbabwe (GoZ), 2016). Manufacturing SMEs in Zimbabwe have not performed optimally over the years (CZI, 2019). The sector is characterized by low financial performance evidence that the enterprises might not grow and graduate into larger enterprises (CZI, 2019). Low-profit margins within the sector threaten the growth and survival of many players (Bomani *et al*., 2015).

Reinecke and White cited in Nyamwanza (2015) confirm this view and adds that many manufacturing enterprises in Zimbabwe have remained survivalists in nature rather than seeking to grow and prosper. The business environment in Zimbabwe avails very little spur to SME financial performance and ultimately growth (Nyamwanza *et al.,* 2015). Singh (2009) concurs and adds that the competitive environment for manufacturing SMEs is more turbulent than that of large firms due to their small size and limited resource endowments.

The problem identified is that the financial performance of the manufacturing SMEs in Zimbabwe is very low to enhance their growth forcing many (about 70 %) to close doors before five years (Nyamwanza, 2015; Bomani, 2015; Dumbu, 2014; Mhizha, 2014; Chivasa, 2014). This limits their potential to create jobs, reduce poverty levels and raise the standard of living of the multitudes of Zimbabweans (Bomani *et al.,* 2019; Franz, 2014; Tinarwo, 2016). The below-average performance is attributable to the current challenges bedeviling the country (Bomani *et al.,* 2019; Tinarwo, 2016; Mugozhi & Hlabiso, 2017), competition from large firms and foreign products especially the Republic of South Africa (RSA) (Chivasa, 2014; Manyani, 2014; Bomani *et al.,* 2015; Bomani, 2017). All these challenges are aggravated by a lack of financial sustainability which prevents players from growing their markets and offers (Tinarwo, 2016).

Strategy formulation provides an avenue for small and medium manufacturing enterprises to enhance their financial performance and ultimately growth (Leitner & Guldenberg, 2010; Kumar, 2015;

Harshim, 2016; Wilson & Maldonado, 2017). Well-formulated strategies lead to superior financial performance (Germanos, 2012; Pitt & Koufopoulos, 2012; Musandiwa, 2014). However, at present, many small and medium manufacturing in Zimbabwe seem to lack enough appreciation of the role played by strategy formulation (Nyamwanza *et al.*, 2015; Abosele *et al.*, 2016).

While some studies have explored the strategic management practices of SMEs (Mhizha, 2015; Dumbu, 2015; Monday Akinola, Ologbenla & Aladeraji, 2016) a lot needs to be understood about strategy formulation practices of SMEs, especially in the third world countries. The existing literature on strategy formulation and financial performance has largely focused on the developed world (Ates, 2009; Germanos, 2012; Jamil & Shah, 2015; Harshim, 2016; Wilson & Maldonado, 2017). One rarely comes across studies on strategy formulation and financial performance focused on developing countries (Muogbo, 2013; Aremu & Oyinloye, 2015; Nyamwanza, 2015), Zimbabwe not being an exception.

This study, therefore, investigated the extent to which strategy formulation is adopted in SMEs with special consideration to the strategy formulation approaches adopted. Consequently, this study investigated the relationship between strategy formulation and financial performance in manufacturing SMEs in Zimbabwe through the research questions articulated in Section 1.6 below.

1.5 RESEARCH AIM AND OBJECTIVES

This research aims to critique strategy formulation in SMEs in Zimbabwe to establish its impact on financial performance. Thus, the study sought to address the following objectives:

1. To assess the extent to which manufacturing SMEs in Harare, Zimbabwe have adopted strategy formulation;
2. To identify the strategy formulation approaches employed by manufacturing SMEs in Harare;
3. To determine how strategy formulation influences the financial performance of manufacturing SMEs in Harare;
4. To investigate the relationship between the strategy formulation approaches and financial performance of manufacturing SMEs in Harare; and
5. To determine the effect of business strategies on the financial performance of SMEs in Harare, Zimbabwe.

1.6 RESEARCH QUESTIONS

The following research questions were explored:

1. What is the extent of strategy formulation adoption by manufacturing SMEs in Harare?
2. What are the strategy formulation approaches employed by manufacturing SMEs in Zimbabwe?

3. How does strategy formulation influence the financial performance of manufacturing SMEs in Harare, Zimbabwe?
4. What is the relationship between the strategy formulation approaches and the financial performance of manufacturing SMEs in Harare?
5. What is the impact of business strategies on the financial performance of SMEs in Harare?

1.7 THE SIGNIFICANCE OF THE STUDY

The study is of great importance to the following key stakeholders:

1.7.1 The Researcher

Through the research process, the researcher's writing skills and analytical skills will be improved. This is important in everyday decision making especially given the highly volatile business environment in Zimbabwe. More so, the research process in itself prepares the researcher for both academic and business consultancy in the field of strategic management in SMEs.

1.7.2 The Small and Medium Enterprises

This study emphasizes the need to develop strategies to enhance the financial performance of SMEs. Thus, the recommendations, informed by empirical results will help SMEs to formulate sustainable business strategies that will help improve their financial performance.

It is also expected that the SME sector will benefit in that the research study brings extensive knowledge on understanding the strategy formulation dynamics of SMEs and its effect on financial performance. The researcher felt that upon the completion of this study, gaps identified in the literature were closed thus positively contributing to knowledge creation in the context of developing countries.

1.7.3 The University of KwaZulu Natal

The research thesis will be made available to the library for further reference by fellow students and researchers pursuing their studies, thus benefiting the University. The study helps extend the body of knowledge in the area of strategy formulation and its impact on the financial performance of SMEs in Zimbabwe.

1.7.4 The Zimbabwean Government

The government will benefit in that if more SMEs are performing financially well, more revenue will be raised through taxation and more people will be employed. The objective of national economic development will be fulfilled since the survival and performance of SMEs have an economic and transformational effect on the general populace.

It is also hoped that this study will help the government in promoting training workshops in strategic management so that SMEs are equipped with general management skills thus reducing the financial burden on the part of the government. The study argues that financial assistance and policy re-engineering might not enhance the performance of SMEs unless they are equipped with knowledge and skills of strategy formulation. Thus, the study helps encourage the adoption of strategy formulation by SME managers/owners to enhance their financial performance. This would help build SMEs that can immensely revitalise the Zimbabwean economy.

1.8 DELIMITATIONS OF THE STUDY

The study's three key delimitations are presented below:

1.8.1 Theoretical boundary

The literature search focused on theories and general principles of strategy formulation and financial performance. The theoretical framework was limited to the review of the Market Based View, Resource Based View, and Porter's Generic Strategies was done in order to expose the existing gaps. This was complemented by the existing literature on strategy formulation.

1.8.2 Delimitation of Participants

The targeted SMEs had less than 75 employees. The study focused on manufacturing SMEs that had been in existence for two or more years, as market-oriented organisations take time to develop (Chid & Czeglegy as cited by Peng, 2003). The study drew targeted manufacturing SMEs' key personnel such as owners and managers as they are the office bearers involved in strategic issues (Nyamwanza, 2015; Mhizha, 2014).

1.8.3 Geographical boundary

The research was delimited to manufacturing SMEs in Harare urban, Zimbabwe. Due to the diverse geographical disposition of the SMEs in the sector, it meant that firm representative were to be drawn from across the city's major light industrial areas and other industrial sites in the residential areas.

1.9 STUDY ASSUMPTIONS

The following assumptions guided the study:

- Respondents would be willing to actively participate in the study.
- Although the study participants would present subjective responses, they will be honest in the content of these answers.
- The study assumed that strategy formulation elements are present in all SMEs organisations.
- It was also assumed that data collected would be sufficient to draw up comprehensive and conclusive results, generalizable to all SMEs in Zimbabwe.

1.10 STUDY LIMITATIONS

The study aims at satisfying the research objectives outlined in Section 1.5. The study is limited to the manufacturing SMEs as per the definition provided in Section 1.2.1, operating within the city of Harare. Given this delimitation, the study results may need to be generalised with care to other sizes of firms, sectors other countries. The study adopted a cross-sectional design, the larger sample size and higher response rate was considered to be representative of the manufacturing SMEs in Harare. Despite being limited to the city of Harare, the study will help improve the performance of the manufacturing SMEs in Harare. The following sections present the study assumptions.

1.11 ETHICAL CONSIDERATIONS

To ensure that the study was ethical, the researcher had to ask for consent from the study participants. Secondly, the researcher assured the privacy and anonymity of particular information. For instance, the names of the participants were withheld during and after the research process. Thirdly, the researcher got an ethical clearance from the University of KwaZulu Natal, Ethics Research Committee- **Reference number: HSS/0507/018D** (Appendix F), before data collection, informing interested parties that the study meets the ethical requirements as outlined in the University code of ethics which binds all researchers. Above all honesty, integrity, truthfulness and acting responsibly formed the researcher's guiding values throughout the research process.

1.12 THE STRUCTURE OF THE STUDY

This thesis contains eight chapters, excluding a list of references and appendices. This chapter, Chapter One, provided the nature and scope of the study and sets out the tone of the research by highlighting the background of the research, key research problem and the research questions answered and research objectives. The remaining chapters of the thesis are organised as follows:

Chapter Two: The Small and Medium Enterprise Framework

The chapter provided an overview of the SMEs that is nature of SMEs, their contribution, and challenges. An overview of the manufacturing sector of the SMEs in Zimbabwe is made

Chapter Three: Strategy formulation in SMEs

This chapter laid a solid foundation on which subsequent chapters would be built while identifying existing gaps in the current research. Thus, the chapter presented existing literature on the main constructs of the study; strategy formulation and financial performance in SMEs.

Chapter Four: Theoretical Framework

Chapter Four presented a review of theories that provide the hypothetical lens upon which to explain and predict the strategy formulation of Zimbabwean SMEs and its effect on financial performance. The main theories discussed in Chapter 4 are: the Market Based View (MBV) and Resource-Based View (RBV).

Chapter Five: Research methodology

The chapter presented a detailed discussion of the research methodology and methods employed in the study. The chapter draws immensely from Saunders, Thornhill and Lewis (2007) research onion. Thus, the key methodological aspects are discussed in this chapter.

Chapter Six: Data analysis and interpretation of results

Chapter Six presents the results of the research through the use of charts, tables, diagrams, and graphs. The results are analyzed to extract information that would be systematically linked to the research objectives and the research questions. Quantitative data were analyzed using both descriptive and inferential statistics while qualitative data was analysed using content analysis.

Chapter Seven: Discussion of results

The chapter aimed at linking the literature review and the research findings. Thus, it presented a detailed discussion of the results presented in Chapter 6. The discussion was guided by the research objectives. The chapter discussed both the unknown and the known information.

Chapter Eight: Recommendations and conclusions

Chapter Eight focused on the conclusions and recommendations, based on the research findings. The chapter presented the extent to which the objectives had been achieved. Furthermore, the limitations of the study and the suggestions for further studies were highlighted. The chapter also discussed the scholarly contributions to theory and strategic management practice.

1.13 CHAPTER SUMMARY

Chapter one presented the tone and overview of the study. Thus, the background of the study and the statement of the problem was presented. The study research objectives, research questions, assumptions were were outlined. More importantly, the chapter also gave the rationale and significance of the study to certain key stakeholders. Furthermore, the study limitations, delimitations, and the overall structure of the thesis were presented. In the following chapter, Chapter Two aims at reviewing the literature on the SME discourse with particular attention to Zimbabwe.

CHAPTER TWO

SMALL AND MEDIUM ENTERPRISES IN ZIMBABWE

2.1 INTRODUCTION

The preceding chapter introduced and gave the nature and background of the study. This chapter reviews the literature on the Zimbabwean SME sector. The sector has been described as the spine of the economy (GoZ, 2018). Firstly, the chapter gives an overview of the nature and structure of SMEs with attention paid to the manufacturing sector of SMEs. The chapter also presents the contribution of the sector in Zimbabwe and the challenges it faces. The chapter concludes by a discussion of some of the institutions set up to address SMEs' challenges in Zimbabwe.

2.2 NATURE AND STRUCTURE OF SMALL AND MEDIUM ENTERPRISES

According to Djatikusumo *et al.* (2012) the expression "nature" refers to the fundamental features and attributes of a man or thing. Defining an SME is still a challenging task (Mahembe, 2011; Mabenge *et al.*, 2020) as it varies within the same country, between countries, and between regions (Chivasa, 2014; Tinarwo, 2016) and also depends with the intended use of the data (Mahembe, 2011; Nieman & Nieuwenhuizen, 2014).

The definition of an SME can either be quantitative or qualitative (Buculescu, 2013). The absence of a universally accepted definition of an SME (Chivasa, 2014; Makanyeza & Dzvuke, 2015; Chiew, 2015) makes scholars and practitioners define them either by using the quantitative or qualitative measures or both (Mageto, 2018). However, there is a maximum as well as a minimum size for SMEs (Hove, 2015).

2.2.1 Qualitative definition of SMEs

SMEs are defined by their qualitative aspects which are in most cases their assumed characteristics (Makiwa, 2018; Mageto, 2018). OECD (2014) adds that these traits are a reflection of the economic patterns of their home countries as well as their country's social and cultural dimensions. Qualitative characteristics are relevant in situating SMEs as they define their strategic management practices (Nyamwanza, 2015).

The qualitative criteria for defining SMEs comprise the following: a separate and distinct entity, not a part of a group of companies (OECD, 2008; Mahembe, 2011; Chivasa, 2012), should be managed by its owners (Mhizha, 2014; Makiwa & Steyn, 2019) at times the owner can appoint a manager (Dumbu,

2015; Mhizha, 2014) who becomes his/her steward (Nieman & Nieuwenhuizen, 2014). These characteristics determine how SMEs formulate their strategies (Nyamwanza, 2013; Bomani, 2015).

2.2.2 Quantitative definition of SMEs

The quantitative criterion for defining SMEs includes annual turnover (US$), the number of permanent employees, and the value of assets (US$) (OECD, 2014; Perera & Chand, 2015). Academics have criticised the use of each of these indicators in crafting an SME definition (OECD, 2015). However, due to its ease of collection, the most frequently used variable is the number of permanent employees (OECD, 2014; Osuagwu, 2009). Some scholars have not been comfortable with the number of employees as they claim that firms will continually employ more people as they grow (Gibson & Van der Vaart, 2008 cited in Mageto, 2018). Gibson and Van der Vaart in Nyamwanza et al. (2015) have discredited the use of total assets and annual sales as SMEs are not always willing to disclose their economic performance and also the majority do not honour their tax obligations.

Despite all these shortcomings, some countries have nevertheless defined SMEs in terms of all these three variables (OECD, 2016; Buculescu, 2013; Abo & Quarterly, 2010) in order to overcome the shortcomings of the different quantitative aspects (Mageto, 2018). Table 2.1 below gives a summary of some definitions quantitative of SMEs used by various countries.

TABLE 2.1: QUANTITATIVE DESCRIPTION OF SMES OF SELECTED COUNTRIES

Country	No. of employees	Capita value	Annual turnover	Sources
Kenya	10-100	-	US$50 000-10 million	Mageto (2016) Govt. of Kenya (2012)
USA	≤500	-	USD31 million	Buculescu (2013) Abo & Quarterly (2010)
Canada	6-500	-	<USD$66.5	Buculescu (2013)
Malaysia	<75	-	<USD50 million	Thakker, Kanda, Deshmukh (2009); Abo & Quarterly (2010)
Japan	<300	<USD$800 000	-	Buculescu (2013); Abo & Quarterly (2010)

Source: own compilation

To overcome the weaknesses associated with the quantitative definitions, authorities, academics, and practitioners have combined both quantitative and qualitative aspects in defining SMEs (OECD, 2014). For instance, within the European Union an SME is regarded as "a non-subsidiary, independent firm with total annual sales not exceeding EUR50 million" (OECD, 2016).

Like in many other countries, what constitutes an SME in Zimbabwe is a major concern. In line with this, various organisations, bodies, academics and practitioners have advanced their own definitions to this category of business. To calculate tax, Zimbabwe Revenue Authority (ZIMRA) Finance Act defines SMEs in terms of registration status, number of employees, annual turnover and asset base. The definition is as shown in the table 2.2 below:

TABLE 2.2: ZIMRA DEFINITION OF SMES

Enterprise category	No. of Employees	Annual Turnover (USD)	Asset turnover(USD)	Registration Status
Small	10-40	50000-500000	50000-1000000	Formally registered
Medium	41-75	1000000 – 2000000	1000000- 2000000	Formally registered

Source: ZIMRA (Finance Act ss2b: chapter 23:04)

The Small Enterprises Development Corporation (2010:1) but defines a small and medium enterprise as a "firm that has not more than 100 employees with maximum annual sales of up to US$830 000". It is important to note that the SEDCO does not differentiate between small and medium enterprises. On the other hand, SMEAZ (2014) defines "small businesses as having turnover less than US$240 000 or assets less than US$100 000 and medium enterprises as those businesses with turnover and assets above the thresholds for small enterprises, but less than $1 000 000 each".

The Zimbabwean definition of SMEs agrees with the international definitions when it comes to the condition that the SMMEs or simply SMEs need to be registered formal businesses (Chivasa, 2014). This is important as it allows governments to be able to assess the contribution made by these firms to their respective economies (Mago & Toro, 2013). Similarly, the SMEs Act (Chapter 24:12) describes an MSME as a legal business entity defined by the following variables: the number of permanent workers, annual turnover, and lastly the value of assets excluding fixed assets as shown in table 2.3 below. These classifications are in line with both the local developments and international standards (GoZ, 2016)

TABLE 2.3: MSME CLASSIFICATION BY ECONOMIC SECTOR IN ZIMBABWE

Sector	Class	Max. no. of permanent employees	Max. annual turnover (US$)	Max. gross value of immovable assets (US$)
Agriculture	Medium	75	1 million	500 000
	Small	30	500 000	250 000
	Micro	5	30 000	10 000
Arts, entertainment, education and sport	Medium	75	1 million	500 000
	Small	30	500 000	250 000
	Micro	5	30 000	10 000
Mining	Medium	75	3 million	2 million
	Small	40	1.5 million	1 million
	Micro	5	50 000	50 000
Manufacturing	Medium	75	1 million	1 million
	Small	40	500 000	500 000
	Micro	5	30 000	10 000
Construction	Medium	75	2 million	2 million
	Small	40	1 million	1 million
	Micro	5	50 000	10 000
Energy	Medium	75	1 million	2 million
	Small	40	500 000	1 million
	Micro	5	30 000	10 000
Financial services	Medium	75	1 million	500 000
	Small	30	500 000	250 000
	Micro	5	30 000	10 000
Transport	Medium	75	1 million	500 000
	Small	40	500 000	250 000
	Micro	5	30 000	10 000
Retail	Medium	75	1 million	500 000
	Small	30	500 000	250 000
	Micro	5	30 000	10 000
Tourism & Hospitality	Medium	75	1 million	500 000
	Small	30	500 000	250 000
	Micro	5	30 000	10 000
Services	Medium	75	1 million	500 000

	Small	30	500 000	250 000
	Micro	5	30 000	10 000

Source: Small and Medium Enterprises Act (Chapter 24:12) cited in GoZ (2016)

The SME Act (Chapter 24:12) provides a formula under the Fifth Schedule Section 2 to further clarify the classes under which an enterprise can be put. The chapter gives an example of the manufacturing sector, a manufacturing enterprise with an annual turnover of US$1 million, employing 5 full-time workers and in possession of US$ 250 000 gross value of assets that may be difficult to classify. Faced with such a particular situation, the formula can be applied.

To minimise the risk associated with lending money to SMEs as well as ensuring that financial assistance is granted to viable businesses, financial institutions have their definition of SMEs. Financial Gazette (2014) asserts that commercial banks in Zimbabwe view businesses with asset bases of between US$250 000 and US$5 million as SMEs. To grant financial assistance, the Commercial Bank of Zimbabwe (CBZ) (2015) defines SMEs as illustrated 2.4 below.

TABLE 2.4: CBZ DEFINITION OF SMEs

Capital requirement	Employment	Annual Turnover	Asset base
USD5,000.00 to USD300,000.00	5 to 75 people	USD60, 000. 00 to USD5 Million	USD10,000.00 to USD2 Million

Source: CBZ (2015)

The review of the literature shows that the commonly used quantitative criterion for defining SMEs in Zimbabwe is the number of employees, the value of assets, and the annual sales revenue. Both qualitative and quantitative aspects are used to define SMEs in Zimbabwe, thus, the current study adopted both approaches. Hence, apart from meeting the minimum and maximum thresholds, the participants chosen for the study were formally registered with the department of SMEs, are taxing paying entities, thus, contributing to national economic development (ZIMRA Finance Act ss2b: chapter 23:04). This definition also reflects the current state of SMEs in Zimbabwe. Also, these organisations are independent businesses that are not subsidiary companies (Makiwa & Steyn, 2019; Tinarwo, 2016).

Small and medium manufacturing enterprises are thus defined in this study as "a formally registered, non-subsidiary, an independent enterprise which transform raw materials, components into items of greater value, employing between 6 and 75 people, annual turnover not exceeding US$1 000 000 and asset base of not more than US$1 000 000". This definition combines both the quantitative approach and qualitative approaches in classifying manufacturing SMEs.

2.4 THE SME DISCOURSE IN ZIMBABWE

The Zimbabwean government established the SEDCO Act in 1983 upon realising the role of SMEs in poverty alleviation (Manyati & Mutsau, 2019). This was then followed by the conception of the Ministry of Small and Medium Enterprises in 2002 to deal with SMEs' issues in Zimbabwe (Chirisa, Dumba & Makura, 2012). In 2008, the ministry incorporated cooperative development thus was renamed to the Ministry of Small and Medium Enterprises and Cooperative Development (MSMECD) (Majoni *et al.,* 2016). Part of the mandate of the MSMECD was to formulate policies for an enabling environment for SMEs and co-operatives, hence facilitating the development of SMEs in Zimbabwe (Ndhlovu, 2017). Apart from that, the MSMECD also fostered formalisation of the informal sector (Bomani, 2015).

The Economic Structural Adjustment Program (ESAP) introduced by the Zimbabwe government in 1991 created an environment for the development of SMEs in the country (Bomani *et al.,* 2015). The adoption of the ESAP created an opportunity for the growth of the SME sector in Zimbabwe (Chivasa, 2014). ESAP was meant to announce a new era of modernised, competitive, export-led industrialisation (Saunders, 1996 cited in Derera, 2015). As an economic reform, ESAP resulted in the slackening of investment rules and regulations and some local government by-laws (Matunhu & Mago, 2013; Kanyenze *et al.,* 2017). Hence, as a result of ESAP, SMEs started to flourish in Zimbabwe.

Jongwe (2013) notes that the ESAP failed to promote the expected economic development as it resulted in the loss of jobs in both the public and private sectors. Matutu (2014) concurs and adds that some large multinational companies, as well as large local companies, were forced by the harsh economic circumstances to scale down their production while others had to close down leading to massive retrenchments. Gumbe and Chaneta (2014) observed that as the formal job market was shrinking, people became poorer than before. Thus, this gave birth to SMEs and the growth of the SME sector at large (Chandaengerwa, 2014).

SMEs were established to supplement the household income and creating employment for the retrenched people (Bomani *et al.,* 2015). SMEs also employed graduates from higher education institutions who could not be absorbed into the formal sector (Nyamwanza, 2015). In this regard, SMEs became the major source of livelihood for more than eighty percent of the Zimbabwean population (Chandaengerwa, 2014). Due to the flourishing of the sector, local authorities started to set aside land earmarked for SMEs (Chivasa, 2014). This led to the development of home industries such as Makokoba Home Industry in Bulawayo and Siyaso in Harare (Derera, 2015).

Zindiye *et al.* (2012) observed that SMEs in Zimbabwe are found in every sector of the economy. Thus, they are found from the primary to the tertiary sector with many engaged in accommodation and food services, agriculture, energy and construction, wholesale and retail, arts, manufacturing, transport, and

mining and quarrying (Bomani, 2015). According to the FinScope survey conducted in 2012, the agricultural sector has the majority number of SMEs with few witnessed in the mining and quarrying industry. Table 2.5 below shows the distribution of SMEs in Zimbabwe by sector.

TABLE 2.5: DISTRIBUTION OF SMEs BY SECTORS

Sector	Percentage
Agriculture	43%
Wholesale and retail	33%
Manufacturing	9%
Other services	6%
Energy and construction	3%
Art, entertainment, culture, education and sport	2%
Accommodation & food services	2%
Transport	1%
Mining &quarrying	1%

Source: FinScope (2012: 3) cited in Bomani (2017)

In Zimbabwe, SMEs generate employment for more than 60% of the country's population and also contributing about 50% of the country's GDP (RBZ, 2017). In respect of those employed, the FinScope survey (2012) noted that 84% of those who were employed aged between fifteen years and above were employed within the SME sector. Another important and major characteristic of Zimbabwe's SMEs relates to ownership structure or base, which revolves around a key man or family (Nyamwanza, 2013). Hence, a great number of SMEs in Zimbabwe are either sole traders or operating as partnerships. In Zimbabwe, where the SME is registered as a limited liability company, the real ownership structure is that of a one-man, family, or partnership business (Maunganidze, 2013).

The 2012 Finmark study indicated that 71% of SMEs comprise individual entrepreneurs with no employees which validates the findings of Maunganidze (2013) who mentions that most small businesses in Zimbabwe are owner-managed. Micro enterprises, employing 1-4 people were found to be 24.0 % while only 4.0 % are small businesses employing 6-30 people and the remaining percent make up for the medium enterprises employing 30-75 people (FinScope, 2012). The survey further highlights that 46.0 % of the adult population in Zimbabwe are either SME owners or managers. Mashonaland East Province has the highest number (56.0 %) of SMEs owner/managers in Zimbabwe (FinScope, 2012).

The 2012 study by Finmark Trust in conjunction with the MSMECD revealed that 85% are unregistered and undocumented businesses operating informally. This was further confirmed by Chigwenya and

Mudzengerere (2013) in their study to examine the importance of the informal sector in Zimbabwe. Their findings revealed that 85 % of the small businesses are not formalized through the legal structures such as registration in terms of the Company's Act or partnership agreements or Cooperative Society Acts (GoZ, 2002). Of the 15 % who are registered 71 % are registered with local councils, 17 % with the registrar of companies, 6 % with the registrar of Co-operatives, and 7 % are registered elsewhere, for example, RBZ-MFIs, Trusts. The 85 % population of SMEs explains why SMEs in Zimbabwe have challenges in accessing funding from banks and financial institutions.

These SMEs are unregistered and the majority of them seem to be operating from their residential homes and others from undesignated parts of the cities and growth points. Equally important to note is that of the unregistered SMEs, the government is failing to benefit from them through taxes (Maunganidze, 2013). It implies that only 15% are involved in public procurement (Mandiyambira, 2013) as 85% cannot participate in the bidding process (Bomani, 2015).

2.3 MANUFACTURING SMEs IN ZIMBABWE

The SME manufacturing sector comprises of organisations involved in the mechanical, chemical, or physical conversion of raw materials into finished and semi-finished goods (ZEPARU, 2011; Makoshori, 2014; Kativhu, 2018). The small and medium manufacturing enterprises have played an important role in shaping the Zimbabwean economy (Chivasa, 2014; ADBG, 2014). The sector has, thus, become the backbone of the economy (Nyamwanza *et al*., 2015).

Mugozhi and Hlapiso (2017) observed that SMEs in Zimbabwe operate in different manufacturing activities. The 2016 SMEAZ survey revealed that the manufacturing sector of the SMEs is composed of: wood and furniture (30.0 %); food processing (22.0 %); clothing and footwear (15.0 %); chemical petroleum (10.0 %) and metal fabrics (23.0 %). The FinScope Survey (2012) revealed that Zimbabwe has about 3.4 million SMEs and of these, 9.0 % are found in the manufacturing sector generating about USD564 million annual turnover (FinScope, 2012). Men tend to dominate the more complex activities within the manufacturing SME sector (FinScope, 2012) undertaking activities such as welding, construction, and carpentry (Bomani, 2015).

Among some of the common manufacturing activities that SMEs in Zimbabwe engage themselves in, food and beverage production, furniture and agricultural equipment manufacturing, sewing, and metal fabrication are included (RBZ, 2007 cited in Bomani, 2015). Many of these manufacturing enterprises in Zimbabwe are set out of the need for survival (ZWPS 04/11, 2011). These firms act as a buffer against slipping into deeper poverty (FinScope, 2012) and many employ family labour (Dumbu, 2014) as such reducing individual and household vulnerability (FinScope, 2012). Due to high rentals for premises and

a shortage of land, most of the manufacturing SMEs conduct their businesses on open spaces or just along the busy streets in the residential areas (Karedza *et al.,* 2014).

Small and medium-sized manufacturing enterprises contribute about 8% of the total GDP (GoZ, 2016). Despite its importance to national development, its contribution has been declining over the last two decades (Mugozhi & Hlapiso, 2017), with an annual growth rate of 3% (SMEAZ, 2016). This performance can be attributed to poor infrastructure development (Chege *et al.,* 2016), competition from foreign products (Mamman, Bawole, Agbebi & Alhassan, 2019), and poor management (Chivasa, 2014). However, despite being an agro-based economy, the Zimbabwean government has been shifting efforts emphasising the growth of manufacturing SMEs. Thus, the sector has gained prominence as there are prospects for the growth of national development.

2.4 SIGNIFICANCE OF SMEs IN ZIMBABWE

The future growth of the Zimbabwean economy is anchored on SMEs, in the face of business closures by the large and old corporates due to the economic meltdown (Biti, 2012; Tsarwe, 2014; Nyamwanza, 2015; RBZ, 2017). Thus, the development of a vibrant SME sector is among any country's strategic objectives (Naicker & Saungweme, 2014). The following sections discuss the various contributions made by SMEs to the Zimbabwean economy.

2.4.1 Employment creation

The formal employment sector in Zimbabwe has shrunk (Naicker & Saungweme, 2014). The country has experienced a strong retrenchment and closure of big organisations (Nyamwanza, 2013). Nyoni (2012), asserts that the country's industries have failed to absorb the more than 300 000 yearly alumni from the nation's institutions of higher education. Thus, the SME sector has turned into an indispensable fountain of work for many individuals (Zindiye & Roberts-Lombard, 2012). SMEs employ the lowly skilled who do not meet job requirements in larger enterprises (Majoni *et al.,* 2016). Manufacturing SMEs in Harare also employ graduates from the country's institutions of higher learning who have failed to secure employment in larger enterprises (Katua, 2014).

There is a great need for the government of Zimbabwe to turn to the SME sector as a permanent solution for job creation (RBZ, 2014). Nyoni (2012) claims that SMEs are currently employing a huge number of Zimbabweans, as they are labour intensive. The 2012 FinScope SME study revealed that the SME sector employs 2.9 million people in Zimbabwe (RBZ, 2014). The most striking disclosure is that the SME sector has more than 3 million owners (RBZ, 2014). These enterprises create employment opportunities for the people, thus, enhancing their disposable income which ultimately leads to an increase in demand goods (Chuma-Mkandawire, 2004:13).

2.4.2 Poverty alleviation

The SMEs sector plays a critical role in poverty alleviation for their owners and their employees (GoZ, 2012; Zindiye *et al.*, 2012; Nyamwanza, 2015). This is in the background that for many players their incomes from formal employment are well below the poverty datum line (Mugozhi & Hlabiso, 2017). The SME sector contributes significantly towards food security and nutrition Dhliwayo (2014), thus, mitigating poverty (Naicker & Saungweme, 2014). Thus, the sector has helped reduce poverty by producing and marketing affordable goods to those who are cannot afford, employing the poor and many job seekers (Bomani, 2017).

Tinarwo (2016) mentions that poverty is a grave sickness that afflicts almost all developing countries. In Zimbabwe, the SME sector is responsible for the livelihoods of millions of Zimbabweans as it is now the major employer both formally and informally (Tsarwe, 2014). It plays an important role in social development, and overall poverty eradication (Zindiye *et al.*, 2012). Thus, SMEs are a solution to most developmental problems in Zimbabwe (Sibanda, 2012).

2.4.3 Contribution to economic development

In Zimbabwe not only do SMEs contribute significantly to employment, but they also bring about substantial local capital formation and achieve high levels of productivity and capability (Magaisa, 2017; Majama *et al.*, 2017). Thus, SMEs contribute significantly to the country's industrial production (Katau, 2014). According to Nyamwanza (2015), SMEs in Zimbabwe have been held responsible for achieving equitable and sustainable industrial diversion and dispersal (Nyamwanza *et al.*, 2015). In the same vein, SMEs in Zimbabwe have been hailed for their crucial role in promoting grassroots economic growth and equitable sustainable development (The Chronicle, March 10 2017).

The FinScope (2012) study revealed that about US$7.4 billion in 2012 was contributed by 65.0 % of the SME players (RBZ, 2014). This is testimony that indeed the sector contributes to industrial production as well as GDP (Chadamoyo & Dumbu, 2012). Increased SMEs' growth has a positive effect on GDP growth due to amplified output (Katau, 2014), value addition (Bomani, 2017). On the same note, the growth of SMEs impacts indirectly through increased innovation leading to enhanced macro-economic resilience (Ndenge, 2015; Bomani, 2015). A vibrant SME sector strengthens the economy's resilience by diversifying and widening the domestic economy (Chivasa, 2014) and simultaneously reducing the vulnerability to sector-specific risks (Mugozhi & Hlabiso, 2017).

According to Naicker and Saungweme (2014) the contribution of SMEs to the development of the economy is premised on their use of indigenous inputs, the ability to create jobs, offer immediate and affordable goods, capacity to lower social and income disparities and ensure balanced development.

Thus, the enhancement of the SME sector in Zimbabwe is seen as crucial for the accomplishment of the country's developmental goals (Naicker & Saungweme, 2014).

2.4.4 Increasing competition

RBZ (2015) also notes that, with the growth of SMEs, competition has also increased in the market place which in turn stimulates creativity and innovation amongst SMEs. The pro argument for SMEs is that they enhance competition and entrepreneurship. Thus, they have economic benefits such as enhanced innovation, efficiency consequently productivity growth (Ntiamoah *et al.,* 2014). SMEs in Zimbabwe have been known to be adaptive to changes in market tastes and preferences (Mugozhi & Hlabiso, 2017). Due to their flexibility and innovativeness, SMEs allows countries to exploit their indigenous resources for both the domestic and global markets.

The foregoing discussion has established that SMEs are crucial in the economic development of a country in the areas of employment creation, contribution to GDP, wealth creation, poverty alleviation (Tinarwo, 2016). Despite their economic value and potential, SMEs continue to face challenges that impact their financial performance and, consequently, their input to national economic growth and development (Manyani, 2014; Chadamoyo & Dumbu, 2012; Nyangara, 2013). The following section discusses some of the obstacles faced by Zimbabwean SMEs.

2.5 CHALLENGES FACED BY SMES IN ZIMBABWE

While SMEs play a significant role in Zimbabwe, their full potential remains untapped (SMEAZ, 2015). The sector is yet to live up to its desired impact on the Zimbabwean economy despite all the government effort (Bomani *et al.,* 2015; Mamman et al., 2019). This underscores the belief that there exist fundamental challenges that confront SMEs (Muriithi, 2017) but which hitherto have either not been addressed at all or have not been wholesomely tackled (SMEAZ 2014; Mabenge *et al.,* 2020). The subsections below discuss these challenges.

2.5.1 Inadequate funding

The growth of SMEs in Africa, Zimbabwe especially requires an adequate supply of financial capital (Shah, Nazir, Zaman & Shabir, 2013). Lack of finance has been termed as an obstacle to such growth (Fjose *et al.,* 2015). Difficult in accessing finance or credit is a universally recognised problem facing SMEs (Maunganidze, 2013). The rampant challenge faced by most manufacturing SMEs in Zimbabwe is restricted access to funding from the formal sources (Chivasa, 2014). Admittedly, Magaisa (2017) observes that SMEs lack equity to finance their operations, and those registered invariably resort to

borrowing from financial institutions at a cost to grow their businesses (Manyani, 2014; SMEAZ, 2014; Bomani, 2015). This has resulted in SMEs being highly geared (Chadamoyo & Dumbu, 2012). The level of financial inclusion for this sector remains very low RBZ (2017). This confirms the findings of the FinScope survey carried in 2012: 86 % of SMEs were unbanked; 18 % were served by formal financial institutions; 39 % were served by informal financial service providers; and 43 % did not have access to financial services".

In this regard, SMEAZ (2014) bemoans the unwillingness by the traditional banks to set up specific products for the SMEs in Zimbabwe. Nyamwanza (2015) argues that the financial systems are shallow and expensive and have very limited outreach, thereby only benefiting few SMEs. This has forced many manufacturing SMEs to depend on their own financing and/or on colleagues and friends to provide capital for their businesses (Nyamwanza, 2012; Bomani, 2015).

SMEs are viewed by providers of finance as unprofessionally run, thus risky undertakings, which do not qualify for loans (Nyangara, 2013; Nyamwanza, 2015). Chikomba, Dube and Tsekea (2013) concur and adds that being unprofessionally run causes them to die prematurely. Thus, this makes it difficult for lenders to extend credit facilities. Besides, financial institutions lament the inability of SMEs to repay the borrowed funds and interests (Mago, 2013; ZEPARU, 2013).

Banks and other financial institutions are reluctant to fund SMEs as they also do not have collateral security (Chikomba *et al.,* 2013), and the limited capacity to follow up on credit on the part of the lending institutions is a deterrent factor (Mugozhi & Hlabiso, 2017). However, Bomani (2017) notes that even if financial resources are provided, SMEs in Zimbabwe still perform poorly and end up in their death bed. This implies that there are many hurdles to the growth and development of the SME sector.

2.5.2 Poor management

Poor management is one of the major challenges faced by manufacturing SMEs in Zimbabwe (Chivasa, 2014; Mehta & Rajan, 2017). These enterprises lack managerial skills and competencies (Tinarwo, 2016; Muriithi, 2017) to contribute fully to national development. Manufacturing SMEs in Zimbabwe often lack the relevant technical expertise needed to run their business professionally (Nyanga *et al.*, 2013; Musanzikwa, 2014). This lack of technical knowledge normally compromises the quality of many manufacturing SME's products and services in Zimbabwe (Karedza *et al.,* 2014).

Nyamwanza (2013) concurs and adds that the enterprises' management style is essentially on trial and error and driven by short-term financial gains while paying little attention to strategy development. Several studies highlight deficiencies in the following areas of management: finance, accounting knowledge, credit management, inventory, cash flow, marketing, and human resource (Sibanda, 2012;

Maseko, 2014: Magaisa *et al.,* 2013: Chivasa, 2014; Tinarwo, 2016; FinScope, 2012; Musanzikwa, 2014; RBZ, 2014). Manufacturing SMEs in Zimbabwe over-relies on the owner in every aspect of management and most of them use family labour (Maunganidze, 2013; Nyanga *et al.,* 2013) of which most of the owners and managers do not have appropriate technical, conceptual, and entrepreneurial skills (Bomani *et al.,* 2019; Maromo, 2015).

Low education levels coupled with a lack of management training amongst SMEs owner/managers leads to poor administration (Chipangura & Kaseke, 2012). Business failure, as a result, becomes a phenomenon when management does not pay special attention to crucial strategic issues (Nyanga *et al.,* 2013; Nyamwanza *et al.,* 2015). SMEs, usually, do not attend public workshops, they see them as irrelevant given their sheer size and informal way of doing business (Bomani (2015). Chipangura & Kaseke (2012) concur and add that SMEs may not attend as they lack the financial resources to meet workshop expenses.

2.5.3 Inadequate government support

The role of government in facilitating and supporting the establishment of a vibrant SME sector remains critical worldwide (Muriithi, 2015; Kamunge *et al.,* 2014; Muriithi, 2017). The role of the government is to create a conducive and desirable environment for business growth and sustainability (Muriithi, 2017). The SMEAZ (2014) observes that the level of government spending in supporting SMEs is low. However this has been attributed to the constrained fiscal space (RBZ, 2017), but the aspect of a lack of deliberate policy to favour local procurement cannot be ignored (SMEAZ, 2014).

Currently, the regulatory framework in Zimbabwe has the potential to crush newly established SMEs and does not fully promote the small business economy (Kamunge *et al.,* 2014). On the same note, Zimbabwe is at the bottom in terms of the "ease of doing business" index (Maromo, 2015). Maunganidze (2013) concurs and adds that this is felt mainly by SMEs who do not have the connections or influence to get things done. The regulatory environment is complex and bureaucratic for SMEs to formalise their businesses (Magaisa, 2017; Tinarwo, 2016). For instance, SMEs express their worry on simple but important things such as company registration, and or clearing imports and exports that are costly and slow (Chingwaru, 2014; Dube, 2013).

In a letter addressed to The Portfolio Committee on Small and Medium Enterprises and Cooperative Development (PCSMECD) in 2014, the SMEAZ indicated that no incentives are being given to SMEs to grow their businesses. They claim that, as a result, many SMEs have closed their business and operate as one-man-shows to avoid problems with government agencies, labour laws, and a dispirited workforce. Since independence, there has not been a sustained, broad-based initiative to encourage

SMEs to come into the formal sector (Majoni *et al.,* 2016; Tinarwo, 2016). The sector has always been approached like the "illegitimate child" (SMEAZ, 2014).

2.5.4 Lack of adequate infrastructure

SMEs in Zimbabwe lack adequate infrastructure to realise growth in their operations (Bomani *et al.,* 2015). SMEs in Zimbabwe are exposed to poor roads, buildings, and poor communication networks (Gombarume & Mavhundutse, 2014; Maromo, 2015). Most SMEs in Zimbabwe depend on government infrastructure (Chivasa, 2014). Chipangura and Kaseke (2012) concur and adds that in most cases the government has not refurbished or renovated the premises being used by SMEs, thus can not offer much-needed assistance in time.

Karedza *et al.* (2014) further lament access to transport facilities especially for those in the manufacturing sector that have to purchase raw materials from afar and distribute their products to the market. Manufacturing SMEs, especially in urban areas, lack basic sanitation infrastructure in their trading environment (Bomani, 2015). Maunganidze (2013) commends that at Siyaso, Mbare, and Magaba few toilets may fail to accommodate all the traders and their customers.

Coupled with these challenges is a lack of adequate shelter to protect their wares from unfavourable weather elements such as direct sunlight (Bomani, 2017). Chirisa *et al*. (2013) note that SMEs are often overcrowded, for instance at places such as Mupedzanhamo, Siyaso, and Glen View Furniture Complex (Bomani, 2015). In these places, disease outbreaks such as Cholera are common, hence customers would not want to patronise the areas (Maunganidze, 2013).

2.5.5 Competition from foreign products

Zimbabwean SMEs are affected by the influx of imports (Madavanhu, Mubata & Mudavanhu, 2014). Cheap imports from nearby countries such as Mozambique, South Africa, Zambia and Botswana are of better quality than the locally produced products (Chipangura & Kaseke, 2012). Thus, customers opt to buy foreign products rather than locally produced commodities due to their modest quality and prices (Mapaure, 2014). In Harare, for instance, Chinese products are sold at less than a quarter of the price offered by local manufacturing SMEs (Mapaure, 2014). Hence, merchandises from Asian countries have taken the market by surprise in most urban areas.

RBZ (2014) observes that contrariwise, for a Zimbabwean manufacturing SME, it is difficult to gain entrance to the regional markets, consequently, the local market becomes the only option (Bomani, 2015). The manufacturing and processing sectors of SMEs are the hardest hit by imports as the bulk of

imports are manufactured commodities (Bomani, 2017). However, the service sector is spared from stiff competition from international companies as the services are locally produced and consumed.

2.5.6 Unfriendly tax system

The Zimbabwean regulatory framework has failed to effectively support the growth of the SME sector. In fact, the laws and policies tend to be stifling the development of SMEs (Nyanga *et al.,* 2013). The regulatory and tax system are so punitive that they hinder the growth and development of the manufacturing enterprises (Karedza *et al.,* 2014). Faced with the closure of big companies, the Government of Zimbabwe has turned to SMEs for tax collection (Maseko, 2014). This is because SMEs constitute about 90 % of all businesses in Zimbabwe (Maunganidze, 2013).

Thus, an unfavourable tax environment in Zimbabwe is forcing SMEs to remain small and invisible (Bomani, 2015). The growth and performance of SMEs in Zimbabwe is stifled by high taxes is cited as one of the biggest challenges that stifle SME growth in Zimbabwe (Chipangura & Kaseke, 2012). Payment of taxes increases business expenditure (Maseko, 2014) and in Zimbabwe, the tax rate for large businesses is the same as those of SMEs (Bomani, 2017). This, according to Maseko (2014) explains why SMEs do not want to formalise their operations. By paying taxes they are being pushed into deep financial crisis.

The aforementioned discussion is a testimony that although SMEs play a key role in the economic development of Zimbabwe, they face various challenges. The need for a strong and vibrant SME sector the government of Zimbabwe set up institutions to address these challenges. This is discussed in the next section.

2.6 INSTITUTIONS TO ADDRESS SMEs CHALLENGES IN ZIMBABWE

The government of Zimbabwe set up several institutions to address the challenges threatening the SME sector (Manuere *et al.*, 2012; Nyoni, 2012; Dumba & Chidamoyo, 2012; Mabenge *et al.,* 2020; Tsarwe, 2014; Bomani, 2017). The following sections detail some of the critical institutions set up by the Government of Zimbabwe.

2.6.1 The Ministry of Industry and Commerce

Before the establishment of the Ministry of Small and Medium Enterprises and Cooperative Development (MSMECD), the SMEs were housed in the Ministry of Industry and Commerce (MIC) (Chivasa, 2014). The Ministry was responsible for conducting research, distribute information, as well as coordinating various ministries' programs of SMEs. The Ministry made efforts to enhance the growth

and development of SMEs by addressing the challenges they faced (Bomani *et al.,* 2015). Efforts to deal with SME challenges were ineffective as they were not properly coordinated (Zimbabwe Parliament Portfolio Committee on SMEs (ZPPCSMEs), 2010).

Today, the MIC promotes SMEs through generating access to both regional and international markets through negotiations for bilateral and multilateral agreements (Bomani *et al.,* 2015), provision of information on foreign markets (Nyoni, 2012), and organizing international trade fairs for Zimbabwean SMEs (Tsarwe, 2014). Moreover, the ministry is involved in enhancing the competitiveness of SMEs involved in foreign trade by ensuring that their products and services meet quality international standards (Naicker & Saungweme, 2014). However, Bomani *et al.* (2015) claim that very few SMEs have benefited from such ministerial programs.

2.6.2 Small and Medium Enterprise Development Corporation (SMEDCO)

SMEDCO was set up in 1984 as a parastatal, by the Act of Parliament (Chapter 24:12) (Manyani, 2014). SMEDCO was aimed at assisting SMEs in the form of training and provision of information and advice on business, financing the SMEs, and offering management and counselling (GoZ, 2015). SMEDCO played a major role in the creation of business incubations and availability of factory space for small businesses in areas such as Chitungwiza, Nyika (Masvingo Province), Gweru (Midlands Province), Bindura (Mashonaland Central Province), and Gazaland (Harare Province) (Mhuka, 2011).

The parastatal also provides entrepreneurs with access to machinery in Chitungwiza for metal fabrication, woodwork, and machinery (SMEDCO, 2015). Litefold Engineering, a company owned by SMEDCO, also trains personnel from SMEs (Mashanda & Kurebwa, 2013). In addition to that, SMEDCO facilitates the linking of SMEs with supply chain partners such as suppliers, and customers (SMEDCO 2015). In 2010, SMEDCO disbursed loans to 4 900 SMEs despite the high-interest rates (Moyo 2011). It is important to note that SMEDCO cannot assist financially all the SMEs in Zimbabwe due to budgetary constraints. However, its efforts in supporting the development of the SME sector is much appreciated (Nyoni, 2012).

SMEDCO still strives to avail both financial and technical support to SMEs (Bomani *et al.,* 2015) even though it is in financial doldrums (Nyamwanza, 2015). However, since the parastatal is grossly underfunded, its assistance towards SMEs has been negatively affected.

2.6.3 Zimbabwe Development Bank (ZDB)

The bank was established in 1984 with the sole mandate to provide debt finance to SMEs (Nyangara, 2013). SMEs were required to provide collateral before being given any loan, this became a major

obstacle to many as they did not have (Nyoni, 2012). Due to insufficient financial support from the government, the bank was incapacitated. Also, some of the SMEs who were given loans could not repay them. Consequently, the bank could not perform as anticipated (Bomani *et al.,* 2015). In 2005, the bank was converted to the Infrastructure Development Bank of Zimbabwe (IDBZ) by the Act of Parliament, the IDBZ Act (Chapter 24:14). Thus, its mandate was widened to include the provision of funds to support companies in the transport and construction industries (Norsad Finance, 2015).

Today, the bank focusses much on infrastructure development such as houses, commercial banking activities, and large company offices at the detriment of SME support in the form of debt finance (Chenga, 2015). Thus, supporting SMEs is no longer its principal business. This is testimony that the SME sector has been neglected by the IDBZ (Bomani, 2015).

2.6.4 The Reserve Bank of Zimbabwe

In 2006, the RBZ availed Z$16 trillion to support the growth and development of the SME sector (RBZ, 2006). The loans had interest rates of at least 70.0 % per annum. This was in a bid to try and assist financially challenged SMEs to recover. The funds were distributed to provinces concerning the level of economic activity and population sizes (RBZ, 2006). The funds catered for SMEs projects such as construction, agro-processing, mining, poultry, and animal husbandry. However, SMEs lamented the high-interest rates attached to the loans (Bomani *et al.,* 2015; Nyoni, 2012).

In 2013, the RBZ enunciated a policy program that required banks to design their offerings such that SMEs loans would constitute at least thirty percent of their total loans (RBZ, 2013). To ensure compliance, the central bank would conduct regular monthly audits, and failure to observe the regulations would attract severe fines (Naicker & Saungweme, 2014). This policy placed greater emphasis on funding at the expense of other important aspects such as the training of entrepreneurs. Thus, it failed to recognise that the poor performance in SMEs is due to many underlying factors that needed to be addressed. Mudavanhu *et al.* (2011) claim that since 1991, SMEs have been receiving financial support but they still failed.

2.6.5 Ministry of Small and Medium Enterprises and Cooperative Development

The MSMECD was established in 2002 (Chivasa, 2014) to create and maintain a favourable environment for the growth of SMEs in Zimbabwe (Mushanyuri, 2014). Thus, the MSMECD was meant to deal with all the challenges and issues bedeviling the growth of the SMEs as well as developing a policy framework to enhance SMEs' development (Bomani, 2017). According to the ZPPCSMEs (2007), the MSMECD reported that they had done a lot in terms of assisting SMEs (including trade promotions, training workshops for SMEs, construction of SMEs infrastructure) which was not true.

The majority of the purported achievements were on paper with no evidence on the ground (ZPPCSMEs, 2007). Only a few SMEs agreed to have benefited from the supporting activities of the MSMECD (ZPPSMEs, 2007), SMEs in the rural areas did not benefit from the services of the MSMECD as its officers were only found in urban areas (Bomani *et al.*, 2015).

The ministry has two officers in a district; one responsible for cooperatives and the other for SMEs to assist the SMEs (MSMECD, 2018). This structure may not be effective in dealing with the challenges confronting SMEs as a district is too big to be under the responsibility of two officers. Apart from that, the ministry is grossly underfunded, hence its ineffectiveness in dealing with SMEs issues (Naicker & Saungweme, 2014). For instance, in 2013, the MSMECD was allocated USD3, 605, 977 when it had budgeted for USD 9, 479, 000 (GoZ, 2014). Also in 2014, the ministry was given USD 8, 695, 000 when it required USD 81, 269, 937 (Makoshori, 2014).

This implies that the ministry is always underfunded evidence that it is taken as not very important a ministry (Maunganidze, 2013). This attitude stifles the ministry's operations and effective support towards SMEs. Despite inadequate funding from the national budget, the MSMECD made significant achievements in 2013 (Bomani *et al.*, 2015). The Ministry raised USD4 million with the support of development partners, trained 11,936 SMEs, provided shelter to 6,363 SMEs, and acquired buildings for business incubation (GoZ 2014). However, the performance could be better had if adequate funding was made available (Bomani *et al.*, 2015).

The review of literature on institutions set up to assist SMEs revealed that the institutions were underfunded making it difficult for them to discharge their duties. Thus, Ndlovu (2013) concluded that the majority of government programs, since independence in 1980, have not been effective in promoting the sound development of the Zimbabwean SME sector.

2.7 CHAPTER SUMMARY

The chapter presented an overview of the SMEs sector paying particular attention to the manufacturing sector. The review of literature holds testimony that SMEs contribute to economic development through poverty alleviation, employment creation, wealth generation, uplifting the living standards of the ordinary Zimbabweans. However, manufacturing SMEs have not been able to perform effectively due to several challenges. The review of literature on SMEs' supporting institutions revealed that many of them have failed to effectively alleviate the challenges that hinder the success of SMEs, thus the need for SMEs to solve their problems through the formulation of sound business strategies. The next chapter reviews the literature on the study's key variables that are strategy formulation and financial performance of SMEs.

CHAPTER THREE

STRATEGY FORMULATION IN SMEs

3.1 INTRODUCTION

The power of strategies has been overemphasised by many, from the military world to the commercial world (Chandler, 1962 cited in Germanos, 2012; Mainardes, 2014). Hence, strategy formulation is an important issue that deserves special attention in the academic literature (Elshamly, 2013). For SMEs, strategizing is not a choice, but a requirement. This chapter aims at identifying knowledge gaps within the existing literature on strategy formulation and financial performance. Thus, the review of literature helps in developing a good starting point for advancing strategic management knowledge and, more so, uncovering new frontiers for research and knowledge creation (Collis & Hussey, 2013). The review of the literature is guided by the research questions in the first chapter.

3.2 THE STRATEGY DISCOURSE

The concept of strategy has been practiced for centuries (Elshamly, 2013), especially within the domain of the military (Bracker, l980; Chandler, 1962 cited in Germanos, 2012). However, during the last sixty years strategy concepts have been adopted in the business world (Nwachukwu, Chladkova and Fadeyi, 2018). The idea of strategy was advanced purely concerning the successful pursuit of victory in war (Zamani, Parnell, Labbaf and O'Regan, 2013; Mainardes, 2014; Tovstiga, 2010:4) however the term was later applied to commercial contexts (Heracleous, 2003:3). Ever since the term was adopted in business contexts, it has had several meanings (Germanos, 2012; Elshamly, 2013). Table 3.1 highlights a few selected definitions of strategy.

TABLE 3.1: STRATEGY DEFINITIONS

CONTRIBUTOR	DEFINITION
Chandler (1962)	Strategy is "the determination of the long-run goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals".
Ansoff (1965)	Strategy is "a rule for making decisions determined by product/market scope, growth vector, competitive advantage and synergy".
Mintzberg (1979)	Strategy is "a mediating force between the organisation and its environment: consistent patterns in streams of organisational decisions to deal with the environment".

Porter (1980)	Strategy is “a broad based formula for how business is going to compete, what its goals should be and what policies will be needed to carry out those goals”.
Grant (1991)	Strategy is defined as “the match an organisation makes between its internal resources and skills...and the opportunities and risks created by its external environment”.
Rumelt, Schendel and Teece (199)	Strategy is “the act of aligning a company and its environment. That environment is subject to change, as are the firm's own capabilities. Thus, the task of strategy is to maintain a dynamic, not static, balance”.
Mintzberg, Ahlstrand and Lampel (1998)	Strategy is “the mediating force between the organization and its surroundings, focusing on decisions and actions that come naturally”.
Hambrick and Fredrickson (2001)	Strategy is "a pattern in a stream of decisions".
Jarzabkowski (2004)	Strategy is “a situated, socially accomplished activity”. Strategy is something people do.
Singh (2009)	Strategy is “a long term plan for success to achieve an advantage”.
Johnson, Whittington and Scholes (2010)	Strategy comprises "the long-term direction of an organisation”.
Lynche (2015)	Strategy is “the pattern or plan that integrates an organisation’s major goals or policies and action sequences into a cohesive whole”.
Thompson jnr, Peteraf, Gamble and Strickland (2016)	Strategy is “a set of actions that a company’s managers take to outperform the company’s competitors and achieve superior profitability”.

Source: own compilation

The analysis of the definitions in Table 3.1 above shows that strategy focus on selecting long term goals and courses of action to reach them (Singh, 2009; Lynch, 2015), while other scholars stress the importance of linking strategy to the firm environment to be successful (Pearce ll *et al.,* 2016; Thompson jnr *et al.,* 2016). Other important issues highlighted in strategy definitions are competitive advantage and company performance (Porter, 1985) and the determination of the future (McKeown, 2013). The majority of these definitions speak of how a strategy is created (Mintzberg, 1985) or what a strategy should accomplish (Porter, 1985).

In the strategy discussion, a distinction is made between corporate strategies, business strategies, and functional strategies (Bonn & Fisher, 2011; Singh, 2009; Pearce II *et al.*, 2016). The corporate strategy describes "the scope of a diversified company in terms of the industries and markets in which it competes" (Thompson jnr *et al*., 2016) while business strategies are concerned with “how a single business competes within a particular industry or market” (Lynch, 2015). Thompson jnr *et al.* (2016) note that functional level strategies provide directions and guidance in managing key functional areas

such as procurement, accounts and finance, marketing research, and development. Wheelan and Hunger (2008) affirm that strategies at all three levels should be viewed as a hierarchy.

This study is premised on the business strategies as SMEs are independent corporates that are not part of larger holding companies (Singh, 2009). Thompson jnr *et al.* (2016) postulates that in a single-business company, the uppermost level of the strategy-making hierarchy is the business strategy. SMEs owners/managers formulate business strategies to develop a competitive position relative to their rivals (Yanney, Dennis and Awuah, 2015).

Despite the various competitive strategy frameworks in strategic management, this study adopted Porter's (1980) generic strategies to investigate strategic choices for SMEs in Zimbabwe. Thus, the thesis is premised on the position of Michael Porter (1980; 1996; 2008) that strategies enable firms to create valuable and unique competitive positions that are different from their competitors.

3.3 PORTER'S GENERIC STRATEGIES

Professor Michael Porter coined a category scheme consisting of three generic strategies (Lynch, 2015; Singh, 2009). Generic strategies are strategic approaches that can be adopted by firms in any industry to enhance their performance (Mita *et al*., 2017). Porter calls the competitive strategies "generic" as they can be used by any company of any size, type and purpose (Husnah *et al*., 2015; Singh, 2009). Porter claims that there are only three fundamental strategic orientations that any business could adopt for sustainable competitive advantage (Lynch, 2015). These are differentiation strategy, cost leadership strategy and focus strategy (Porter, 2008 cited in Thompson jnr *et al.*, 2016).

Porter argues that these strategies define how firms pursue competitive advantage across their chosen markets (Porter, 2008 cited in David, 2015). Porter's theory has stimulated a strong debate and has given rise to an over-abundance of journals and books, for example (Dess & Davis, 1984; Murray, 1988; Mintzberg, 1990; Aladwani, 2001; Allen & Helms, 2006; Parnell, 2006; Amoako-Gyampah & Acquaah, 2008; Ortega, 2010; Tanwar, 2013; Yunna & Yisheng, 2014; Hansen, Nybakk and Panwar, 2015; Kaya, 2015; Mita *et al*., 2017). Porter's work still arguably has a contribution in strategic orientations in the modern world (Lynch, 2015). Thus, Van Den Bosch and De Man (1997) posit that:

> *"Mintzberg (1990) consider Porter's work as one of the most important books in the tradition of "positioning school" of strategy in which firms need to choose to position themselves in the marketplace in order to ensure success."*

The generic strategies were first mentioned in Porter's book *"Competitive Strategy"* in 1980 (Thompson jnr *et al.*, 2016). Porter's second book *"Competitive Advantage"* in 1985 contained little modification to the concept of generic strategies (Lynch, 2015). However, the focus of this study is on

the original concept of generic strategies. The three strategic orientations are discussed in the following sections.

3.3.1 Cost leadership strategy

According to Thompson jnr *et al.,* (2016) firms pursuing a low-cost strategy emphasise on controlling their cumulative costs across their value chain so that they are lower than competitors. All the processes and structures in the firm are geared towards this cause (Baack & Boggs, 2007). Thus, firms with a cost leadership competitive advantage are known for their low production costs and consequently low prices (Singh, 2009; Asdemir *et al.,* 2013).

Porter (1980:35-36) claims that:

> *"This gives the firm defence against rivalry from competitors because its lower cost means that it can still earn returns after competitors have competed away their profits through rivalry. A low-cost position defends the firm against powerful buyers because buyers can exert power only to drive down the process to the level of the next most efficient competitor".*

Cost leadership strategy enables firms to "compete primarily based on lower prices than rivals can match and remain in business" (Pearce II *et al.,* 2016:249). Porter (1980) cited in Lynch (2015) believes that organisations can only achieve high profits when costs are kept lower than rivals. Tanwar (2013:5) explains that "by producing high volumes of standardized products, the firm hopes to take advantage of economies of scale and experience curve effects, and the product is frequently a basic no-frills product produced at a relatively low cost and offered through mass marketing".

However, Porter claims that firms in ana industry can strive to be cost leaders when the market is made up of price-sensitive buyers (Mita *et al*., 2017) and where buyers do not care much about differences posed by brands (Singh, 2009: Pettinger, 2004), this is true for the Zimbabwean market for the manufacturing SMEs (Nyamwanza, 2015). Due to economic hardships in Zimbabwe, buyers are price sensitive and would not care much about quality differences but prioritise competitively priced commodities (Mabenge et al., 2020).

The manufacturing industry of the SMEs in Zimbabwe is characterised by intense competition as players offer similar products that are aimed at the same customer groups (Bomani *et al.,* 2015). The only way to be competitive would be to cut production costs and lower prices. However, in achieving low costs, the quality, service, and other areas must not be neglected (Thompson jnr *et al.,* 2016). It is necessary to have a large market share, favourable access to raw materials (Thompson jnr *et al*., 2016). SMEs acquire their cost advantages in accessing lower-cost raw materials, improving their operations, and, at times, avoiding costs at all such as unnecessary labour and rental costs (SMEAZ, 2014).

3.3.2 Differentiation strategy

Differentiation involves firms offering products or services that are different from their rivals' offers (Thompson jnr *et al.,* 2016). The firm's offering must be unique and difficult to imitate but presenting more value to customers (Pearce II et al., 2016). According to Porter (1985:14),

> *"Differentiation provides insulation against competitive rivalry because of brand loyalty . . . The resulting customer loyalty and need for a competitor to overcome the uniqueness create entry barriers. Differentiation yields high margins with which to deal with supplier power and mitigates buyer power since buyers lack comparable alternatives and are thereby less price sensitive. Finally, the firm that has differentiated itself to achieve customer loyalty should be better-positioned vis-à-vis substitutes than its competitors"*

Singh (2009) concurs and adds that a business adopts differentiation when it outperforms rivals in providing products with special attributes its rivals are neither willing to offer or unable to offer. Budayan, Dikmen, and Birgonul (2013) acknowledge that firms that adopt a differentiation strategy are known for higher quality products and higher prices. The uniqueness of the offers translates to above industry average profit margins (Lynch, 2015).

According to Thompson jnr *et al.* (2016), differentiation strategy thrives when the market is composed of buyers whose needs and preferences are diverse to be satisfied by a standardised offering. Thus, firms that adopt differentiation strategy segment their markets to establish essential differences that appeal to different market segments (Lynch, 2015). Thompson jnr *et al*. (2016) further points out that differentiation can be done in any activity along a firm's value chain. Therefore, a marked distinction between competing products in an industry can be made through: innovation differentiation, marketing differentiation, service differentiation, and quality differentiation (Venusita & Dyani, 2018; Ireland *et al.,* 2011; Thompson jnr *et al.,* 2016).

Differentiation strategy is key in extending both the product life cycle and the business life cycle (Davidson, 2011; Gathoga, 2011). Intensity competition and ever-demanding customers make a differentiation strategy a necessity for companies of all sizes (Mita *et al*., 2017). Accordingly, two differentiation strategies are central to SMEs for survival in these dynamic environments that is product innovation and product quality (Thompson *et al.,* 2015; Leitner & Goldenberg, 2010).

Cheah *et al*. (2007) claim that offering high-quality products has proved to be an important strategic weapon for SMEs in many developed countries. SMEs need to differentiate their products uniquely to be ahead of the competition (Zamani *et al*., 2013). However, SMEs face challenges in being innovative and creative when it comes to differentiation (Kowo *et al.,* 2018). Differentiation strategy has two main dangers: the likely chances of rivals imitating and, the continuous changes in customer tastes and

preferences (Singh, 2009; Thompson jnr *et al.,* 2016). The shelf life of differentiation strategy seems to be getting shorter especially with today's promiscuous customers (Mita *et al.,* 2017).

3.3.3 Focus strategy

Porter (1980) notes that focus strategy is the third strategy, also known as the niche strategy (Lynch, 2015) micromarketing (Toften & Hammervoll, 2010) regional marketing (Cuthbert, 2011), concentrated marketing and targeting marketing (Dalgic & Leeuw, 1994). According to Thompson *et al.* (2016), focus strategy allows firms to concentrate on serving particular market segments and tailor their offerings to those segments. Firms can choose to concentrate on selected customer group, geographical area, product range or service line (Lynch, 2015), and can best serve the market either through lower costs or through differentiation or both (Porter, 1980 cited in Kaya, 2015; Porter, 1985 cited in Mita *et al*., 2017). Porter (1980:38) states that:

> *"The focus strategy rests on the premise that the firm is . . . able to serve its narrow strategic target market more effectively or efficiently than competitors who are competing more broadly. As a result, the firm achieves either differentiation from better meeting the needs of the particular target, lower costs in serving this target, or both".*

Porter claims that firms may undertake a focus strategy by either using a cost leadership approach or by differentiation (Lynch, 2015; Thompson jnr *et al.,* 2016). However, to gain competitive superiority, firms need to serve the segment more efficiently and effectively than the rivals (Douglas, Douglas and Davis, 2010). The major advantage of a focus strategy is that firms have more bargaining power since they may be the only providers of goods (Porter, 1980). Thus, this gives the firms a competitive advantage which might be used to enhance financial performance (Panel, 2008). Firms adopting this strategy build customer loyalty and commitment as they focus all their resources to satisfy them and effectively monitor their needs (Pearce II *et al.,* 2016).

The focus strategy has its own set of limitations (Mita *et al*., 2017). Porter claims that firms that adopt a focus strategy may have higher production costs as they buy in small volumes. Thus, they may not enjoy economies of scale (Thompson jnr *et al.,* 2016). Today's market environment is increasingly volatile, customer preferences are constantly changing (Kaya, 2015). This entails that no permanent segment can exist for long (Lynch, 2003 cited in Dadzie *et al*., 2013). Despite these shortfalls of the focus strategy, SMEs are likely to adopt this strategy to select segments that are not served by larger firms and also which are less vulnerable to substitutes (Tanwar, 2013).

Porter claims that the generic strategies are incompatible to each other (Lynch, 2015). Mita *et al*. (2017) claim that when firms attempt to build a competitive advantage using all the three strategies, they risk failing to have an advantage at all. For example, firms that offer quality products may risk undermining

their quality if they also aim at becoming the industry's cost leaders (Thompson jnr *et al.,* 2016). In this respect, Porter (1980) cited in Dadzie *et al*. (2013) notes that is they follow no valid strategy, hence may have guaranteed low profitability infact they are "stuck in the middle". Porter (1980:40-41, 1985:16) explains:

> *"The generic strategies imply different organisational arrangements, control procedures, and inventive systems. As a result, sustained commitment to one of the strategies as the primary target is usually necessary to achieve success. [A firm] either must take the steps necessary to achieve cost leadership…. or it must orient itself to . . . focus . . . or differentiation".*

According to Porter (1980) stuck-in-the-middle firms "have not differentiated their products, do not lower their costs effectively, or have not focused on a specific market segment". Thus, they have low profitability as they lack a particular strategy thy follow. Porter further states that these firms try to be "all things to all people" and in that process set themselves up for mediocrity. These firms end up failing to make strategic choices that position them competitively (Porter, 2001).

According to Porter (2008), successful firms only select one of the three generic strategies at a time. Surprisingly, recent scholars in strategy have castigated Porter's argument of being "stuck in the middle" (Yamin *et al.*, 1999; Lau, 2002; Miller & Dess, 1993 cited in Parnell, 2005; Wright, Filatotchev, Hoskisson & Peng, 2005; Parnell, O'Regan & Ghobadian, 2006; Allen & Jagtiani, 2010; Parnell, Long & Lester, 2015; Batista, Lisboa, Augusto & Almeida, 2016; Spanos, Zaralis & Lioukas, 2004; Thornhill & White, 2007).

However, whilst it is important for SMEs to formulate business strategies, it is equally important to assess the effectiveness of business strategies they adopt (Mita *et al*., 2017). En route to the accomplishment of its objectives, this thesis provides the business strategies employed by Zimbabwean SMEs.

3.4 STRATEGY FORMULATION

Anthony (1999) notes that strategy formulation culminates to the realisation of business strategies to be executed. Thus, strategy formulation is the process by which a strategy is created (Husnah *et al.,* 2013). The literature on strategic management shows that the terms strategy formulation, strategy making, strategy development and strategic planning are interchangeably used to mean the same thing (Klatt *et al.,* 2011). Table 3.2 below presents some of the frequently quoted definitions of strategy formulation.

TABLE 3.2: DEFINITIONS OF STRATEGY FORMULATION

SOURCE	DEFINITION
Andrews (1971)	A process of finding a match between organisational capabilities and opportunities that are present within the competitive environment.
Drucker (1977)	A process of making entrepreneurial decisions systematically and with the best possible knowledge of their futurity; systematically organising the effort needed to implement decisions and measure results against expectations by systematically providing feedback.
Porter (1980)	A set of analytical techniques for developing strategy with a strong emphasis on strategic thinking.
Mintzberg (1990)	The process of informal conception- the use of a few essential concepts to design a "grand strategy".
Kotler (2000)	The managerial process of developing and maintaining a viable fit between the organisation's objectives and resources and its environmental opportunities.
Singh (2009)	Includes the development of the company's vision, mission, identifying an organisation's external opportunities and threats, determining internal strengths and weaknesses, establishing long term objectives, generating alternative strategies, and choosing particular strategies to pursue.
De Wit and Meyer (2010)	A logical activity that includes identifying opportunities and threats in the company's environment and attaching some estimate of risk to the discernible.
Auka and Langat (2016)	The process of selecting the most appropriate course of action for the attainment of organizational goals and objectives and, thus, facilitating the realisation of both long term and short term objectives.

Source: Own compilation

The above definitions emphasise that business strategies are formulated in line with the organisation's resources, environment, and strategic objectives. De Kluyver (2000:07) asserts that strategy formulation follows three fundamental stages *"where are we now, where do we go, and how we get there".* The strategy-making process is discussed in the next section. This thesis is premised on Sing's (2009) definition of strategy formulation which emphasises the setting of objectives, analysis of the business environment to formulate strategies that are carefully chosen.

Meier, O'Toole, Boyne and Walker (2010) propose that strategy formulation should become a guide to SMEs in defining the business they are in, the ends they seek to achieve, and the means they use to accomplish these ends. Academics have echoed the uniqueness of the SME strategy formulation process (Ates, 2008; Germanos, 2012; Nyamwanza, 2015; Kraus & Reich, 2007; Singh, 2009).

Thus, this study sought to carry out an empirical investigation on the SME strategy-making process with special attention to its attributes and uniqueness. The study, therefore, provides an understanding of SME strategy formulation grounded on organisational practices rather than mere theoretical conceptualizations. Chae and Hill cited in Musandiwa (2014:112) stress the need for managers to

determine how the entire process of developing a strategy should be conducted to ensure that sound and credible strategies are formulated.

3.5 STRATEGY FORMULATION PROCESS

A wider range of strategy formulation process models exists in the strategy literature (Musandiwa, 2014). However, Feurer and Chaharbaghi (1995) cited in Musandiwa (2014) posit that no one strategy formulation model is superior to others. Musandiwa (2014) emphasises that what is important is that strategy development must be grounded on thorough situational analysis.

In his early works, Mintzberg (1994) identified three main ways in which strategies are developed, the planning model, the entrepreneurial model, and the learning by experience model. Mintzberg (1994) describes the planning model as a fully controlled thought out process for strategy making. He advances that the planning model produces a fully developed strategic plan ready for execution. The views of Mintzberg are shared with many academics such as Salehi *et al*. (2014), Wheelen *et al*. (2014), Hill and Jones (2008), Analoui and Karami (2003), and De Wit and Meyer (2010), among others.

These scholars agree that strategy making takes a linear process through several steps (De Wit & Meyer, 2010:6; Pitt & Koufopoulos, 2012) that include the determination of the mission of the organisation, analysis of the environment, development of strategies, selecting the best and then implementation of the strategy (Hill & Jones, 2008; Analoui & Karami, 2003). The main distinguishing factor in this process is formalisation (Musandiwa, 2014).

The second strategy making model is the entrepreneurial model, which is a semi-conscious process that yields both personal and informal plans (Feurer & Chaharbaghi, 1995). According to Musandiwa (2014), the entrepreneurial model is mostly found in organisations where the owner or entrepreneur owns and controls the business. Thus, this model is found in entrepreneurial businesses (Mintzberg & Waters, 1985). The outcome of the entrepreneurial model is entrepreneurial strategies that are imposed by owner-managers personal control.

The final model is the learning by experience model. According to Mintzberg and Waters (1985), strategies develop from adjustments and dynamics within the business environment. With the learning by experience model, strategy formulation and implementation takes place at the same time (Idenburg, 1993). This is in contrast to the planning model where a strategy is formulated and the execution takes place at a later stage.

Mindful of these planning models, Mintzberg and McHugh (1985) claim that strategy formulation can either be deliberate or emergent. Researchers who advocate for the planning process argue that strategy formulation must be seen as an analytical and systematic process (David, 2013; Li, Guohui & Eppler, 2008). Systematic strategy formulation makes it more likely that breakthrough business strategies are developed (Zain, Turkyilmaz, Acar, Al-Turki & Demirel, 2012).

De Wit and Meyer (2010) cited in Musandiwa (2014) claims that strategies are consciously created just the same way engineers design a bridge. The following section examines the steps followed in the formulation of strategies in greater detail.

3.5.1 Development of the strategy purpose

The first step in strategy formulation is to develop the strategic purpose that is the mission and vision of the organisation (Musandiwa, 2014; Pearce II *et al.,* 2016). The mission statement, provides the background onto which the strategy is crafted (Hill & Jones, 2008:8; Nienaber, 2010). Adamoniene and Andriuscenka (2007) sees the vision as the ideal picture that the owner upholds for his/her business. Sami (2016) posits that a clear vision directs the formulation of the mission statement.

The mission statement gives the unique purpose of an organisation, that is, its business (Pearce & Robinsons, 2011) and distinguishes one firm from another (Thompson jnr *et al.,* 2005). The mission statement reminds business stakeholders of the organisational purpose (David, 2013:40). The mission statement should be communicated and made clear to all stakeholders (Analoui & Karami, 2003).

According to David (2013), the vision statement establishes what the organisation wants to become in the future. According to Kruger (2018:89) "a vision statement usually paves the way for the development of a mission statement". The review of literature has shown that the vision can be combined with the organisation's mission to produce a strategic mission statement (Gates, 2013).

3.5.2 Establishing strategic objectives

According to Auka and Langat (2015), setting objectives is a major component of the strategy development process. The definition of strategic objectives involves the identification of performance targets needed in the form of objectives (Analoui & Karami, 2003; David, 2013; Pearson II *et al.,* 2016). Pearce and Robinson (2005) cited in Magaisa *et al.* (2013) maintain that objectives are results of planned activities. Magaisa *et al.* (2013) add that objectives clarify what needs to be accomplished, by when. Sami (2016) states that objectives need to be cover areas such as customers, returns, stakeholders, market share, and even social responsibility. Strategic objectives are important for assessing the success of organisations (Jones & Hill, 2010).

Strategic objectives provide direction on how the organisation fulfills its strategic purpose as specified in the mission statements (Dess *et al.,* 2010; Adendorff *et al*., 2011). Verreynne *et al.* (2014) clarify that the strategic objectives need to be consistent with the mission statement. Thus, the firm's objectives of an organisation should be integrated with the firm's overall strategy.

3.5.3 Environmental audit

An organization exists in an environment (Verreynne *et al*., 2014). Hence, its very survival is generated and conditioned by its environment (Boyd, Bergh, Ireland, and Ketchen, 2013). It becomes imperative for organisations to monitor their environment to adapt and respond (Amason, 2010; David, 2013). Hill and Jones (2010:17) note that "The underlying importance of environmental scanning is captured in Darwinian laws: (a) the environment is ever-changing, (b) organisms can adapt to a changing environment, and (c) organisms that do not adapt do not survive". Organisations live in constantly changing environs, many things that they take for granted now can not be ever imagined in 50 years to come (Elshamly, 2013; Boyd *et al.,* 2013).

Environmental scanning is viewed as a prerequisite to formulating business strategies (Côté, Vézina, & Sabourin, 2005; Cheng *et al.,* 2014). Du Toit (2016). claims that the successful alignment of competitive strategies with environmental requirements is dependent upon effective scanning of the environment. A firm's environment consists of three facets: the internal environment, the industry environment, and the macro (mega) environment (David, 2013; Thompson jnr *et al*., 2010). Environmental changes at each level represent constant challenges to the organisation to remain relevant and viable (Whelan, 2010). Thus, the analysis of each environmental context forms the backdrop of any strategy-making process.

3.5.3.1 Internal Environment

The internal analysis involves the scanning of the innermost layer of the strategy context, which is the organisational context (Whelan, 2010, Gupta, 2013). The organisational context consists of all those organisational characteristics and factors that are inherent to the life of that entity, for instance, culture, history, the demographic profile of workers, size of organization, policies, politics (Harrison, 2006).

The firm internal analysis help firms to examine the quality and quantity of their intangible and tangible resources (Barney & Arikan 2001). An understanding of the firm's environment is critical in identifying its strengths and weaknesses (Jones & Hill, 2010; David, 2013). The Resource-Based View (RBV) is one of the frequently used tools to analyse and interpret the internal environment of firms to understand how organizations craft strategies that give a sustainable competitive advantage (Aaker, 2007).

Hence, in recognising the extensive nature of the internal environment of firms, it becomes apparent that internal to every organisation there is a context unique to it and this has far-reaching implications for strategy development (David, 2013). Empirical studies have shown that most SMEs in Zimbabwe appraise their internal environment informally, without having any proper methodology (Nyamwanza *et al.,* 2015; Mufudza *et al.,* 2013; Mhizha, 2014).

3.5.3.2 Micro-environmental analysis

The analysis of the internal environment has been blamed for being too inside looking (Porter, 2008; Huang, 2012). Thus, the internal analysis should be complemented by the industry analysis to bring a framework for understanding the firm's controllable environment (David, 2013). The analysis of the industry comprises the diagnosis of the relative power of all the players in the supply chain with a purpose to develop strategies to improve the profit-making position of the firm (David, 2013).

The industry environment consists of forces that influence the firm's competitive moves and responses (Thompson jnr *et al.,* 2016). Hence, businesses need to understand how changes in their industry environment influence their competitive position in the market place (Dess *et al*., 2010). According to Porter (1985), cited in Adendorff *et al.* (2011) five forces in the industry make up the competition. These forces are the barriers to entry (also described threat of new entrants), powerful buyers, powerful suppliers, the existing competition, and last but not least, the threat of substitute products (Porter, 1985; Choo, 2001; Hunger & Wheelen, 2003).

A change or shift in any of the forces requires firms to re-assess their marketplace (Adeyemi, 2009). The analysis of the industry provides an opportunity for firms to anticipate profitability over time (Cancellier, Blageski & Rossetto, 2014). Consequently, organisation needs to understand forces in the industry environment and their underlying causes.

3.5.3.3 Macro-environmental analysis

The macro-environment also called the mega or remote environment includes factors that are beyond the firm's control. The external forces that help shape the behaviour of organisations are summarised by the PESTEI model (Blackwell & Eppler, 2014; Cheng *et al.,* 2014). This is an acronym for "Political, Economic, Social, Technological, Environmental and International environment" (Du Toit, 2016). The impact of these factors varies from one firm to another depending upon the purpose of the organisation (Sami, 2016).

Strategy making is made complex by a changing macro-environmental force, coupled with the fact that business owners do not have control over them (Du Toit, 2016). The analysis of the macro-environment provides both threats and opportunities (David, 2014; Whelan & Hunger, 2012). Hence, firms need to formulate strategies that capture opportunities while minimising the impact of threats from their environment (Aldehayyat & Twaissi, 2011). Equally important is that SMEs need to respond to these environmental pressures by matching their organisations to the changing environment (Ekwulugo, 2006).

Strategy formulation in SMEs is made difficult by the fact that most of the information required is simply not available to assist in strategizing (Cancellier *et al.*, 2014). The apparent lack of information infrastructure compounds the failure to track and control changes in the environmental factors (Agbim, Oriarewo & Zever, 2014). Hence, strategy formulation becomes instinctive and spontaneous in SMEs (Mboko & Smith-Hunter, 2009 cited in Nyamwanza, 2015).

Haase and Franco (2011) note that the extent to which firms can adapt to their environments is dependent upon their knowledge and interpretation of the changes in their environment. Hence firms can only formulate strategies that fit well with their environments if they have the information (David, 2013). The next section discusses the synchronisation of information from the firm's two environments.

3.5.4 Integration of information from the external and internal environments

The analysis of the business environment helps to identify its internal strengths and weaknesses (Hadighi, Sahebjamnia, Mahdavi & Mohsen, 2013) and compares them with their external threats and opportunities (Rezvani, Gilaninia & Mousavian, 2011). Successful strategy formulation requires firms to gather internal information and integrate it with the findings from the analysis of the external environment (Helms, Rodriguez, de los Ries & Hargrave, 2011). Helms *et al.* (2011) further point out that the ability of firms to look at external opportunities, threats, internal strengths, and weaknesses allows them to develop appropriate strategies.

One model that can be used to match external opportunities and threats to internal strengths and weaknesses is the SWOT framework (David & David, 2015; Whelan & Hunger, 2012; Analoui & Karami, 2003). The acronym SWOT stands for Strengths, Weaknesses, Opportunities, and Threats (Thompson jnr *et al.*, 2016). The SWOT analysis is based on the recognition that effective strategies enable firms to mitigate the adverse impacts of threats and weaknesses and at the same time capitalising on their opportunities and strengths (Hadighi *et al.*, 2013; Carlsern & Andersson, 2011).

Thompson jnr *et al.* (2016:93) notes that "the final piece of the SWOT analysis is to translate the diagnosis of the firm's situation into actions for improving the firm's strategy and business prospects". In summary, Hay and Castilla (2006) cited in Musandiwa (2014) posed the following questions that the business should answer to formulate an effective strategy.

- How can businesses use the strengths they have?
- How can businesses stop their weaknesses?
- How can businesses exploit each of their opportunities?
- How can businesses defend themselves against threats?

3.5.5 Strategy analysis and choice

Sami (2016:53) describes strategy analysis as "a process by which an organisation examines its own internal or corporate characteristics and capabilities, and identifies the most important features of the external environment within which it must operate". The process of choosing a strategy is a negotiated outcome between the organisation's resources, competences, and opportunities from the external environment (Thomson jnr *et al*., 2007; David, 2014). The matching of the strengths, weaknesses, opportunities, and threats provides managers with an array of strategies to choose from (Thompson *et al*., 2007; Whelan & Hunger, 2012; David, 2013).

Singh (2009) points out that the analysis and choice stage of the strategy formulation process involves the development of various strategies leading to the selection of the best strategy to pursue. Thus, the strategic analysis and choice stage is essentially a decision-making process consisting of three main steps namely: identifying alternative strategies, evaluating the alternatives, and lastly selecting the most appropriate strategic option.

This section has discussed the steps followed in the strategy formulation process as informed by strategy formulation theory (David, 2013; David & David, 2015; Hill & Jones, 2013; Lynch, 2015; Mintzberg *et al.,* 2005). The strategy formulation stages are not isolated but rather interdependent (Mintzberg *et al*., 2005). Academics still insist that strategy formulation in SMEs does not reveal exhaustive strategic analysis, but one grounded on instinctive approaches (Nyamwanza, 2015; Husnah *et al.,* 2013; Musandiwa, 2014; Sami, 2016; Burke & Jarratt, 2004). This is subject to research in this current study.

3.6 EMPIRICAL STUDIES OF STATUS OF STRATEGY FORMULATION AMONGST SMEs

The literature contains various studies on SMEs' strategy formulation about its practice, mechanics, and perceived importance thereof. This section offers a discussion of the findings from previous studies on strategy formulation amongst SMEs in different research contexts.

3.6.1 Strategy formulation amongst SMEs in developed countries

Kraus and Schwarz (2007) investigated how small and medium enterprises use strategic planning of their businesses. Accordingly, they observed that small and medium-sized enterprises seem to use less strategy planning than large corporations, but success seems to be a function of strategic planning use. Kraus and Schwarz (2007) consider that strategic management is the last stage that managers and owners of SMEs can achieve in their predictive function.

Gica and Balint (2012) analysed the strategy process of Romanian SMEs and found out that although most owners and managers of SMEs claim to exercise the planning function, less than 50% of them formalize this activity is strategically written plans while 15% of SME owners claimed they did not carry out predictive activities on the evolution of their own businesses. They also noted that the strategic planning horizon is most common for up to 3 years. It was also established that the intensity with which SMEs perform strategy formulation activities increases with their age. This is consistent with the claim by Mazzarol, Rebound and Volery (2010) that the need for greater strategic planning in SMEs grows with increasing firm size.

Glaister, Dincer, Tatoglu, and Demirbag (2009) conducted a study to compare and contrast the nature and practice of strategic planning in two different environmental contexts, the UK, and Turkey. They established that there are several significant differences between the strategic planning practices of Turkish firms and UK firms. For instance, Turkish managerial practices are a highly centralised organisational structure, reliance on short-term planning reactive rather than proactive strategies, and long-term vertical relationships. On the other hand, the strategic decision-making and planning practices of UK managers have been described as formal and guided by unwritten rules (Glaister, 2009).

Glaister et al. (2009) concluded that Turkish SMEs rather than the UK SMEs are more favourably disposed to formal strategy formulation, as reflected in the greater adoption of and commitment to the dimensions of strategy formulation. Consistent to that, in a comparative study of UK and Brazilian managerial decisions, Arruda and Hickson (2012) established that UK SMEs rely on a larger number of information sources, and decision making is more formal.

Siddique (2015) compared the strategy development practices of large organisations and that of SMEs in the United Arab Emirates (UAE). He established that the main differences between SMEs and large firms are the type of strategies used, the extent to which they use strategic planning tools, and the time horizon of their strategies. Siddique (2015) claims that emergent strategising is common in the UAE SME sector. Moreover, the SMEs plan ahead for a shorter period (less than five years), and tend to use a limited number of strategy formulation tools. The reason SMEs do this might be to keep track of changing customer needs and address them promptly, i.e. to be flexible (Siddique, 2015).

Mattheeusen and Spontak (2018) conducted a study to establish the strategic formulation practices in Swedish SMEs. Concerning strategic tools and models, the SMEs' level of awareness is remarkably high. This is in contrast with the literature review that the majority of managers in charge of SMEs are unaware of strategic planning tools and techniques, apart from the fairly well-known SWOT analysis (Qehaja, Kutllovci & Pula, 2017). The findings showed that Swedish SMEs were more mature in strategy formulation. The Swedish SMEs consider formalisation to be of special relevance in strategy formulation. These are contrary to Siddique's.

Tell (2010) conducted a study aimed at obtaining a better understanding of the strategic management behaviour of top managers in small, fast-growing manufacturing firms in Sweden. The findings showed that top managers have activities that took the majority of their time. Much of their time they spend either operational (for instance, activities related to production, marketing, and sales) or administrative (for instance, activities related to the firms' personnel and financial issues). Thus, this is evidence that little time is spent on strategic activities. These findings help explain the slow growth or death of many SMEs.

Chiew (1998) cited in Abosede *et al*. (2016) examined strategic planning as a management tool for SMEs, intending to help enhance their growth. It was revealed that the usual strategy development frameworks of environmental analysis, choice, and implementation of the strategy were followed. However, much focus was directed at the threat aspects of the external environment. Chiew (1998) concluded that strategic management aspects are still and largely relevant to SMEs.

Kraus, Reiche and Reschke (2013) conducted a study in the emerging economies to explain why SMEs seem not to plan like their larger counterparts and if strategic planning practices were a function of firm size. The findings showed that strategic planning was not a function of size. Kraus *et al*. (2013) noted that the majority of studies failed to give proper answers to these questions as they are often limited to those enterprises that have already been identified as conducting strategic planning or to the surviving enterprises whereas failed companies were not considered.

In a descriptive survey, Wang, Walker and Redmond (2011) to interrogate the barriers to planning in SMEs it was observed that ownership motivations are key to understanding strategic planning practices of SMEs. The study revealed that strategic planning is often practiced in SMEs where owner-managers pursue economic agendas such as profits.

The review of the literature shows that several studies on strategy formulation were conducted in the developed world. The key finding of the review of literature is that the majority of SMEs appreciate the role of strategy formulation however because of certain inherent charectersistics they don't formalise it. These studies were conducted in countries characterised by mature technologies and industries, therefore the results cannot be extended to other countries with immature technological advances and industries such as those found in developing countries, Zimbabwe included. The results are of less significance, taking the case that Zimbabwe is a political economy. Results from other developing countries would rather be of more value as the countries share the same challenges and characteristics. The following section presents empirical evidence from developing countries.

3.6.2 Strategy formulation amongst SMEs in developing countries

In Botswana, Majama and Magang (2017) conducted a qualitative study to investigate the status of strategic planning amongst SMEs. The study established that strategy formulation efforts do exist within SMEs as most enterprises engaged in strategic planning activities to a limited extent. The study found that this was due to a lack of strategic planning knowledge, and the "small" size of SMEs. They also observed that some SMEs' owners/managers still possess traditional based thinking where most business decisions are based on intuition.

Sandada et al. (2014) conducted a study to establish the influence of strategic planning practices on business performance among SMEs in the Gauteng province of South Africa. They found that elements of strategy formulation such as environmental scanning, and development of the business mission and vision were visible. However, the study found out that SMEs did not properly do their strategy planning according to conventional theory. In support of this Nkulu (2012) observed that in South Africa, SMEs owner/managers are not aware of strategic goal techniques and methodologies and they are also not able to implement such procedures in their business operations.

Sandada (2015) also noted that SMEs in South Africa have the preconception that strategic processes are only suitable to large enterprises, and not beneficial to smaller companies. This is inconsistent with the claim by Thompson, Bounds, and Goldman (2012) that majority of SMEs in South Africa are in favour of and supported the notion of strategy formulation despite they do it haphazardly.

Hin, Kadir and Bohari (2012) conducted a study to examine the relevance of the formal strategic planning to SMEs and justification for the Wheelen and Hunger (2008) strategic planning model to SMEs in the Asian context. The results of the study indicated that most of the SMEs have strategic planning processes that resemble the Wheelen and Hunger strategic planning model. Thus, SMEs in Asia prefer to follow basic strategic formulation phases when developing their strategies.

In another study of strategic management in SMEs, Amoah-Mensah (2011) used the Ordinary Least Square method to find answers to the strategic resources that influence the performance of SMEs in Ghana. It was discovered that both firms' internal and external resources are important strategic resources in strategising for improved performance.

Ogunsiji (2012) conducted his study in Nigeria to investigate the influence of demographic factors on small scale enterprises. It was revealed that there was a substantial level of strategic management approach practiced including strategy formulation, though at varying degrees, in small scale enterprises. It was also noted that there was a significant incidence between the level of strategy management practiced and the level of corporate performance of small scale industries.

In a separate study of Nigerian SMEs, Tiemo (2012) examined the existing strategy-making processes of small and medium-sized enterprises in Delta State to know if they adopted more of unconscious actions in strategy development. It was observed that SMEs' strategy formulation can be described as reactions to issues and challenges as they occur. These findings are similar to Nyamwanza (2015) who also concluded that SMEs' strategy-making can be described as mere fine-tuning to changes in the business environment.

In summary, strategy formulation in developing countries seems to be reactive especially to economic challenges. Due to rapid changes in business environment strategy formulation in many SMEs though resembling the conventional textbook theory is not properly conducted (Sandada, 2015).

3.6.3 Strategy formulation amongst SMEs in Zimbabwe

Prior studies have argued that, generally, SMEs do not engage in formal strategy formulation planning (Sandada, 2015; Nyamwanza, 2015) while Makiwa (2018) claim that of the SMEs that formally plan, the majority tend to do so infrequently and inconsistently. Several analysts have found contrasting evidence of strategy formulation on the part of SMEs in Zimbabwe.

Mboko and Smith-Hunter (2009) confirm that the high performing SMEs in Zimbabwe do not necessarily have strategic plans as presented in the strategy literature but have a clear, predetermined sense of direction. Mboko and Smith-Hunter (2009) observed that these SMEs set the direction guided by their goal orientation, particularly with regard to markets and products. They have a business vision and activities are guided by that vision. An interesting finding of Mboko and Smith-Hunter's (2009) study is that while entrepreneurs who adopt complete planning have a vision, their focus is short term and they have high situational responsiveness. As such, Mboko and Smith-Hunter's (2009) concluded that Zimbabwean SMEs are in the early stages of strategy formulation, and it is unlikely that they are using strategic planning tools.

The study by Mufudza *et al*. (2013) concluded that in instances where strategy planning is adopted in SMEs, studies have revealed that it is often unstructured and irrational. Mufudza *et al*. (2013) note that often the strategy process is based on unreliable and insufficient information, usually gathered through informal means. Nyamwanza (2015) concurs and adds that when entrepreneurs employ strategic thinking, such activities are rarely rational and logical due to insufficient resources and lack of expertise.

Mhizha (2014) conducted a study to assess the extent to which small and medium scale enterprises were compliant with the fundamentals of strategic management as exhibited by the chameleon in its environment using the chameleon survival strategy as the standard. The key findings were that SMEs failed the Chameleon Survival Strategy Model test, based on the overall value of the model's index obtained after data analysis. It was concluded that SMEs did not practice strategy development as they were not consistent with the chameleon survival strategies, outlined in the model's seven attributes.

Although remarkable progress has been made in the discipline of strategy formulation, the problem of poor performance persists (Nyamwanza, 2015; Bomani et al., 2019; Mabenge et al., 2020; Dandira, 2011). This study seeks to gain a profound understanding of strategy formulation in Zimbabwean SMEs, but, more importantly, establish the approaches that SMEs adopt to formulate strategies, given the country's continued economic challenges. Do they follow a rational approach in formulating strategies or the emergent, and how does the approach they adopt influence business strategies? The literature review did not clear picture of strategy formulation amongst SMEs. During the hyperinflationary era in Zimbabwe, most SMEs are changing strategies an average of four times a week, due to external forces (Makanyeza & Dzvuke, 2015). This influences the strategy making process in SMEs.

3.7 STRATEGY FORMULATION APPROACHES

The strategy making process of firms has been one of the most hotly debated issues in strategy (Germanos, 2012; Hashim, 2016). The way organizations formulate their strategies has become one of the most congested areas of debate in the strategic management discipline (Hadighi *et al.*, 2012; Papulova & Papula, 2014). The development of business strategy in strategic management is derived from two schools of thought, "one school believes that strategy is a formal process, and the other that strategy is a perception of a way of doing business", (Fuller-Love & Cooper, 2000). The following section presents the two approaches adopted by the businesses in formulating their strategies.

3.7.1 Planned approach

The prescriptive approach is the traditional approach to strategy development (Papulova & Papula, 2014). The Chandler (1962) definition of strategy presents a classical view of the 'prescriptive' perspective to strategy formulation (Alhilou, 2015). The prescriptive approach, also known as the deliberate approach is based on the view that strategy formulation must be long term and rational (David, 2013; Pitt & Kouropoulos, 2012). According to Jamil and Shar (2015:4) deliberateness implies "the quality of acting intentionally; when people act intentionally, they think before they do".

Considerable work in prescriptive strategic formulation came from Ansoff, Andrews and Chandler (Jamil & Shar, 2015). Ansoff (1954) views strategy formulation as essentially starting the scanning of the environmental challenges and anticipating any changes, and then developing suitable strategies that would respond to these challenges. The prescriptive uses basic phases of the strategic management process (David, 2013; Wheelen & Hunger, 2014). Hence most strategy management publications use this structure to explain the process of strategy development (Papulova & Papula, 2014).

A deliberate approach to strategy making has been criticised for failing to epitomise reality, and the changing SME environs (Mintzberg *et al*., 2009; Hax & Majluf, 2013; Maritz, 2010). In these

environments, information is not readily available to the owner-manager (Blackburn, Hart and Wainwright, 2013). Fletcher and Harris (2002) cited in Blackburn *et al.* (2013) adds that it can be argued that due to the complexity and unpredictability of the environmental factors strategies tend to emerge over time especially in small businesses.

The literature on strategic management, under the deliberate approach, makes a flawless distinction between two sequential phases that is strategy formulation and strategy implementation (David, 2014; Elshamly, 2013). However, scholars such as Mintzberg (1978), (1987), Mintzberg & Waters (1985), have disputed this definitive distinction between these phases of the strategy process (Elshamly, 2013). Mintzberg *et al*. (2009) argue that there is more of a grey area between strategy formulation and strategy execution.

The rational approach is applicable within large organisations, as they have executives, who are very much focused on long-range planning (Tarter & Hoys, 2010; Hamel & Prahalad, 2005). In the same spirit, Wiesner and Millet (2012) have warned that due to the variability in the SME sector, it is difficult to identify a single deliberate approach to adopt for strategy formulation. Furthermore, SMEs have been blamed for being short-sighted in their thinking (Dumbu, 2014; Nyamwanza & Mavhiki, 2015).

Thus, the deliberate approach to strategy making may not be effective in SME strategy formulation (Mintzberg *et al.*, 2009:12). Chandler (1962) was deeply concerned over SMEs, which he said tend to be more strategically active in the short-term (Elshamly, 2013), focusing on day-to-day activities (Nyamwanza, 2015; Singh, 2009), and, therefore, losing sight of longer-term objectives (Hashim, 2016:3). However, some academics still hold the belief that formal strategy making is "the key to SMEs' success (Kemp & Verhoeven, 2002; Richbell, Watts & Wardle, 2006; Mazzarol *et al.*, 2009) since it makes uncertainties clear (Harshim, 2016) and ensures all the alternatives are considered (Mazzarol *et al.*, 2009).

3.7.2 Emergent approach

The prescriptive approach asserts that strategies are developed intentionally and purposefully (Maritz, 2010). However, Mintzberg *et al.* (2009) argue that strategy formulation is often a less prescribed and planned process. Mintzberg et al. (2009:12) claim that "strategy often emerges as a cumulative pattern of actions that are only retrospectively rationalised and organised as a plan". Hence, the emergent approach is also labeled the 'logical incrementalism' (Lindblom, 1959; Quinn, 1978; Harrington, 2001), the 'learning perspective' (Mintzberg *et al*., 1998); the 'Intuitive Learning Model' (Jama & Jin, 2010); the 'descriptive' (Yazdani, 2010). The emergent approach evolved from the complexity theory (Bovaird, 2008). The complexity theory claim that planning is questionable because the future is unpredictable (Bovaird, 2008 Hadighi *et al.*, 2012).

Reeves, Love and Tillmanns (2012) assert that "the main difference between the deliberate and the emergent strategy approaches is that, the emergent opens up the notion of strategic learning, while the deliberate focus on directions and control that is getting things done". (Bozkurt & Kalkan (2013) observed that emergent strategies "result from manager's daily response to problems or opportunities that were unforeseen by those engaged in the deliberate strategy-making process, at the time they were doing their analysis and planning". Thus, the logical incrementalism approach suggests that, due to the environmental instability and complexity, strategies cannot be specified in advance however they could be changes that managers can make over time (Papulova & Papula, 2014; Hamel & Prahalad, 2005).

The learning perspective leaves the strategy open and shapes it constantly (Papulova & Papula, 2014). In the same vein, Lynch (2009) asserts that normally the elements of the strategy are developed as the strategy proceeds. This makes the emergent approach much more real as it focuses on how business strategies in real life are formulated and executed (Hashim, 2016).

The emergent approach to strategy development is more appropriate to small firms as they are reactive, flexible, and adaptive (Harris, Forbes & Fletcher, 2000, Chen & Hambrick, 1995 cited in Germanos, 2012). In support of this claim, Nyamwanza (2015) submits that the strategy development of many small and medium enterprises in Zimbabwe is emergent, as they do not plan, instead often look for prospects to come their way.

Mintzberg *et al*. (2009) advice that strategy formulation is rarely either wholly deliberate or emergent however very few are purely emergent. Thus, real practical strategies comprise a mix of learning that allow for flexibility, and rationality for direction (Mintzberg *et al.,* 2009).

3.8 EMPIRICAL STUDIES INVOLVING SME STRATEGY FORMULATION APPROACHES

There are mixed feelings on what approach to strategy formulation should SMEs take (Hashim, 2016; Nyamwanza, 2015; Hadighi *et al.,* 2012; Papulova & Papula, 2014). Various studies have looked into the approaches that SMEs could use when formulating their strategies. This section presents findings from existing studies.

Leitner (2007) in Austria, conducted a longitudinal study in 1995 and in 2003 to investigate the nature and role of different strategy-formulation modes in 91 SMEs. The findings of the study revealed that the majority of Austrian SMEs adopted, at one time or the other, the deliberate strategies while only one company testified of using a pure emergent approach to strategy making. The findings tend to validate Mintszberg et al. (2009) claim that SMEs should combine the two approaches in formulating their strategies.

These results support the conclusions of Menzel and Günther (2012) who observed a lack of formal strategic planning in small businesses in Germany. They concluded that strategy development in SMEs is adaptive, emergent, and often grounded on personal relationships. Kraus & Kauranen (2009) carried research to better understand the intersection of two academic fields: strategic management and entrepreneurship. The study was based at analysing the existing literature on these fields, with the aim of knowledge generation. The result of the analysis indicated that only 29.5% of the SMEs had a written business plan.

Adendorff *et al.* (2011) conducted a study on the strategic management practices in SMEs in the construction industry, in Eastern Cape, South Africa. The study was based on a review of existing literature and a qualitative research approach was adopted. It was established that SMEs regularly conduct a SWOT analysis, have clear strategic objectives. This is an indication that SMEs in the construction industry, in South Africa, adopt a more rational planning approach to strategy making.

In a similar study, Kiruja (2011) surveyed to analyse the strategic management practices in Kenyan SMEs. The study found out that the majority of surveyed firms did not have any formal or well thought out strategic management structures or mechanisms. Irungu (2011) explored the formal planning processes among the SMEs in Mombasa, Kenya. The study revealed that 53.0 % of the respondents had formal and documented strategy steps, for instance, n the form of well-articulated plans and objectives. Irungu concluded that SMEs in Mombasa adopted rational strategy processes but to a lower extent.

Mutua (2012) carried out a study aimed at investing in the strategic planning practices in small businesses in Kisumu Business District, Kenya. It was found out that SMEs adopted strategic planning to varying degrees. Of interest, the study noted that the level of appreciation and adoption of strategic planning by micro and small enterprises was still low to effect sustained growth and ensure survival. The study discovered a gap between strategy formulation and implementation. Of interest, the study revealed that SMEs over-concentrate on operational issues of strategy instead of long-term strategic issues that could spur them to growth and survival.

Wiesner and Millett (2012) conducted a survey aimed at determining whether Australian SMEs' strategic approaches could be said to be 'deliberate' or 'emergent'. The survey questionnaire was distributed to 1 230 Australian SMEs. The findings showed that Australian SMEs believe in deliberateness when formulating their strategy. It was also discovered that Australian SMEs have written vision and mission statements with supporting objectives.

Bozkurt and Kalkan (2013) examined the strategic focus of Turkish SMEs; whether they adopt a deliberate or emergent approach in strategy development. The survey, conducted in Antalya, collected data from 192 small firms, top managers. According to Bozkurt and Kalkan, the most outstanding finding from the analysis was that SMEs adopt rational approaches to strategy making.

Hin, Kadir and Bohari (2013) investigated the applicability of the rational-formal strategy planning to SMEs in the Asian context. Their study examined the applicability of the Wheelen & Hunger (2008) strategy model. The study noted that in the aftermath of the Global recession of 2008-2009, SMEs could plan and strategize. The findings concluded that SMEs' strategic planning in Asia resembles the Wheelen & Hunger strategic management model. These results imply that the model can be applied in the Asian SME context.

However, these results failed to validate Chen and Liu's (2012) findings. Chen and Liu (2012) did a qualitative study to explore the nature of strategic management in Chinese manufacturing small enterprises. It was found that all fifteen SMEs examined were adopting strategic management techniques. Interestingly to note was that planning was informally done in simpler patterns that could not fit the strategic planning conceptual models.

Nyangara *et al.* (2015) conducted a descriptive study to examine the strategic approaches of SMEs in Kenya. The findings pointed out that 64 of the respondents preferred reactive strategic management mode while 40 tended to use the emergent strategy formulation approach. The findings revealed that of the 64 respondents only 9 adopted rational planning processes. The study concluded that, regardless of their training in rational strategic management, SMEs continue to prefer making strategic decisions based on their instincts.

Majama and Magang (2017) investigated the strategic planning practices of SMEs in Botswana. The findings of the study revealed that small and medium enterprises in Botswana practice emergent strategy-making approach to a greater extent. The study revealed that many SMEs have limited knowledge of strategic management issues. The SMEs further pointed out that they adopted the "traditional based thinking" where decision making is based on intuition.

Hence, the afore-mentioned empirical studies help to highlight significant findings from the literature about the strategic approaches that SMEs employ. There is generally a scarcity of documented information in the literature on the strategic approaches in the Zimbabwean context (Nyamwanza, 2015). Therefore, the current study sought to determine the strategy formulation approach employed by manufacturing SMEs in Harare, Zimbabwe.

3.9 FIRM PERFORMANCE

Neely *et al*. (2005) cited in Mageto (2018: 79) define performance as "the process of quantifying the effectiveness and efficiency of actions". Performance measurement in SMEs is complex as there are no generally agreed on performance measures among industry practitioners and academics (Quang *et al.*, 2016 Lebas & Euske, 2002; Achtenhagen, Naldi & Melin, 2010; Jamil & Mohamed, 2013; Gerba & Viswanadham, 2016). Firms can assess their performance by either financial indicators or non-financial

indicators (Gibson & Cassar, 2005:208-209; Elbanna & Naguib, 2009:439). The goal approach advocates that SMEs' owner-managers focus their attention on financial measures of performance (Sarkissian, 2015).

3.9.1 The concept of financial performance

The measurement of a firm's financial performance is undeniably one of the critical aspects in strategic management research (Richard *et al.,* 2009 cited in Pucci, Nosi & Zanni, 2017) especially concerning SMEs (Wood, 2006 cited in Pucci *et al.,* 2017). The review of literature illustrates that SMEs mostly prefer financial indicators (Leitner, 2010; Aragon-Sanchez & Sanchez-Marin, 2005; Hirobumi & Tanaka, 2010; Sharabati, Shawqi & Bontis, 2010; Ahmad, 2014; Harif *et al.,* 2013; Hanif & Manarvi, 2010; Ho & Choy, 2010; Bouba, 2011; Pastusiak *et al.,* 2016; Pucci *et al.,* 2017).

Financial performance reflects the strategic choices made by owners/managers (Carton & Hofer, 2010 cited in Husnah *et al.,* 2013). The analogy, finance is the corporate heart of the business, implying that any business decision should be adjusted according to its financial return (Husnah *et al.,* 2013).

The users of financial measures such as revenues and profits argue that the financials are a useful pool of resources for future growth and expansion that can assist the firm to push over its survival threshold (Murphy *et al.,* 2016) and pursue its growth strategy (Salloum, Azzi, Suissa &Khalil, 2016). Cash generation and profitability, even in the short run, are significant factors in SMEs' ability to attain its long term goals such as reputation, quality, and innovativeness (Chong, 2008). Hence their continued use by SMEs. Traditionally, firm performance has been measured solely on financial indicators as they are perceived to be objective and easily interpretable for comparative analysis (Neely *et al.,* 2005; Raymond *et al.,* 2012).

Financial measures of performance have been criticised for being historical (Matsotso & Benedict, 2014; Gijsel, 2012; Mageto, 2018), and not providing any indication of future performance (Kaplan, 2012; Wanjiru & Kalika, 2017). More so, financial performance evaluation in strategy literature requires more time (Khan, 2014; Brews & Hunt, 1999). Thus, a time lag is often advised when assessing the impact of business strategies (Ansong & Agyemang, 2016; Germanos, 2012; Mageto, 2018). Thus, a five-year average profitability measure has been used in most strategic management studies (Palmer & Wiseman, 1999 cited in Germanos, 2012). According to Germanos (2012), a five year period is sufficient enough to enable the researcher to associate the change in financial performance to strategy formulation.

Guided by these previous studies, the research adjusted this time lag in assessing the financial performance of SMEs. This study assessed financial performance on a three year period that is from

2013 to 2017. The researcher observed that during this period the business environment was fairly stable and conducive for businesses.

This study used the following financial performance indicators: sales revenue, profit, cash flows, earnings before interest and tax, return on capital employed and return on total assets. However, Wijewardena *et al.* (2014) claim that correct and reliable financial data is difficult to obtain from the SMEs owner-managers. This confirms the claim made by Achtenhagen, Naldi and Melin (2010) that it is not always easy to assess financial performance in SMEs as most of them do not have the data.

The current study adopted a subjective approach to assessing the financial performance of SMEs following the recommendations from Man (2011) and Harif *et al.* (2013). Thus, the owners/managers were asked to indicate the trend of each of the indicators during the last three years as "Very poor", "poor", "Fair", "Indifferent", "Good", "Very good" and "Excellent" using a 7-point scale. Researchers agree that in the absence of financial performance books, researchers can use relative and perceived measures of financial performance (Quilloy, 2015; Mageto, 2018; FriedLob & Schleifer, 2003, Yang *et al.*, 2009; Garelli, 2009).

3.10 EMPIRICAL STUDIES ON STRATEGY FORMULATION AND FINANCIAL PERFORMANCE

According to Kumar (2015) the impact of strategy formulation on financial performance has received worthwhile attention from academics in the last three decades however literature seems to disagree. Thus, academic literature on the relationship has shown diverse results (Wang, Walker & Redmond, 2007; Aldehayyat & Khattab, 2011; Germanos, 2012; Khan & Khalique, 2014; Wahyuni & Ratnatunga, 2015; Auka & Langat, 2016). This section discusses some of the findings from empirical studies.

Dauda *et al.* (2010) examined reviewed empirical work on the role played by strategy formulation on business performance. They discovered that some studies reported a positive relationship while others showed non-existence of the relationship.

In their study of the impact of strategic planning on firm performance of SMEs in Nakuru town, Kenya, Auka and Langat (2016) found that strategy formulation and firm financial performance is significantly and positively correlated. However, Nyamwanza *et al.* (2015) claim that superior financial performance in SMEs is usually the direct consequence of operational planning and not long term strategic planning.

McIlquham (2011) conducted a meta-analysis examination of 88 studies regarding the relationship between strategic planning and corporate financial performance. The results of the review showed that strategy formulation is positively related to business performance. This validated the existing management meta-analyses (Miller & Cardinal, 1994).

Nmadu (2007) investigated the impact of strategy development on financial performance. Findings showed that strategic management affects positively on the financial performance of organisations. It was found that financial performance varies directly with the level of practice of strategic planning. Nmadu (2007) concluded that all the financial indicators increase significantly with an increase in strategic planning.

While other studies have proved that strategy formulation impacts positively on financial performance, some studies have refuted the relationship. Fulmer and Rue cited in Musandiwa (2014) conducted a study in the US involving 386 durable and non-durable services small businesses to establish the influence of strategy formulation on the performance of SMEs. Their findings failed to get any valid relationship between rational long term planning and financial performance. Specifically, no differences in sales growth, return on sales, and earnings growth between those groups who had formal planning and those which did not plan was found.

Studies such as Sharader, Mulford and Blackburn (1989), Birley and Westhead (1990) and Covin (1991) found insignificant relationships between strategy formulation and financial performances. Similarly, Falshaw, Glaister and Tatoglu (2006) in a study of 113 firms in the United Kingdom established no relationships between formal planning processes and both financial and non-financial performance indicators.

Wijesinghe *et al.* (2012) conducted an investigation in Sri Lanka involving 150 SMEs. The results of the study showed that 21.30 % of the respondents used formal strategic plans. Moreso, the study established that there was a high possibility that these organizations would stagnate or fail.

Sarason and Tegarden (2003) cited in Germanos (2012) also carried an investigation on the influence of strategy formulation on the financial performance of SMEs. The study was guided by the configuration theory and the firm's resource-based view. Their findings indicated partial support for the link. They also found that the relationship is also moderated by many factors such as organizational stage of development, environmental factors, and hinted that strategy formulation is beneficial in firms that are in their early-stage development.

The review of literature is testimony that academic researchers are yet to agree on the relationship between strategy formulation and financial performance. Based on this gap, the current study sought to investigate strategy formulation and financial performance in the Zimbabwean context. Hence, this study hypothesises that:

H_1: Strategy formulation has a significant and positive effect on a firm's financial performance.

3.11 EMPIRICAL STUDIES ON STRATEGY FORMULATION APPROACHES AND FINANCIAL PERFORMANCE

Muhammad and Muhammad (2015) carried out a study to examine the impact of strategic management practices on SME financial performance in Makassar, Indonesia. The results revealed that rational strategy formulation has a significant effect on SME. Thus, it was concluded that formal strategy practices are important for enhancing SME financial performance.

Aremu and Oyinloye (2015) examined the relationship between strategy making and financial performance in the Nigerian banking industry, it was revealed that there is a significant positive relationship between rational strategic practices and the financial performance of firms. Thus, they concluded that a percentage increase in strategy making would improve the organizational performance with about 23 percent.

However, a study by Robinson and Pearce cited in Khan and Khalique (2014) of 85 selected US banks revealed that small banks with or without prescribed planning structures performed equally. In other words irrespective of formality, each firm placed equal weight on all stages of strategy formulation except for formalized long term objectives and goals. The findings revealed that owner-managers involved in strategy development appear not to benefit from either the highly formalised nature of the strategy formulation process or the usage of strategic purpose statements such as mission and vision as the foundation for formulating business strategies.

Veskaisri, Chan and Pollard (2007) carried out a study to examine the influence of formal strategic planning on business performance in Australia. The study observed no relationship between formal strategic planning and SME financial performance. Dincer *et al.* (2006) in a study of Turkish SMEs discovered the existence of a negative connection between formal strategy formulation and firm financial performance.

Kraus *et al*. (2006) conducted a quantitative study of Austria SMEs. The results of the study established that the extent to which planning was formalised influenced the performance of SMEs. Thus, SMEs with highly formalised strategy systems had a chance of belonging to the group of high growth firms. On the other hand, the study found out that other strategic planning aspects such as time horizon, control, and strategic instruments did not contribute to financial performance.

Another study by Bozkurt and Kalkan (2013), of the strategic focus of the Turkish SMEs in Antalya, established that of those SMEs who adopt the emergent approach had better financial performance than those who employed more planned strategies.

Based on the results of these previous studies, academic researchers seem not to agree on the relationship between these two variables and more importantly there is a dearth of studies on strategic

approaches and financial performance in the developing world, particularly the Zimbabwean context. It is therefore hypothesized that:

H_{2a}: Planned approach to strategy formulation has a significant positive effect on the financial performance of SMEs.

H_{2b}: Emergent approach to strategy formulation has a significant positive effect on the financial performance of SMEs.

3.12 EMPIRICAL STUDIES ON BUSINESS STRATEGIES AND FINANCIAL PERFORMANCE

The impact of Porter's generic strategies on financial performance has been extensively studied (Kim & Lim, 1988; Dess *et al.,* 1999; Blackmore & Nesbitt, 2013; Parnell *et al.,* 2015) and has generated a great deal of debate (Miller, 1992; Bowman, 2008; Michail, 2012). Empirical results on the relationship between business strategies and financial performance are discussed in this section.

Various empirical studies have supported the belief that generic strategies enhance the financial performance of firms as presented in this section. For instance, Yamin *et al*. (2010) and Finney and Kueg (2007) support the direct and positive influence of Porter's competitive strategy and financial performance. They agree that the company's strategy is an important part of the organisational systems to improve business performance.

Isaboke (2018) conducted a study in Nairobi City County, Kenya to examine the impact of competitive strategies on SMEs' performance. The study aimed at establishing the influence of Porter's three generic strategies on SMEs' performance. The study findings validated Porter's assertion that the three generic strategies enhance the performance of a business. The results posted positively on all hypothesis, implying that all the three competitive strategies significantly and positively influence the performance of SMEs. Hence, the study concluded that an increase in either of the three strategies adopted by SMEs led to more than a proportionate increase of both financial and non-financial performance.

Teeratansirikool *et al.* (2013) examined the intervening role of performance measurement on the relationship between business strategies and firm performance in 101 Thai listed companies. The study found out that all the generic strategies positively and significantly influenced both financial and non-financial performance. The results also revealed that firms' differentiation strategy has both an indirect and direct effect on the firm's financial performance. However, the study findings pointed out that overall cost leadership strategy influences indirectly the financial performance of Thai firms.

Leitner & Guldenberg (2010), in their longitudinal study of the Austrian SMEs, discovered a strong positive relationship between both cost leadership and differentiation strategy, and financial performance indicators that are turnover growth, return on capital employed and profitability growth exists. Their study concluded that firms that adopted combination strategies had chances of enhanced performance as compared to firms that adopted either of three strategies.

Pertusa-Ortega *et al*. (2009) also provide empirical support that the combination strategy positively and significantly results in higher firm financial performance levels, irrespective of the industry sector they belong to. In their investigation of the strategy-performance link, they found out that innovation differentiation is one of the most important dimensions in terms of firm competitiveness (El Sahn, Al-a'ali and Yacout, 2013).

However, Nandakumar *et al.* (2011) investigated the relationship between business-level strategies and firm performance and found that firms adopting one of the strategies, namely differentiation or cost-leadership, perform financially better than those who adopt a combination as they do not have a dominant strategic behaviour or orientation. These results validate Porter's assertion that combination strategies are not effective.

Birjandi, Jahromi, Darabi and Birjandi (2014) conducted an imperial investigation into the effect of cost leadership strategy on return on assets (ROA) and future performance of 45 firms in the Tehran Security Exchange during 2009-2013. The results showed that firms with a cost leadership strategy had positive growth in sales and ROA. These results confirm the findings of Valipour, Birjandi and Honarbakhsh (2012) who found out that companies with a cost leadership strategy had increased financial performance.

However, Palepu and Healy (2008) argue that firms adopting a cost leadership may produce a relatively low-profit margin. Similarly, Abudullah and Jamali (2017) conducted a quantitative study of the five competitive forces and the application of Porter's generic strategies to gain firm performance in East Java, Indonesia. The study revealed that the adoption of a cost leadership strategy does not affect the firm's financial performance. These results are supported by Bordean *et al.'s* (2011) study which discovered that the adoption of cost leadership strategy in the hotel industry in the United States did not generally lead to improved firm performance.

Banker, Mashruwala and Tripathy (2014) conducted a comprehensive analysis of archival data to find the business strategy that can be used for sustainable financial performance. The results of the study indicated that all the strategies have a positive impact on contemporaneous performance except for the hybrid strategy and focus strategy.

Banker *et al*. (2014) further pointed out that although the differentiation strategy is associated with greater risk and more unstable performance, the strategy allows firms to sustain their financial

performance to a great extent than cost leadership strategy. However, Power and Hahn (2004) observed that in the financial services industry it may be difficult for firms to obtain superior performance using differentiation strategy.

Amar (2015) conducted a study to explore the effect of product differentiation strategy on the operating performance of SMEs in South Sulawesi, Indonesia. Amar (2015) found contradicting results. The results showed that product differentiation strategy is negatively and significantly related to the operational performance of industrial SMEs. He argues that the strategy accumulates additional costs in the early stages of its implementation.

Chelanga *et al.* (2017) also investigated the linkage between focus strategy and financial performance of Kenyan SMEs. The results indicated that focus strategy and financial performance were significantly and positively related. According to Chelanga *et al.* (2017) an increase in the focus strategy unit leads to a more than proportionate increase in financial performance.

Koseoglu *et al.* (2013) carried out a study to examine the relationship between business strategy, uncertainty, and performance in Turkey's hospitality sector. The results of the study pointed out that focus strategy is the best strategy in the hospitality sector of Turkey. Thus, they discovered a positive influence of focus strategy on financial performance. This is validated by Mita *et al.* (2017) who report that with a focus strategy firms concentrate on a narrow market segment while adopting either cost leadership or, and differentiation. Leitner and Guldenberg (2010) claim that focus strategy allows firms to fully satisfy their customers thereby enhancing business profitability.

Dess and Davis (1984) investigated the financial performance effects of competitive strategies in developed countries. Their findings revealed that firms can overall cost leadership, combination strategy, differentiation, and focus. It was discovered that concerning growth in sales, the four groups were significantly different from one group to another.

Those firms which adopted a focus strategy had the highest sales growth, followed by cost leadership, differentiation, and a combination strategy. However, in terms of ROTA, the financial performance difference was not significant among the four clusters. The lowest was recorded in the focus groups while the highest return was marked in the cost leadership group.

Based on these conflicting findings, it can be concluded that academic researchers are yet to agree on which strategy works best in enhancing the financial performance of firms. Based on the literature outlined in this section, the following hypothesis is formulated:

H_{3a}: The use of cost leadership strategy positively influences the financial performance of SMEs.
H_{3b}: The use of a differentiation strategy positively influences the financial performance of SMEs.
H_{3c}: The use of a focus strategy positively influences the financial performance of SMEs.

3.13 CHAPTER SUMMARY

In this chapter, relevant literature relating to strategy formulation and its impact on financial performance was reviewed. The chapter began by giving the strategy discourse. An in-depth literature review of the nature of strategy formulation in SMEs, and approaches, and financial performance was made available. Building on the information gathered from this chapter, the following chapter explores the theoretical streams guiding the study.

CHAPTER FOUR

THEORETICAL FRAMEWORK

4.1 INTRODUCTION

The previous chapter provided a review of the literature on the formulation of business strategies and the performance of SMEs. This chapter presents the theoretical framework guiding the study. The main focus of this chapter is to critically evaluate the theoretical perspectives on strategy formulation and financial performance that underpin the current study. Thus, the chapter examines two theories namely, the Market Based View (MBV) and the Resources Based View (RBV). The chapter concludes by discussing the complementarity of the two theoretical models.

4.2: THE MARKET-BASED VIEW

The Market Based View derives its tenets from the work of Porter (1980, 1985, and 1996). The theory is rooted in the industrial organization (IO) economics (Hoskisson, Hitt, Wan & Yiu, 1999). Industry organisation economics analyzes the industry structure, the boundaries between firms and markets, and the effects of concentration on competition among other factors (Hoskisson *et al.,* 1999; Barney & Clark, 2007).

To analyse the relation between the structure of the industry (for example the competitor's cost structures, the number of buyers and sellers in the industry, the entry/exit barriers), the industry conduct (for example the investments in research and advertising, pricing and product strategies and distribution strategies), and the resulting industry performance, the industry organisation theorists developed the Structure–Conduct–Performance (SCP) paradigm (Grant 2010; Houthoofd & Hendrickx, 2012; Barney & Hesterly 2010; Spanos, *et al.*, 2004). The model was popularised between the 1940s to the 1960s (Bain, 1968; Barney & Hesterly 2010). Huang (2012:09) pointed out that:

> *The core basis of the SCP paradigm is that the conduct of a firm corresponds to the external environment in which it operates. As a result, the industry is the most direct environment that affects the firm's operation. The structure of the industry determines the scope of competition, thus determining the level of underlying profit.*

The SCP paradigm help to explain performance variation between firms largely through the industry structure (Spanos & Lioukas, 2001). Huang (2012) claims that the merits of the SCP approach lie in its simplicity in understanding the relationships and the structural characteristics of a market (i.e. an industry) that can be easily recognised (Wood, 1999).

Disappointed with some of the demerits of the SCP paradigm, Porter (1980) developed the MBV theory. Porter (1980) argues that firm-specific strategies are difficult to develop from the framework as the SCP paradigm concerns the industry as a whole (Mintzberg, 1990). Hence, he proposes that a firm performance relies on industry attractiveness and the firm's position relative to its rivals (Wang, 2014). Porter (1996) cited in Wang (2014) further claims that the primary determinants of firm performance are the micro-industry factors and the macro-external market factors.

Porter (1980) postulates that the attractiveness of an industry is determined by five competitive forces that mould the prospect for a healthier performance in the particular industry, in what he called the Five Forces Model. The five forces include the bargaining power of customers, threat of new entrants, bargaining power of suppliers, rivalry amongst existing firms and the threat of substitute products/services (Porter, 2008:3). These forces dominate the Market-Based View (Hove, 2012; Wang, 2014) as they influence the industry's profit potential (Spanos & Lioukas, 2001). According to Bea & Haas (2005) the industry is attractive when the five forces collectively are weak and there is less intense competition. Proponents of the MBV state that healthier performance is due to competitive advantage against other industry players (Spanos & Lioukas, 2001).

Porter (2008) suggests that when firms are well-positioned in the market they can command monopoly rents (Schwenker & Spremann, 2009). Thus, instead of being price takers, superior positioning enables firms to retain control over prices (Schwenker & Spremann, 2009). In the same vein, Porter (2008) proposed three generic strategies that firms can pursue to achieve a superior position in an industry.

4.2.1 Market Based View and strategy formulation

Wang (2014) posits that the model is arguably the most pervasive frameworks, currently being taught and used in marketing, entrepreneurship and management schools worldwide. More so, the model provides a methodical approach to assessing rivalry in an industry (Henry, 2008; Weigl, 2008). Thus, Rivard, Raymond and Verreault (2006) posit that from such an angle, an SME has to assess these forces and establish ways to find a competitive posture in the market. Porter (2008) suggests that if a firm is to position itself competitively and strategically, it should preferably cause significant difficulties for others to imitate. In this way, it produces a sustainable competitive advantage which ultimately produces profit (Hove, 2012; Wang, 2014).

The MBV uses strategy to position firms in their markets and submits that businesses can protect their competitive advantage by building structural barriers in the industries (Bamiatzi *et al*., 2016). The MBV further claims a firm will gain a competitive advantage by positioning itself either as a low-cost leader or differentiator or operating in a broad or narrow market (Porter, 1980b).

Thus, the Market Based View recommends firms to formulate strategies based on the external industry-level factors and not on their internal resources and capabilities (Bamiatzi, Bozos, Cavusgil & Hult, 2016). Porter (1980a) advises managers to scan their micro-industry environment to enhance their competitiveness and, consequently, their performance. According to Houthoofd and Hendrickx (2012), by looking at industry forces, organisations can formulate strategies that are well informed, thus enhancing their performance.

4.2.2 Limitations of the Market Based View

Porter's work provides enormous contributions to the management and marketing disciplines (Barney, 2002) as demonstrated by its popularity (Wang, 2014). However, the MBV has its set of weaknesses (Grimm, Lee & Smith, 2006; Arend, 2009; Tavitiyaman, Hailin & Zhang, 2011; Spanos & Lioukas, 2001).

Firstly, some scholars have questioned the relevance of the MBV (Barney, 1991), especially its two main assumptions; resource homogeneity and the mobility of resources. With MBV firms are considered to be homogeneous organisations (Roquebert, Phillips and Westfall, 1996 cited in Knecht, 2014). Early management scholars such as Barnard (1938) and Chandler (1962) refute this proposition, instead believe that firms in an industry are heterogeneous.

However, the advocates of the MBV posit that if there is a temporary heterogeneity between firms, it is quickly corrected by market mechanisms and the unrestricted mobility of resources (Zahn, Foschiani, and Tilebein, 2000). This is a shameless assumption that does not hold water in reality as Prahalad and Hamel (1994:10) cited in Bridoux (nd) claim that "the reality of business during the 1990s is that industry structures are far from stable and are undergoing major transitions". In the same vein, Sampler (1998) observes that in information technology-related industries, industry boundaries are blurred as many industries overlap and converge.

Secondly, Porter's work has also been criticised as it overstresses competition to the detriment of relationships, networks, and integration. Hence, Gummerson (2002) treats the five forces model as one of the adversarial models which view the market place as a battlefield. Ultimately relationships with customers, rivals, and suppliers are condensed to battles for profits. More so, Porter (1980) calls for product and service differentiation and the building of entry barriers (Porter, 1980; Bea & Haas, 2005: 27). McWilliams and Smart (1993) believe that the costs incurred in building these barriers may outweigh the incremental benefit from the resultant monopoly rents and the erection of these barriers may benefit existing rivals who are active in the industry.

Thirdly, Porter's assumption of a static snapshot of the industry in today's increasingly complex and dynamic business environment may not be appealing in strategy development. Wood (1999) claims that

the relationship between industry structure and firm performance is always predictable, given a degree of stability. However, the industry environment is constantly changing from politics to economics, this leaves firms failing to sustain their market position. For instance, consumer income and preferences change over time and also the company's strategies change to reinforce demand (Besanko *et al.*, 2007). Hence, McWilliams and Smart (1993) call for dynamic analysis of the environment to understand their relative ability to sustain competitive advantage over time.

The MBV is also criticised for disregarding a firm's internal dynamics that are characteristics, resources, and resources (Foss, 1996; Spanos & Lioukas, 2001) as it focuses much on the industry structure as a condition to superior performance (Hawawini, Subramanian & Verdin, 2003). Thus according to MBV, the market structure provides the basis for strategy formulation that is, only strategies that allow a firm to fully exploit its resources relative to the competitors should are adopted (Hawawini *et al.*, 2003).

Roquebert *et al.* (1996) claim that the MBV fails to explain performance differences between firms. In this regard, they argue that industry effects play a minor role as compared to firm-specific effects. Its external focus is inadequate to fully explain the performance variations between firms (Knecht, 2014).

Notwithstanding these shortcomings, empirical evidence submits that the MBV is important in shaping and explaining firm strategy and performance (McGahan & Porter, 1997; Porter, 1998; Mauri & Michaels, 1998; Powell, 1996; Chang & Singh, 2000; Spanos & Lioukas, 2001; O'Cass & Julian, 2003; Kim & Oh, 2004; Galbreath & Galvin, 2008; Gjerde, Knivsfla & Saettem, 2010; Short, Mckelvie, Ketchen & Chandler, 2009; Houthoofd & Hendrickx, 2012; Karabag & Berggren, 2014; Karniouchina, Carson, Short & Ketchen, 2013; Takata, 2016). The following section presents the Resource-Based View, a more internally focused, firm-specific view model.

4.3 THE RESOURCE BASED VIEW

The term Resource-Based View (RBV) was first coined by Wernerfelt (1984) building on the work of Penrose (1959) emphasising that firms should be seen as both bundles of resources and as a bundle of products that provide services for growth (Barney *et al.* 2011). Penrose argues that these productive resources can be marshaled together in different combinations to create different goods for sale (Almarri & Gardiner, 2014) and this blend of resources is what differentiates firms in an industry (Burvill, Jones-Evans and Rowlands, 2018).

The RBV comprises a dominant area of strategy literature (Theriou, Aggelidis & Theriou, 2009; Lockett & Wild, 2014) and Barney *et al*. (2011) state that after thirty years of development, the RBV can now be considered a theory. The Resource-Based View has been used in a large number of published academic papers (Lockett, Thompson & Morgenstern, 2007; McKelvie & Wiklund, 2010; Nason *et al.*, 2012) and still commands a great influence on current academic thought (Burvill *et al.*, 2018).

The RBV draws on prior theoretical work in developing its predictions and prescriptions (Lockett & Wild, 2014). The theory has not emerged from anywhere but has deep theoretical roots in both the economics discipline and the sociology discipline (Barney & Arikan, 2001). Important prior work on RBV came from four sources: (1) the study of distinctive competencies; (2) the Penrosian economics; (3) the Ricardian economics; and (4) the concept of the anti-trust implications of economics (Theriou *et al.,* 2009; Warnier, Weppe & Lecocq, 2013; Frery, Lecocq & Warnier, 2015). Thus, these four theoretical streams have been integrated, modified and adjusted to develop the Resource-Based View (Barney *et al.*, 2011).

The resource-based view of the firm (RBV) draws attention to the firm's internal environment as a source and driver for superior firm performance (Samantha, Dylan & Hefin, 2018; Wang, 2014). The RBV holds that the resources are more important in gaining a competitive advantage (Wernerfelt 1984:171). The arguments of the RBV are contrary to the MBV which claims that industry structure is a major factor affecting firm performance and its competitive advantage (Lockett & Wild, 2014; Barney *et al.*, 2011).

Proponents of the RBV claim that it is the firm's internal resources that are critical for business success and sustainable competitive advantage (Mills, Platts & Bourne, 2003; Kale, 1999 cited in Jaafar & Abdul-Aziz, 2014). A resource is something that can provide an organisation with either weaknesses or strengths depending upon how it is used (Burvill *et al.*, 2018). The theory claims that resources provide firms with a competitive advantage (Barney *et al.,* 2011) that account for performance differences across firms (Burvill *et al.*, 2018).

The success of world-class firms such as Canon has been due to firm internal resources (Mills et al., 2003). Thus, instead of stressing market entry barriers as a way of achieving competitive advantage, Wernerfelt (1984) and Barney (1986) emphasised the 'resource position barriers' as a means of enhancing firm profitability. Advocates of the RBV such as McKelvie and Wiklund (2010); Nason *et al.* (2012); Burvill *et al.* (2018); Wang (2014) and Mbithi (2016) posit that what sets a firm apart from its rivals is the optimal combination and allocation of resources towards specific opportunities. Knecht (2014) concurs and adds that internal focus on the resources allows firms to formulate and implement strategies that are premised on the firm's various resources which other firms are not implementing.

Early researchers classified resources on different dimensions (Wang, 2014). Ansoff (1965) cited in Jaafar & Abdul-Aziz (2014) classified resources into three classes: monetary, physical, and human resources. Amit and Shoemaker (1993) cited in Wang (2014) propose that resources can be categorized into human, physical, technological and human resources and capabilities. However, Miller & Shamsie (1996) cited in Wang (2014) classified resources into either property-based resources or knowledge-based resources.

Contemporary researchers have agreed that resource can be simply classified into tangible and intangible resources (Lockett & Wild, 2014; Barney *et al.,* 2011; Del Canto & Gonzalez, 1999; Lockett & Thompson, 2001; Ray, Barney & Muhanna, 2004; Jaafar & Abdul-Aziz, 2014). Tangible assets are visible and easy to identify (Hove, 2012). Intangible resources are not concrete issues, not visible but are often the critical assets that create a real competitive advantage (Hove, 2012:20). Examples of intangible resources include experience, knowledge, technology, expertise, skills, reputation, technology, and related supply chain partners (Gupta *et al.*, 2013; Musundi & Ogollah, 2014; Jaafar & Abdul-Aziz, 2014). According to Gupta et al. (2013) it is intangible resources that can give a more permanent competitive advantage. Tangible resources comprise of land and buildings, plant and machinery, and financial resources (Theingi & Purchase, 2011).

The RBV underscores the importance of the internal capabilities of a business (Theingi & Purchase, 2011). According to Rommen (2010:8), a firm capability is defined as "…a firm's capacity to deploy resources, usually in combination, using organisational processes, to effect the desired end". Thus, a key distinction between resources and capabilities is that resources are inputs into the production process (Burvill *et al.,* 2018) while capabilities include the capacity for a bundle of resources to perform some tasks or activities (Grant, 1996 cited in Greco *et al.,* 2013). Hence, Helfat and Peteraf (2003) cited in Ebrashi (2018) view firm capabilities as the firm's abilities to utilize their resources to perform a set of tasks and achieve their objectives.

The RBV assumes that competing firms have very different resources (Ebrashi, 2018) and that the differences in internal resources are sustainable (Warnier *et al.,* 2013). Barney and Arikan (2001) cited in Burvill *et al.* (2018) argue that for resources to enable the business to formulate strategies that competing firms are not able to imitate (Alvarez & Busenitz, 2001) and increase market returns (Penrose, 1959) they should be uniquely combined (Helfat & Peteraf, 2003 cited in Ebrashi, 2018) be valuable, there should be no other substitute resources, not easily transferable and other firms should find it hard to imitate (Barney, 1991 cited in Warnier *et al.,* 2013). However, recently, academics have agreed that resources do not necessarily need to be pretty ordinary, but rare and yet still offer firms with competitive position (Frery *et al.,* 2015; Warnier *et al.,* 2013).

Expanding the work of Peteraf (1993) published a paper "The Cornerstones of Competitive Advantage" where he developed a model to explain the relationship between firm resources and performance. Knecht (2014) identifies four fundamental conditions for sustainable competitive advantage, namely imperfect resource mobility (resources are less valuable to other users non-tradable), ex-post limits to competition (imperfect imitability or, and substitutability of resources), ex-ante limits to competition (a favorable resource position is achieved before the competition started) and heterogeneity (firms possesses resources with different efficiency levels). Wang (2014) observed that Peteraf's condition on

resource mobility undoubtedly underscores the two major assumptions of heterogeneity and imperfect resource transferability, which are both central to the RBV (Knecht, 2014).

4.3.1 Resource-Based View and Strategy formulation

The RBV allows firms to formulate strategies based on their unique resources and capabilities and not being executed by competitors (Warnier *et al.,* 2013; David, 2014). Furthermore, the advocates of the RBV model advise strategists to look within the enterprise to search for some possible strategies to build sustainable competitive advantages, holding all other external factors constant (Peteraf & Barney, 2003:312). This internally focused approach has proven to be influential in strategy formulation (Grant, 1996 cited in Greco *et al.,* 2013). Thus, according to the RBV, the firm strategies are shaped by their unique resources and capabilities (Rumelt, 1984 cited in Ebrashi, 2018). According to Nyamwanza (2015) successful strategy formulation is dependent upon resource availability.

A domineering premise of the RBV is the assumption that industry players are heterogeneous in terms of resource endowments (Peteraf & Barney, 2003 cited in Burvill *et al.,* 2018). Dess *et al.* (2010) cited in Hove (2012) affirms that due to resources inimitability and the inability of firms to alter their sources, there is always heterogeneous in an industry. Kraaijenbrink *et al.* (2010) add that resource heterogeneity may continue over time as resources considered in strategy formulation are not perfectly mobile amongst firms. Hence unique resources are a necessary condition for superior performance (Grant, 1991; Pisano & Shuen, 1997). If all firms had the same resources, there would be no need to formulate strategies (Barney, 1991 cited in Ferry *et al.,* 2015). Consequently, there could be no profitability differences among firms as firms in an industry are capable of formulating and implementing similar strategies (Jaafar & Abdul-Aziz, 2014; Gupta *et al.,* 2013).

4.3.2 Limitations of the Resource-Based View

Many scholars agree that the RBV is one of the commonly quoted theories in the field of strategic management (Meyskens, Carsrud & Cardozo, 2010; Ireland, Hitt and Sirmon, 2003; Santos & Brito, 2012; Moss et al., 2011; André & Pache, 2016; Lichtenstein & Brush, 2001; Sirmon & Hitt, 2003; Costa, Cool & Dierickx, 2013; El Ebrashi, 2013; Thompson jnr *et al.,* 2016). However, Akino (2005) cited in Griffiths *et al.* (2013) reports that the proponents of the RBV overlooked the role of entrepreneurial abilities and entrepreneurs as some of the important determinants of firm performance.

Many studies were conducted investigating the relationship between sustainable competitive advantage and firm performance through the RBV with original constructs such as ‘dynamic capability’ (Teece, Pisano & Shuen, 1997) ‘core competence’ (Hamel & Prahalad, 1994), ‘capability lifecycle’ (Helfat & Peteraf, 2003), ‘VRIO framework’ (Barney, 2002), and ‘routine and skills’ (Nelson & Winter, 1982),

however, none have looked at entrepreneurial orientation in enhancing competitive advantage (Akino, 2005; Costa *et al.,* 2013). Alvarez & Barney (2000) concur and add that little efforts have been made in underlining the role played by entrepreneurship in firm performance. Entrepreneurship is in demand and has been viewed as the "specter which haunts economic model" (Baumol, 1997 cited in Akio, 2005). Undoubtedly, the capabilities of an entrepreneur are an unexceptional and principal human resource that firms should boasts of (Barney, 2011; André & Pache, 2016).

Secondly, the RBV ignores market demand (Hooley *et al.,* 1996 cited in Greco *et al.,* 2013) and only emphasises internal resources (André & Pache, 2016; Frery et al., 2015). The model fails to recognise the "customer" (Tywoniak, 2007), hence despite having VRIN resources and capabilities the firm might fail because there might be no sustainable demand from the customers (Greco *et al.,* 2013). Early management scholars such as Andrew (1971) and Chandler (1962) claim that firms should consider both internal and external elements when building sustainable competitive advantage. Amit & Schoemnaker (1993) also highlight the important connection between the firm's external market conditions and internal resources in generating a competitive advantage for the firm. Schmalansee (1985) and Wernerfelt & Montgomery (1988) explored the effects of external competitive factors on firm performance. The results were inconsistent with the RBV expectations. The study revealed that industry factors are more important in determining firm performance than firm internal resources. These findings validated Porter (1991:108)'s arguments who writes that:

> *"Resources are not valuable in and of themselves, but because they allow firms to perform activities that create advantages in particular markets. […] The competitive value of resources can be enhanced or eliminated by changes in technology, competitor behavior, or buyer needs which an inward focus on resources will overlook".*

Thus, Levinthal and Myatt (1994) also feel that the ebb and flow of strategic management research may have swung unreasonably to firm-centered analysis ignoring industry dynamics. Hence, Maier and Remus (2002) cited in Theriou (2009) stress that there must be a balance between the external-oriented approach and the internal-oriented approach to strategic management.

Nonaka and Takeuchi (1995) claim that there is a serious omission in the RBV. Thus, not a comprehensive framework to explain how various parts within an organization interact together to create something unique and new. Researchers suggest that the RBV be augmented by a consideration of the business process through which resources become valuable (Lynch, 2000; Barney & Muhanna, 2004 cited in Robinson, 2008).

The theory has failed to give attention to the dynamics of managerial processes (Aaker, 1989; Porter, 1991). Teece *et al.* (1997) claim that evidence supports that an understanding of managerial processes is the key to process improvement. Hill & Jones (2001) posit that managers are primarily responsible

for orchestrating the planned processes that transform resources into a competitive advantage. Hence, Lynch (2009) recommends that further developmental work is needed particularly in areas involving managerial processes. Developmental work will inform managers of the best practices in transforming resources to outperform others.

As noted earlier, the proponents of RBV claim that only firms that possess valuable, rare, immobile, and inimitable resources can have superior performance (Barney & Zajac, 1994; Amit & Schoemaker, 1993; Barney, 1992). However, Ray *et al*. (2004) cited in Robinson (2008) argued that it is only at the firm level where resources and capabilities are most likely to meet the above criteria following the principles of Barney (1991). In the same vein, Priem and Butler (2001) claim that the RBV lacks operational validity. They argue that the proponents of the framework stress that firms acquire strategic resources that meet the VRIN framework and the firm organises them. The VRIO/N framework has been heavily criticised of its inadequacy in explaining sustainable competitive advantage (SCA). The application of the VRIN/O logic to the RBV skirts the complete elucidation for SCA.

In their paper, "The resource-based view: A review and assessment of its critiques" Kraaijenbrink, Spender and Groen (2010:10) reveals that:

> *"There are also studies arguing the VRIN/O criteria are not necessary to explain SCA. Foss & Knudsen (2003), for example, argue that uncertainty and immobility are the truly basic conditions for an SCA to arise; any other conditions, they argue, are simply added to these. Along a similar line, Becerra (2008) points at value uncertainty, resource specificity, and firm-level innovation as conditions under which profits can emerge in the RBV".*

To Connor (2002), the RBV does not address how managers develop the resources to meet the VRIN framework. Kraaijenbrink *et al.* (2010) lament the framework's lack of a robust managerial influence. The RBV approach suggests that if any firm can acquire resources cheaply, then more firms will imitate, hence the resources give only competitive parity (Barney, 1991:2001). This, according to Barney (2007), will not allow managers to build sustainable competitive advantage.

In their analysis, McWilliams and Smart (1995) criticize RBV of being based on static concepts and considers it as just descriptive with no possibility of predicting future performance. In this context, Arora (2010) observes that the RBV approach looks at "what is" instead of "what could be".

Tywoniak (2007:25) claims that "the usefulness of RBV appears to be greater in terms of generating understanding and providing a structure for strategizing." It explains the source of competitive advantage and offers little explanation for the gains from the external environmental factors (Arora, 2010). Arora further claims that the approach is valuable in understanding industries with known demand and predictable industry structure. However, he adds that the RBV cannot be applied to complicated and dynamic industries. This confirms Barney's (2007:160) idea that "the RBV can help

managers choose strategies to gain sustained competitive advantage only as long as the rules of the game in the industry remain relatively fixed". According to Barney (1991), the RBV makes use of resources to exploit opportunities, however, if opportunities come unpredictably, competitive advantage will be difficult to maintain (Arora, 2010).

Barney (2007) acknowledges that despite the limitations of the RBV, the approach is one of the most widely referred to and quoted in management and it still dominates strategic management discussions. Tywoniak (2007) concurs and adds that the importance of the RBV is in providing a greater understanding of the strategy development factors.

4.4 HARMONISING THE MBV AND THE RBV

Scholars agree that the MBV and the RBV are two main theories in the discipline of strategic management (Houthoofd & Hendrickx, 2012; Gjerde *et al.*, 2010), that explain the relationship between competitive advantage and firm performance (Caloghirou, Kastelli & Tsakanikas, 2002; Galbreath & Galvin, 2008; D'Aveni, Dagnino & Smith, 2010). The proponents of the MBV argue that competitive advantage is the consequence of external industry factors (Gholami & Seyyed-Esfahani, 2012) while the advocates of the RBV claim that firm competitive advantage is an outcome of internal resources and capabilities (Barney *et al*. 2011).

Despite the discussed differences in perspectives, the two theoretical streams can co-exist and shape strategy formulation (Kim & Oh, 2004). The MBV is not a substitute for the RBV in explaining strategy formulation and firm performance (Bekele, 2018). According to Raduan, Jegak, Haslinda & Alimin (2009) the two theories are complementary in advancing the discussion on strategy formulation and firm performance. Rivard *et al*. (2006) advise that when formulating strategies the two perspectives should complement each other, thus allowing a more balanced view (internal environmental factors and external environmental factors) (Spanos & Lioukas, 2001). In the same vein, Wernerfelt (1984) says that the two perspectives should be seen as two sides of the same coin.

Strategy formulation viewed either from the MBV perspective or from the RBV provides a partial explanation of performance differences (Bowman & Ambrosini, 2000). The integration of the internal based framework and the industry-based approach to explaining strategy formulation and firm performance has received growing attention from academics (Spanos & Lioukas, 2001; Rivard *et al.*, 2006; Sheehan & Foss, 2007; Kim, Song & Koo, 2008; Gjerde *et al.*, 2010; Hussler *et al.*, 2012).

4.5 CHAPTER SUMMARY

The chapter presented the two theoretical models which guided the research study. In this respect, the Market Based View and the Resource-Based View were critically discussed. The implications and limitations of the theories on strategy formulation were also discussed in chapter four. The chapter concluded by comparing and contrasting the two theoretical streams. The next chapter focuses on the research methodologies employed to fulfill the objectives of the study.

CHAPTER FIVE

RESEARCH METHODOLOGY

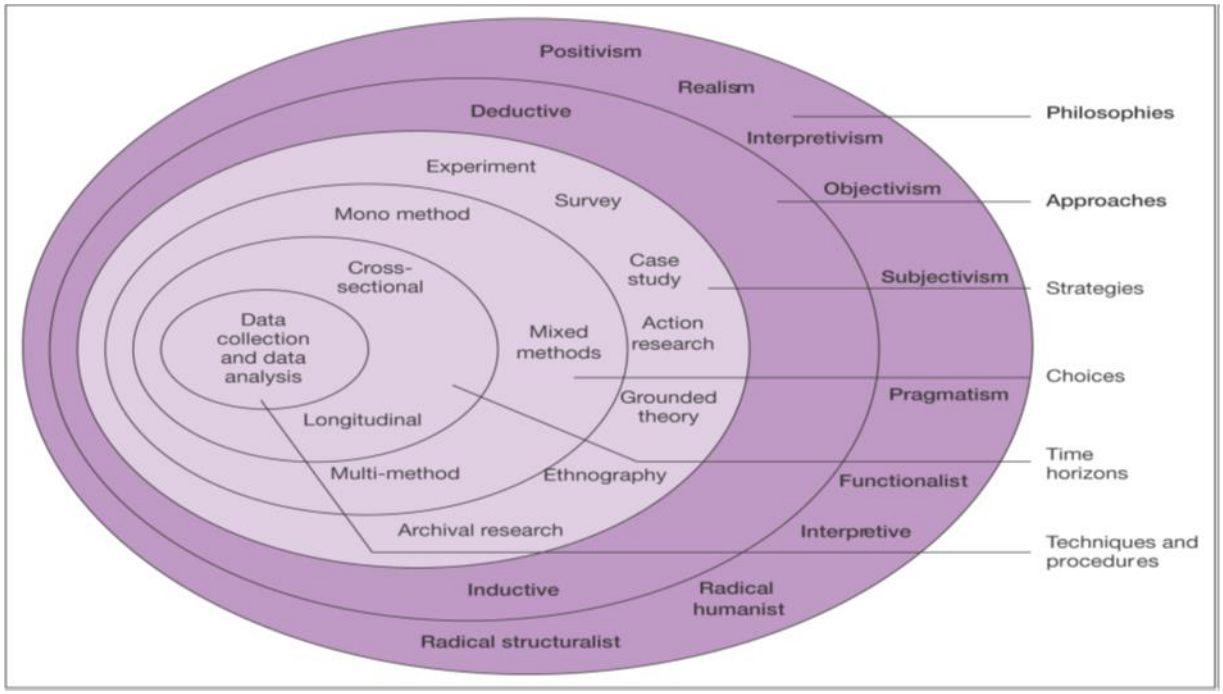
5.1 INTRODUCTION

The previous chapter provided the theoretical models guiding the study. This chapter presents the research methodology and methods employed to investigate the research problem. Saunders and Rojon (2014:3) view methodology as "the theory of how research should be undertaken". This chapter borrows heavily from Saunders, Lewis, and Thornhill's (2016) Research Onion. The research onion adapted for the study is highlighted followed by the data collection and analysis techniques used for the study. The chapter wraps up by discussing issues of validity and reliability including the ethical considerations that guided the conduct of the researcher.

5.2 THE RESEARCH ONION

The research onion was postulated by Saunders *et al*. (2007) to illustrate the various stages that are covered when conducting research. Saunders *et al.* (2012) note that research should be done in a systematic and orderly manner. Thus, the purpose of the research onion is to guide the researcher in planning the research, gathering, and analysis of data (Ha, 2011 cited in Bomani, 2015). Bryman (2016) adds that the usefulness of the research onion lies in its applicability in any research contexts. The research onion is shown in figure 5.1 below. Saunders *et al.* (2016) note that the diagram shows how each step is connected to the other.

FIGURE 5.1: THE RESEARCH ONION



Source: Saunders *et al*. (2007:132)

The outer layer is taken to represent the research philosophical assumptions. This is the starting point in any research process (Saunders *et al*., 2007 cited in Kakava, 2015). A research philosophy, also known as research paradigm or simply worldview (Creswell, 2013; Teddlie & Tashakkori, 2009), is viewed as the "process of developing knowledge and determining the nature of the knowledge" (Saunders *et al*., 2007:132). Research philosophies include subjectivism, pragmatism, interpretivism, objectivism, radical structuralist, radical humanist realism, interpretive, functionalist, and positivism (Saunders *et al*., 2007).

The research approaches follow after the research paradigm. The two broad classes of research approaches are deductive and inductive (Saunders *et al.,* 2016). The research approach leads to the appropriate research strategy (Saunders *et al*., 2016). Research strategies include experiment, survey, case study, ethnography, archival research, grounded theory, and action research (Saunders *et al*., 2016). The research 'choices' comes after the research strategies and these can be categorized into three namely: the mono-method, mixed methods, and the multi-methods (Saunders *et al*., 2016). Data collection and analysis techniques are chosen after the researcher has considered the time frame in which he/she will conduct the research (Saunders *et al*., 2012). Time horizons can either be cross-sectional or longitudinal (Saunders *et al.*, 2016)**.**

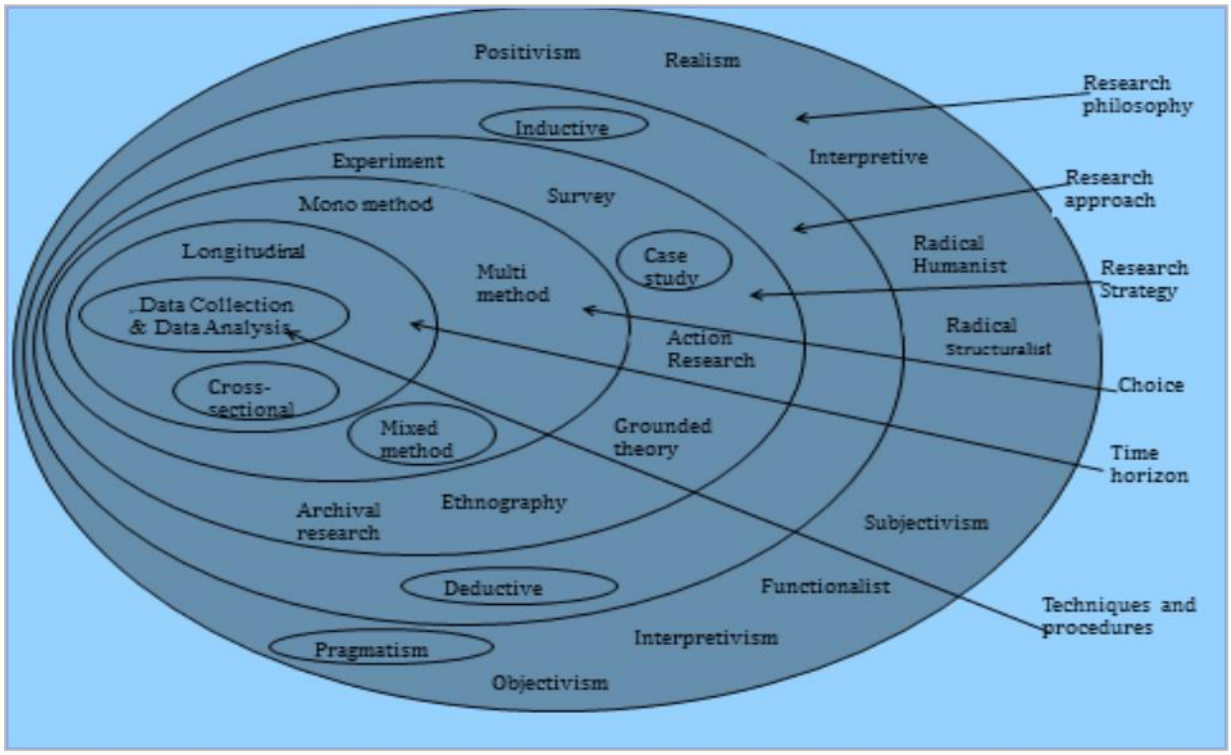
Saunders *et al*. (2016) advise researchers to design a relevant research thread that combines relevant research methodologies and methods. That is, the researcher should be guided by all the layers in developing his/her research process. Saunders *et al*. (2012) further explain that, in practice, a specific

philosophy can only lead to a particular approach that is in sync with a particular strategy, choice, time horizon up to data collection and analysis techniques and procedures.

5.3 THE RESEARCH ONION ADAPTED FOR THE STUDY

To answer the research questions for the current study, the researcher adopted Saunders *et al*. (2016) original research onion. The researcher developed a research onion that was appropriate for his research study as shown in Figure 5.2.

FIGURE 5.2: THE RESEARCH ONION ADAPTED FOR THE STUDY



Source: Adapted from Saunders *et al*. (2012)

Figure 5.2 shows that the study was guided by the pragmatism philosophy, both deductive and inductive approaches, employed a case study strategy. The researcher also chose the mixed methods design hence was highly informed in selecting the data gathering and analysis techniques. The layers are all discussed in the following sections.

5.3.1 Research philosophy

Burrell and Morgan (1979) cited in Saunders *et al.* (2016) note that at every stage of research, researchers make, consciously or not, several assumptions. These assumptions help shape the understanding of research questions and the methodologies to be adopted in answering the research

questions (Crotty, 1998 cited in Saunders *et al.*, 2016). Saunders *et al.* (2016) further note that a consistent set of assumptions set up a credible research philosophy that underpins the research methodology, research strategy, and data gathering and analysis techniques.

Saunders *et al.* (2016) identify five research philosophies: positivism, post-modernism, interpretivism, critical realism, and pragmatism. A research philosophy shows the researcher's world view representing a basic set of beliefs or assumptions that guides a researcher's inquiry (Saunders *et al.*, 2016; Coopers & Schindler, 2014; Creswell, 2014). The research paradigms represent philosophical orientations about the world (Creswell, 2014) and the type of research that the researcher wants to conduct (Kivunja & Kuyini, 2017). A summary of the five research philosophies is given in Table 5.1 based on five dimensions, namely general description, ontology, epistemology, axiology, and data collection techniques.

TABLE 5.1: COMPARISON OF FIVE RESEARCH PHILOSOPHIES

Ontology (nature of reality)	**Epistemology** (what constitutes acceptable knowledge)	**Axiology** (role of values)	**Typical methods**
Positivism			
Real, external, independent One true reality (universalism) Granular (things) ordered	Scientific method Observable and measurable facts Law like generalizations Numbers Causal explanation and prediction as contribution	Value-free research Researcher is detached, neutral and independent of what is researched Researcher maintains objective stance	Typically deductive, highly structured, large samples, measurement, typically quantitative methods of analysis, but a range of data can be analyzed.
Critical realism			
Stratified/layered (the empirical, the actual and the real) External, independent intransient Objective structures Causal mechanisms	Epistemological relativism Knowledge historically situated and transient Facts are social constructions Historical causal explanation as contribution	Value-laden research Researcher acknowledges bias by world views, cultural experience an upbringing Researcher tries to minimize bias and errors Researchers is as objective as possible	Retroductive, in-depth historically situated analysis of pre-existing structures and emerging agency. Range of methods and data types to fit subject matter
Interpretivism			
Complex, rich Socially constructed through culture and language	Theories and concepts too simplistic	Value-bound research	Typically inductive, small samples, in-depth investigations, qualitative methods of analysis, but a range

Multiple meanings, interpretations, realities Flux of processes, experiences, practices	Focus on narratives, stories, perceptions and interpretations New understandings and worldviews as contribution	Researchers are part of what is researched, subjective Researcher interpretations key to contribution Researcher reflexive	of data can be interpreted.
Postmodernism			
Nominal Complex, rich Socially constructed through power relations Some meanings, interpretations, realities are dominated and silenced by others Flux of processes, experiences, practices	What counts as "truth" and "knowledge is decided by dominant ideologies Focus on absences, silences and oppressed/repressed meanings, interpretations and voices Exposure of power relations and challenge of dominant views as contribution	Value-constituted research Researcher and research embedded in power relations Some research narratives are repressed and silenced at the expense of others Researcher radically reflexive	Typically deconstructive-reading texts and realities against themselves In-depth investigations of anomalies, silences and absences Range of data types, typically qualitative methods of analysis
Pragmatism			
Complex, rich, external "Reality" is the practical consequences of ideas Flux of processes, experiences and practices	Practical meaning of knowledge in specific contexts "True" theories and knowledge are those that enable successful action Focus on problems, practices and relevance Problem solving and informed future and practice as contribution	Value-driven research Research initiated and sustained by researcher's doubts and beliefs Researcher reflexive	Following research problem and research question Range of methods: mixed, multiple, qualitative, quantitative, action research Emphasis on practical solutions and outcomes

Source: Saunders *et al.* (2016:136-137)

A researcher, before embarking on a research project, should identify an ideal position in one of these paradigms and stick to it for the duration of the research. The researcher's results could then be evaluated within the context of the paradigm chosen (Dana & Dumez, 2015). Ontologies, epistemologies, methodologies, theories of truth, validity, and reliability would vary depending on the chosen paradigm (Dana & Dana, 2005; Gioia, Corley & Hamilton, 2013).

According to Saunders *et al.* (2012) the enquirers' set of beliefs and assumptions will underpin the research design to be employed in the study. The study was guided by the pragmatism philosophy. Pragmatism as a worldview emerged from the work of a significant number of philosophers, for example, James (1907), Pierce (1931), John Dewey (1931), and Mead (1938). This paradigm focuses on the research questions (Saunders *et al.*, 2012) and, therefore, uses all the most appropriate methods to understand the research problem (Saunders *et al.,* 2016) and ultimately answering the research question (Creswell, 2013 Saunders & Tosey, 2013).

In this study, a mixed methodology was used to answer the 'what' and 'how' of the problem. The integration of both objective and subjective data sets in answering the research questions was thus one of the major strengths of adopting this paradigm (Wahyuni, 2012; Bryman, 2016). The researcher did not take a particular position on what makes good research.

The choice of the pragmatism philosophy was mainly informed by the recommendations of Saunders *et al.* (2016) and Bryman (2016). They stress that pragmatism approaches a research study on a balanced view thus practical. Through the adoption of the pragmatic paradigm, the researcher was able to investigate the phenomena in different ways in which he deemed appropriate in answering research questions. The researcher had the freedom to choose research methods and approaches that addressed the research questions. This further justifies the choice of pragmatism in this study.

5.3.2 Research Approach

Saunders *et al.* (2016) highlight that research studies involve the use of theory which may or may not be made explicit at the time of designing a study. Two main research approaches in research are the deductive and inductive approaches (Adams *et al.*, 2007; Saunders *et al.*, 2009; De Vaus, 2014; Babbie, 2016). However, Saunders *et al.* (2016) add another approach called the abductive.

Deductive research uses the technique of theoretical labelling, focusing on recognising in the collected data pre-defined theoretical categories (Dana & Dumez, 2015). Although deductive research offers the researcher the focus and orientation needed for successful research, it is constrictive by nature and the risk of circularity in deductive qualitative research is bigger than in inductive qualitative research (McGregor & Murnane, 2010). Inductive research will make use of the coding techniques offered by grounded theory (Corbin & Strauss, 1990), in the process of the further development of sensitising or provocative concepts (Gioia et al., 2013).

The current study used the abductive approach, simply viewed as a combination of deductive and inductive reasoning (Bomani, 2017). Thus, according to Suddaby (2006) cited in Saunders *et al.* (2016) instead of generating or testing a theory, the abductive approach moves back and forth. Saunders *et al.* note that many business and management researchers adopt this approach to theory. The choice of abductive reasoning was informed by the philosophical assumption of pragmatism (Saunders *et al.*,

2016). Carson *et al.* (2011) observe that pragmatism is a practical philosophy as researchers solve problems by combining deductive and inductive thinking.

5.3.3 Research strategy

The study used a case study strategy. A case study strategy is "an empirical inquiry that investigates a contemporary phenomenon within its real-life context" (Robson, 2002:178 cited in Saunders *et al*. 2009; Yin, 2013). Yin (2013) further adds that the case study strategy enables researchers to understand complex social phenomena. According to Yin (2014), the case study strategy is appropriate for all disciplines. The study fall in both the field of entrepreneurship and strategic management, therefore, the case study was deemed appropriate. The case study collect data that help explain strategy formulation-financial performance relationship as advised by (Durand & Vaara, 2009)

The strategy of using case studies in research involves the thorough study, in depth and detail, of a limited number of objects, individuals or environments (McGregor & Murnane, 2010). Ideally, data collection in such research should include observation and interviews, as is done in ethnography (Dana & Dana, 2005). Questions relating to how and why are more explanatory and can best be answered using the case study strategy (Yin, 2013). Such questions deal with the operational relationships that need to be tracked over time as such simple frequencies provide inadequate answers to problems (Macmillan & Schumacher, 2010; Yin, 2014). This made the case study strategy the researcher's choice for the study.

The study focused on a single case: manufacturing SMEs in Harare, Zimbabwe. Hence, only manufacturing SMEs in Harare took part in the survey. The decision to study this case was arrived at after considering several factors. SMEs players are diverse and will formulate their strategies differently from larger corporates (Sandada, 2015). The manufacturing sector is one sector that the Zimbabwean government feels has the potential to contribute immensely to the socio-economic development of Zimbabwe (Bomani *et al*., 2019).

Secondly, the manufacturing sector is also one of the sectors which reflects the impact of the unstable, complex nature of the business environment on vulnerable sectors of the economy in Zimbabwe (Gure, 2018; Mabenge *et al.,* 2020). Hence, the researcher felt that it requires effective management such that owners can realise financial and economic benefits that can meaningfully contribute to the economic development at large. The choice of this sector was also validated by Dumbu (2014) who observed that documented literature on the strategic management of manufacturing SMEs in Zimbabwe is little.

5.4.4 Research Choice

Guided by the pragmatism philosophy and abductive approach, this study employed the choice of the mixed method to gather and analyse data. Barker (2016) notes that the mixed methods approach combines quantitative methods and qualitative methods in a research study. The advocates of the mixed-method approach argue that combining quantitative and qualitative methods in a study ensures a more balanced approach to research (Creswell, 2014; Bryman & Bell, 2015; Johnson *et al*., 2007; Johnson & Onwuegbuzie, 2004; Bryman, 2015; Jerome, Krishna, Mohammed & Lee-Piggott, 2017).

As noted by Charles Peirce (1839–1914) cited in Dana and Dumez (2015), even research is subjected to a cost/benefit analysis. The qualitative approach is time-consuming and appears difficult to juggle with quantitative methods. On the other hand, quantitative methods develop over time, and demand increasingly elaborate competences (Bahari, 2010). If qualitative research does not rule out quantitative treatment, it is necessary that it remains reasonably simple, and that its results are robust. It is, therefore, necessary to find methods that offer a good compromise between simplicity and robustness (George & Bennett, 2005).

In particular, this study adopted a sequential mixed-method study. With a sequential strategy, data gathering and analysis are sequentially done (Creswell, 2014). Qualitative data may be collected and analysed first followed by quantitative data, or vice versa (Creswell, 2014). The researcher adopted an explanatory sequential mixed method design, thus, the study was conducted in two-phases (Creswell, 2014). Bryman (2016) explains that "the explanatory sequential design entails the collection and analysis of quantitative data followed by the collection and analysis of qualitative data to explain the quantitative findings".

The researcher collected and analysed quantitative data in the first phase and then collected and analysed qualitative data lastly. The quantitative results were further confirmed and verified by the qualitative data in the second phase of research (Creswell, 2014). The weighting given to either data set was equal (Terrel, 2012). Although the data was collected separately, the analysis of both quantitative and qualitative data was combined in chapter six.

5.4.5 Time Horizon

Saunders *et al.* (2016) note that the time horizon is the time frame within which data can be collected. The time horizon can either be a cross-sectional or longitudinal (Saunders et al., 2016). The cross-sectional approach involves gathering data at a particular time (Sekeran & Bougie, 2013) while the longitudinal study collects data for periods that stretch for long (Saunders *et al*., 2016). The researcher adopted the cross-sectional survey as employed by other doctoral graduates from the College of Law and Management Studies, University Of KwaZulu Natal. The design involved the collection of data

during February and part of March 2019. The cross-sectional design was the most appropriate time horizon given the limited time and funds (Bryman, 2008 cited in Derera, 2015; Saunders *et al*., 2016) and the researcher's pragmatic circumstances (Kakava, 2015).

5.4.6 Study Site

The research was undertaken in Harare, Zimbabwe. Harare is the capital city of Zimbabwe and also a metropolitan area (Bomani, 2017). It is Zimbabwe's administrative and commercial centre (Bomani, 2017; Muronda, 2008). Harare is situated at an elevation of 1,483 m (GoZ, 2015). The map in Fig 5.3 below shows the location of Harare in Zimbabwe.

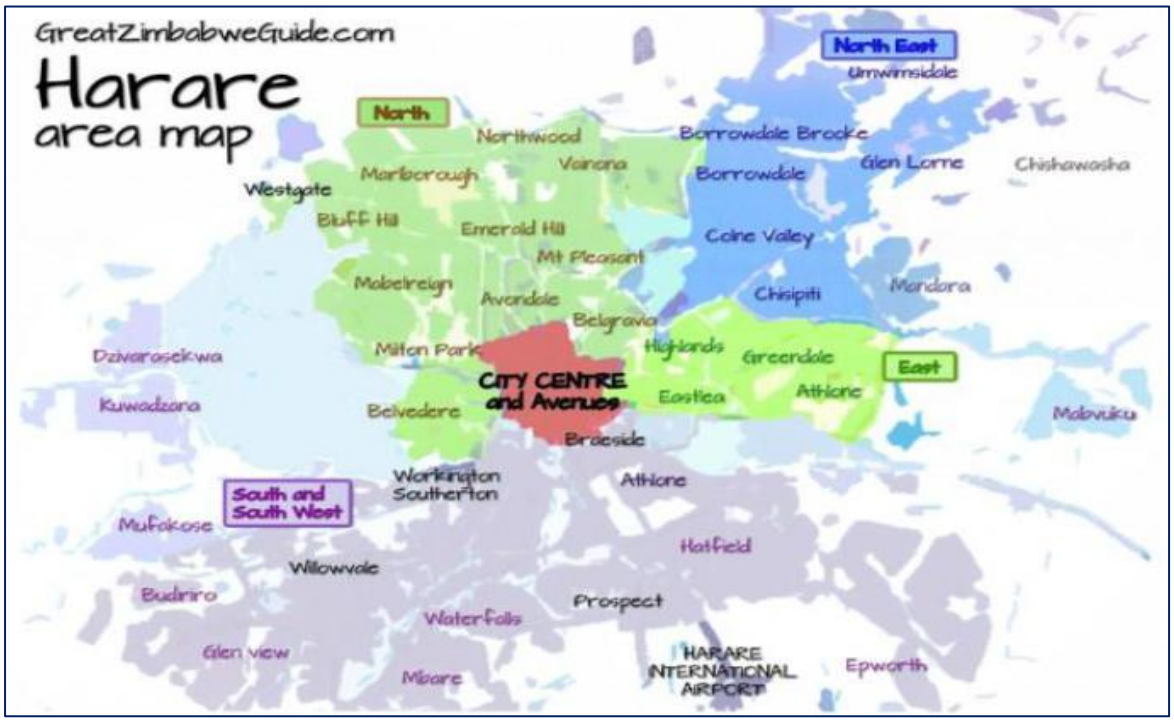
FIGURE 5.3 ZIMBABWEAN MAP

Source: www.mapsofworld.com

The city of Harare was seen as the most appropriate study site for two reasons. The city significantly contributes to the economic development of the country, accounting for about 14% of the total GDP (Mangudya, 2015). Secondly, most of the manufacturing SMEs in Zimbabwe are concentrated in Harare (Bomani, 2017). Thus, this made the researcher's choice a sensible one.

Admittedly, Chingwaru and Jakata (2015) justified Harare as the most appropriate study area for manufacturing SMEs as they claim that, "Harare city would give diverse responses relatively large enough to be representative of the national views". Hence, the researcher was confident that data gathered from the manufacturing SMEs in Harare was representative of the manufacturing SMEs in Zimbabwe. Figure 5.4 below shows the study areas in Harare, Zimbabwe.

FIGURE 5.4: MAP OF HARARE



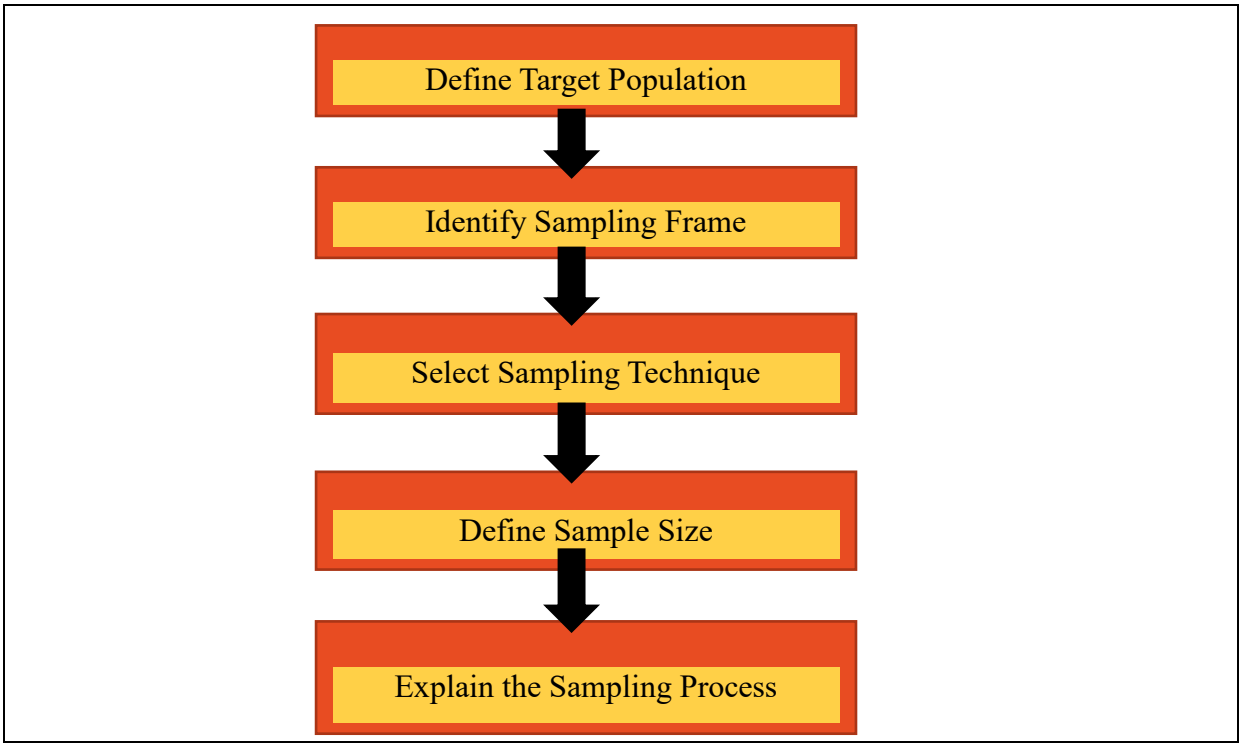
Source: greatzimbabwe.com

According to Makanyeza and Dzvuke (2015) and Bomani (2017), manufacturing SMEs produce textile products, furniture, consumables, metal products, plasticware, and textiles. Areas of data collection included; Glen View Area 8 Complex, Mbare (Siyaso), Mbare Matapi flats. These areas were chosen as they housed formally registered manufacturing SMEs. These SMEs operate on specific registered sites with the Harare City Council (Bomani, 2017). The specific areas for data collection are illustrated in Figure 5.4 above.

5.4 SAMPLING STRATEGY

Malhotra (2010) describes sampling strategy as comprising five steps that are: identifying the target population, defining a sample frame, selecting the appropriate sampling procedure, sample size determination, and lastly executing the actual sampling. The procedure for sampling is shown in Figure 5.5 below.

FIGURE 5.5: SAMPLING STRATEGY



Source: Adapted from Malhotra (2010:375)

Concurring with Malhotra (2010), Khaldi (2017) claims that the sampling strategy should show the progressive nature of sampling. This is important in research methodology as it affects the ultimate research results. The following sections present in detail the sampling strategy steps followed by the researcher.

5.4.1 Population

A population can be defined as the total number of units, elements, or cases that could be individuals, organisations, items, or events from which a sample can be drawn for study purposes (Asif, 2013; Parahoo, 2014). Cooper and Schindler (2014) state that the relevant population may be apparent from the main research question. Hence, the research question guided the researcher to the study's population. Malhotra (2010) comments that the target population must be clearly described noting the sampling units and the geographical area the study will be conducted.

The researcher targeted all SMEs in the manufacturing sector in Harare, Zimbabwe. However, the focus was on manufacturing SMEs that are registered, and appear on the provincial databases of the Department of Small and Medium Enterprises. The 2012 FinScope Survey revealed that Zimbabwe has 3.4 million SMEs (Bomani, 2017), while approximately 442 000 SMEs are found in Harare, with 9 242

in the manufacturing sector (FinScope survey, 2012). This was taken as the target population of the study. For this research, only independent corporates formed the population as subsidiary companies were seen as possibly less independent in strategic matters (Nyamwanza, 2015). The study drew targeted manufacturing SMEs' key personnel such as owners and managers as they are the office carriers involved in strategic issues, hence their propensity to provide rich data (Nyamwanza, 2015; Mhizha, 2014). In support of this Dana and Dana (2005) claim that the simplest possible unit of research for understanding entrepreneurship is the entrepreneur.

5.4.2 Sampling frame

Zikmund and Babin (2013) define a sampling frame as a list from which a representative sample can be drawn. According to Sekeran and Bougie (2016), the sampling frame is a physical representation of all the elements in the population from which the sample is selected. The target population formed the sampling frame as all of them were registered with the Department of SMEs.

5.4.3 Sampling techniques and methods

Neuman (2015) views sampling as the act of selecting a few elements of the population to estimate characteristics of the whole population. Sampling begins with the precise definition of the population (Sekaran & Bougie, 2013). Sekeran and Bougie (2013:242) explain that "in research, it is impractical to collect data from every element of the population, even it were possible, it would be prohibitive about time, cost and other human resources needs". In the same vein, Zikmund and Babin (2013) concur and add that it is neither possible nor practical to include all members of a population in a study for reasons of cost and time. Hence, sampling becomes important to facilitate data collection.

According to Bryman & Bell (2015) sampling techniques are broadly classified into probability sampling and non-probability sampling. The study employed probability (stratified random sampling) and non-probability (purposive sampling). These techniques are discussed in the next section.

5.4.3.1 Stratified Sampling

Stratified random sampling involves dividing the population into relevant and significant classes based on particular attributes (Saunders *et al.*, 2016). Sekeran & Bougie (2013) add that when the target population is heterogeneous, stratified random sampling is the best technique to use. The study adopted the stratified random sampling as there are distinct and specific sub-groups within the manufacturing sector of SMEs.

The population for the study was divided into classes herein referred to as business sectors. Five mutually exclusive groups emerged from the population: food products, clothing and footwear, wood

and furniture, metals, and chemicals. Within each business sector, simple random sampling was then conducted to draw study respondents. Thus, the final study participants were proportionally selected from different sectors. Proportionate stratified random sampling ensured that all key subgroups are included in the study (Schumacher, 2010). This was the main advantage of adopting this sampling technique. Table 5.1 shows the sample size obtained from each manufacturing sector.

5.4.3.2 Purposive sampling

Purposive sampling also referred to as judgemental sampling involves selecting cases that the researcher feels appropriate to answer the research questions (Saunders *et al.*, 2016). Thus, sampling is done strategically, taking only those elements that provide data to fulfill research objectives (Bryman & Bell, 2015). The researcher chose participants that met his particular needs (Sekeran & Bougie, 2016) and were particularly informative (Saunders *et al*., 2009).

Purposive sampling was done in two parts. Firstly, the researcher adopted judgemental sampling in selecting documents from the secondary sources. The selection of documents was guided by their relevance to the research themes such as strategy formulation, strategy formulation approach, financial performance, SMEs, and manufacturing SMEs. The document selection relied upon their authenticity as well as their relevance in answering the research questions.

Secondly, purposive sampling was adopted in choosing participants for an in-depth interview. The participants were identified from the survey data obtained in the first stage of data collection. There were selected based on the responses they gave in the quantitative study. This was pronounced by Malhotra (2010) when he articulated that purposive sampling allows the researcher to rely on previous research findings to choose elements of the population that are of the study. Thus, the owners/managers were purposively chosen because they were considered to be rich in desired information about strategy formulation and financial performance in their respective sectors.

5.5.4 Determination of sample size

Sample size refers to the limited number of elements that represent the whole population (Saunders *et al*., 2016) that will ultimately participate in the actual study (Macmillan & Schumacher, 2010; Bryman & Bell, 2015). Sekeran and Bougie (2013) warn that the decision about the size of a sample can be very difficult. They further point out that the correct sample size is dependent on the nature of the population under the study and the purpose of the research. Other factors governing the size of a sample include the population variability (Neuman, 2015), confidence level, and confidence interval (Saunders *et al.*, 2016; Sekeran & Bougie, 2016). Admittedly, Cooper and Schindler (2012) observe that much folklore

surrounds this issue. The following sections discuss the determination of the sample size for the quantitative study and the qualitative study.

5.5.4.1 Quantitative study

The researcher used Yamane's formula (1967) to determine the sample size for the quantitative study. Past researchers in entrepreneurship and management research (Nyangara *et al*., 2015; Mhizha, 2014; Anyanga & Nyamita, 2016; Kowo, *et al*., 2018) using the cross-sectional research surveys have adopted Yamane's formula in determining sample size for their studies. While it can be argued that Yamane's formula is old, its consistent use over the years by many academic researchers is evidence that it is still valid, dependable, and widely acceptable (Anyanga & Nyamita, 2016; Kowo, *et al*., 2018). The formula is highly recommended for stratified random sampling (Israel, 2002). The following formula was used to calculate the sample size for the study.

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

Given the 9 242 manufacturing SMEs in Harare, the required sample size was 368, calculated as illustrated below. Where:

N- Population size (9 242)

e- Margin of error (0.05)

$$n_{\circ}=\frac{N}{1+N(e)^2}$$

$$n_{\circ}=\frac{N}{1+\frac{N^2-1}{N}}$$

$$n_{\circ}=\frac{9242}{1+9242(0{,}05^2)}$$

$$\text{Therefore } n = \frac{383.405}{1+\left(\frac{383.405}{9242}\right)}$$

$$=\frac{383.405}{1.041}$$

$$=368$$

Therefore, the sample size for the study is 368 using Yamane's formula. The sample size in each sector is proportional to the size of the population.

TABLE 5.2: SAMPLE SIZE PER STRATA

Sector	Percentage	Population in sector	Proportional Sample size
Food products	22	2 033	81
Clothing & footwear	15	1 386	55
Wood & furniture	30	2 773	110
Chemical & petroleum	10	924	37
Metals	23	2 125	85
Totals	**100**	**9 242**	**368**

Source: Author compilation

The sample size drawn for this study fits very well with Roscoe's (1975)'s rules of thumb. Roscoe (1975) cited in Sekeran and Bougie (2013) proposes that a sample size larger than 30 but less than 500 are suitable for most studies. The sample size in this study is 368, more than 30 but less than 500. Roscoe further proposes that where the sample can be classified into subgroups the sample size should be at least 30 for each category. In this study, there are five mutually exclusive groups, with more than 30 respondents in each group.

5.5.4.2 Qualitative study

The determination of sample size in qualitative research is different from quantitative studies (Boddy, 2016; Malterud, Siersma & Guassora, 2016; Bryman & Bell, 2015). The sample size in qualitative research should be large enough to ensure that all-important perceptions are uncovered (Mason, 2010; Saunders *et al.*, 2016), generate sufficient data to fulfill the study questions (Bryman & Bell, 2015), and describe the phenomenon of interest understudy (Malterud *et al*., 2016; Boddy, 2016). The question which needs to be answered now is how large should be the sample size for qualitative studies? Adopting an ethnographic approach in non-quantitative research calls for data being rich in qualitative detail, a parametric distribution is not necessary; nor is statistical manipulation (Dana & Dumez, 2015).

Different scholars have recommended various guidelines for determining the appropriate sample size for qualitative studies (Malterud *et al*., 2016). Saturation is one of the principles in sample size determination for qualitative studies (Saunders *et al*., 2016; Boddy, 2016; Malterud *et al.*, 2016). Table 5.3 below provides a summary of sample size determination guidelines in qualitative studies.

TABLE 5.3: SAMPLE SIZE DETERMINATION GUIDELINES FOR QUALITATIVE RESEARCH

Sample Size	Research Type	Research Authority
5-25	Phenomenology	Creswell (2013)
Less than 20	Phenomenology	Crouche and McKenzie (2006)
20-30	Grounded theory	Creswell (2014)
20-40	Grounded theory	Marshall *et al.* (2013)
12-60	Case study	Adler and Adler (2012)
15-30	Interviews	Creswell (2013)
20 plus	All qualitative studies	Green and Thorogood (2009)
25 plus	All qualitative studies	Charmaz (2012)
Less than 10	Grounded theory	Boddy (2016)

Source: Author (developed from literature)

Qualitative sample sizes of 20-30 are appropriate for researchers using grounded theory to inquiry (Creswell, 2014; Warren, 2002), sample size between 12 and 60 with a mean of 30 are advisable (Adler & Adler, 2012 cited in Bryman, 2016), sample sizes of less than 20 ensures maximum participation and involvement of participants (Crouche & McKenzie, 2006), sample sizes of 10 are considered sufficient for sampling among a homogenous population (Boddy, 2016), 5-25 for phenomenology and 15-30 interviews for case studies (Creswell, 2013), 20 plus all qualitative studies (Green & Thorogood, 2009) and 15 plus (Guest *et al.*, 2006). Bryman (2008) on the other hand laments the absence of ideal sample size in qualitative studies.

According to Bryman (2016), the sample size for qualitative studies should be able to support reasonable and convincing conclusions but will vary from situation to situation, hence researchers in qualitative studies must balance forces. Onwuegbuzie, Leech and Collins (2012:289) note that "In general, sample sizes in qualitative researches should not be so small as to make it difficult to achieve data saturation, theoretical saturation or informational redundancy. At the same time, the sample should not be so large that is difficult to undertake a deep, case-oriented analysis".

With all these recommendations, the sample size for the in-depth interviews was 15 as determined by data saturation. The sample size is consistent with most of the sample size guidelines for qualitative studies described above.

TABLE 5.4: SAMPLE SIZE FOR IN-DEPTH INTERVIEWS

Sector	Sample size
Clothing & footwear	3
Wood & furniture	3
Chemical & petroleum	3
Food products	3
Metals	3
Total sample size	**15**

Source: Own compilation

The researcher observed that the theoretical saturation was reached at 15 interviews with the owner/managers. The main aim of qualitative studies is to collect rich data and not to infer (Saunders *et al.*, 2016). Hence, a small sample size of 15, studied in great depth is suitable (Gliga, 2016).

5.5 DATA COLLECTION: INSTRUMENTS AND PROCEDURE

Bryman and Bell (2015) note that research instruments are tools for collecting data from respondents and they include the questionnaires, interview guides, and observation checklist. Since the study was guided by the abductive research approach, the researcher used both questionnaires and in-depth interview guides. The following section discusses the research instruments used in the study.

5.5.1 Questionnaires

Sekeran and Bougie (2013) define a questionnaire as "a pre-formulated written set of questions to which set of questions to which respondents record their answers, usually within rather closely defined alternatives". Questionnaires mainly collect quantitative data (Saunders *et al*., 2012; Rowley, 2014). The current study employed the self-administrated questionnaires. Mhizha (2014) in his study of strategic management practices and challenges in SMEs in Harare, Zimbabwe confirms that 96.4 % of SMEs in Zimbabwe are literate, therefore, the researcher used the questionnaire knowing very well that the respondents were able to read and write.

The questionnaire for the study composed of closed-ended questions to enable statistical analysis (Bhattacherjee, 2012). Hence, questionnaire questions gave a set of fixed alternatives from which study participants chose their answers (Bryman, 2015; Saunders *et al*., 2016).

5.5.1.1 Questionnaire design

Well-designed questionnaires enable relationships between study variables to be identified (Sekeran & Bougie, 2013). Iacobucci and Churchill (2010) note that the appearance of the questionnaire is very critical in research. The questionnaire had a cover letter that introduced the respondent to the study. The letter served to present the purpose of the study, and as such motivated research respondents (Zikmund & Babin, 2013), thus, it ensured a higher response rate

In designing the questionnaire, the researcher adopted the 'funnel' approach to questionnaire development. According to Saunders *et al.* (2016), when designing the instrument the researcher starts with more general level and/or broader questions before narrowing down to specific questions that address the main research objectives. The questioning format was designed to address the research questions as set out in Section 1.6, Chapter 1. The five sections are briefly discussed below.

Section A: Demographical information; questions in this section aimed to describe the study population. Items included are respondents' gender, sex, age, and educational level. The section comprised of 4 questions.

Section B: Company information; the questions in this section were meant to understand the nature of SMEs in Harare. This section comprised of 4 questions.

Section C: Strategy formulation; the questions in this section aimed at having an understanding of the nature of strategy formulation in SMEs in Harare. The study adopted and adapted 25-items. A 5 point ordinal Likert scale was used to measure the five components i.e. items **C1-C5** ***(coded as SF1-SF5)*** measured strategy purpose, **C6-C10** ***(coded as SF6-SF10)*** measured strategy objectives, items **C11-C15** ***(coded as SF11-SF15)*** measured environment scanning, items **C16-C20** ***(coded as SF16-SF20)*** measured data integration and lastly items **C21-C25** ***(coded as SF21-SF25)*** measured strategy choice.

Section D: Strategy formulation approaches; this section was aimed at soliciting information on the strategy formulation approaches adopted by the SMEs and the nature of it. This section comprised of 18-items. This section used a 5 point ordinal Likert scale to measure the two components, that is items **D1-C9** ***(coded as PASF1-PASF9)*** measured planned approach and **D10-D18** ***(coded as EASF1-EASF9)*** measured emergent approach.

Section E: Business strategies; this section aimed at gathering data to ascertain the competitive strategies employed by SMEs in Harare, Zimbabwe. This section comprised of 3-items. This section used a 5 point ordinal Likert scale to measure the three items that are items **E1-E3** ***(coded as BS1-BS3)***

Section F: Strategy formulation and financial performance; this section was aimed at gathering information on strategy formulation and financial performance connection over the period 2013-2017. This section comprised of 8-items. This section used a 7 point ordinal Likert scale to measure the two

components i.e. items **F1-F3** *(coded as **STFP1-STFP3)*** measured short term financial performance and **F4-F8** ***(coded as LTFP4-LTFP8)*** measured long term financial performance.

Section G: Strategy formulation approaches and financial performance; the aim of this section was at establishing the relationship between the adopted approach and financial performance. This section comprised of 14-items. This section used a 5 point ordinal Likert scale to measure the two components i.e. items **G1-G3** ***(coded as PASFP1-PASFP3)*** measured planned approach versus short term financial performance; **G4-G6** ***(coded as EASFP4-EASFP6)*** measured emergent approach versus short term financial performance; **G7-G10** ***(coded as PALFP7-PALFP10)*** measured planned approach versus long term financial performance and lastly, **G11-G14** ***(coded as EALFP11-EALFP14)*** measured emergent approach versus long term financial performance.

Section H: Business strategies and financial performance; the aim of this section was at establishing the relationship between the adopted business strategies and financial performance. This section comprised of 18-items. This section used a 5 point ordinal Likert scale to measure the two components, that is items **H1-F9** ***(coded as BSSFP1-BSSFP9)*** measured business strategies versus short term financial performance and H10-H18 ***(coded as BSLFP10-BSLFP18)*** measured business strategies versus long term financial performance.

Hair Jr. *et al.* (2014:155) note that well-designed scales allows researchers to accurately measure phenomena, and consequently provide quality data for decision making. They also state that there are many different scales however the research questions guide the ideal scale to use. In sections **A** and **B** the questionnaires had pre-coded responses that required respondents to tick the appropriate box. In **Sections C to H** the questionnaire used the Likert scales to record respondents' responses. This is discussed in Section 5.8.

5.5.1.2 Operationalisation of variables

The study aimed at examining the relationship between strategy formulation and financial performance of manufacturing SMEs in Harare, Zimbabwe. To operationalise the strategy formulation construct, five steps involved in strategy formulation were given and the extent to which they were practiced was measured using the five-point Likert scale. Other studies that have used the five-point Likert scale in measuring the level of strategy formulation include Sandada (2015), Sandada *et al*. (2016), and Nwachukwu *et al.* (2018). The operationalisation of variables is shown in Table 5.5 below.

TABLE 5.5: OPERATIONALISATION OF STUDY VARIABLES

Construct	Sub-constructs	Measurement	Source	Relevant questions
Strategy formulation	Development of the strategy purpose Establishing strategic objectives Environmental audit Integration of data Strategy analysis and choice	5 point Likert Scale	Singh (2009); Sandada (2015); Sandada *et al.* (2016); Wheelen & Hunger (2008) cited in Nwachukwu *et al.* (2018)	Section C: Qns C1-C25
Strategy approach	Planned approach Emergent approach	5 point Likert Scale	Yazdani (2010); Germanos (2012); Papulova & Papula (2014). Yoffie & Cusumano (2015); Jamil & Shar (2015); Hashim (2016)	Section D: Qns D1-D16
Business strategy	Porter's generic strategies	5 point Likert Scale	Leitner & Goldenberg (2010); Gbolagade *et al.* (2013); Mwangi (2013); Kaya (2015); Uchegbulam *et al.* (2015); Mita *et al.* (2017)	Section E: Qns E1-E3
Financial performance	Annual sales, returned profits, cash-flows, growth in sales revenue, growth in cash-flows, growth in profits and return on capital employed	5 point Likert scale	Makanyeza & Dzvuke (2015); Germanos, 2012; Wang *et al.*, 2015; Sarkissian, 2015; Mageto, 2018	Section F-H: Qns F1-F8 G1-G14 H1-H18

Source: Prepared for this research (2019)

As shown in Table 5.5, the study used the following measures to measure financial performance: annual sales revenue, returned profits, cash-flows, growth in sales revenue, growth in cash-flows, growth in profits, and return on capital employed (Makanyeza & Dzvuke, 2015; Germanos, 2012; Wang *et al.*, 2015; Sarkissian, 2015; Mageto, 2018). The five-point Likert scale was used to assess the impact of strategy formulation on the financial performance of SMEs while the five-point Likert scale was adopted to assess the impact of both business strategy and strategic approaches on the financial performance of SMEs.

To conceptualise the strategy formulation approaches, two constructs were used that is planned and emergent approach. To assess the two strategic styles, the formality, the presents of clearly articulated

objectives, separation of formulation and execution, the perception of the external environment, the rationality of strategy making, and the nature of planning was used to operationalise the construct (Yazdani, 2010; Germanos, 2012; Papulova & Papula, 2014); Yoffie & Cusumano, 2015; Jamil & Shar, 2015; Hashim, 2016). To measure the extent to which each style was adopted, the study used the five-point Likert scale.

The study adopted Porter's generic strategies in conceptualising business strategy in SMEs. Hence business strategy was operationalised into differentiation strategy, overall cost leadership strategy, and focus strategy (Leitner & Goldenberg, 2010; Gbolagade *et al.,* 2013; Mwangi, 2013; Kaya, 2015; Uchegbulam *et al.,* 2015; Mita *et al.,* 2017). The five-point Likert scale was adopted to measure the frequency of use of the strategies. Other studies that have used the five-point Likert scale include (Nandakumar *et al.,* 2011; Kaya, 2015; Uchegbulam *et al.,* 2015; Mita *et al.,* 2017). The following section discusses the administration of the questionnaires.

5.5.1.3 Administration of the questionnaires

The researcher personally administered questionnaires by hand-delivering them to the respondents' work-stations. The researcher managed to distribute 368 questionnaires. Data were collected in one month, the whole month of February 2019. The respondents were given time to complete the questionnaires. The researcher made follow-ups by telephone, calling at different days of the week reminding respondents to complete the questionnaires.

The personal administration of the questionnaires ensured maximum cooperation from the respondents (Saunders *et al*., 2012). By the researcher being an independent investigator, the respondents were at liberty to give their views. The researcher helped clarify some concerns as the questionnaire was lengthy and detailed, yet some respondents in a few cases, however, could not understand English.

5.5.2 Interview guides

The study used interview guides for semi-structured interviews. The questions in the interview guide were aligned with the objectives of the study (Appendix **B**). The interview guide gave direction to the researcher and ensured that all the important issues were addressed. Only questions about the key constructs in the study were included in the interview guide. The set of questions were guided by the study objectives. The original interview guides were pilot tested and had to be revised such that the reliability of data can be enhanced. The researcher made sure that interview guides were kept in a standard format to enable comparisons to be made and at the same time maintaining consistency throughout data analysis (Gliga, 2016).

5.5.2.1 Administration of the interviews

The first interview was conducted with interesting cases obtained from the quantitative phase of the study. To get a deeper understanding and an undisturbed flow of communication, the interviews were conducted at the interviewees' workplaces, in a closed room.

During the interview session, the interviewer was flexible and at times departing from the guide giving attention to what the interviewee considered important and relevant in answering the questions (Bryman, 2016). For instance, participants kept on highlighting their challenges, an area that was not being sought in the study. The researcher made notes as the interview progressed, this also showed the participant that their responses were important.

Immediately after the interview, the researcher compiled a full record of the interview. On average, each interview with the SME took thirty minutes to conduct. The main advantage of the face to face semi-structured interviews was that the researcher ensured that the interviews understood all the questions (Sekeran & Bougie, 2016), and also the researcher picked up nonverbal cues (Bryman, 2016).

5.5.3 Documents as a source of data

Documents constitute an important secondary source of qualitative data (Ololube & Kpolovie, 2012). Secondary data refer to data that are already available (Kothari, 2004). The researcher collected secondary data from textbooks, policy documents, and journal articles. Documents were examined to enhance the understanding of the study concepts (Trautrims, Grant, Cunliffe & Wong, 2013). A review of empirical and theoretical literature from secondary data provided insights onto the past discussions and conclusions on studies related to strategy formulation and financial performance. However, only data that was found to be reliable, authentic, suitable, and adequate was considered for the current study (Saunders *et al*., 2016). Dana and Dumez (2015) claim tha documents are useful for verification and added reliability.

Document analysis was an essential component of this study, as it guided the formulation of a topic, the definition of the problem, and the collection of data up to the presentation of the research findings (Trautrims *et al.*, 2013). Grounding the research in theory required the researcher to access secondary sources of data (Dana & Dumez, 2015). During the interpretation of the research results, the researcher also used secondary data, for example in order to be guided on the acceptable fit indices (Cooper & Schindler, 2014).

5.6 DATA QUALITY

According to Pellissier (2007), the quality and rigor of research stem from the validity and reliability of the research methodologies. The researcher needs to apply specific evaluation techniques to enhance data quality and rigor. The following sections discuss how data quality and rigor were insured in the present study.

5.6.1 Data quality and rigor in Qualitative studies

Qualitative studies do not usually use standardized research instruments (Saunders *et al.,* 2016), and they often adopt non-probability sampling techniques and smaller sample sizes (Sekeran & Bougie, 2013; Bryman, 2016). Because of this, assessing the truthfulness of qualitative findings is difficult.

Qualitative researchers normally use four criteria for ensuring data quality namely, credibility, dependability, transferability and confirmability (Lincoln & Guba, 1985; Denzel, 2009; Bryman, 2012). These criteria are analogous to internal and external validity, neutrality, and reliability in quantitative studies (Pellissier, 2007). The next section presents a discussion of each criterion.

5.6.1.1 Credibility

Credibility is analogous to internal validity (Pellissier, 2007). Credibility is the extent to which the data collected and the results are believable and trustworthy (Creswell & Plano Clark, 2011). Merriam (2009) credibility addresses the question "How congruent are the research findings with reality?" The researcher employed well-established research methods and tools to ensure credibility in the study. The use of a collection instrument that is questionnaires and two different interview guides. The researcher also critically analysed the data collected before documenting the findings. The researcher made sure that there was a link to the findings with the reviewed literature.

5.6.1.2 Dependability

Dependability is analogous to reliability (Polit & Beck, 2012; Riege, 2003), that is, the extent to which the same results are observed under similar circumstances (Wahyuni, 2012). It is the extent to which study results can be replicated (Merriam, 1998). Dependability is often problematic and almost practically impossible as the behaviour of researchers and subjects varies continuously depending on various factors (Pellissier, 2007). In a way to enhance reliability, the researcher provided an in-depth methodological description to allow for the study to be replicated with the same results being discovered and new data emerging. The researcher also took reasonable time and care in ensuring that the process

of research was logical and traceable. Thus, the researcher documented the research process, giving all the details.

5.6.1.3 Transferability

Transferability corresponds to external validity in quantitative studies (Shenton, 2004). Thus, it refers to the extent to which results of the study can be applied to other settings or situations (Polit & Beck, 2012). Shenton (2004) claims that transferability is a major challenge as the researcher's subjectivity is the key instrument in qualitative studies.

To ensure generalisability the researcher provided a detailed and rich description of the settings studied. This was to ensure that readers are provided with sufficient information to enable them to judge the applicability of research results to other settings or populations they know as well as making their judgment concerning the transferability of study outcomes (Shenton, 2004). Secondly, the researcher throughout the research process was sensitive to potential biases by being mindful of the prospects for multiple interpretations of study findings.

5.6.1.4 Confirmability

Polit & Beck (2012) posit that the researcher must make sure that his/her views should not manipulate the interpretation of data collected. Thus, confirmability means that the interpretation of findings should be based on or supported by information provided by the participants and not created by the investigator. Shenton (2004) concurs and adds that researchers should be unbiased concerning their choices of paperwork to a reviewer who would want to substantiate their work. To ensure confirmability, qualitative data analysis was based on the participants' voices as reflected by direct quotations in the qualitative findings section of data analysis in Chapter 6.

5.6.2 Data quality in Quantitative studies

Quantitative data quality is a major concern of all management and entrepreneurship researchers. Reliability and validity are the two most important quality measures in quantitative research (Saunders & Rojon, 2014). Sekeran and Bougie (2013) posit that these two data quality concepts attest to the scientific rigour that has gone into the research study. The following sections discuss how quality and rigour were ensured in the quantitative phase of the study.

5.6.2.1 Reliability

Saunders and Rojon (2014) note that reliability entails the extent to which consistent results are found by using the same research instrument. Sekeran and Bougie (2013) concur and add that reliability indicates the extent to which a measure is error-free. Sekeran and Bougie (2013) add that reliability is concerned with the stability of results.

The fundamental premise of reliability is that research instruments should produce similar results when re-tested on the same people at different times (Saunders *et al*., 2016). Thus, to ensure reliability, the researcher drafted the instrument in such a manner that "instrumentation, data, and findings were controllable, predictable, consistent and replicable" (Cohen, Manion & Morrison, 2007). Furthermore, the researcher developed the instrument making sure that the respondents would easily understand (Sekeran& Bougie, 2013).

A pilot study was also done to assess the questionnaire's reliability. The questionnaire's internal consistency was checked using the widely used index of Cronbach's Alpha test. Acceptable reliability is shown by alpha values from 0.70 to 1 (Pallant, 2007; Sekeran & Bougie, 2016), 0.75 to 1 (Coolican, 2009). Table 6.2 in chapter 6 shows the results of the pilot study. These findings reflect a highly acceptable degree of reliability for the questionnaire items (Bron & Vidaver-Cohen, 2008). Thus, the questionnaire was suitable for gathering data.

5.6.2.2 Validity

Validity is concerned with “whether the findings are really about what they appear to be about” (Saunders *et al*., 2016). Sekeran and Bougie (2013) concur and add that validity is a "test of how well an instrument measures the concept it intends to measure". Simply, validity is concerned with whether the instrument measures the right concept (Sekeran & Bougie, 2013). This section discusses how the researcher ensured internal validity, external validity, conclusion validity, and construct validity (Saunders *et al*., 2016).

Saunders *et al*. (2016) view the internal validity of the experiment as "the extent to which research findings can be attributed to the interventions rather than any flaws in the research design". In other words, it answers the question "does the instrument measure what its designer claims it does?" (Cooper & Schindler, 2012). To ensure that the questionnaire measured the impact of strategy formulation on financial performance in SMEs, the researcher carefully planned his research methodology that is sampling, instrumentation, and suitable statistical treatments of the data (Saunders *et al.,* 2016). The researcher followed the scientific approach to research to ensure that the study and its results were valid. The use and design of the questionnaire were informed by theory and literature.

The external validity of research findings is the data's ability to be generalized across persons, settings, and times (Cooper & Schindler, 2012; Saunders *et al*., 2016). In a study that lacks external validity, it is likely to be difficult that the findings be applied beyond the narrow confines of the study (Saunders *et al.,* 2016). The current study ensured external validity by way of triangulation. Furthermore, the researcher's supervisor and colleagues reviewed the entire research project before the national and international examiners.

Construct validity is the extent to which a questionnaire or test measures a theoretical concept (Saunders *et al*., 2009; Bryman & Bell, 2015). Sekeran and Bougie (2013) note that "construct validity testifies to how well the results obtained from the use of the measure the theories around which the test is designed". Thus, construct validity is related to the theoretical concepts underpinning the study. Hence, to enhance construct validity for the current study the study instruments items were aligned with the theoretical underpinnings in strategy.

According to Cooper and Schindler (2012), the content validity of a measuring instrument is the extent to which it provides adequate coverage of the investigative questions guiding the study. Sekeran and Bougie (2013) emphasise that with content validity, the measures should include an adequate and representative set of items that defines a particular concept. Thus, to ensure content validity, the researcher made sure that the research instruments adequately covered the strategy formulation elements and the financial performance aspects. The researcher also asked for insights and recommendations from the supervisor as well as other doctoral graduates from the UKZN School of Management, IT, and Governance to judge how well the instrument meets the standard.

5.7 PILOT STUDY

Pilot studies are an important stage in research (Arthur & Nazroo, 2003). A pilot study involves a small study conducted before a larger piece of research (Saunders *et al.,* 2016), to determine whether the methodology, sampling (Bless, Higson-Smith and Kagee, 2006), instruments, and analysis are adequate and appropriate (Saunders *et al.,* 2016:394). The questionnaire together with the interview guides was launched at a limited scale in Chegutu town, located south-west of Harare. The choice of Chegutu was made based on its convenience to the researcher, as the town is home to the researcher.

The pilot study helped to identify possible questions that made the respondents feel uncomfortable (Nani, 2011). Piloting the instruments also assisted in eliminating offensive and ambiguous questions (Gulati, 2011), as well as in generating useful feedback on the structure and flow of the questions, (De Vaus, 2014). Furthermore, the piloting ensured that the researcher gathered enough experience and an enhanced sense of confidence, important for the ensuing interviews (Bryman & Bell, 2015).

5.8 MEASUREMENT SCALES

According to Sekeran and Bougie (2013:211), measurement is "the assignment of numbers or other symbols to characteristics of objects according to a specified set of rules". Kuar (2013) notes that it is necessary to provide the kind of measurement scales applied in this research to measure research variables. In research, a scale is a tool or mechanism by which subjects are distinguished from others as to how they differ from one another on the variables of interest in the study. Bhattacherjee (2012) also notes that measurement scales have data analysis implications hence very important to discuss them. There are four measurement scales applied in research: nominal, ordinal, interval, and ratio (Bryman, 2016; Sekeran & Bougie, 2013). The following section discusses the measurement scales applied in the current study.

5.8.1 Nominal Scale

The nominal scale also called the categorical scale (Bryman, 2016) measures categorical data (Bhattacherjee, 2012). It is categorical in the sense that it classifies objects, people, and events into some groups (Cooper & Schindler, 2004; Bhattacherjee, 2012). Nominal scales categorize data into mutually exclusive and collectively exhaustive groups (Sekeran & Bougie, 2016). In this study, the nominal scale was used to categorise both organisational and respondents' background data such as sector, years in operation and gender, marital status, and educational qualifications.

5.8.2 Ordinal Scale

The ordinal scale measures rank-ordered data (Bhattacherjee, 2012). It measures data whose values cannot be measured numerically but can be cleanly placed in order or ranks (Saunders *et al*. 2009). The ordinal scale places data into rank order for instance very high, high, moderate, low and very low, or very often, often, sometimes, rare and very rare (Bhattacherjee, 2012; Saunders *et al*., 2016). This scale was used in this study to measure the respondent's enterprise's financial performance over the last three years as influenced by strategy formulation. As such, a scale of very poor, poor, fair, indifferent, good, very good, and excellent was adopted.

5.8.3 Interval Scale

According to Saunders *et al*. (2009:593), an interval scale is described as that "numerical data for which the difference or 'interval' between any two data values for a particular variable can be stated, but for which the relative difference cannot be stated". In the same vein, Bhattacherjee (2012) asserts that the interval scale measures values that are rank-ordered. In this study, interval scales were used to measure central tendencies such as mode, median, mean, and standard deviation of data.

5.8.4 Likert Scale

The Likert scale is the frequently used scale in most academic studies (Bryman & Bell, 2012). A Likert-style rating scale is "a scale that allows the respondent to indicate how strongly she or he agrees or disagrees with a statement" (Sekeran & Bougie, 2013; Saunders *et al*., 2009). Saunders *et al*. (2012) add that the Likert scales vary from a three-point scale (three alternative answers) to as far as ten-point rating scale (ten alternative answers).

5.9 DATA ANALYSIS

Bryman (2016) holds that data analysis is a body of scientific methods that help to describe facts, detect patterns, develop explanations and test the hypothesis. It is the analysis of the data that enables the understanding of the research outcomes (Makanyeza & Dzvuke, 2015). The following section presents how the empirical results were analysed.

5.9.1 Quantitative data analysis

The quantitative data underwent statistical analysis. Statistical analysis involves the process of computing certain indices or measures and searching for a pattern of relationships that exists among the groups of data (Kothari, 2009). The current study employed both descriptive and inferential statistics to analyse the collected data (Bhattacherjee, 2012). The following sections discuss the statistical methods adopted in this study.

5.9.1.1 Descriptive analysis

The data was analysed descriptively and presented in the form of figures, tables, graphs, pie charts, and percentages. The descriptive analysis involved the examination of frequencies, mean, and standard deviation (Saunders *et al.,* 2016; Bhattacherjee, 2012). Frequency tables are presented in Chapter Six for items illustrating their counts, percentages, mean and standard deviation. Mean (M) scores, also called the arithmetic mean are the most common measure of central tendency (Zikmund *et al.,* 2013).

The standard deviation (SD) was used to illustrate the average distance of the scores from the mean values (Zikmund *et al.,* 2010). A high SD implied that study participants' responses varied to a great extent on particular aspects. Therefore, descriptive statistics helped summarise, organise, and reduce large amounts of data (Macmillan & Schumacher, 2010).

5.9.1.2 Correlation analysis between variables

The study adopted used correlation as a statistical technique to analyse the connection between study variables. The appropriateness of this technique in this study lies in the fact that it allowed the researcher to describe the direction and degree of linear relationships (Iacobucci & Churchill, 2010; Graham, 2009). Furthermore, the correlation coefficient is a statistical measure of the strength of a monotonic association between paired data (Pallant, 2010).

Correlation coefficients range from -1 to +1, with zero indicating absolutely no connection between variables under study (Saunders *et al.,* 2016). According to Zikmund *et al.* (2010), -1 and +1 represents a perfect correlation between two variables. Saunders *et al*. (2016) note that the further the coefficient is from zero, the stronger the connection between variables.

5.9.1.3 Regression analysis

The study used regression analysis as a statistical test. Regression analysis was also used to describe the strength and direction of the relationship between the predictor variable and the outcome variable (Graham, 2009). This technique was most suitable as the study was also aimed at investigating the relationship between one independent variable and many dependent variables (for instance one strategy and short term financial performance and long term financial performance) (Saunders *et al.,* 2016).

According to Zikmund *et al.* (2010), when a researcher investigates the relationship between the independent variable (predictor variable) and the dependent variable (outcome variable), this is called simple regression analysis. However, when two or more predictor variables are examined to determine which ones are good predictors of the outcome variables, the analysis is called multiple regression. The researcher used both multiple and single regression.

5.9.1.4 Analysis of Variance (ANOVA)

According to Hair *et al.* (2014), ANOVA is used to compare two, and also more than two, different groups and conditions. The study used ANOVA to identify differences among the manufacturing SMEs with different approaches to strategy making. The meaning of the F-ratio and P-value were discussed to interpret the result of the ANOVA.

According to Sekeran and Bougie (2013), the F-ratio is the ratio between groups' estimates of variance (the differences between groups) and within groups' estimates of variance (general variability of respondents within the groups). The ratio gives a measure of how much variance can be attributed to the different treatments (for example, approaches to strategy formulation) versus the variance expected from random sampling. The probability of getting the F-ratio by chance alone is given by the p-value

(Hair *et al.,* 2014). However, the p-value needs to be less than 0.05 for the F-ratio to be regarded as significant (Sekeran & Bougie, 2016).

5.9.1.5 Hypothesis testing

Hypotheses were tested using multiple regression analysis in SPSS Version 23. Field (2012) defines multiple regression as an extension of linear regression in which a dependent variable is predicted by numerous variables that are in linearity. The multiple regression method has the power to remove insignificant and uninformative predictors to formulate a better and representative model. In this study, the 5% level of significance was taken as the level of decision criteria whereby the null hypothesis was rejected if the p-value was less than 0.05 and accepted if otherwise.

5.9.2 Analysis of data from in-depth interviews

Data collected in the last stage of the study, from the semi-structured interviews were analysed using inductive content analysis. Inductive analysis means that the patterns, and themes, came from the data; they emerge out of data rather than being decided prior to data collection and analysis. (Patton, 1987 cited in Dana & Dana, 2005). That which is referred to as semiotic technique of analysis (common in sociology) is based on the perspective of the community studied (Dana & Dana, 2005). Satu and Kyngäs (2007) view content analysis as a method of analysing written, verbal, or visual communication messages. Krippendorff (2012) concurs and adds that content analysis is a qualitative data analysis procedure used to analyse data within specific contexts because of the meanings attributed by the participants. Content analysis is a widely used qualitative research technique (Hsieh & Shannon, 2005); used to analyse data within specific contexts because of the meanings attributed by the participants (Krippendorff, 2012).

5.9.3 Summary of data analysis for the study

Table 5.6 summarises how data analysis methods were applied to address the research objectives.

TABLE 5.6: RESEARCH OBJECTIVES AND METHODS OF DATA ANALYSIS

Research objective	Data sources	Data analysis methods
RO1. To determine the extent to which manufacturing SMEs in Harare, Zimbabwe have adopted strategy formulation.	1. Questionnaire survey. 2. In-depth interviews.	• Descriptive statistics • Content analysis
RO2. To identify the strategy formulation approaches employed by manufacturing SMEs in Harare.	1. Questionnaire survey. 2. In-depth interviews.	• Descriptive statistics • Content analysis • Analysis of Variance
RO3. To determine how strategy formulation influences the financial performance of manufacturing SMEs in Harare.	1. Questionnaire survey. 2. In-depth interviews.	• Descriptive statistics • Content analysis • Analysis of Variance • Correlation analysis • Regression analysis • Hypothesis testing
RO4. To investigate the relationship between the strategy formulation approaches and financial performance of manufacturing SMEs in Harare.	1. Questionnaire survey 2. In-depth interviews.	• Descriptive statistics • Content analysis • Analysis of Variance • Correlation analysis • Regression analysis • Hypothesis testing
RO5. To determine the effect of business strategies on the financial performance of the manufacturing SMEs in Harare, Zimbabwe.	1. Questionnaire survey. 2. In-depth interviews.	• Descriptive statistics • Content analysis • Analysis of Variance • Correlation analysis • Regression analysis • Hypothesis testing

Source: Own compilation (2020)

5.10 ETHICAL CONSIDERATIONS

The goal of ethics in research is to ensure that no one is harmed or suffers adverse consequences from research activities (Cooper & Schindler, 2012). Hence research should be designed, reviewed, and undertaken to ensure integrity, quality, and transparency (Bryman, 2015).

To ensure ethical conduct, the researcher had to ask for consent from the study participants. Before data collection, all participants completed the informed consent forms which clearly stated the purpose of the research and that the participants had the right to withdraw from the research anytime they felt like.

Therefore, participants involved in this study had full knowledge of why they were participating in this study.

Secondly, study participants were assured of privacy and anonymity. Names of participants were withheld during and after the research process. Before the actual study was conducted, a briefing was made to assure them of confidentiality so that they would not withhold information or not provide answers that they thought would be of interest to the researcher (Teddie & Tashakkori, 2009).

Thirdly, an ethical clearance, reference number: **HSS/0507/018D** (see Appendix F) was obtained in line with the regulations of the University, before data collection. This letter served to inform an interested party that the research being conducted met the ethical requirements as outlined in the University code of ethics which binds all researchers. Throughout the research process, the researcher was guided by the following virtues and values: honesty, integrity, truthfulness and accuracy, maintenance of privacy, and acting responsibly by respecting the rights of participants (Saunders *et al.*, 2012).

5.11 CHAPTER SUMMARY

This chapter sets out the research methods and methodology applied to ensure the accomplishment of the set objective for this study. The research philosophy, research design, and research strategy, population, sampling techniques, data collection methods, and procedure for gathering data employed in the study were discussed. Critical research issues of data validity and reliability were also spelled out. The chapter concluded by discussing the methods used to analyse data collected from all three stages of the study plan and spelling out the key ethical considerations for the study. The following chapter presents analyses, and discusses the data gathered to extract information useful in answering research questions.

CHAPTER SIX

DATA PRESENTATION, INTERPRETATION AND ANALYSIS

6.1 INTRODUCTION

Chapter Five presented the research methods and methodology used to find answers to the research questions. This chapter presents the analysis and interpretation of empirical results emanating from the research study. The quantitative data is presented first, followed by qualitative data. Quantitative data was analyzed using the Statistical Package for Social Scientists (SPSS) version 23. The qualitative data was analyzed through content analysis. Graphs, tables, charts and figures were used to reduce data into information easily understood. The chapter wraps up with a comparison of quantitative and qualitative data followed by the chapter summary.

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6.2 RESPONSE RATE FOR QUESTIONNAIRE RESPONDENTS

The response rate is defined as the ratio of the number of usable questionnaires to the illegible respondents in the sample. The researcher personally distributed 368 questionnaires to the respondents. Respondents returned 289 usable and completed questionnaires, yielding a response rate of 78.5 %.

TABLE 6.1: RESPONSE RATE FOR QUESTIONNAIRES

Sector	Questionnaire distributed	Questionnaire completed and collected	Response rate
Food products	81	69	85.2
Clothing & footwear	55	40	72.7
Wood & furniture	110	91	82.7
Chemical & petroleum	37	34	91.9
Metals	85	55	64.7
Total	**368**	**289**	**78.5**

Table 6.1 above illustrates the response and response rate per sector of the questionnaires. Baruch (1999: 422) notes that “there is no generally agreed norm as to what is or what may not be perceived as an acceptable and reasonable response rate”. Johnson and Owens (2003:130), however, mention that “in most instances, 20% is too low, and 80% is a de facto standard, but there is a considerable grey area”. According to Dillman (2000), 50% is the minimum respondent rate. The response rate of 78.5 % for

the study falls between the de facto standard and the minimum acceptable response rate. This was achieved because the researcher personally administered the questionnaires.

6.3 RELIABILITY OF THE RESEARCH INSTRUMENT

Cronbach alpha test was conducted to assess the reliability of the questionnaire adopted for the study (Zikmund & Babin, 2007; Hair *et al*., 2010). In the social sciences and in business research, the acceptable Cronbach's alpha score ranges from 0.70 to 0.80 (Nunnally & Bernstein, 1994, cited in Krishnan & Ramasamy, 2011).

The results in Table 6.2 indicate that 36 items had Cronbach alpha indexes above 0.70 while 50 items had Cronbach alpha index of more than 0.80 indicating high reliability. In this regard, the instrument was reliable. The reported overall reliability for the 86 items was 0.824 much above 0.7.

TABLE 6.2: CRONBACH'S ALPHA INDEX

Section	Valid cases (N)	No. of Items	Cronbach's alpha coefficient	Comment
C	289	25	0.885	Internally reliable
D	289	18	0.785	Internally reliable
E	289	3	0.826	Internally reliable
F	289	8	0.817	Internally reliable
G	289	14	0.865	Internally reliable
H	289	18	0.765	Internally reliable
		86	**0.824**	**Internally reliable**

Given the rigorous questionnaire development process, the researcher concluded that the internal reliability of the instrument was high. This implied that the questionnaire results could be subjected to further analysis.

6.4 DEMOGRAPHIC DATA ANALYSIS

The questionnaire used in the study had two sections covering demographic data. Section **A** covered the respondent's demographic data while section **B** covered demographic data pertaining to the respondent's business. The first section will present the demographics of respondents.

6.4.1. Demographic data of respondents

6.4.1.1 Gender

The frequency distribution of respondents based on their gender is presented in Table 6.3. One hundred and sixty respondents, representing 55.0 % of the total number of respondents, were male. This shows

that the majority of the respondents were male. Conversely, 129 respondents, representing 45.0 % of the total, were female.

TABLE 6.3. FREQUENCY DISTRIBUTION OF RESPONDENTS BY GENDER

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	**Male**	160	55	55	55.0
	Female	129	45	45	100.0
	Total	**289**	**100.0**	**100**	

The results may also show that the manufacturing SME sector is male dominated. These findings are consistent with Mabenge et al. (2020)'s conclsion that the SMEs sector is a male dominated area. However, Bomani (2017) study do not support these findings as he established that they are more females in SMEs (55.8%) than males (44.2%).

6.4.1.2 Age

The study as shown in Table 6.4 below had more people in the age category of 32-42 whilst the age range of 65+ had the lowest number of respondents.

TABLE 6.4. FREQUENCY DISTRIBUTION OF RESPONDENTS AGE

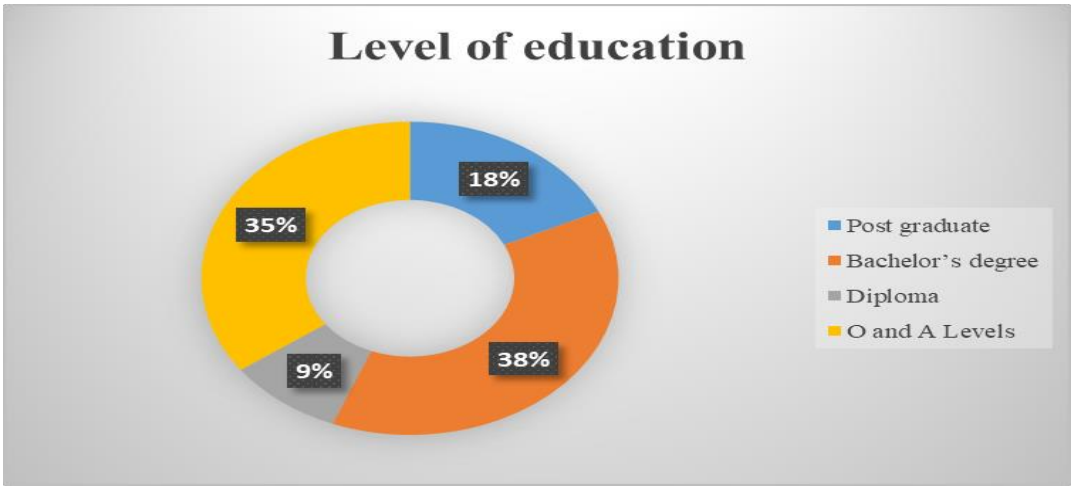
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	**18-31**	60	20.8	20.8	20.8
	32-42	128	44.3	44.3	65.1
	43-53	42	14.5	14.5	79.6
	54-64	35	12.1	12.1	91.7
	65+	24	8.3	8.3	100.0
	Total	**289**	**100.0**	**100.0**	

The results also shows that the majority (79.6 %) of the respondents are aged between 18 and 53 while a few (8.3 %) and (12.1 %) are aged above 65 and between 54 and 64, respectively.

6.4.1.3 Education

Figure 6.1 illustrates the distribution of respondents by levels of education, and it shows that 101 (34.9 %) of the respondents had General Certificates of Education (high school certificates) at Ordinary or Advanced Levels. 26 respondents (9.0 %) were diploma holders, 110 (38.1 %) hold a bachelor's degree, while 52 respondents (18.0 %) were holders of either a Masters or a Doctoral degree.

FIGURE 6.1. DISTRIBUTION OF PARTICIPANTS BY LEVEL OF EDUCATION



This means that the manufacturing SME sector in Harare is dominated by educated people. Thus, most of the entrepreneurs in Harare have formal education which aides in management (Chingwaru & Jakata, 2013).

6.4.1.4 Position

The frequency distribution of respondents by position is presented in Table 6.5. One hundred and seventy-six respondents, representing 60.9 % of the total, were the owners of the SMEs, while one hundred and thirteen respondents, representing 39.1 %, were managing directors.

TABLE 6.5: FREQUENCY DISTRIBUTION OF RESPONDENTS BY POSITION

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	**Owner**	176	60.9	60.9	60.9
	Managing director	113	39.1	39.1	100.0
	Total	**289**	**100.0**	**100.0**	

These results illustrate that manufacturing SMEs owners in Harare managed their own enterprises. These findings are consistent with Mabenge et al. (2020) who observed that the bulk (83.6%) of the manufacturing SMEs are headed by owners.

6.4.1.5 Summary of the demographic data on SMEs

For the purpose of clarity, Figure 6.2 provides a pictorial representation of the summary of the demographic data of manufacturing SMEs in Harare, Zimbabwe. The diagram summarises all the demographic data of the respondents that is gender, age, level of education and position.

FIGURE 6.2: SUMMARY OF RESPONDENT'S DEMOGRAPHIC DATA

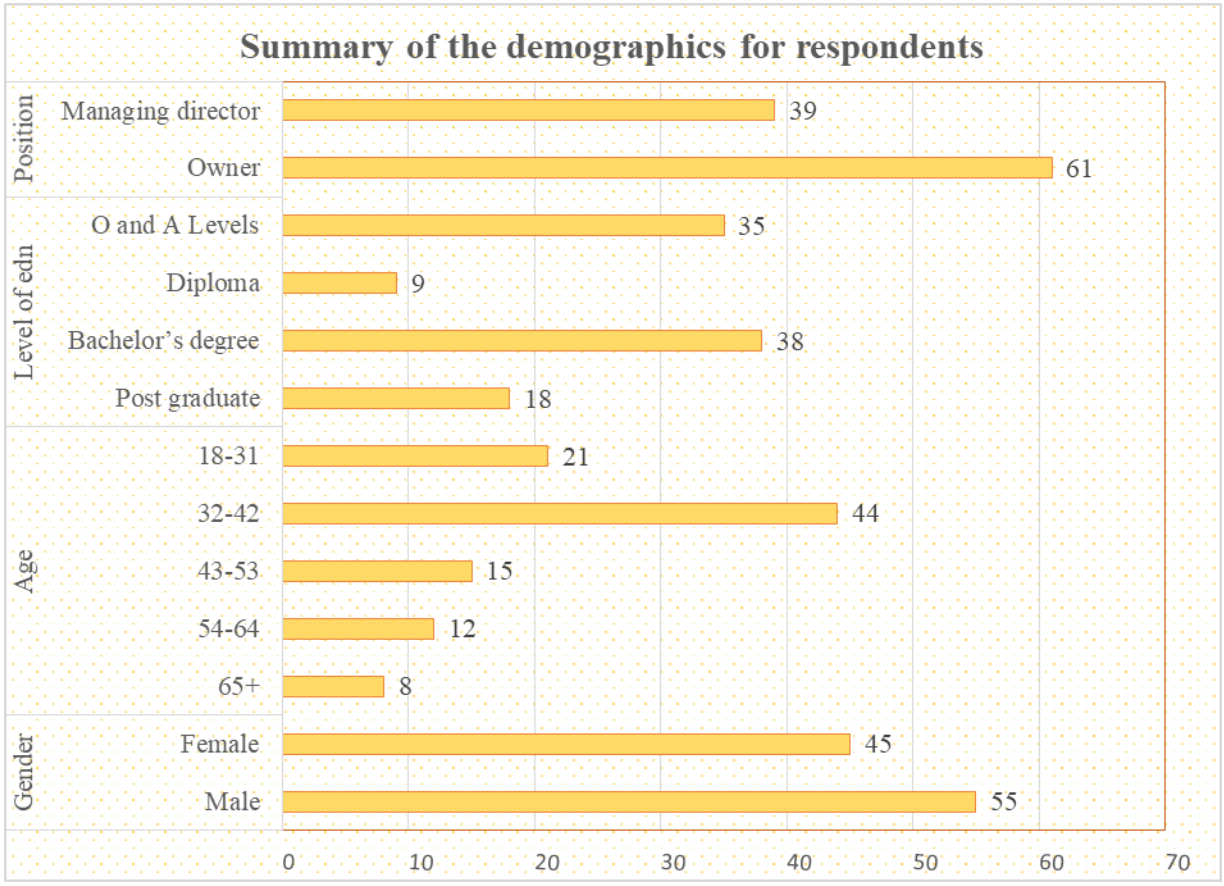


Figure 6.2 above illustrates that the majority of the respondents (55 %) were male, and that most of the respondents (61.0 %) were business owners. Bachelor's degree holders constituted the largest number of respondents (38.0 %). The results also indicate that most of the respondents (44.0 %) were in the age group 32-42 years.

6.4.2 SMEs demographic data

6.4.2.1 Firm age

The results showed that 69 respondents had their business in existence for less than 2 years, 94, 2 to 5 years, while 92 were between 6 to 10 years and 49 while 12 reported that they had been in business for more than 11 years but less than 15 years. Only 22 respondents indicated that they had been in business for a period above 16 years. These results are illustrated in Table 6.6 below.

TABLE 6.6: COMPANY'S YEARS OF OPERATION

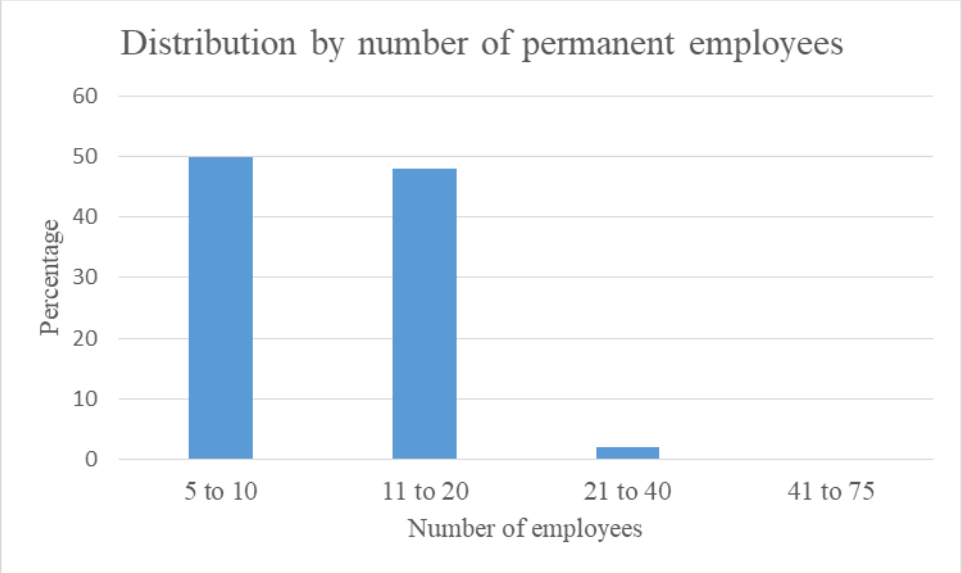
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	**Less than 2 years**	69	23.9	23.9	23.9
	2 to 5 years	94	32.5	32.5	56.4
	6 to 10 years	92	31.8	31.8	88.2
	11 to 15 years	12	4.2	4.2	92.4
	16+ years	22	7.6	7.6	100
	Total	**289**	**100.0**	**100.0**	

The scenario illustrated in table 6.6 above shows that Harare is dominated by young SMEs which are still in their infant stage of development. This is confirmed by Bomani (2015) and Chingwaru (2014), who established that most of the SMEs in Harare are relatively young businesses.

6.4.2.2 Number of employees

Figure 6.3 show the results of the question that inquired about the number of employees that each firm employs. The respondents chose from five categories, namely: 5-10; 11-20; 21-40 and 41-75 employees and above. The results of the study indicated that the majority of manufacturing SMEs (49.8 %) in Harare employ less than 10 people while 47. 8 % employ between 11 and 20 people while a few (7.0 %) employ between 21 and 40 people. The results of the study revealed that none of the sampled SMEs employ more than 41 employees.

FIGURE 6.3: DISTRIBUTION OF SMES BY NUMBER OF FULL-TIME EMPLOYEES



None of the sampled firms employed between 41 and 75 employees. This reflects that the majority of manufacturing SMEs in Harare are still very small in terms of the number of full-time employees. The average number of permanent employees employed by the SMEs involved in this study meet the Government of Zimbabwe's 2012 policy framework for SMEs which classifies SMEs as employing less than 75 employees.

6.4.2.3 Manufacturing Sector

The frequency distribution of the manufacturing enterprise based on their sectors is shown in Table 6.7. Sixty SMEs representing 23.9 % of the respondents were in the food processing sector, forty (13.8 %) were in the clothing and foot wear, a majority (31.5 %) were in the wood and furniture sector. Thirty four respondents were from the chemical and petroleum sector while 55 (19.0 %) were from the metals sector.

TABLE 6.7: FREQUENCY DISTRIBUTION OF SMES BY THE MANUFACTURING SECTOR

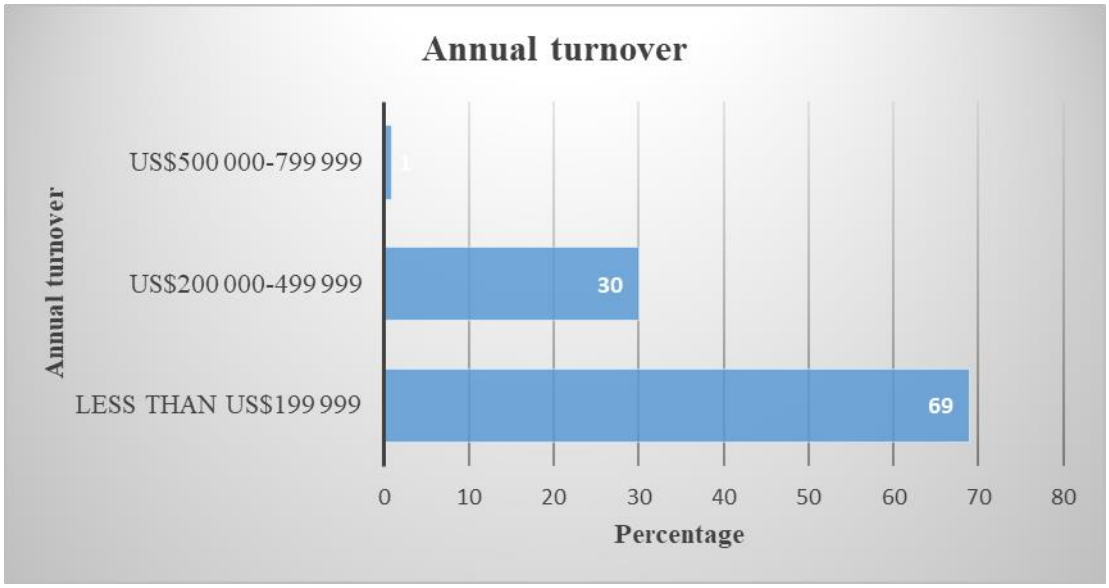
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	**Food Processing**	69	23.9	23.9	23.9
	Clothing and Foot Wear	40	13.8	13.8	37.7
	Wood and Furniture	91	31.5	31.5	69.2
	Chemical and Petroleum	34	11.8	11.8	81.0
	Metals	55	19.0	19.0	100
	Total	**289**	**100.0**	**100.0**	

The table illustrates that the majority of manufacturing SMEs in Harare, Zimbabwe operate in the wood and furniture sector while very few are in chemical and petroleum industry, which is the service-providing segment of the economy.

6.4.2.4 Firm's annual turnover

The distribution of respondents based on their firm' annual turnover is presented in figure 6.9 below. The majority of the participating firms (69 %) had an annual turnover of less than US$200 000, whilst about 30 % of the SMEs had an annual turnover of between US$200 000 and US$500 000. Only 1 % confirmed that annual turnover is between US$500 000 and US$800 000.

FIGURE 6.4: ANNUAL TURNOVER



6.4.2.4 Summary of SMEs demographic data

For the purpose of clarity, Figure 6.5 provides a pictorial representation of the summary of the demographic data on SMEs in Harare, Zimbabwe. Aspects summarized in Figure 6.5 include manufacturing sector, firm age, number of permanent employees and annual sales turnover.

FIGURE 6.5: SUMMARY OF SMES DEMOGRAPHIC DATA

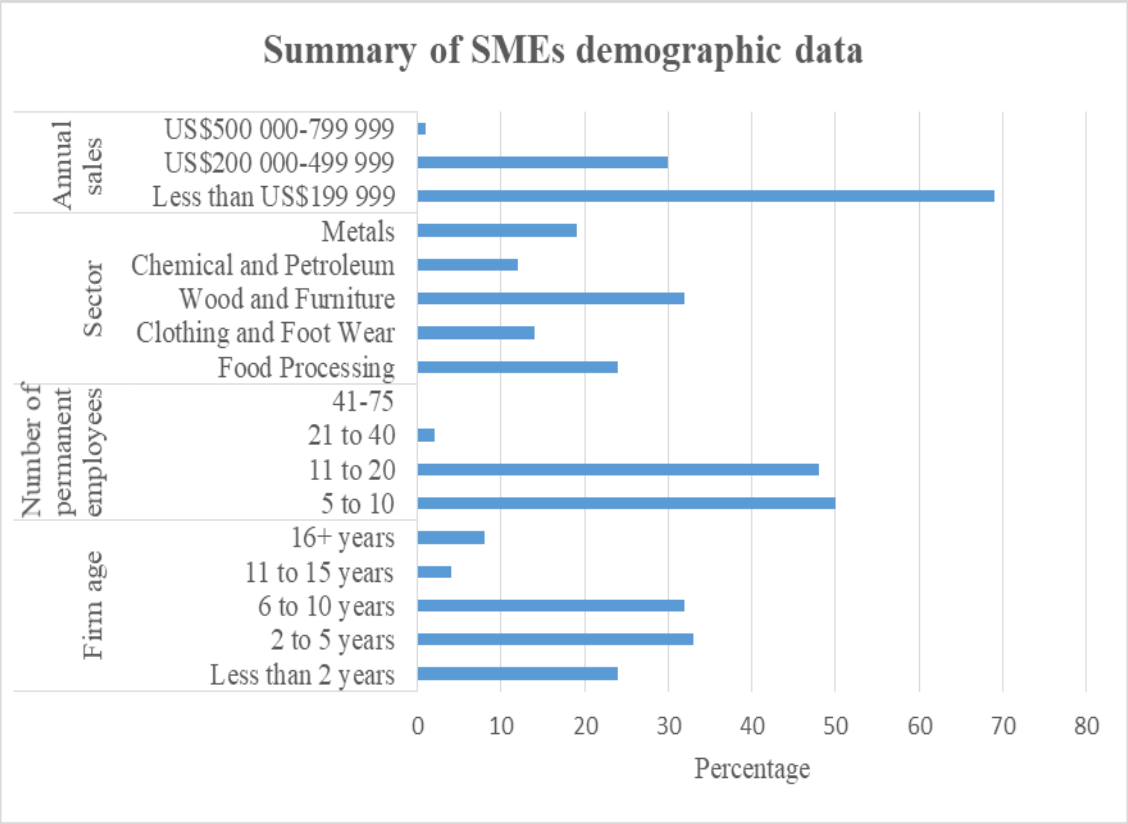


Fig 6.5 above shows that the majority of respondents were from the wood and furniture sector of manufacturing and aged between two and ten years. Furthermore the diagram shows that the majority of manufacturing SMEs in Harare employ less than twenty permanent employees and the majority of SMEs earn less than US$199 999 in a year.

6.5 DESCRIPTIVE STATISTICAL ANALYSIS

This section presents the results from the descriptive analysis guided by research objectives.

6.5.1 RESEARCH OBJECTIVE ONE: STRATEGY FORMULATION AMONGST MANUFACTURING SMEs

The focus of this research objective was to investigate the extent to which manufacturing SMEs in Harare adopt strategy formulation. Here, the strategy formulation activities as measured by the 25 questionnaire items in Section C are investigated.

6.5.1.1 Establishing the strategy purpose

The results for establishing the strategy purpose **(SF1-SF5)** are presented in Table 6.8 which indicates that, in general, entrepreneurs are involved in the establishment of their organisation's vision and

mission as indicated by the high percentages of entrepreneurs who agree or strongly agree with the five questions posed.

TABLE 6.8: SETTING UP THE STRATEGY PURPOSE

Setting up the strategy purpose		**Frequency**					**Descriptive statistics**	
		SD	**D**	**UN**	**A**	**SA**	**MN**	**SD**
SF1: We have a well-articulated mission statement	Count %	0 0.0	50 17.3	59 20.4	148 51.2	32 11.1	3.56	0.904
SF2: We have a well-articulated vision statement	Count %	0 0.0	17 5.9	59 20.4	180 62.3	33 11.4	3.79	0.715
SF3: The strategy we follow is directed by our firm's vision	Count %	0 0.0	23 8.0	60 20.8	148 51.2	58 20.1	3.99	0.637
SF4: Our strategy is made explicit in the form of strategic plan	Count %	16 5.5	34 11.8	40 13.8	136 47.1	63 21.8	3.68	1.107
SF5: Our strategic purpose is communicated to everyone	Count %	3 1.0	54 18.7	74 25.6	136 47.1	22 7.6	3.42	0.913
	1445 100	**19 1.3**	**178 12.3**	**292 20.2**	**749 51.8**	**208 14.4**	**3.67**	**0.895**

As illustrated in Table 6.8, the results show that **SF5** *'Our strategic purpose is communicated to everyone'* received the least rating (M = 3.42±SD = 0.913); implying that respondents placed the least importance on this aspect. **SF3** *'The strategy we follow is directed by our firm's vision'* received the highest score (M = 3.99±SD = 0.637); implying that respondents placed the most importance in this aspect. The overall item mean ± SD was 3.67±0.895 (agree) out of a possible score of 5 (strongly disagree), thus, implying stronger agreement to setting strategic purpose in order to formulate strategies.

The results of items **SF1** to **SF5** were summarised in Table 6.8 above. The results revealed that 957 (66.2 %) of the respondents indicated that they agreed to all the items and only 197 (13.6 %) disagreed with 292 (20.2 %) not sure of the extent to which they strive to set up their strategic purposes. In order to enhance comparison, the results are presented in Figure 6.6 below.

FIGURE 6.6: STRATEGY PURPOSE

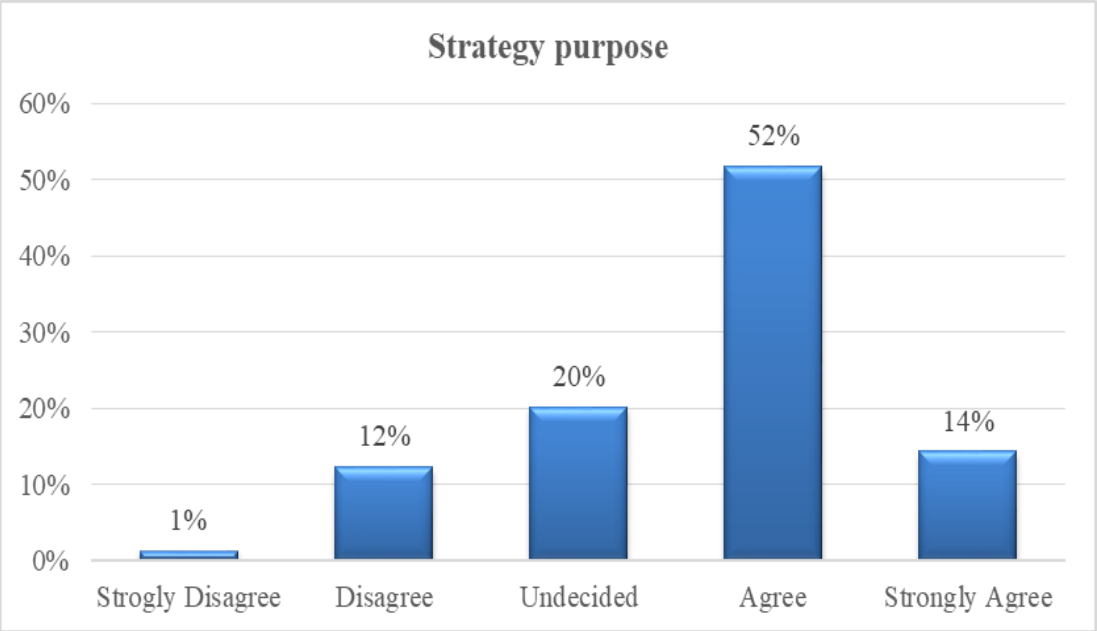


Figure 6.6 shows that only 1.0 % of the respondents strongly disagreed that they are involved in establishing their strategic purpose while 10.0 % disagreed; 22.0 % were not sure; 50.0 % agreed and 14.0 % strongly agreed to have great concern over the significance of this stage. Therefore, the results show that the majority of the SMEs (66.0 %) consider the first stage of strategy formulation as important as they agreed to the respective questionnaire items.

6.5.1.2 Establishing the strategy objectives

The results for setting strategy objectives **(SF6-SF10)** are presented in Table 6.9 which shows that, in general, entrepreneurs are involved in setting their organisation's strategy objectives as illustrated by the high percentages of entrepreneurs who agree or strongly agree with the five questions posed.

TABLE 6.9: SETTING STRATEGY OBJECTIVES

Setting up strategy objective		Frequency					Descriptive statistics	
		SD	**D**	**UN**	**A**	**SA**	**MN**	**SD**
SF6: We have clear long term objectives	Count %	0 0.0	50 17.3	59 20.4	148 51.2	32 11.1	3.56	0.904
SF7: We have clear short term objectives	Count %	0 0.0	21 7.3	64 22.1	176 60.9	28 9.7	3.73	0.733
SF8: Our objectives cover all important areas of our business	Count %	3 1.0	20 6.9	56 19.4	173 59.9	37 12.8	3.77	0.799
SF9: Our objectives are communicated to everyone in the organisation	Count %	60 20.8	39 13.5	98 33.9	36 12.5	56 19.4	2.962	1.367
SF10: We have clear milestones for measuring our objectives	Count %	5 1.7	16 5.5	34 11.8	184 63.7	50 17.3	3.893	0.811
	1445 100	**68 4.7**	**146 10.1**	**311 21.5**	**717 49.6**	**202 14.0**	**3.583**	**0.923**

Table 6.9 above illustrates that **SF10** *'Our objectives are communicated to everyone in the organisation'* received the least rating (M = 2.962±SD = 1.367); implying that respondents placed the least importance on this aspect. **SF10** *'We have clear milestones for measuring our objectives'* received the highest score (M = 3.893±SD = 0.811); implying that respondents placed the most importance in this aspect. The overall item mean ± SD was 3.583±0.923 (agree) out of a possible score of 5 (strongly disagree), thus, implying stronger agreement to the development of strategic objectives during strategy formulation.

The results of items **SF6** to **SF10** were summarised in Table 6.9 above. The results indicated that 214 respondents (14.8 %) disagreed while 311 respondents (21.5 %) were not sure of the extent to which they agreed to the questionnaire items. 919 respondents (63.2 %) indicated that they agree to the questionnaire items. The results in Table 6.9 were further presented in Figure 6.7 below to allow for comparison.

FIGURE 6.7: STRATEGY OBJECTIVES

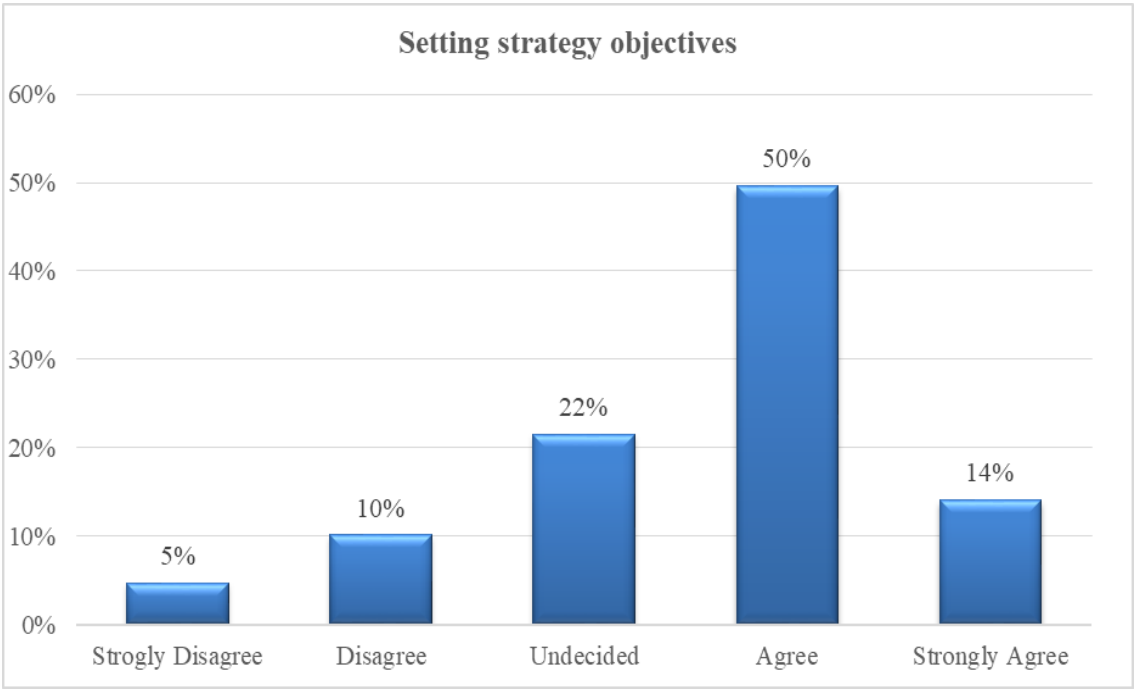


Figure 6.7 shows that 50.0 % agreed and 14.0 % strongly agreed to have great concern over the significance of this stage. The results also reveal that only 5.0 % of the respondents strongly disagreed that they stress the setting up of strategic objectives while 10.0 % disagreed; 22.0 % were not sure. Therefore, the results show that the majority of the SMEs consider the second stage of strategy formulation as important as they agreed to the respective questionnaire items.

6.5.1.3 Environmental scanning

The results for environmental scanning **(SF11-SF15)** are presented in Table 6.10 which shows that in general entrepreneurs are involved in environmental scanning.

TABLE 6.10: ENVIRONMENTAL SCANNING

Environmental scanning		**Frequency**					**Descriptive statistics**	
		SD	**D**	**UN**	**A**	**SA**	**MN**	**SD**
SF11: Environmental scanning is important in strategy making	Count %	0 0.0	50 17.3	59 20.4	148 51.2	32 11.1	3.561	0.904
SF12: We analyse our internal environment before making a strategy	Count %	0 0.0	17 5.9	59 20.4	180 62.3	33 11.4	3.792	0.716
SF13: We analyse our industry before making a strategy	Count %	0 0.0	23 8.0	60 20.8	148 51.2	58 20.1	3.834	0.838
SF14: We analyse our macro environment before making a strategy	Count %	16 5.5	34 11.8	40 13.8	136 47.1	63 21.8	3.678	1.107
SF15: Instability in the business environments calls for strategy formulation	Count %	3 1.0	54 18.7	74 25.6	136 47.1	22 7.6	3.415	0.913
	1445 100	**19 1.3**	**178 12.3**	**292 20.2**	**749 51.8**	**208 14.4**	**3.656**	**0.896**

Table 6.10 above illustrates that **SF15** *'Instability in the business environments calls for strategy formulation'* received the least rating (M = 3.415±SD = 0.913); implying that respondents placed the least importance on this aspect. **SF13** *'We analyse our industry before making a strategy'* received the highest score (M = 3.834±SD = 0.838); implying that respondents placed the most importance in this aspect. The overall item mean ± SD was 3.656±0.896 (agree) out of a possible score of 5 (strongly disagree), thus, implying stronger agreement to environmental scanning during strategy making.

The results of items **SF11** to **SF15** were summarised in Table 6.10 above. The results indicated that 197 respondents (13.6 %) disagreed, while 292 respondents (20.2 %) were not sure of the extent to which they agreed to the questionnaire items. 957 respondents (66.2 %) indicated that they agreed to the questionnaire items. The results in Table 6.10 were further presented in Figure 6.8 below to enhance comparison.

FIGURE 6.8: ENVIRONMENTAL SCANNING

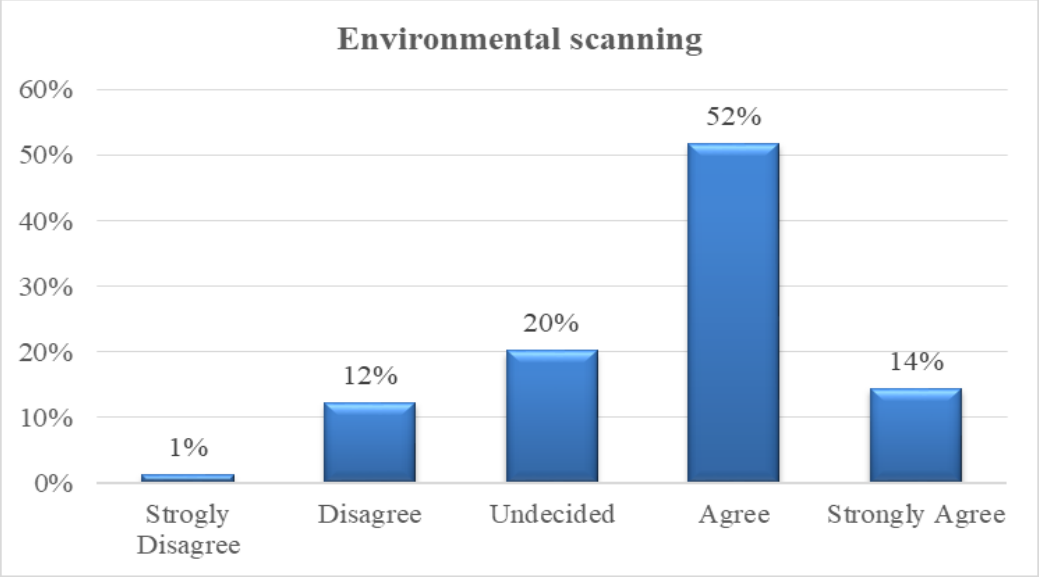


Figure 6.8 shows that only 1.0 % of the respondents strongly disagreed that they emphasise environmental scanning while 12.0 % disagreed; 20.0 % were not sure. 52.0 % agreed and 14.0 % strongly agreed to have great concern over environmental scanning. Therefore, the results show that the majority of the SMEs scan their environment as they agreed to the respective questionnaire items.

6.5.1.4 Integration of data

Table 6.11 illustrates that, in general, entrepreneurs focus on both internal and external data are involved in coming to a particular strategy. This is demonstrated by the high percentages of entrepreneurs who agree or strongly agree with the five questions posed **(SF16-SF20).**

TABLE 6.11: INTEGRATING OF DATA FROM THE STRATEGY ENVIRONMENT

Data integration		**Frequency**					**Descriptive statistics**	
		SD	**D**	**UN**	**A**	**SA**	**MN**	**SD**
SF16: Our strategies are consistent with any external threats and opportunities	Count %	0 0.0	50 17.3	58 20.1	149 51.6	32 11.1	3.564	0.903
SF17: Our strategies are consistent with internal strengths and weaknesses	Count %	0 0.0	21 7.3	64 22.1	176 60.9	28 9.7	3.730	0.733
SF18: Our final strategy is based only on our financial resources	Count %	3 1.0	21 7.3	55 19.0	173 59.9	37 12.8	3.761	0.804
SF19: Strategy making is a result of many forces acting on our business	Count %	24 8.3	36 12.5	64 22.1	108 37.4	57 19.7	3.478	1.182
SF20: The strategies we follow develop from the way we do things around here	Count %	5 1.7	17 5.9	34 11.8	183 63.3	50 17.3	3.886	0.819
	1445 100	**32 2.2**	**145 10.1**	**275 19.1**	**789 55.4**	**204 14.3**	**3.684**	**0.888**

Table 6.11 above shows that **SF19** *'Strategy making is a result of many forces acting on our business'* received the least rating (M = 3.478±SD = 1.182); implying that respondents placed the least importance on this aspect. **SF20** *'The strategies we follow develop from the way we do things around here'* received the highest score (M = 3.886±SD = 0.819); implying that respondents placed the most importance in this aspect. The overall item mean ± SD was 3.684±0.888 (agree) out of a possible score of 5 (strongly disagree), thus, implying stronger commitment to integrating both internal and external data.

The results of items **SF16** to **SF20** were summarised in Table 6.11 above. The results indicated that 177 respondents (14.8 %) disagreed while 275 (19.1 %) not sure of the extent to which they agreed to the questionnaire items. 993 respondents (69.7 %) indicated that they agreed to the questionnaire items. The results in Table 6.11 were further presented in figure 6.9 below to enhance comparison.

FIGURE 6.9: INTERGRATION OF DATA SOURCES

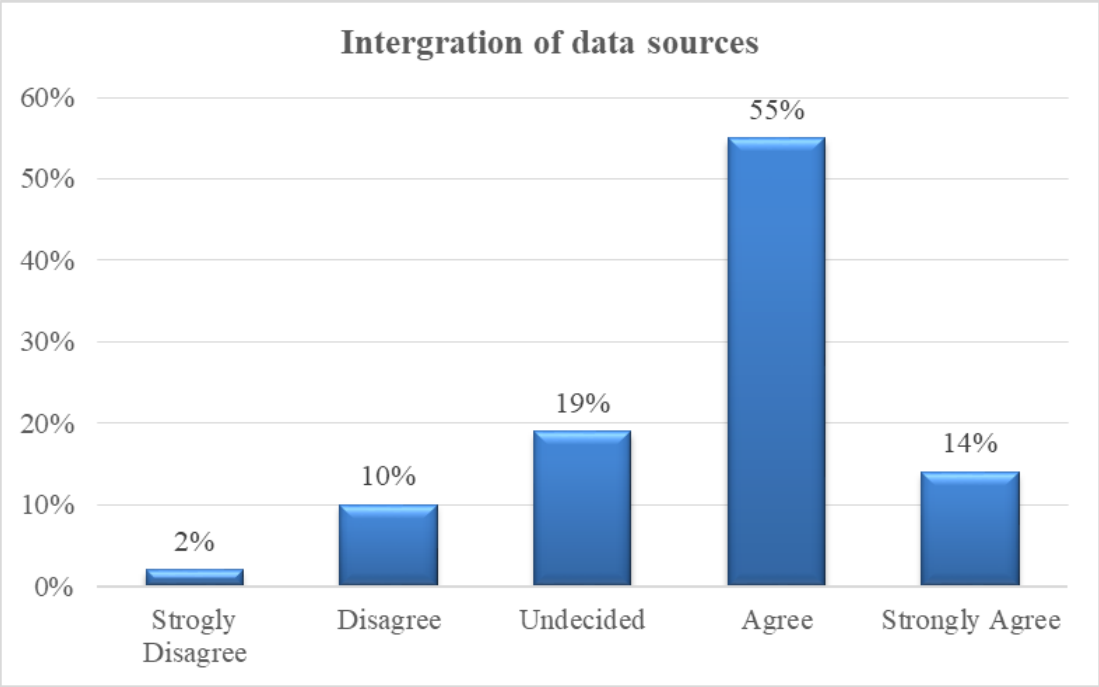


Figure 6.9 shows that 2.0 % of the respondents strongly disagreed; 10.0 % disagreed; 19.0 % were not sure of the questionnaire items. 55.0 % and 14.0 %, agreed and strongly agreed respectively to the questionnaire items pertaining to integrating data when formulating their strategies.

6.5.1.5 Making strategic choices

The results for making strategic choices **(SF21-SF25)** presented in Table 6.12 which show that, in general, entrepreneurs are involved in analysing and selecting the most appropriate strategies for implementation.

TABLE 6.12: MAKING STRATEGIC CHOICES

Making strategic choices		**Frequency**					**Descriptive statistics**	
		SD	**D**	**UN**	**A**	**SA**	**MN**	**SD**
SF21: Strategy selection is the responsibility of everyone	Count %	4 1.4	76 26.3	76 26.3	113 39.1	20 6.9	3.239	0.966
SF22: We have a systematic method of selecting the best strategy	Count %	2 0.7	49 17.0	76 26.3	137 47.4	25 8.7	3.464	0.897
SF23: Our mission statement is the basis for strategy making	Count %	4 1.4	14 4.8	63 21.8	163 56.4	45 15.6	3.799	0.809
SF24: We consider the long term impact of the each alternative in selecting the best strategy	Count %	40 13.8	31 10.7	61 21.1	75 26.0	82 28.4	3.443	1.366
SF25: Our strategy is based on the vision of the founder	Count %	2 0.7	11 3.8	31 10.7	169 58.5	76 26.3	4.059	0.764
	1445 100	**52 3.6**	**181 12.5**	**307 21.2**	**657 45.5**	**248 17.2**	**3.601**	**0.960**

Table 6.12 above shows that **SF21** *'Strategy selection is the responsibility of everyone'* received the least rating (M = 3.239±SD = 0.966); implying that respondents placed the least importance on this aspect. **SF25** *'Our strategy is based on the vision of the founder'* received the highest score (M = 4.059±SD = 0.764); implying that respondents placed the most importance in this aspect. The overall item mean ± SD was 3.601±0.960 (agree) out of a possible score of 5 (strongly disagree), thus, implying commitment to a proper selection process of alternative strategies.

The results of items **SF21** to **SF25** were summarised in Table 6.12 above. The results indicated that 233 respondents (16.1 %) disagreed while 307 (21.2 %) were not sure of the extent to which they agreed to the questionnaire items. 905 respondents (62.7 %) indicated that they agreed to the questionnaire items. The results in Table 6.12 were further presented in Figure 6.10 below to enhance comparison.

FIGURE 6.10: MAKING STRATEGIC CHOICES

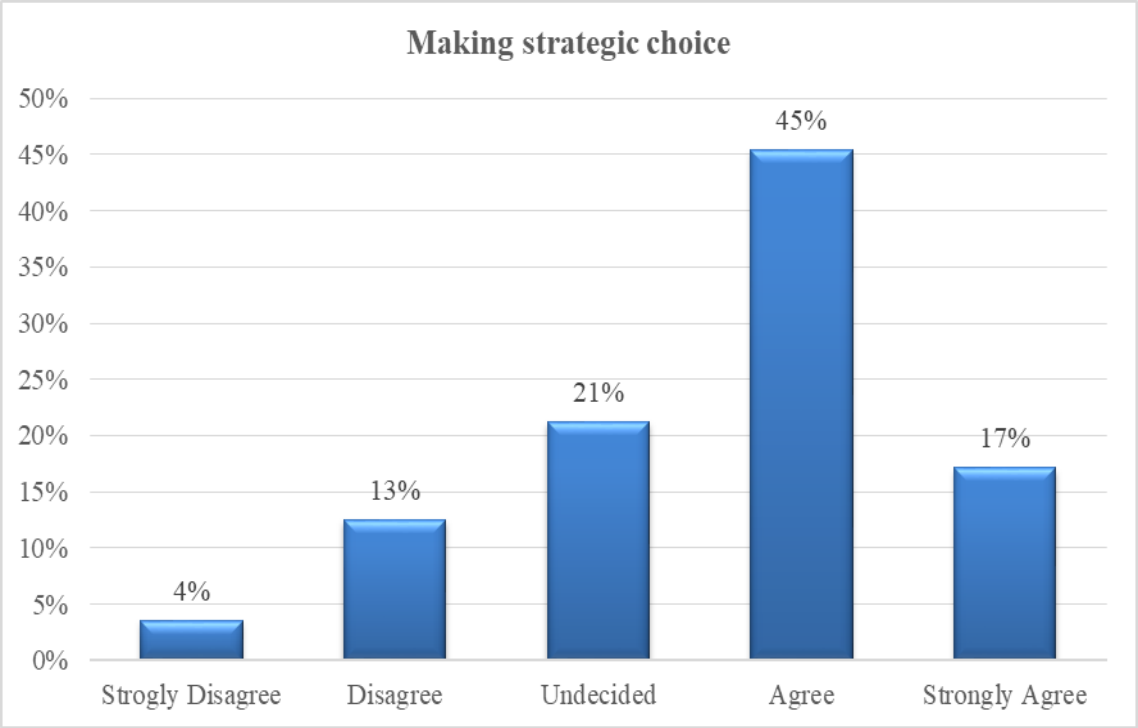


Figure 6.10 shows that only 4.0 % of the respondents strongly disagreed; 13.0 % disagreed; 21.0 % were not sure. 45.0 % and 17.0 %, agreed and strongly agreed respectively, to the questionnaire items pertaining to making strategic choices.

Figure 6.11 presents a summary of the results in percentages on the adoption of strategy formulation amongst manufacturing SMEs in Harare, Zimbabwe. Aspects summarised in Figure 6.11 include strategy purpose, setting strategic objectives, environmental scanning, data integration and making strategic choices.

FIGURE 6.11: SUMMARY OF STRATEGY FORMULATION AMONGST SMEs

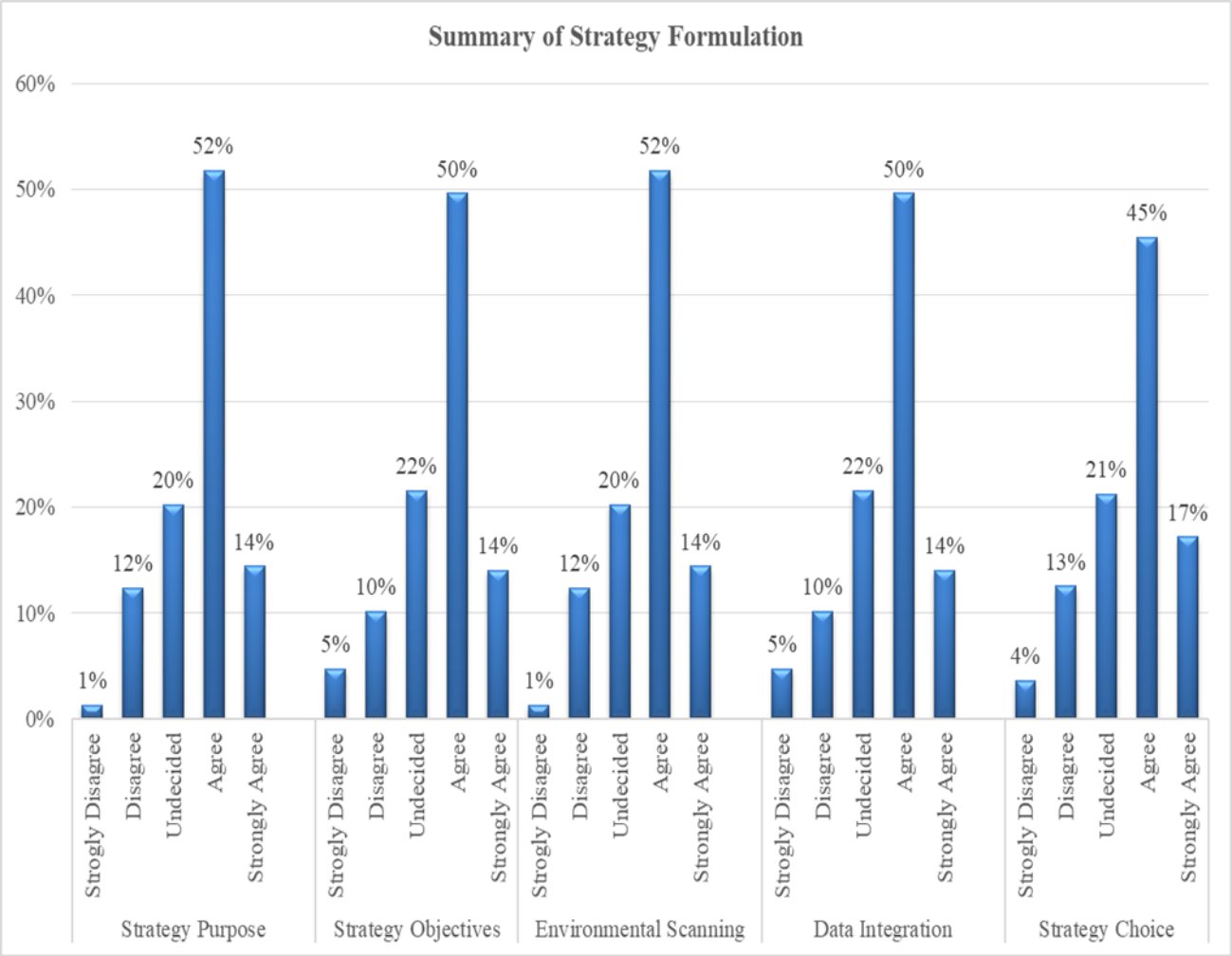


Figure 6.11 illustrates that the majority of respondents (66.0 %) indicated that manufacturing SMEs are involved in setting the strategy purpose. The results also show that 64.0 % of the respondents set up strategic objectives, 50.0 % agreed and 14.0 % strongly agreed.

Most of the respondents (66.0 %), as illustrated in Figure 6.11, indicated that they were involved in environmental scanning while 64.0 % indicated that they integrate data from all sources for them to formulate their strategies.

More than 60.0 % of the respondents held the opinion that they have a systematic method of selecting their best strategy. Thus, generally strategy formulation is being practiced by manufacturing SMEs in Harare, Zimbabwe.

6.5.2 RESEARCH OBJECTIVE 2: STRATEGY FORMULATION APPROACHES ADOPTED BY MANUFACTURING SMEs

The second objective of the study was to identify the strategy formulation approaches employed by manufacturing SMEs in Harare, Zimbabwe. Thus, this section addresses this objective. **Questionnaire items PASF1 to EASF9** (Section D) – focused on the two approaches that could be employed in strategy formulation by SMEs in Harare, Zimbabwe. The section required respondents to choose the approach they adopt in formulating their strategies. Table 6.13 below illustrates the distribution of respondents based on their choice of strategy approaches.

TABLE 6.13: FREQUENCY DISTRIBUTION BASED ON THE STRATEGY FORMULATION APPROACHES

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Planed Approach	105	36.3	36.3	36.3
	Emergent approach	184	63.7	63.7	100.0
	Total	289	100.0	100.0	

Table 6.13 illustrates that only one hundred and five (36.3 %) indicated that they adopt a planned approach to strategy formulation. The majority (63.7 %) of the respondents agreed that they adopt emergent approach to strategy formulation.

FIGURE 6.12: SMEs STRATEGY FORMULATION APPROACHES

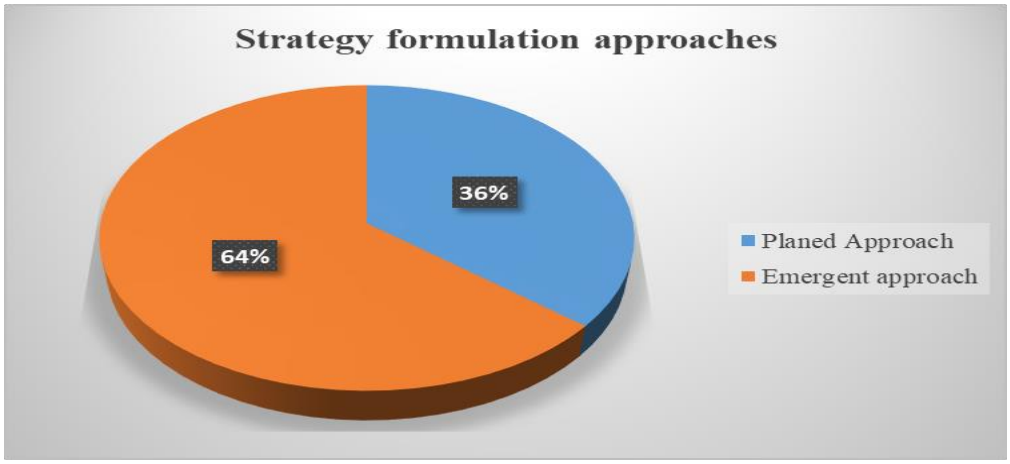


Figure 6.12 above shows that the majority of the surveyed respondents believe that "strategy is articulated by facilitating "a particular way of thinking" which emphasises intent, enables creativity, strategic thinking and adaptability" while only a few are of the view that "strategy is formally articulated through a statement of purpose (mission and vision) outlining the organisational objectives".

6.5.2.1 Planned approach

The frequencies, percentages, mean scores and standard deviations for each of the items used to measure planned approach to strategy making are presented in Table 6.14 below.

TABLE 6.14: DESCRIPTIVE STATISTICS OF PLANNED APPROACH TO STRATEGY FORMULATION

Planned approach to strategy formulation		**Frequency**					**Descriptive statistics**	
		SD	**D**	**UN**	**A**	**SA**	**MN**	**SD**
PASF1: Our strategy making follows a particular process	Count %	2 2.1	6 5.5	9 8.5	79 75.4	9 8.5	4.42	0.746
PASF2: We formulate a strategy then implement it	Count %	6 8.1	5 4.7	5 4.7	68 64.5	19 17.9	3.89	0.747
PASF3: The success of our business is because of having formal plans	Count %	9 8.5	8 7.3	3 3.0	70 66.7	15 14.5	3.78	0.925
PASF4: Our objectives are clearly stated	Count %	5 4.3	14 13.2	12 11.1	69 67.1	5 4.3	3.88	0.952
PASF5: We view our environment as controllable	Count %	3 2.8	21 19.2	11 10.5	53 50.7	7 6.8	3.79	0.974
PASF6: Our strategy is governed by a detailed analysis of alternatives	Count %	3 3.0	15 14.5	9 9.0	74 69.7	4 3.8	3.67	0.824
PASF7: We have long term plans	Count %	5 4.3	11 10.3	11 11.5	67 63.7	11 10.3	3.34	0.747
PASF8: We view strategy making as science and rational	Count %	5 4.5	4 3.9	12 11.3	75 71.4	9 8.9	3.99	0.781
PASF9: Thus our strategy is carefully formulated	Count %	4 3.8	13 12.0	19 18.5	65 62.4	14 13.2	3.57	0.650

Table 6.14 above shows that all the items had mean values exceeding 4 illustrating that the respondents agreed to all the item statements. The results show that item **PASF7** *'We have long term plans'* had the least rating (M = 3.34±SD = 0.774); an indication that the respondents placed the least importance on this aspect. Item **PASF1** *'Our strategy making follows a particular process'* received the highest score (M=4.42±SD=0.746) implying that the participants placed much importance on this aspect. The overall item mean ± SD was 3.81±0.816 (agree) out of a possible score of 5 (strongly agree); implying a strong agreement to the questionnaire items.

6.5.2.2 Emergent approach

The frequency, percentages, mean scores and standard deviations for each of the items used to measure emergent approach to strategy making are presented in Table 6.15 below.

TABLE 6.15: DESCRIPTIVE STATISTICS OF EMERGENT APPROACH TO STRATEGY FORMULATION

Emergent approach to strategy formulation		Frequency					Descriptive statistics	
		SD	D	UN	A	SA	MN	SD
EASF1: Our strategy making process does not follow a particular order	Count %	5 5.2	6 5.5	3 3.3	81 77.5	9 8.5	4.77	0.647
EASF2: We formulation and implement strategies at the same time	Count %	7 7.3	9 9.0	5 4.7	67 64.5	15 14.5	3.82	0.945
EASF3: Our business is successful because of just being at the right place at the right time	Count %	4 4.3	11 10.3	4 4.2	77 72.9	9 8.3	4.31	0.925
EASF4: Our company does not have clear objectives	Count %	4 3.8	5 5.0	19 18.5	70 66.4	7 6.3	3.83	0.942
EASF5: Our operating environment is unpredictable and uncontrollable	Count %	3 2.8	10 9.7	11 10.5	64 60.5	8 7.3	3.34	0.774
EASF6: Our strategy formulation is opportunity driven	Count %	9 3.0	12 11.2	2 1.9	84 80.1	4 3.8	4.23	0.824
EASF7: We plan on a daily basis	Count %	11 3.8	13 12.0	19 18.5	66 62.4	14 13.2	3.69	0.728
EASF8: We view strategy making as an art and through logical incrementalism	Count %	6 5.5	4 3.9	11 10.3	76 72.4	8 7.9	4.21	0.981
EASF9: Thus our strategy is emergent	Count %	4 3.8	7 6.9	7 6.7	77 73.4	9 9.2	4.57	0.650

Table 6.15 above shows that all the items had mean values exceeding 4 illustrating that the respondents agreed to all the item statements. The results show that item **EASF5** *'Our operating environment is unpredictable and uncontrollable'* had the least rating (M = 3.34±SD = 0.774); an indication that the respondents placed the least importance on this aspect. Item **EASF1** *'Our strategy making process does not follow a particular order'* received the highest score (M=4.77±SD=0.647) implying that the participants placed much importance on this aspect. The overall item mean ± SD was 4.11±0.824 (agree) out of a possible score of 5 (strongly agree); implying a strong agreement to the questionnaire items.

6.5.3 RESEARCH OBJECTIVE 3: STRATEGY FORMULATION AND FINANCIAL PERFORMANCE

The results of the study were analysed through the use of descriptive statistics. These are presented in the following two sections.

6.5.3.1 Strategy formulation and short term financial performance

Table 6.16 illustrates the descriptive statistics (frequencies, mean and standard deviation) for the impact of strategy formulation on the short term financial performance of manufacturing SMEs in Zimbabwe.

TABLE 6.16: DESCRIPTIVE STATISTICS: STRATEGY FORMULATION AND SHORT TERM FINANCIAL PERFORMANCE

Strategy formulation and Financial Performance		**Frequency**					**Descriptive statistics**	
		SD	**D**	**UN**	**A**	**SA**	**MN**	**SD**
STFP1: Sales revenue has been growing…….	Count %	20 7.0	39 13.5	27 9.5	204 70.7	21 7.3	6.44	1.17
STFP3: Profits have been……	Count %	15 5.3	29 10.2	35 12.1	202 70.1	12 4.3	6.07	1.04
STFP4: Cash flows have been …….	Count %	31 10.8	50 17.2	33 11.4	178 61.6	20 6.8	5.77	1.49

Table 6.16 illustrates that the mean rate ranges from 5.95 (SD=1.49) to 6.44 (SD=1.17). This illustrates that most of the respondents agreed to the statements. Thus, the distribution was normal. Table 6.16 shows that the strongest measure of financial performance among the surveyed enterprises in Harare was sales revenue **(STFP1)** (short term financial performance) as per the mean rating of 6.44.

The findings also illustrated in Table 6.16 shows that cash flows **(STFP4)** posted the lowest mean rating (5.77) implying that the respondents perceived the cash flows as the least important measure of the enterprise's short term financial performance. However, **(STFP4)** is still important in the study due to its above average mean. The following section presents the descriptive analysis of the results of strategy formulation and long term financial performance.

6.5.3.2 Strategy formulation and long term financial performance

Table 6.17 illustrates the descriptive statistics (frequencies, mean and standard deviation) for the impact of strategy formulation and long term financial performance of manufacturing SMEs in Zimbabwe.

TABLE 6.17: DESCRIPTIVE STATISTICS: STRATEGY FORMULATION AND LONG TERM FINANCIAL PERFORMANCE

Strategy formulation and Financial Performance		Frequency					Descriptive statistics	
		SD	D	UN	A	SA	MN	SD
LTFP5: Growth in sales revenue has been…..	Count %	14 5.0	33 11.5	12 4.0	210 72.7	20 6.8	6.53	1.16
LTFP6: Growth in profitability has been..….	Count %	14 4.7	34 11.8	31 10.7	192 66.4	18 6.4	6.01	1.35
LFFP7: Growth in cash flows have been…..	Count %	28 9.8	43 15.0	27 9.5	152 52.5	38 13.2	5.97	1.20
LFFP8: Growth in return on capital employed has been…	Count %	11 3.8	41 14.1	48 16.7	180 62.0	10 3.4	5.04	1.70

Table 6.17 illustrates that the mean rate ranges from 5.04 (SD=1.70) to 6.53 (SD=1.16). This illustrates that the distribution was normal. Table 6.17 shows that the strongest measure of financial performance among the surveyed enterprises in Harare was growth in sales revenue **(LTSP5)** (long term financial performance) as per the mean rating of 6.53.

The findings also illustrate that growth in return on capital employed **(LTFP8)** posted the lowest mean rating (5.04) implying that the respondents perceived the return on capital employed as the least important measure of the enterprise's financial performance. However, **(LTFP8)** is still important in the study due to its above average mean. The following section presents the data analysis from the correlation and regression analysis.

6.5.4 RESEARCH OBJECTIVE 4: STRATEGY FORMULATION APPROACHES AND FINANCIAL PERFORMANCE

The fourth research objective sought to establish the influence of the strategy formulation approach adopted on the financial performance of manufacturing SMEs in Harare, Zimbabwe. The results for the impact of strategy making approach to short term financial performance are presented first followed by long term financial performance.

6.5.4.1 Strategy formulation approach and short term financial performance

Table 6.18 illustrates the descriptive statistics (frequencies, mean and standard deviation) for the impact of strategy formulation approaches (both planned and emergent) on the short term financial performance of manufacturing SMEs in Harare, Zimbabwe. Long term financial performance being

operationalized into growth in sales revenue, growth in profitability, growth in cash flows and return on capital employed while short term financial performance was being operationalized into cash-flows, sales revenue, profits.

TABLE 6.18: STRATEGY FORMULATION APPROACHES AND SHORT TERM FINANCIAL PERFORMANCE

Strategy formulation approaches and short term financial performance		**Frequency**					**Descriptive statistics**	
		SD	**D**	**UN**	**A**	**SA**	**MN**	**SD**
PASFP1: Our approach positively impact on sales revenue	Count %	27 26.5	76 72.2	2 1.3	0 0.0	0 0.0	4.00	0.97
PASFP2: Our approach has greatly improved profits	Count %	20 19.3	74 70.9	3 2.6	7 7.2	0 0.0	4.18	0.53
PASFP3: Our approach has improved cash-flows	Count %	25 23.9	74 70.1	6 5.6	0 0.4	0 0.0	3.91	0.87
EASFP1: Our approach has improved cash-flows	Count %	6 3.4	20 10.7	34 18.4	117 63.7	7 3.8	3.67	3.67
EASFP2: Our approach positively impact on sales revenue	Count %	00 0.0	2 1.3	14 7.7	161 87.6	6 3.4	4.24	0.45
EASFP3: Our approach strategy has greatly improved profits	Count %	0 0.0	4 2.1	25 13.7	153 82.9	2 1.3	4.18	4.18

Questionnaire item **EASFP2** *'Our approach positively impact on sales revenue'* has the highest (91.0 %) percentage of agreeableness (87.6 % agree, 3.4 % strongly agree) while item **PASFP1** *'Our approach positively impact on sales revenue'* has the highest percentage of disagreeableness (98.7 %) (72.2 % disagree, 62.5 % strongly disagree). The ranking illustrates that all the respondents disagreed to the fact that the planned approach enhances their short term financial performance while all the respondents who adopt emergent approach indicated that it enhances their short term financial performances. Table 6.18 shows that item **EASFP2** had the highest (M = 4.24±SD = 0.45); implying that the respondents placed much importance on this item among the financial performance indicators.

6.5.4.2 Strategy formulation approaches and long term financial performance

Table 6.19 illustrates the descriptive statistics for the impact of strategy formulation approaches on the long term financial performance of manufacturing SMEs in Harare, Zimbabwe.

TABLE 6.19: STRATEGY FORMULATION APPROACHES AND LONG TERM FINANCIAL PERFORMANCE

Strategy formulation approaches and long term financial performance		Frequency					Descriptive statistics	
		SD	D	UN	A	SA	MN	SD
PALFP1: Our approach positively impact on sales growth	Count %	1 0.4	4 2.1	20 10.7	150 81.6	9 5.1	3.89	0.52
PALFP2: Our approach has greatly improved profitability	Count %	0 0.0	2 1.3	19 10.3	148 80.3	15 8.1	3.95	0.69
PALFP3: Our approach has improved cash-flows	Count %	5 3.0	27 14.5	16 8.5	123 66.7	13 7.3	3.63	0.87
EALFP2: Our approach has greatly improved profits	Count %	16 8.5	83 45.3	63 34.2	22 12.0	0 0.0	3.50	0.81
EALFP3: Our approach has improved cash-flows	Count %	2 1.3	94 50.9	58 31.6	30 16.2	0 0.0	3.57	0.98
EALFP4: Our approach positively impacts on sales revenue	Count %	6 3.0	90 49.1	57 30.8	31 17.1	0 0.0	3.33	0.69

Questionnaire item **PASFP2** *'Our approach has greatly improved profitability'* has the highest (88.4 %) percentage of agreeableness (80.3 % agree, 8.1 % strongly agree), while item **EALFP3** *'Our approach has improved cash-flows growth'* has the highest percentage of disagreeableness (52.2 %) (50.9 % disagree, 1.3 % strongly disagree).

The ranking illustrates that all the respondents disagreed to the fact that the emergent approach enhances their long term financial performance while all the respondents who adopt the planned approach indicated that it enhances their long term financial performances. Table 6.19 shows that item **PALFP2** had the highest (M = 3.95±SD = 0.69); implying that the respondents placed much importance on this item among the financial performance indicators.

6.5.5 RESEARCH OBJECTIVE 5: BUSINESS STRATEGIES AND FINANCIAL PERFORMANCE

The fifth research objective sought to establish the relationship between the adopted business strategies and the financial performance of manufacturing SMEs in Zimbabwe. The objective is presented in this order: firstly descriptive statistics for questionnaire items **BS1** to **BS3** to ascertain the type of business strategies adopted by manufacturing SMEs followed by the descriptive statistics of business strategies and financial performance and lastly descriptive statistics for business strategies and financial performance.

6.5.5.1 Business strategies adopted by manufacturing SMEs in Harare

SMEs can opt between the three strategies which are cost leadership, focus and differentiation. Results for the strategic options are shown in table 6.20 below.

TABLE 6.20: BUSINESS STRATEGIES ADOPTED BY MANUFACTURING SMEs IN HARARE, ZIMBABWE

SMEs Business Strategy		Frequency					Descriptive Statistics	
		N	NF	S	O	VO	MN	SD
BS1: Cost leadership strategy.	Count %	0 0.00	0 0.00	46 15.9	144 49.8	99 34.3	4.18	0.685
BS2: Differentiation strategy	Count %	25 8.7	63 21.8	83 28.7	76 26.3	42 14.5	3.16	3.160
BS3: Focus strategy	Count %	46 15.9	80 27.7	100 34.6	47 16.3	15 5.2	2.67	1.088

Questionnaire item **BS1** *'Cost leadership strategy'* has the highest (100.0 %) percentage of frequency (15.9 % sometimes, 49.8 % often and 34.3 % very often) while item **BS3** *'Focus strategy'* has the least (62.8 %) percentage of frequency 56.1 % (34.6 % sometimes, 16.3 often and 5.2 % very often). The ranking illustrates that the majority of respondents employ a combination of the three strategies in their businesses.

Table 6.20 illustrates that item **BS3** *'Focus strategy'* had the least rating (M = 2.67±SD = 1.088); implying that respondents placed the least importance on this item. Item **BS1** *'Cost leadership strategy'* received the highest score (M = 4.18±SD = 0.685). This implies that most of the respondents placed much consideration on the item. The next section looks at the impact of these business strategies on both the long term and short term financial performance of the manufacturing SMEs in Harare, Zimbabwe.

6.5.5.2 Business strategies and financial performance

This section presents the descriptive statistics on the impact of business strategies on short term financial performance of manufacturing SMEs in Harare, Zimbabwe.

6.5.5.2.1 Business strategies and short term financial performance

Table 6.21 illustrates the descriptive statistics (frequencies, mean and standard deviation) for the impact of business strategies on the short term financial performance of manufacturing SMEs in Zimbabwe. Short term financial performance was measured on the basis of sales revenue, profits, and cash flows.

TABLE 6.21: BUSINESS STRATEGIES AND SHORT TERM FINANCIAL PERFORMANCE

Business Strategy and Short Term Financial Performance		**Frequency**					**Descriptive statistics**	
		SD	**D**	**UN**	**A**	**SA**	**MN**	**SD**
BSSFP1: Cost leadership strategy positively impact on our sales revenue	Count %	15 5.1	33 11.5	25 8.5	206 **71.4**	10 **3.4**	**4.16**	0.97
BSSFP2: Cost leadership has greatly improved our profits	Count %	14 4.7	52 17.9	23 8.1	186 64.5	14 4.7	3.78	0.89
BSSFP3: Cost leadership has improved our cash-flows	Count %	9 3.0	42 14.5	25 8.5	193 66.7	21 7.3	3.91	0.87
BSSFP4: Differentiation strategy positively impact on our sales revenue	Count %	12 4.3	38 13.2	32 11.1	194 67.1	12 4.3	3.54	1.04
BSSFP5: Differentiation strategy has greatly improved our profits	Count %	11 3.8	56 19.2	27 9.4	175 60.7	20 6.8	3.71	0.97
BSSFP6: Differentiation strategy has improved our cash-flows	Count %	9 3.0	42 14.5	26 9.0	201 69.7	11 3.8	3.57	0.98
BSSFP7: Focus strategy positively impact on our sales revenue	Count %	14 4.7	63 21.8	31 10.7	163 **56.4**	19 **6.4**	**3.33**	0.685
BSSFP8: Focus strategy has greatly improved our profits	Count %	11 3.8	35 12.0	54 18.5	180 62.4	38 13.2	3.51	0.95
BSSFP9: Focus strategy has improved our cash-flows	Count %	12 4.3	30 10.3	33 11.5	184 63.7	30 10.3	3.45	0.78

Questionnaire item **BSSFP1** *'Cost leadership strategy positively impact on our sales revenue'* has the highest (74.8 %) percentage (71.4 % agree, 3.4 % strongly agree) while item **BSSFP7** *'Focus strategy positively impact on our sales revenue'* has the least (62.8 %) percentage of agreeableness (56.4 % agree, 6.4 % strongly agree). The ranking illustrates that the majority of respondents agreed positively to all the statements, with the highest mean scores recorded with cost leadership.

Table 6.21 shows that item **BSSFP7** *'Focus strategy positively impact on our sales revenue'* had the least rating (M = 3.33±SD = 0.685); implying that the respondents placed the least importance on this item. However, this least rating is above the neutral point (M = 4); implying that the overall rating was high. Item **BSSFP1** *'Cost leadership strategy positively impact on our sales revenue'* received the

highest score (M = 4.168±SD = 0.97). The overall item mean ± SD was 3.78±0.77 (agree) out of a possible score of 5 (strongly agree); implying a strong impact of business strategies on the short term financial performance of manufacturing SMEs in Zimbabwe.

6.5.5.2.2 Business strategies and long term financial performance

Table 6.22 illustrates the descriptive statistics for the impact of business strategies on the long term financial performance of manufacturing SMEs in Harare, Zimbabwe.

TABLE 6.22: BUSINESS STRATEGIES AND LONG TERM FINANCIAL PERFORMANCE

Business Strategy and Long Term Financial Performance		**Frequency**					**Descriptive Statistics**	
		SD	**D**	**UN**	**A**	**SA**	**MN**	**SD**
BSLFP10: Cost leadership strategy positively impact on our sales revenue growth.	Count %	12 4.2	35 12.2	33 11.5	180 62.4	28 9.7	3.89	0.94
BSLFP11: Cost leadership has greatly improved our profitability	Count %	11 3.8	49 16.9	25 8.6	195 67.5	9 3.2	3.77	1.04
BSLFP12: Cost leadership has improved the growth of our cash-flows	Count %	12 4.3	38 13.2	32 11.1	194 67.1	12 4.3	3.68	1.24
BSLFP13: Cost leadership has improved our return on capital employed	Count %	10 3.6	36 12.5	6 1.9	225 77.1	14 4.9	**3.99**	1.59
BSLFP14: Differentiation strategy positively impact on our sales revenue growth	Count %	11 3.8	55 19.2	27 9.4	175 60.7	20 6.8	3.51	1.34
BSLFP15: Differentiation strategy has greatly improved our profitability	Count %	10 3.3	47 16.3	55 19.2	154 53.4	23 7.8	3.47	1.05
BSLFP16: Differentiation strategy has improved the growth of our cash-flows	Count %	23 8.1	36 12.5	32 11.0	181 62.7	17 5.7	3.39	1.17
BSLPF17: Differentiation has improved our return on capital employed	Count %	29 10.0	30 10.3	33 11.5	176 60.9	21 7.3	3.72	1.44
BSLFP18: Focus strategy positively impacts on our sales revenue growth	Count %	37 12.7	63 21.8	25 8.7	146 **50.4**	18 **6.4**	3.45	1.26
BSLFP19: Focus strategy has greatly improved our profits	Count %	25 8.6	27 9.2	33 11.5	173 59.7	32 11.0	3.31	1.30

BSLFP20: Focus strategy has improved the growth of our cash-flows	Count %	4.3	10.3	11.5	63.7	10.3	3.40	1.21
BSLFP21: Focus strategy has improved our return on capital employed	Count %	12 4.2	36 12.3	32 10.9	175 60.7	34 11.9	**3.21**	1.53

Questionnaire item **BSLFP13** *'Cost leadership has improved our return on capital employed'* has the highest (82.0 %) percentage (71.4 % agree, 4.9 % strongly agree) while item **BSLFP18** *'Focus strategy positively impact on our sales revenue growth'* has the least (56.4 %) percentage of agreeableness (50.4 % agree, 6.4 % strongly agree). The ranking illustrates that the majority of respondents agreed positively to all the statements, with higher mean scores recorded with cost leadership.

Table 6.22 shows that item **BSLFP21** *'Focus strategy has improved our return on capital employed'* had the least rating (M = 3.21±SD = 1.53); implying that the respondents placed the least importance on this item. However, this least rating is above the neutral point (M = 4); implying that the overall rating was high.

Item **BSLFP13** *'Cost leadership has improved our return on capital employed'* received the highest score (M = 3.99±SD = 1.59). The overall item mean ± SD was 3.518±0.77 (agree) out of a possible score of 5 (strongly agree); implying a positive and above average impact of business strategies on the long term financial performance of manufacturing SMEs in Zimbabwe.

6.6 INFERENTIAL STATISTICS

6.6.1 RESEARCH OBJECTIVE 2: STRATEGY FORMULATION APPROACHES ADOPTED BY MANUFACTURING SMEs

6.6.2.1 Analysis of Variance

The results of the strategic aspects of the planned approach were further analysed by the analysis of variance. The results are shown in Table 6.23 below.

TABLE 6.23: ANOVA FOR PLANNED APPROACH

Source of variation	SS	Df	MS	F	P-value	F crit
Between groups	13.07	8	1.63	6.23	6.4E-08	1.95
Within groups	244.04	936	0.26			
Total	257.11	944				

The results of the t-test revealed that there is a significant difference between the strategic aspects of the planned approach ($p<0.0005$).

The results of the strategic aspects of the planned approach were further analysed by the analysis of variance. The results are shown in Table 6.24 below.

TABLE 6.24: ANOVA FOR EMERGENT APPROACH

Source of variation	SS	Df	MS	F	P-value	F crit
Between groups	17.76	8	2.22	8.47	2.38E-11	1.95
Within groups	431.54	1647	0.26			
Total	449.30	1655				

The results of the t-test indicated that there is a significant difference as shown by ($p<0.0005$)

To establish the significance difference in the choice of strategy formulation approach to be adopted, a one-sample t-test was conducted. The results are shown in Table 6.25 below.

TABLE 6.25: ANOVA SUMMARY FOR APPROACHES

Group	Count	Sum	Average	Variance
Planned approach	289	4198	14.53	371.72
Emergent approach	289	7332	25.37	370.14

The results illustrated in table 6.26 reveal that there is a significant difference between the two approaches (p-value less than 0.05) as SMEs prefer the emergent approach to the planned approach (mean value 25.37>14.53).

TABLE 6.26: ANOVA SUMMARY

Source of variation	SS	Df	MS	F	P-value	F crit
Between groups	16993	1	16993	45.81	3.21E-11	3.86
Within groups	213657.4	577	370.93			
Total	230650.4	577				

6.6.2 RESEARCH OBJECTIVE 3: STRATEGY FORMULATION AND FINANCIAL PERFORMANCE

6.6.2.1 Strategy formulation and short term financial performance

Table 6.27 shows that strategy formulation and short term financial performance are strongly and positively correlated (r=0.783). The coefficient of determination (R squared) of 0.613 shows that 61.3 % of the firm's short term financial performance can be explained by strategising.

The adjusted R-square of 0.652 indicates that strategy making in exclusion of the constant variable explained the change in short term financial performance by 65.2 %, the remaining percentage can be

explained by some other factors. The standard error of estimate of 3.865 shows the average deviation of the independent variables from the line of best fit.

TABLE 6.27: STRATEGY FORMULATION AND SHORT TERM FINANCIAL PERFORMANCE MODEL SUMMARY

R	R square	Adjusted R square	Standard error	Observations
0.783	0.613	0.652	3.865	289

The results of the study were further analysed by the Analysis of Variance (ANOVA).

TABLE 6.28: STRATEGY FORMULATION AND SHORT TERM FINANCIAL PERFORMANCE ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5780. 108	5	1156.021	54.795	.000
	Residual	6087.391	284	0.3077		
	Total	11867.499	289			
a. Dependent Variable: Short term Financial Performance						
b. Predictors: (Constant), developing strategy purpose, Establishing strategic objectives, Environmental scanning, Data integration, and Strategy analysis and choice						

The analysis of variance certifies the applicability of the model and that it can be recognised as statistically significant (F=54.795, p value=0.000). Since the p-value is less than 0.05, it means that there exists a significant relationship between strategy formulation and short term financial performance of SMEs in Harare, Zimbabwe.

6.6.2.2 Strategy formulation and long term financial performance

Table 6.29 below shows that strategy formulation and long term financial performance are strongly and positively correlated (r=0.817). The coefficient of determination (R squared) of 0.667 shows that 66.7 % of the firm's long term financial performance can be a result of strategy formulation.

The adjusted R-square of 0.649 shows that strategy development in exclusion of the constant variable explained the change in long term financial performance by 64.9 %, the remaining percentage can be explained by some other factors.

TABLE 6.29: STRATEGY FORMULATION AND LONG TERM FINANCIAL PERFORMANCE MODEL SUMMARY

R	R square	Adjusted R square	Standard error	Observations
0.817	0.667	0.649	3.804	289

The findings of the study were further subjected to the Analysis of Variance (ANOVA).

TABLE 6.30: STRATEGY FORMULATION AND LONG TERM FINANCIAL PERFORMANCE ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5127.361	5	1025.47	48.964	.000
	Residual	5908.193	284	20.80		
	Total	11867.499	289			
a. Dependent Variable: Long term Financial Performance						
b. Predictors: (Constant), developing strategy purpose, Establishing strategic objectives, Environmental scanning, Data integration, and Strategy analysis and choice						

The analysis of variance endorses the applicability of the model and that it can be recognised as statistically significant (F=48.964, p value=0.000). Since the p-value is less than 0.05, it means that there exists a significant relationship between strategy formulation and long term financial performance of SMEs in Harare, Zimbabwe.

The findings of the study illustrate that strategy formulation is strongly and positively related to both short term and financial performance. The following section presents the study results for objective four.

6.6.3 RESEARCH OBJECTIVE 4: STRATEGY FORMULATION APPROACHES AND FINANCIAL PERFORMANCE

6.6.3.1 Strategy formulation approaches and short term financial performance

6.6.2.1.1 Planned approach and short term firm performance model Summary

From Table 6.31, An R of -0.262 suggests that there is a weak negative relationship between the two variables. The coefficient of determination (R-squared) of 0.069 illustrates that 6.9 % of manufacturing SMEs' poor short term financial performance can be explained by the adoption of deliberate/planned strategy making approaches.

The adjusted R-square of 0.073 indicates that the planned approach to strategising, excluding the constant variable, explains the change in the short term financial performance of manufacturing SMEs by 7.3 %; the remaining 92.7 % can be explained by other factors excluded from the model.

TABLE 6.31: PLANNED APPROACH AND SHORT TERM FINANCIAL PERFORMANCE MODEL SUMMARY

R	R square	Adjusted R square	Standard error	Observations
-0.262	0.069	0.073	0.59	105

Table 6.32 shows the Analysis of Variance (ANOVA) for regression coefficients. The results revealed that a planned approach is statistically insignificant in accounting for a firm's short term financial performance.

TABLE 6.32: PLANNED APPROACH AND SHORT TERM FINANCIAL PERFORMANCE ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	37. 108	1	37.108	21.067	.007
	Residual	87.871	104	0.845		
	Total	124.979	105			
a. Dependent Variable: Short term Financial Performance						
b. Predictors: (Constant), Planned approach						

An F statistics of (21.067) indicate that the model is insignificant. This was supported by a probability value of (0.007). The reported probability of (0.007) is more than the conventional of (0.005), hence, insignificant.

6.6.2.1.2 Emergent approach and short term financial performance model summary

From Table 6.33, an R of 0.827 suggests that there is a strong positive relationship between emergent approaches to strategy formulation and short term financial performance of manufacturing SMEs in Zimbabwe. The coefficient of determination (R-squared) of 0.684 illustrates that 68.4 % of manufacturing SMEs' short term financial performance can be derived from the use of emergent strategy making approaches of SMEs.

The adjusted R-square of 0.562 indicates that the emergent approach to strategising excluding the constant variable explains the change in the short term financial performance of manufacturing SMEs by 56.2 %; the remaining 43.8 % can be explained by other factors excluded from the model.

TABLE 6.33: EMERGENT APPROACH AND SHORT TERM FINANCIAL PERFORMANCE MODEL SUMMARY

R	R square	Adjusted R square	Standard error	Observations
0.827	0.684	0.562	0.65	184

Table 6.34 shows the Analysis of Variance (ANOVA) for regression coefficients. The results revealed that the emergent approach is statistically significant in accounting for a firm's short term financial performance of manufacturing SMEs in Zimbabwe.

TABLE 6.34: EMERGENT APPROACH AND SHORT TERM FINANCIAL PERFORMANCE ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	42.651	1	42.651	26.982	.003
	Residual	91.683	104	0.882		
	Total	134.333	105			
a. Dependent Variable: Short term Financial Performance						
b. Predictors: (Constant), Emergent approach						

An F statistics of (26.982) indicate that the model is significant. This was supported by a probability value of (0.003). The reported probability of (0.003) is less than the conventional of (0.005) hence significant.

6.6.3.2 Strategy formulation approaches and long term financial performance

6.6.3.2.1 The Planned approach and long term financial performance model Summary

From Table 6.35, an R of 0.709 suggests that there is a strong positive relationship between deliberate approach and long term financial performance. The coefficient of determination (R-squared) of 0.503 illustrates that 50.3 % of manufacturing SMEs' long term financial performance can be explained by the adoption of the planned approach in strategy making.

The adjusted R-square of 0.356 indicates that the planned approach to strategising excluding the constant variable explains the change in the long term financial performance of manufacturing SMEs by 35.6 %; the remaining 64.4 % can be explained by other factors excluded from the model.

TABLE 6.35: PLANNED APPROACH AND LONG TERM FINANCIAL PERFORMANCE MODEL SUMMARY

R	R square	Adjusted R square	Standard error	Observations
0.709	0.503	0.356	0.59	105

Table 6.36 shows the Analysis of Variance (ANOVA) for regression coefficients. The results revealed that a planned approach is statistically significant in accounting for an SME's long term financial performance in Zimbabwe.

TABLE 6.36: PLANNED APPROACH AND LONG TERM FINANCIAL PERFORMANCE ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	45.371	1	45.371	27.970	.003
	Residual	95. 906	104	0.922		
	Total	141.277	105			
a. Dependent Variable: Long term Financial Performance						
b. Predictors: (Constant), Planned approach						

An F statistic of (27.970) indicates that the model is significant. This was supported by a probability value of (0.007). The reported probability of (0.003) is less than the conventional of (0.005), hence, significant.

6.6.3.2.2 The Emergent approach and long term financial performance model summary

From Table 6.37, an R of 0.433 suggests that there is a moderately positive relationship between emergent approaches to strategy formulation and long term financial performance of manufacturing SMEs in Zimbabwe. The coefficient of determination (R-squared) of 0.187 illustrates that 18.7 % of manufacturing SMEs' long term financial performance can be derived from the use of emergent strategy making approaches of SMEs.

The adjusted R-square of 0.295 indicates that an emergent approach to strategy development excluding the constant variable explains the change in the long term financial performance of manufacturing SMEs by 29.5 %; the remaining 70.5 % can be explained by other factors excluded from the model.

TABLE 6.37: EMERGENT APPROACH AND LONG TERM FINANCIAL PERFORMANCE MODEL SUMMARY

R	R square	Adjusted R square	Standard error	Observations
0.433	0.187	0.295	0.65	184

Table 6.38 shows the Analysis of Variance (ANOVA) for regression coefficients. The results revealed that the emergent approach is statistically significant in accounting for a firm's long term financial performance of manufacturing SMEs in Zimbabwe.

TABLE 6.38: EMERGENT APPROACH AND LONG TERM FINANCIAL PERFORMANCE ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	65.314	1	65.314	26.982	.003
	Residual	85.702	188	0.456		
	Total	151.016	189			
a. Dependent Variable: Long term Financial Performance						
b. Predictors: (Constant), Emergent approach						

An F statistics of (26.982) indicate that the model is significant. This was supported by a probability value of (0.003). The reported probability of (0.003) is less than the conventional of (0.005) hence significant.

6.6.4 RESEARCH OBJECTIVE 5: STRATEGY FORMULATION APPROACHES AND FINANCIAL PERFORMANCE

6.6.4.1 Business strategies and short term financial performance

This section presents the correlation and regression analysis of the three business strategies (cost leadership, differentiation, and focus) on the short term financial performance of manufacturing SMEs in Harare, Zimbabwe.

6.6.4.1.2 Cost leadership strategy and short term firm performance model summary

Table 6.39 shows that there is a moderate positive correlation between cost leadership strategy and short term financial performance (r=0.453). The coefficient of determination (R squared) of 0.205 shows that 20.5 % of the firm's short term financial performance is due to the cost leadership strategy.

The adjusted R-square of 0.077 indicates that cost leadership strategy in exclusion of the constant variable explained the change in short term financial performance by 7.7 %, the remaining percentage can be explained by some other factors. The standard error of estimate of 0.70124 shows the average deviation of the independent variables from the line of best fit. These results are shown in Table 6.39.

TABLE 6.39: COST LEADERSHIP AND SHORT TERM FINANCIAL PERFORMANCE MODEL SUMMARY

R	R square	Adjusted R square	Standard error	Observations
0.453	0.205	0.077	0.70124	289

A Significance test was conducted to establish the relationship between cost leadership strategy and short term financial performance. The results are shown in Table 6.40 below.

TABLE 6.40: COST LEADERSHIP STRATEGY AND SHORT TERM FINANCIAL PERFORMANCE ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7.208	1	7.208	8.557	.004
	Residual	2583.08	288	8.970		
	Total	2666.26	289			
a. Dependent Variable: Short term Financial Performance						
b. Predictors: (Constant), Cost leadership						

The result of the Analysis of Variance (ANOVA) for the regression coefficient as shown in Table 6.40 revealed (F=8.557, p-value = 0.004). Since the p-value is less than 0.05 it means that there exists a significant relationship between cost leadership strategy and short term financial performance of manufacturing SMEs in Zimbabwe.

6.6.4.1.2 Differentiation strategy and short term financial performance model summary

Table 6.41 illustrates that there is a positive relationship between differentiation strategy and short term financial performance of manufacturing SMEs in Zimbabwe (r=0.432). The coefficient of determination (R-squared) of 0.187 illustrates that 19.0 % of manufacturing SMEs' short term financial performance can be derived from the use of differentiation strategy.

The adjusted R-square of 0.112 indicates that differentiation strategy excluding the constant variable explains the change in the short term financial performance of manufacturing SMEs by 11.2 %; the remaining 86.7 % can be explained by other factors excluded from the model.

TABLE 6.41: DIFFERENTIATION STRATEGY AND SHORT TERM FINANCIAL PERFORMANCE MODEL SUMMARY

R	R square	Adjusted R square	Standard error	Observations
0.432	0.187	0.112	0.65	289

A significance test was conducted to establish the relationship between differentiation strategy and short term financial performance. The results are shown in Table 6.42 below.

TABLE 6.42 DIFFERENTIATION STRATEGY AND SHORT TERM FINANCIAL PERFORMANCE ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.785	1	8.785	19.152	.003
	Residual	53.986	288	0.188		
	Total	62.763	289			
a. Dependent Variable: Short term financial performance						
b. Predictors: (Constant), Differentiation strategy						

Table 6.42 shows the Analysis of Variance (ANOVA) for regression coefficients. The results revealed that differentiation strategy is statistically significant in accounting for a firm's short term financial performance of manufacturing SMEs in Zimbabwe. An F statistic of (19.152) indicates that the model is significant. This was supported by a probability value of (0.003). The reported probability of (0.003) is less than the conventional of (0.005), hence significant.

6.6.4.1.3 Focus strategy and short term financial performance model summary

The results of the regression analysis in Table 6.43 show a significant association between focus strategy and short term financial performance of manufacturing SMEs in Zimbabwe (R=0.231). The coefficient of determination (R-squared) of 0.053 shows that 5.3% of manufacturing SME's short term financial performance in Zimbabwe can be accounted for by the adoption of focus strategy.

The adjusted R-square of 0.054 depicts that focus strategy in exclusion of the constant variable accounts for the change in short term financial performance of manufacturing SMEs by 5.4%, while other factors excluded in the model can explain the remaining percentage. Table 6.43 below shows these results.

TABLE 6.43: FOCUS STRATEGY AND SHORT TERM FINANCIAL PERFORMANCE MODEL SUMMARY

R	R square	Adjusted R square	Standard error	Observations
0.231	0.053	0.054	0.676	289

A Significance test was conducted to establish the relationship between focus strategy and organizational performance. The results are shown in Table 6.44 below.

TABLE 6.44: FOCUS STRATEGY AND SHORT TERM FINANCIAL PERFORMANCE ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.946	1	3.946	8.299	.005
	Residual	58.726	288	0.204		
	Total	62.763	289			
a. Dependent Variable: Short term financial performance						
b. Predictors: (Constant), Focus strategy						

Table 6.44 shows that there is a significant relationship between focus strategy and manufacturing SMEs' short term financial performance (F=8.30, p-value =0.005). The results reveal that the focus strategy is statistically significant in explaining the short term financial performance of manufacturing SMEs in Zimbabwe.

6.6.4.2 Business Strategies and long term financial performance

This section presents the correlation and regression analysis of the three business strategies (cost leadership, differentiation, and focus) on the long term financial performance of manufacturing SMEs in Harare, Zimbabwe.

6.6.4.2.1 Cost leadership strategy and financial performance model summary

The results of the correlation in Table 6.45 show that there is a positive correlation between cost leadership strategy and long term financial performance of manufacturing SMEs in Zimbabwe (r=0.721. The coefficient of determination (R squared) of 0.586 shows that 58.6 % of the firm's long term financial performance is due to the cost leadership strategy.

The adjusted R-square of 0.243 indicates that cost leadership strategy in exclusion of the constant variable explained the change in long term financial performance by 24.3 %, the remaining percentage can be explained by some other factors. The standard error of estimate of 0.532 shows the average deviation of the independent variables from the line of best fit. These results are shown in Table 6.48.

TABLE 6.45: COST LEADERSHIP AND MANUFACTURING FINANCIAL PERFORMANCE MODEL SUMMARY

R	R square	Adjusted R square	Standard error	Observations
0.721	0.520	0.243	0.565	289

A Significance test was conducted to establish the relationship between cost leadership strategy and long term financial performance. The results are shown in Table 6.46 below.

TABLE 6.46: COST LEADERSHIP STRATEGY AND FINANCIAL PERFORMANCE ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.208	1	4.208	8.878	.004
	Residual	2583.08	288	8.970		
	Total	2587.288	289			
a. Dependent Variable: Long term Financial Performance						
b. Predictors: (Constant), Cost leadership strategy						

The result of the Analysis of Variance (ANOVA) for the regression coefficient as shown in Table 6.46 revealed an F value of and a p-value = 0.004. Since the p-value is less than 0.05 it means that there exists a significant relationship between cost leadership strategy and long term financial performance of manufacturing SMEs in Zimbabwe.

6.9.4.2.2 Differentiation strategy and financial performance model summary

From Table 6.57, an R of 0.172 suggests that there is a weak positive relationship between differentiation strategy and financial performance of manufacturing SMEs in Zimbabwe. The coefficient of determination (R-squared) of 0.030 illustrates that 3.0 % of manufacturing SMEs' long term financial performance can be derived from the use of differentiation strategy.

The adjusted R-square of 0.092 indicates that differentiation strategy excluding the constant variable explains the change in long term financial performance of manufacturing SMEs by 9.2 % and the remaining percentage can be explained by other factors excluded from the model.

TABLE 6.47: DIFFERENTIATION STRATEGY AND LONG TERM FINANCIAL PERFORMANCE MODEL SUMMARY

R	R square	Adjusted R square	Standard error	Observations
0.129	0.017	0.092	0.534	289

A Significance test was conducted to establish the relationship between differentiation strategy and long term financial performance. The results are shown in Table 6.48 below.

TABLE 6.48: DIFFERENTIATION STRATEGY AND LONG TERM FINANCIAL PERFORMANCE ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	79.182	1	79.182	5.243	.003
	Residual	2583.080	288	8.970		
	Total	2662.2629	289			
a. Dependent Variable: Long term Financial Performance						
b. Predictors: (Constant), Differentiation strategy						

Table 6.48 shows the Analysis of Variance (ANOVA) for regression coefficients. The results revealed that differentiation strategy is statistically significant in accounting for the long term financial performance of manufacturing SMEs in Zimbabwe.

An F statistics of (20.182) indicates that the model is significant. This was supported by a probability value of (0.003). The reported probability of (0.003) is less than the conventional of (0.005) hence significant.

6.9.4.2.3 Focus strategy and long term financial performance model summary

Table 6.49 shows the results of regression analysis. The results show a significant association between focus strategy and the long term financial performance of manufacturing SMEs in Zimbabwe (R=0.133). The coefficient of determination (R-squared) of 0.017 shows that 1.7 % of manufacturing SMEs' long term financial performance in Zimbabwe can be accounted for by the adoption of focus strategy.

The adjusted R-square of 0.022 illustrates that focus strategy in exclusion of the constant variable accounts for the change in long term financial performance of manufacturing SMEs by 2.2 %, while other factors exclude in the model can explain the remaining percentage. Table 6.49 below shows these results.

TABLE 6.49: FOCUS STRATEGY AND LONG TERM FINANCIAL PERFORMANCE MODEL SUMMARY

R	R square	Adjusted R square	Standard error	Observations
0.133	0.017	0.022	0.723	289

A Significance test was conducted to establish the relationship between focus strategy and long term financial performance. The results are shown in Table 6.50 below.

TABLE 6.50: FOCUS STRATEGY AND LONG TERM FINANCIAL PERFORMANCE ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.734	1	5.734	5.302	.005
	Residual	166.26	288	0.577		
	Total	1667.993	289			
a. Dependent Variable: Long term Financial Performance						
b. Predictors: (Constant), Focus strategy						

Table 6.50 shows that there is a significant relationship between focus strategy and manufacturing firm performance (F=5.30, p-value =0.005). The results reveal that the focus strategy is statistically significant in explaining the long term financial performance of manufacturing SMEs in Zimbabwe.

6.6.4.3 The combined effect of the three strategies on the financial performance of SMEs: Optimal Model

Multiple regression analysis was used to determine whether (independent variables), cost leadership strategy (X_1), differentiation strategy (X_2), and focus strategy (X_3) simultaneously affect the (dependent variable) enterprise's financial performance (Y) of manufacturing SMEs in Zimbabwe. Table 6.51 below illustrates the results of the multiple regression analysis.

TABLE 6.51: OPTIMAL MODEL FOR THE COMBINED EFFECT OF BUSINESS STRATEGIES

R	R square	Adjusted R square	Standard error	Observations
0.278	0.0773	0.022	0.597	289

Table 6.51 above illustrates a positive correlation between the three strategies and the financial performance of manufacturing SMEs in Zimbabwe (r=0.278). Thus, the R-squared of 0.0773 shows that 7.73 % of manufacturing SMEs in Zimbabwe can be explained by the three strategies; cost leadership, differentiation, and focus strategies.

The adjusted R (0.022) indicates that 2.2 % of the change in financial performance can be due to the adoption of all the three strategies at the same time, the remaining percentage can be due to some other variables not included in this model.

Further analysis was conducted to establish the combined effect of the three strategies on the financial performance of manufacturing SMEs in Zimbabwe. The results of ANOVA are presented in Table 6.52 below.

TABLE 6.52: OPTIMAL MODEL ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	68.254	3	22.751	96.167	.0.004
	Residual	2189.098	286	7.654		
	Total	2258.2340	289			
a. Dependent Variable: Financial performance						
b. Predictors: (Constant), Focus strategy, Differential strategy, Cost leadership strategy						

Table 6.52 shows that there is a significant relationship between the three strategies (cost leadership strategy, differentiation strategy, and focus strategy) and manufacturing financial performance (F=6.167, p-value =0.004) at 5% level of significance.

Thus, the results show that the combined adoption of these strategies is statistically significant in explaining the financial performance of manufacturing SMEs in Zimbabwe.

6.7 HYPOTHESES TESTING

6.7.1 Hypothesis 1

The hypothesis was tested using multiple regression analysis (MRA) to determine if there exists a direct relationship between strategy formulation and SMEs' financial performance. The hypothesis is stated below:

H_1: Strategy formulation is significantly and positively associated with SME's financial performance.

TABLE 6.53 STRATEGY FORMULATION AND FINANCIAL PERFORMANCE REGRESSION WEIGHTS MODEL

COEFFICIENTS							
Model	Unstandardized coefficients		Standardised Coefficient			Collinearity Statistics	
	B	Std. Error	*B*	t	Sig.	Tolerance	VIF
Constant	5.96	.945		5.518	.000	1.000	1.000
Strategy formulation	.658	.004	.135	3.923	.002	.861	1.403

a. Predictors: (Constant), strategy formulation, b. Dependent Variable: Financial performance

Table 6.53 shows that the regression results indicate that strategy formulation has a statistically significant and positive relationship with SME financial performance in Harare (β=0.658, t=3.923, p<0.05). These results imply that a unit increase in strategy formulation index leads to a .658 increase in SMEs' financial performance. Thus, the hypothesis was accepted. However, since the variables under investigation are just two, the tolerance and VIF are normally 1 (Hair *et al.*, 2010).

6.7.2 Hypothesis 2

The research data were subjected to multiple regression analysis to test the hypotheses set and to determine the direct relationships between strategy formulation approaches dimensions and SMEs'

financial performance. The sub-hypotheses on business strategy formulation dimensions are as listed below:

H_{2a}: A planned approach to strategy formulation is significantly and positively related to the financial performance of SMEs.

H_{2b}: Emergent approach to strategy formulation is significantly and positively related to the financial performance of SMEs.

The results of the analysis are sown in Table 6.54 below.

TABLE 6.54 STRATEGY FORMULATION APPROACHES AND FINANCIAL PERFORMANCE REGRESSION WEIGHTS MODEL

COEFFICIENTS							
Model	Unstandardized coefficients		Standardised Coefficient			Collinearity Statistics	
	B	Std. Error	*B*	*T*	Sig.	Tolerance	VIF
Constant	8.311	.559	14.867	14.867	.000	1.000	1.000
Planned approach	-0.086	0.070	-0.065	-1.232	.302	0.793	1.301
Emergent approach	0.626	0.075	0.065	3.760	.004	0.839	1.131

a. Predictors: (Constant), Planned Approach, Emergent approach, b. Dependent Variable: Financial performance

The result of the study from Table 6.54 finds empirical support for only one construct out of the two. The first sub-hypothesis was rejected as it was not supported by empirical evidence (β=-0.086, t=-1.232, p>0.05). The Emergent approach to strategy formulation has a statistically strong and positive relationship with financial performance (β=0.626, t=3.760, p<0.05). Hence, the last sub hypothesis was accepted. The tolerance values of 0.793 to 0.839 are close to 1 (Hair *et al*., 2014) and VIFs range between 1.131 and 1.301 which are within the recommended less than 5 (Saunders *et al*., 2016). Thus, results indicate that multicollinearity is not an issue in this instance.

6.7.3 Hypothesis 3

In this section, multiple regression analysis (MRA) was done to test the hypotheses set and to determine the direct relationships between business strategy dimensions and firm financial performance. The sub-hypotheses on business strategy dimensions are as listed below:

H_{3a}: Cost leadership strategy is significantly and positively associated with SMEs' financial performance.

H_{3b}: Differentiation strategy is significantly and positively associated with SMEs' financial performance.

H_{3c}: Focus strategy is significantly and positively associated with SMEs' financial performance.

The results of multiple regression analysis are shown in Table 6.55 below.

TABLE 6.55 BUSINESS STRATEGY AND FIRM PERFORMANCE REGRESSION WEIGHTS MODEL

COEFFICIENTS							
Model	Unstandardized coefficients		Standardised Coefficient			Collinearity Statistics	
	B	Std. Error	*B*	T	Sig.	Tolerance	VIF
Constant	6.31	.659	14.867	14.867	.000	1.000	1.000
Cost leadership strategy	.573	.004	.187	3.073	.002	.761	1.307
Differentiation strategy	.473	.033	.206	3.756	.000	.692	1.232
Focus strategy	0.215	.721	.174	3.001	.003	.733	1.101

a. Predictors: (Constant), Cost leadership strategy, Differentiation strategy, Focus strategy, b. Dependent Variable: Financial performance

As observed in Table 6.55 cost leadership strategy, differentiation strategy and focus strategy have a positive and statistically significant influence on the financial performance of SMEs in Zimbabwe (β=0.573, t=3.07, p<0.05; β=0.473, t=3.756, p<0.05 and β=0.215, t=3.001, p<0.05). The study findings indicated that there was a positive significant relationship between all the business strategies and the financial performance of a manufacturing firm. The results donate support to all the three hypotheses and, thus, all are accepted. The tolerance values range from 0.692 to 0.761, all these are well above the recommended 0.2 (O'Brien, 2007) and the VIFs range between 1.307 and 1.101 which are less than 5 by far (Hair et al, 2014).

6.7.4 Summary of hypothesis testing results

Table 6.56 presents a summary of the results of hypotheses testing.

TABLE 6.56 SUMMARY OF RESULTS OF HYPOTHESES TESTING

	Hypothesis	Results
$\mathbf{H_1}$	Strategy formulation is significantly and positively related to SME's financial performance	Supported (p<0.05)
$\mathbf{H_{2a}}$	A planned approach to strategy formulation is significantly and positively related to the financial performance of SMEs.	Rejected (p>0.05)
$\mathbf{H_{2b}}$	An emergent approach to strategy formulation is significantly and positively related to the financial performance of SMEs.	Supported (p<0.05
$\mathbf{H_{3a}}$	Cost leadership strategy is significantly and positively associated with SMEs' financial performance.	Supported (p<0.05)
$\mathbf{H_{3b}}$	Differentiation strategy is significantly and positively associated with SMEs' financial performance.	Supported (p<0.05)
$\mathbf{H_{3c}}$	Focus strategy is significantly and positively associated with SMEs' financial performance.	Supported (p<0.05)

These results reveal that the five hypotheses tested were accepted at 5% level of significance while only one was rejected also at 5 % level of significance.

6.8 ANALYSIS OF QUALITATIVE DATA

This section presents an analysis of the qualitative data collected through the in-depth interviews with selected manufacturing SMEs in Harare, Zimbabwe. Questions in the interview guide were used as sub-themes in the analysis of data. Therefore, this section seeks to satisfy the mixed-method approach adopted in this study.

6.8.1 Demographic data

The first section of the interview schedule focused on the demographic information on the participants and their respective firms. The results are summarised in Table 6.57 below.

TABLE 6.57: DEMOGRAPHIC DATA OF THE INTERVIEW PARTICIPANTS

	Participant's demographic			Company demographics		
Code	Age	Position	Education	No. of employees	Yr. of registration	Sector
1	47	Owner manager	Bachelor's degree	2	2009	Clothing & footwear
2	40	Managing director	Bachelor's degree	15	2002	Wood & furniture
3	39	Owner manager	Diploma	5	2015	Food products
4	64	Owner manager	Diploma	12	2004	Chemical & petroleum
5	37	Owner manager	Certificate in welding	2	2014	Wood & furniture
6	57	Owner manager	Basic ordinary level	17	2000	Metals
7	49	Owner manager	Diploma	9	2010	Clothing & footwear
8	46	Owner manager	Masters' degree	6	2011	Food products
9	38	Managing director	Bachelor's degree	13	2012	Chemical & petroleum
10	46	Owner manager	Bachelor's degree	4	2009	Clothing & footwear
11	40	Owner manager	Diploma	5	2003	Metals
12	30	Managing director	Diploma	13	2016	Wood & Furniture
13	41	Owner manager	Basic ordinary level	8	2012	Chemical & petroleum
14	36	Managing director	Bachelor's degree	7	2011	Food products
15	52	Owner manager	Master's degree	4	2009	Metals

Table 6.36 illustrates that the study participants were aged between 30 and 64 years. The education of the participants was split as follows: two with basic Ordinary level education; one with Certificate, five with Diploma qualification, five with a Bachelor's degree, and two with a Master's degree. The majority (11 out of 15) of the participants are owner-managers while only four are managing directors.

Table 6.56 also shows that of the SMEs that took part in the study the majority (10 out of 15) have less than 10 employees while only 5 have more than 10 but less than 20 employees. The majority of the firms studied were registered in the last 10 years, while a few were registered a period more than 15 years ago. Equal numbers of study participants were obtained from the five sectors.

6.8.2 Description of findings

6.8.2.1 Meaning of strategy formulation

The first part of the second section sought to elicit for an understanding of strategy formulation amongst the study participants. The following were some of the comments made by some of the participants during data collection.

P2:

"Strategy formulation involves the process of coming up with both long term and short term plans and the best means to achieve those plans".

P3:

"The process of identifying and interpreting strategic issues and events that have an impact on the organization's financial performance".

P6:

"It is a process of coming up with strategies that will allow a business to be competitive in the market".

P9:

"Uuum, strategy formulation is a process of finding a match between organisational capabilities and opportunities that are present within the competitive environment".

P10:

"Uuum, strategy formulation means consciously coming up with business plans and the strategies of how exactly we achieve the plans".

P11:

"Uuum, I think it is concerned with coming up with the business's strategies to enhance performance and outcompete rivals"

The participants' views illustrate that they have a good and sound understanding of strategy formulation. All the study participants showed that they understood what the process of strategy formulation involves as they highlighted critical issues such as development of plans, goals and objectives and the best way to achieve them. Thus, the findings revealed that strategy formulation is predominantly associated with plan making. The participants managed to highlight that strategy formulation should match organisational resources and capabilities to the opportunities that exist in the market environment.

6.8.2.2 Strategy formulation: outside approach or inside approach

The second part of the second section sought to find out which theoretical model guides strategy formulation in manufacturing SMEs in Zimbabwe. Thus, study participants were asked what they value most: market forces or internal resources when formulating their strategies. They had this to say:

Participant 1:

> *"External factors are important in deciding what to do in our firm as we can't control what affects our organisation from the external environment. The market forces dictate what to do so we need to be responsive failure to respond means we fail in business. Or actions might be aligned to what is taking place in the market environment"*

P2:

> *"We value information from all the elements of the environment that is, we scan our internal environment, what resources, capabilities do we have so as to draw our strengths and weaknesses on the other hand we analyse our market environment to draw our threats and weaknesses. This therefore implies that our approach is both inside and outside looking"*

P5:

> *"Resources only can't give an equally good strategy, we also need to align our strategy process with our market factors.*

These statements show that both the market forces and internal forces are considered in strategy development indicate that strategy formulation is not only understood by the participants but also practiced. The participants' views illustrate that they make use of strategy tools such as SWOT analysis and they appreciate the significance of scanning both their internal and external environment.

6.8.2.3 Adoption of strategy formulation amongst manufacturing SMEs in Harare, Zimbabwe

The participants were also asked whether they practice strategy formulation. All the participants answered positively to this question. However some had this to say:

P1:

"Very few live to the requirements of strategy formulation in that they don't do it thoroughly. The strategy making is sole responsibility of the managers at times with the vision of the owner founder directing them".

P7:

"Very important for them especially in this turbulent environment".

P12:

"SMEs don't practice strategy formulation faithfully. The owner manager sets up what is supposed to be completed and how and everyone others follow. Generally the owner is responsible for the strategic direction of the company which is the backbone of any business. I have the vision of where I want to take the business".

P15:

"The majority of the small businesses in Zimbabwe understand the language of strategising but how to do it is different and normally if strategies are to be made it is the manager who does and communicate to others".

The statements indicate that strategy formulation is not only understood by the participants but also practiced. The manufacturing SMEs strategy formulation, however, does not follow the logical steps to the development of strategies as indicated by Participant 12.

Furthermore, the results of the interviews showed that it is especially the owner-manager or top manager who is involved in strategy formulation, and at times communicates the strategies to others. This implies that the mission and vision of the founder have to model the strategies to be formulated and even the implementation of strategies is/should be directed by the owner. Thus, the manufacturing SMEs favoured the solitary approach to strategy making.

6.8.2.4 Strategy formulation among manufacturing SMEs in Zimbabwe

This heading was extracted from the second item of the interview guide. The purpose of the question was to establish how strategies are developed in SMEs in Harare, Zimbabwe. Participants had this to say.

P1:

> *"Strategy formulation in the majority of SMEs in Zimbabwe can be described as mere adjustments and reconditioning to the ever-changing business environment. Most of them carry out abrupt strategies oftenly created by the owner who is likely to be the manager with his/her spouse. Tools such as SWOT analysis are done informally more like intelligence gathering on a daily basis. The majority of them do not have well-articulated vision and mission statements.*

In-fact some of them just operate their businesses from their heads…..Through this they are able to make money at the end of the day".

P3:

"Very few follow the basic process of strategy formulation as informed by literature. SMEs wary much about their resources. Their limited resources forces them to adopt strategy formulation unfaithfully. Many SMEs in Zimbabwe assume that they should use their limited time resources more effectively for operational or sales activities. Thus they regard formal planning as limited to large enterprises who do have resources for well formalised plans".

P4:

"Strategy formulation in SMEs tends to be unique as in most cases it is attached to the founder's vision. Hence strategies formulated should go well with the ideas of the founder in most cases. Strategy formulation is executed mainly from an informal fashion since SME owners hold multiple functions and however with an informal application of strategy formulation tools such as SWOT analysis. However, it is interesting to note that more SMEs are moving away from that entrepreneurial perspective and adopting a more professional approach where strategy formulation is directed by the business vision and mission statement"

The study participants agreed that the basic process of strategy formulation as informed by literature is not holy followed. This is indicative that strategy formulation in the majority of SMEs develops emergent strategies that are somehow reactive to situations. Participant 3 noted that limited financial resources force SMEs to adopt more informally and less rational strategies to capture opportunities as they come. Strategy formulation in SMEs can be best described as fine-tuning to suit the environment. This may be because SMEs especially the manufacturing sector are the hardest hit by changes in the business environment. Thus strategies are developed from the way they do their things.

6.8.2.5 Strategy formulation approaches adopted SMEs in Harare, Zimbabwe

The third section of the interview schedule focused on understanding strategy formulation approaches adopted by SMEs in Harare, Zimbabwe. The participants were asked how they formulate their strategies (planned or emergent). The following are some of the results from the survey.

P3:

"Life just changes too quickly - emergent is the way to go. SMEs need to experiment and discover as opposed to having rigid strategy, they need to be flexible as things change so that they remain relevant, discover something in order to adapt; but on the other hand I think there needs to be some direction -

You don't want to change your processes on a daily basis - build rigour into the process to have direction and check points, so that it's not a haphazard thing."

P7:

"In Zimbabwe, the traditional strategy-making approach of prescriptive have become outdated due to the unstable and radically changing market environment, hence us as small to medium enterprises need to formulate and implement strategies at the same time".

P6:

"We have had a ten year strategic plan but we are no longer adopting it given the new and devastating circumstances obtaining in business. We were targeting foreign market but this never came due to limited financial resources and we have abandoned the strategic plan. Without resources we have now resorted to doing things our own way and do not follow the strategic plan to the letter."

P9:

"Our growth has not been planned and we do not have a formal strategic plan. Most of what happens is the vision of the owner guided by what will be happening in the business environment. The owner plans on a daily basis."

P13:

"We do not sit down and come up with a written strategic plan. Most of our strategies are driven by opportunities and threats in the business environment and the customer behaviour especially the changes in customer tastes and preferences".

From the findings, it is clear that the majority of the interviewees claim that manufacturing SMEs in Zimbabwe employ the more descriptive approach to strategy development. It is also clear that the participants seem to practise strategy, but not in exactly the way literature outlines it.

The findings show that strategy making in small and medium enterprises happens informally and is emergent, as most of the participants mentioned that they do not formally plan and the owner normally plans daily. Some even indicated that they constantly changed their plans to suit changing circumstances. The findings also revealed that a strategy should be developed and managed flexibly, allowing learning and responding to external factors. Hence, the findings from the study suggest an iterative process that is flexible, experimental, adaptive, and evolutionary.

6.8.2.6 Business strategies adopted by manufacturing SMEs in Harare, Zimbabwe

The fourth section of the interview schedule focused on investing the business strategy (s) adopted by the participants. The discussions on this were aimed at exploring SMEs' strategy choices guided by Porter's generic strategies. Having explained the four strategic choices that are: overall low-cost leadership, differentiation, focus, and hybrid, the participants were asked about their choice. The following are some of the results of the survey.

P1:

"We strive to cut cost so as to offer the best price in town"

P2:

"Our strategy depends on what makes us make money…. Generally we follow the cost leadership strategy especially that our financial background is weak"

P5:

"We normally adapt to situations…..we follow all strategies but in different times and circumstances"

P10:

"Uuum SMEs in Zimbabwe seems to adopt mainly cost leadership and rarely do they adopt focus strategy but at times we combine all the strategies to the situation commands".

From the above statements, interviewees believe that there is no one-size-fits-all strategy or strategic style to be adopted by SMEs in Zimbabwe. However, the majority seem to agree that they adopt cost leadership to remain adaptive in the face of a challenging business environment. Critically, most of the interviewees indicated that a hybrid portfolio of strategies could create a competitive edge to SMEs depending upon several factors, for instance, the different scenarios SMEs could be finding themselves in and or the stage in their lifecycle.

6.8.2.7 Strategy formulation and financial performance

The fifth and most important section aimed at ascertaining the impact of strategy formulation on financial performance. The following are some of the results of the survey.

P6:

"In general strategy formulation enhances the financial performance. Revenue and profits rise as the organisations carry out strategy formulation".

P14:

"Yes. Strategy formulation enhances financial performance of our business. Sales revenue, profits as well as cash flows have greatly improved".

P13:

"Yes. Strategy formulation enhances financial performance of our business. Sales revenue, profits. However cash flow in this current scenario in Zimbabwe is bad".

P9:

"Yes. Strategy formulation allows the business not to waste its resources on not carefully planned investments. Hence planning brings more money into the business".

P2:

"Yes. I think it doesn't necessarily bring money but only helps to position the business".

There was agreement among the study participants that strategy formulation helps to enhance the financial performance of firms. The findings indicate that strategy formulation is a key issue in their effort to survive and grow and consequently enhance corporate financial performance. Most of the participants mentioned enhanced sales revenue and profitability as immediate results of strategy making.

These findings explain the fact that small and medium firms that are engaged in strategic planning can perform significantly higher than those which do not. The overall consensus was one of the agreements; participants indicated strategy formulation creates breakthrough strategies that help boost sales revenue and profits. Some participants went further to point out that strategy formulation creates a competitive advantage for the SMEs. The next section looks at the strategy formulation approaches and financial performance.

6.8.2.8 Strategy formulation approaches and financial performance

One of the study objectives was to establish the impact of the strategy formulation approaches on the financial performance of the manufacturing SMEs. Hence, interviewees were asked to assess the effectiveness of their approaches to financial performance. The interviewees had this to say:

P2:

"With emergent approach to strategy making, our business has been able to respond to changes in the external business circumstances allowing us to make money…… Our sales and profits have been constantly high… not only that we have had better cash-flows and an enhanced return on capital"

P4:

"We used to employ the planned approach to strategy making of late it was rigid and could not at times offer what was expected as we tried to stick to the book… However since we adopted emergent approach things have been good…. improved financial performance that is apart from sales revenue, net profits, return on capital and growth in sales and profits as well".

P10:

"We have adopted planned approach….and this approach has enabled the company to be amongst the top achievers in the industry as evidenced by high financial returns. The high performance could be due to the fact that our business has been managed professionally and plans and strategies reviewed and updated periodically".

The results reported that the majority of SMEs tend to apply the emergent approach as it allows them to be flexible. The reason for them to adopt a descriptive approach is that it enhances their responsiveness to the changing business environment. This style has improved financial performance since firms can supply what customers need in time.

The study participants agreed that flexible style allows a company to remain relevant as things change, allowing companies to make more money. However, one participant maintained that a planned approach has enabled their company to be amongst the high performers as management and operations are professionalised.

6.8.2.9 Business strategies and financial performance

This heading is extracted from the seventh section of the interview schedule. All the respondents indicated that the formulation of business strategies enhances a firm's financial performance. The participants had this to say about their specific strategies about their financial performance: P1:

"As a result of employing the cost strategy we have been able to enhance our financial performance…..sales and profits to be particular have been on the rising trend as our prices are competitive".

P7:

"We have adopted the hybrid strategy and has been so responsive to consumer needs and preferences and managed to satisfy almost all of our customers"

P8:

"Our financial performance has been good with the adoption of cost leadership strategy….. With sales revenue and cash-flows topping the list. I think this has been due to our everyday low prices".

P4:

"We have had to apply both differentiation and cost leadership….There has been a good record of financial performance as we try by all means possible to be different and at the same time minimising on our costs".

The majority of the participants indicated that cost leadership is directly and positively related to financial performance. In other words, the study results point to the fact that of all the four strategies, cost leadership enhances the financial performance of SMEs. In some other instances, a hybrid strategy would enhance sales revenue but might waste resources consequently as the firm tries to become a jack of all the three strategies.

Improved financial performance in those firms that adopted cost leadership is as a result of the fact that they can charge premium prices with value remaining unchanged. Thus, many SMEs end up choosing overall cost leadership as a strategy of choice because they are already resource strained so would want to cut costs as possible to grow and perform better. Focus and differentiation, according to the findings have been said to be wasteful in the short run and failing to enhance sales and profits as the products become more expensive as compared to rivals.

6.9 COMPARISON OF QUALITATIVE AND QUANTITATIVE DATA

This section aims at making a comparison of the quantitative results and qualitative results of this study. The comparison was guided by the research objectives.

6.9.1 The extent of strategy formulation in SMEs

The analysis of both the quantitative and qualitative data revealed that SMEs in Zimbabwe practice strategy formulation in their management. With the quantitative study, it was established that all the strategy formulation activities are conducted by SMEs in Zimbabwe. However, the results of the qualitative study revealed some interesting realities on SMEs' strategy formulation: strategy formulation is not the role of everyone; strategy formulation follows the vision of the owner; strategy formulation in SMEs is informal and not done faithfully.

6.9.2 Strategy formulation approaches adopted by SMEs

The quantitative results established that the majority of SMEs adopt the emergent approach to strategy formulation. The results emphasised that their strategy-making process does not follow a particular process. These results were validated by the qualitative phase of the study. The interview results indicated that SMEs adopt more informal and less rational strategies as they constantly seek to capture opportunities. Furthermore, due to the ever-changing environment, many SMEs adopt less deliberate plans and seem to develop their strategies from the way they do their things.

6.9.3 Strategy formulation and financial performance

Both the quantitative and qualitative results indicated that, indeed, both short term and long term financial performance are enhanced by strategy formulation. However, the qualitative results indicated that informal strategy making enhances short term financial performance, while long term formal strategy making enhances long term financial performance of SMEs.

6.9.4 Strategy formulation approaches and financial performance.

The quantitative results indicated that there is a weak and negative relationship between the planned approach to strategy making and short term financial performance while there is a strong positive relationship between the emergent approaches to strategy formulation and short term financial performance. However, in the long term financial performance the results indicated that there is a strong positive relationship between the planned approach and long term financial performance of SMEs. However, with the emergent approach, there is a moderately positive relationship with long term financial performance. The qualitative phase found the same results, however, the participants emphasised that emergent strategising as it is commonly employed by SMEs in Zimbabwe enhances both short and long term financial performance.

6.9.5 Business strategies and financial performance

The quantitative results indicated that both overall cost leadership and differentiation had a strong and positive impact on the financial performance of SMEs. However, the focus had no favourable impact on the financial performance of the businesses it had a very weak but positive relationship with both short and long term financial performance. These results were confirmed by the qualitative results. The qualitative results revealed that cost leadership, as the commonly used strategy, has a direct and positive relationship with both short term and long term financial performance. It was also revealed from the

qualitative results that strategies such as focus and differentiation had no comparable effects on financial performance of SMEs.

6.10 CHAPTER SUMMARY

Chapter six presented both the quantitative and qualitative data from the two phases of the study. Quantitative data were analysed using both descriptive and inferential statistics. The demographic descriptive statistics were presented first and then followed by the testing of correlations between study constructs and the analysis of predictive independent variables on dependent variables. Qualitative content analysis was conducted for the qualitative data from interviews. Lastly, the chapter presented the comparison of qualitative data and the quantitative data to validate or confirm the results of the study phases.

CHAPTER SEVEN

DISCUSSION OF FINDINGS

7.1 INTRODUCTION

The previous chapter presented a detailed presentation, analysis, and interpretation of the results of the study. This chapter focusses on discussing the results of the study. The chapter discusses the study findings in line with the existing literature to establish the extent to which the reported findings link with the findings reported in the previous studies or theories on strategy formulation. Demographic data are discussed first followed by the discussion of research results in the order of research objectives. The chapter wraps up with a summary of the chapter.

7.2 DEMOGRAPHIC PROFILE DISCUSSION

7.2.1 Profile of respondents

The study results indicate that males (55.0 %) participated more than women (45.0 %). The study carried out in Botswana by Majama and Magang (2017) also indicated that there are more males (80.6 %) than females (19.4 %). The minority of female business owners, as evident in the findings of this study, is consistent with the findings of Derera (2015) who also justifies that women in business are few due to limited access to capital.

Regarding age distribution amongst respondents, the results revealed that the majority (58.8 %) of the respondents are aged between 32 and 53. Ntiamoah *et al.* (2014) conducted a similar study in Ghana and found out that 59.0 % of their respondents were aged between 31 and 50. Mhizha (2014) explains that these economically active people would want to raise their standard of living through operating small businesses as formal employment opportunities in Zimbabwe have shrunk. However, the results of the study reveal that generally SMEs in Zimbabwe is owned and operated by persons of all ages.

The results of the study also showed that 65.0 % of the respondents had at least a diploma, evidence of a high degree of literacy. Thus, the results indicate that most of the entrepreneurs in Harare have formal tertiary education, which assists them in managing their ventures (Tinarwo, 2016). These findings complement the general literacy rate of Zimbabwe currently pegged at 92.0 % (UNDP, 2010 cited in Mbengo, 2016).

In this study, more owners (60.9 %) participated than managing directors (39.1 %). The results of this study are consistent with Bomani (2017) whose study revealed that 82.0 % of SMEs in Harare are run

by owners while 18.0 % are run by appointed managing directors. In South Africa, Sami (2016) found out that the majority of study participants (67.0 %) were owners while the minority (33.0 %) were managing directors. This may indicate that SME owners in Harare opt to be actively involved in the operations of their enterprises.

7.2.2 SMEs characteristics

In this study, the majority (88.2 %) of the sampled enterprises had less than 10 years in existence. In a similar study of SMEs in Harare, Bomani (2017) found out that 90.0 % of SMEs had less than 10 years in their business. This is an indication that most SMEs in Harare are young and still in their infant stage of development (Bomani, 2017). These findings are validated by Chingwaru (2014) who notes that most of the SMEs in Harare are relatively young enterprises. Also in South Africa, Fiseha and Oyelana (2015) discovered that 86.7 % of the sampled firms had less than 10 years in existence.

The results of the study revealed that 97.6 % of the surveyed enterprises employ between 5 and 20 employees while none employed between 41 and 75 employees. In Botswana, Majama, and Magang (2017) found out that the majority of SMEs do employ less than 25 employees. These findings are a reflection that generally SMEs cannot employ permanent employees (Nyamwanza, 2015).

The study results revealed that the majority of manufacturing SMEs in Harare (31.5 %) are in the wood and furniture sector. This validates the assertion by SMEAZ (2017) that most of the SMEs in Harare are involved in furniture making. Kativhu (2018) concurs and adds that the wood and furniture sector of SMEs had improved capacity from 45.0 % to 70.0 %.

According to Trainor *et al.* (2011), sales turnover assists in measuring the impact of adopting marketing strategies on an SME firm's performance. In this study, it was discovered that the majority of the participating firms (68.5 %) had an annual turnover of less than $2 000 000. These findings are evidence that most manufacturing small enterprises are small.

7.3 DISCUSSION OF RESEARCH OBJECTIVES

This section discussed the study results according to the research's key research objectives. The aim was to address the study research questions.

7.3.1 Research Objective One: SME strategy formulation

The first objective sought to determine the extent to which manufacturing SMEs in Harare, Zimbabwe have adopted strategy formulation. Five strategy development activities were considered in this study. These activities were identified in various country-specific studies and global studies as being practiced

during strategy formulation, for instance, in Zimbabwe (Sandada, 2015), Nigeria (Monday *et al.,* 2015), South Africa (Adendorff *et al.,* 2011), Ireland (Germanos, 2012), USA (Fathi *et al*., 2017).

The analysis of results showed that strategy formulation has been widely adopted by manufacturing SMEs in Harare. This conclusion was reached as 65.7 % of these enterprises reported being engaged in strategy formulation to some extent. Qualitative insights showed that the majority of the interview participants had an understanding of the process of strategy formulation as they highlighted critical aspects such as the matching of internal resources, the development of plans, goals, and objectives.

Thus, the findings revealed that strategy formulation is predominantly associated with plan-making. These results dismiss the allegations by Magaisa *et al.* (2013) that manufacturing SMEs in Zimbabwe are not engaged in strategy formulation as their study findings revealed that strategic management approaches and techniques are not in full operation in these enterprises. The findings of this study are, therefore, unique and new in Zimbabwe, a developing country, hence contribute to the existing body of knowledge.

However, the findings of this study resonate well with other studies in the developed world. In their study of strategic process approaches of SMEs in Australia, Wiesner and Millett (2012) found out that 66.7% of SMEs are involved in strategy formulation. Kraus *et al.* (2007) observed that SMEs are engaged in strategy development, however, the level of formality differs from large and well-established enterprises. In a study of strategic management practices in Chinese manufacturing SMEs, Chen and Liu (2012) found out that regarding strategy formulation, 73.0 % of the investigated SMEs have well-established business planning systems.

Strategy formulation has been observed to be on the rise in various parts of the world in SMEs (Sandada, 2015). For instance, a study by Neneh and Van Zyl (2012) in South Africa indicated that about 53.0 % of SMEs engage in strategic planning practices to enhance their survival. Sandada and Chikwama (2016) posit that the high failure rate amongst SMEs has been attributed to a lack of strategic planning. Thus, the results of this study suggest that manufacturing SMEs in Zimbabwe are now able to achieve their potential of sustained growth and survival since they embrace strategy formulation.

The high extent of strategy formulation in SMEs in Harare can be attributed to environmental dynamism (Simba & Nyandoro, 2016). Sandada and Chikwama (2016) in their study of drivers of strategic planning in Zimbabwean SMEs found out that environmental dynamism positively influences the adoption of strategic planning [$\beta = 0.195$, $p<0.05$ ($p=0.009$)]. Thus, cognisant of the prevailing volatile and chaotic business environment, strategy formulation plays in the growth of SMEs in Zimbabwe Nyamwanza (2015).

Interesting to note is that strategy formulation was witnessed in all the five manufacturing sectors of the SMEs in Harare. This implies that strategy formulation is not sector-specific. These findings validate the findings of Hin *et al.* (2013) whose study discovered that strategic planning in Malaysian SMEs is done across all SMEs despite the nature of business.

A discussion on the findings of each of the strategy formulation activities is presented in the following section.

Step 1: Development of the strategy purpose

The first step in strategy formulation is the development of the strategic purpose. Thus, respondents were requested to give their level of agreement as to whether they are involved in setting the strategy purpose. The results of the study revealed that 66.2 % of the SMEs in Harare indicated that they have well-articulated vision and mission statements. These results validate the findings of Sandada (2015) whose study of strategic planning dimensions of SMEs in Zimbabwe found high factor loadings (with a variance of 7.24 %) on vision and mission statements implying a high presence of these strategic documents.

In a study conducted in South Africa, Tseka (2018) discovered that the majority of SMEs (70.1 %) emphasise upon the establishment of the mission and vision statements. George *et al.* (2012) assert that the mission and vision set out a company's long-term goals and aspirations clearly and briefly, thus, provides a picture of where the organization is heading.

However, the findings indicated that the strategic purpose is normally not communicated to everyone (M = 3.42±SD = 0.913). These results imply that the respondents expect employees not to be so conversant with the vision of the manager/founder. These findings resonate well with the assertion made by Nyamwanza (2015) that SMEs owners/managers in most cases do not communicate the mission and vision to their employees. However, Analoui & Karami (2003: 114) cited in Adendorff *et al.* (2011) does not support these findings as they believe that the strategic purpose should be communicated to all stakeholders.

Step 2: Establishing strategy objectives

According to Analoui & Karami (2003: 122), specifying strategic objectives is the second step in strategy formulation. The results of the study indicated that 63.6 % of the participating enterprises agreed that they are engaged in setting objectives during their strategy development process. In a similar study conducted in South Africa, Tseka (2018) found out that small businesses put moderate (18.2 %) and considerate (46.5 %) emphasis on long term objectives, and moderate (21%) to considerate (56.6%)

on short term objectives. Dess, Lumpkin & Eisner (2010) posit that strategic objectives (both long term and short term) guide how the enterprises fulfill their strategic purpose.

Interesting to note was that the objectives are not communicated to everyone in the organisation (M = 2.962±SD = 1.367). These results are validated by Majama and Magang (2017) who discovered that only top management in SMEs knows what the company wants to achieve while all other employees are in darkness. Wang *et al.* (2017) argue that reluctance to share strategic information with stakeholders negatively affects strategy planning in small firms. Nyamwanza (2015) concurs and adds that, consequently, the strategic orientation in SMEs is a replica of the owner's vision and ambitions.

Step 3: Environmental scanning

In this study, 66.0 % confirmed that they involve themselves in scanning their environments and the majority agreed that they analyse their industry before formulating their strategies (M= 3.834±SD = 0.838). These results imply that in today's uncertain and turbulent environment, scanning the business environment becomes mandatory in strategy formulation. Nyamwanza (2015) acknowledges that during their interaction with the environment SMEs in Zimbabwe discover opportunities and drive their organisation in new directions.

In a similar study in South Africa, Musandiwa (2014) discovered that 56.3 % are involved in formal environmental scanning as they have officeholders specifically for that. Musandiwa's (2014) study revealed that both internal and external environmental scanning is important to tax operators in Gauteng province, South Africa. Strategic management literature shows that environment scanning is important as it enables firms to note their strengths, weaknesses, opportunities, and strengths (Gabriela, 2012:410). In a study aimed at understanding environmental scanning in manufacturing SMEs in Botswana, Jorosi (2008) confirmed that environmental audit allows SMEs to make informed decisions. In a similar study of the strategic management practices of Chinese manufacturing SMEs, one participant pointed out that managers in the Chinese manufacturing SMEs see environmental scanning as an important element to strategy formulation, however, they prefer informal ways of collecting information (Chen & Liu, 2012).

Step 4: Integration of internal and external data

The findings of the study show that 69.7 % indicated that they agreed to the integration of data from both external and internal sources whilst formulating their strategies. This implies that after scanning the environment for factors affecting the operations of their business, they carefully integrate data to formulate their strategies. According to Helms *et al.* (2011:271), successful strategy formulation requires firms to integrate both external and internal data.

In a similar study, Musandiwa (2014) established that taxi association in South Africa consider both external and internal data in formulating their strategies (M=4.46, SD=0.335). Isaack and Muathe (2017) in their study conducted in Kenya, Nairobi concluded that that the ability of firms to make a SWOT analysis of themselves enables them to develop appropriate strategies. It was also discovered that strategy making is a result of many forces acting on firms (M = 3.478±SD = 1.182). These results are a testimony that, indeed, SMEs in Zimbabwe practice environmental scanning and ultimately use the results of the environmental audit in strategy development.

Step 5: Strategy analysis and choice

The results indicated that 62.7 % of the respondents indicated that they are involved in analysing alternative strategies and making the final choice. According to Djordjević and Drucker (2014), it is important to analyse every option that SMEs have so that strategies are well chosen for implementation. Hence, the findings of the study validate the disposition of literature. In a study of SME strategic management practices in Kenya, Okwachi, Gakure, and Ragui (2013) established that virtually all SMEs in Kenya contends that strategy analysis and choice plays an important role in strategy formulation, hence they argue that effective choice of strategy produces market and financial breakthroughs for firms.

The results of the study further illustrated that strategy is not the responsibility of everyone (M = 3.239±SD = 0.966); implying that SMEs owner/managers in Zimbabwe do not consider everyone in the selection of their ultimate strategies. Goel and Tuominen (2012:9) claim that participation by everyone in strategy making is important in business. The results of the study seem, however, to validate the findings by Amurle and Gakure (2013) who acknowledge that, indeed, strategy selection in SMEs is the sole responsibility of top managers or the owner in most cases.

It was also established that SME strategies are based on the vision of the founder (M = 4.059±SD = 0.764). The ownership or source of the vision is also critical in strategy formulation. In SMEs, the vision resides in the owner and not in the team (Sandada & Chikwama, 2016). This implies that most of the strategies are shaped by the owner's business philosophy. This validates Nyamwanza (2015)'s belief that most strategic planning in SMEs is anchored by the owner's motivations and targets. Furthermore, the results of the study support the fact that many of the traditional small businesses in Zimbabwe are anchored on social visions, which emphasise the welfare of the owner and/or the family, hence, the social visioning (Sandada, 2015; Nyamwanza, 2015; Simba & Nyandoro, 2016).

The qualitative insights showed that although the majority of manufacturing SMEs in Zimbabwe appreciate the role played by strategy making in their enterprises, the process of strategy making in most cases can be described as mere adjustments and reconditioning to the ever-changing business

environment. This validates the study findings of Mufudza *et al*. (2013) who claim that strategic management in SMEs is normally from an informal fashion-centered on the owner who holds multiple functions.

The findings from the qualitative study showed that both the market forces and the resources embodied by the firm are important in strategy making. These findings validate the assertion by Bekele (2018) that when formulating strategies, the two perspectives should complement each other, thus, allowing a more balanced view. These findings point to the fact that the strategy formulation of SMEs in Zimbabwe is guided by the two theoretical streams, the MBV and the RBV. These findings are unique and add to the existing body of knowledge.

7.3.2 Research Objective Two: SME strategy formulation approaches

The second objective of the study was to identify the strategy formulation approaches employed by manufacturing SMEs in Harare, Zimbabwe. The study results indicated that the majority (63.7 %) adopted the emergent approach while the minority (36.3 %) disclosed that they adopted the planned approach. The results of the t-test also revealed that there is a significant difference between the two approaches (p-value less than 0.05) implying that most manufacturing SMEs in Harare, Zimbabwe prefer the emergent approach to the planned approach (mean value 25.37>14.53). The qualitative insights also confirm that manufacturing SMEs in Harare, Zimbabwe prefer and employ more emergent approaches to strategy formulation.

These results imply that the majority of SMEs believe that strategy making is articulated by facilitating "a particular way of thinking" which emphasises learning and creativity (Mintzberg, 2005). Furthermore, these results are evidence that SMEs in Harare reveal a lower degree of formal strategic planning. The unstable and complex business environment in Zimbabwe means that strategies cannot be planned or specified well in advance (Hamel & Prahalad, 2005:15). Thus, it is not surprising that the majority of the manufacturing SMEs in Harare, Zimbabwe adopt the emergent approach to strategy making.

The results are in agreement and consistent with earlier studies. In their study of the strategy practices of small businesses in Germany, Menzel and Günther (2012) observed that SMEs adopt more adaptive, emergent approaches in strategy formulation. In Kenya, Nairobi, Kiruja (2011) surveyed to examine strategic management practices in small and medium enterprises. The study revealed that SMEs did not have any formal or well thought out strategic management structures or mechanisms.

An almost identical picture shows up in China, where Chen and Liu (2012) surveyed 15 SMEs and discovered that planning was informally done in simpler patterns that could not fit the strategic planning

conceptual models. All these findings validate the assertion made by Herter (1995) that through informal planning, firms move from the "dream world" into the "real world". According to Kraus *et al.* (2009), strategy development in SMEs still seems to take place, to a large extent, intuitively (31.0 %) or due to experience (88.0 %).

The results also revealed that 86.0 % of the respondent agreed that their 'strategy-making process does not follow a particular order' (M=4.77±SD=0.647). These results imply that the respondents do not have a well-documented strategy process, in the form of well-articulated plans and long term objectives. Mintzberg (1994) claims that in SMEs, strategy formulation is frequently a less prescribed and planned process and strategies emerge as a cumulative pattern of actions that are only retrospectively rationalised.

Al-Majali & Sunna'a (2013) concur and add that in today's world characterised by rapid changes and rapid technological developments and strong competition, SMEs need to be able to move beyond the current reality to grow and ultimately realise their goals. Hence, in the actual process of decision-making in SMEs in Harare, Zimbabwe can be observed in reality to deviate substantially from the ideal picture of rationality (Sandada & Chikwama, 2016).

The results indicate that only 36.3 % adopt a more planned and rational approach to strategy development. This finding is correlated well with the observation that 83.0 % of these respondents indicated their strategy-making follows a particular process (M=4.42±SD=0.746). These results imply that the more SMEs adopt a planned approach the need for them to follow the strategy formulation process as prescribed by literature (Musandiwa, 2014). This is a surprising result given the highly volatile, complex, and unstable business environment in Zimbabwe.

An identical situation prevails in South Africa, Eastern Cape, Adendorff *et al.* (2011) conducted a study to examine the strategic management practices among construction SMEs and discovered that SMEs adopt a more rational planning approach to strategy making. Bozkurt and Kalkan (2013) in their study of Turkish SMEs concluded that SMEs adopt more planned strategies than emergent strategies.

There are two reasons why SMEs adopt more rational and systematic planning practices. Firstly, these SMEs could have been founded and currently being operated by educated and professional people who know the importance of carefully planned strategies. Thus, in their study of Australian SMEs, Gibson, and Cassar (2002) observed that SMEs leaders with university degrees plan more formally than others. Secondly, the environment in which they operate is almost stable. Adendorff *et al.* (2011) concluded that SMEs that rationally plan in stable environments outperform others.

These results validate the assertion by Kraus *et al.* (2009) that a 'conscious or formal strategic process, however, mostly takes place in the head of a very limited number of employees'. This implies that while

the majority of SMEs in Harare adopt the emergent approach to formulating their strategies, a few believe that strategies should be carefully made. Interestingly to note is that the results of the study validate the belief that the formal planning approach is still a sanctuary of larger and more established organisations who have all that it takes to systematically plan. Furthermore, the results of the study validate the assertion by Elshamly (2013) that SMEs are short-sighted in their thinking, hence, a deliberate approach to strategy making may not be effective in SME strategy formulation (Mintzberg *et al.*, 2009:12).

7.2.3 Research Objective Three: Strategy formulation and financial performance

The findings of the study revealed that strategy formulation is positively and strongly connected to both short term and long term financial performance in manufacturing SMEs ($r=0.783$, $r=0.817$). Also, the results of the multiple regression analysis showed that there is a statistically significant and positive relationship between strategy formulation and financial performance of manufacturing in Harare ($\beta=0.658$, $t=3.923$, $p<0.05$). The qualitative results also confirmed that manufacturing SMEs in Harare, Zimbabwe who engage in strategy making perform financially well. These results imply that strategy formulation is a veritable vehicle for improving a firm's financial performance.

The findings of the study are consistent with some previous investigations available in the literature (for example, Wijetunga, 2013; Chavunduka *et al.* 2014; Monday *et al*. 2015). In South Africa, Gomera, Chinyamurindi, and Mishi (2018) investigated the relationship between strategy formulation and financial performance of South African SMEs in the Buffalo City Metropolitan and found out that strategy formulation and financial performance were positively and strongly related ($r=0.629$). Similarly, Andalya (2013) study established that there is a positive relationship between strategy formulation and the performance of manufacturing SMMEs in Nigeria.

Hakimpoor (2014) believes that organisations that have a strategy formulation process in place performed better than those that have no strategy formulation procedures. Dubilihla and Sandada (2014) in a study of a small business in South Africa found out that strategic planning and performance were positively related. However, Langat and Auka's (2015) study of Nigerian SMEs established that strategy formulation and a firm's performance are weakly and positively correlated ($r =0.140$, $p<0.05$).

The findings of the study validate the claim by Thompson *et al.* (2016:17) that "the essence of good strategy making is to build a market position strong enough and an organization capable enough to produce successful performance despite unforeseeable events, potent competition and internal difficulties". This implies that organisations which engage in strategy making can compete in their markets and are successful.

Based on the findings of this main research objective and a thorough review of the literature (for example Chavunduka *et al.,* 2014; Hakimpoor, 2014; Dubilihla & Sandada, 2014); Pangarkar, 2015; Monday *et al.,* 2015), the study, thus, concludes that strategy formulation is of great importance to the financial performance of organisations especially SMEs in Zimbabwe.

7.2.4 Research Objective Four: Strategy formulation approaches and financial performance

The study revealed that the planned strategic approach does not enhance short term financial performance while the emergent strategy approach enhances short term financial performance (r=-0.262, r=0.827 respectively). The study revealed that the planned strategic approach does not enhance short term financial performance while the emergent strategy approach enhances short term financial performance. However, both planned and emergent approaches influence positively the long term financial performance of small and medium enterprises (r=0.709, 0.433 respectively). Overall, the results of multiple regression analysis showed that the planned approach has a negative relationship with financial performance (β=-0.086, t=-1.232, p>0.05), while the emergent approach to strategy formulation has a statistically strong and positive relationship with financial performance (β=0.626, t=3.760, p<0.05).

These results indicate that SMEs who adopt the emergent approach to strategising are more likely to have more financial returns as compared to those adopting the planned approach. The results of the qualitative insights confirm the quantitative findings as most of the study participants indicated that the emergent strategy making enhances the financial performance over both the short term and long term.

These results are consistent with earlier studies on the effect of strategy formulation approaches on financial performance. A study conducted by French *et al*. (2004) established a strong and positive connection between growth in net profit and the emergent approach to strategy formulation as planners fail to take a holistic view of the firm. However, Frederickson and Mitchell (1984) cited in Germanos (2012) discovered no relationship between those SMEs who adopt formal and rational planning and financial performance.

Similarly, Van Gelderen *et al.* (2000) cited in Khan Khalique (2014) found that formal strategy formulation leads to improved financial performance while descriptive and emergent strategy formulation approaches lead to poor financial performance. In New Zealand, Verreynne (2006) found that SMEs who use the emergent and individualist approach to strategy had a strong and positive relationship with the firms' financial performance. These results are in agreement with Lumpkin and Dess (1995) cited in Toyin *et al*. (2016) who suggest that an emergent approach to strategy is particularly suitable for SMEs in enhancing their financial returns.

These results are inconsistent with an earlier study by Germanos (2012) who found no correlation between short term financial objectives and the normative/descriptive dimension as investigated using the Pearson correlation coefficient. Harshim (2016) claims that firms adopting a more descriptive approach in strategising are much concerned with the reality and more responsive to changes in their immediate environment, hence, they can perform better than those employing a more deliberate approach to planning.

The results of correlation analysis seem to suggest that the emergent strategy formulation in SMEs enhances both short-term and long term financial performance while the planned approach only enhances the long term financial performance of SMEs. Thus, based on these observations, this research brings an additional contribution to the study of strategy formulation fora in Zimbabwe, in that the study reveals that emergent strategising in SMEs, yields more favourable financial performance results over both long and short term periods. These results are unique, new, in a developing economy. It is the first of its kind in SMEs strategy making context in a less developed world set-up such as Zimbabwe.

7.3.5 Research Objective Five: Business strategies and financial performance in SMEs

The study investigated the business strategies adopted by manufacturing SMEs in Harare, Zimbabwe. It was revealed that manufacturing SMEs in Harare, Zimbabwe embrace combined strategies. In the qualitative data analysis, most of the participants from the selected manufacturing enterprises and MSMECD indicated that the manufacturing SMEs in Harare, Zimbabwe adopt the hybrid strategy than pure strategies, in most cases, as they adapt to changes. These results validate the work of Rukia (2015) which showed that SMEs employ all the three strategies for survival.

Earlier work by Spanos *et al.* (2004) also revealed that Greek manufacturing SMEs adopt hybrid strategies than pure strategies. Thus, manufacturing SMEs in Harare can maximize their adaptive capacity as they do not solely rely on cost-based or differentiation advantages (Miller & Dess, 1993; Parnell, 2000 cited in Leitner & Gu¨ldenberg, 2010).

The results of the study further showed that of all the three adopted strategies cost leadership strategy is widely and often used by many SMEs (84.1 %) with the highest score (M = 4.18±SD = 0.685). This implies that most SMEs in Harare emphasise cost-cutting to compete effectively. Haapanen *et al.* (2014) observed that 64.0 % of SMEs in Australia aim to reduce development and operational costs. In a similar study in Kenya, Chege (2016) found out that the majority of the SMEs adopt cost leadership strategy to enable them to defend their market share from competitors. Thus, with the high cost of living in Zimbabwe, customers would not worry much about differentiation or SMEs focus on a particular niche rather concentrate upon lowering operational costs to charge competitive prices.

In comparison, the study results revealed that the focus strategy had the least score rating (M = 2.67±SD = 1.088). This implies that not often, manufacturing SMEs in Harare adopt this strategy. This, they argue is wasteful and customers in Zimbabwe are promiscuous, hence, not wise to employ a niche strategy (Nyamwanza, 2015). Mhizha (2014) further claims that most of these manufacturing SMEs in Zimbabwe are not big enough to deploy resources to particular segments like what big firms can do.

The results of the study established that all these strategies, cost leadership, differentiation, and focus strategy positively affect the long and short term financial performance of manufacturing SMEs in Harare, Zimbabwe. The following section discusses the findings of the study regarding the impact of business strategies on the financial performance of manufacturing SMEs in Harare, Zimbabwe.

Cost leadership and financial performance

The results of the study revealed that there is a moderate positive relationship between cost leadership and short financial performance (r=0.453, p-value=0.004) and 20.5 % of the firm's short term financial performance is due to cost leadership strategy (R squared=0.205). It was also established that cost leadership strategy and long term financial performance of manufacturing SMEs in Harare, Zimbabwe is strongly and positively related (r=0.721, p-value=0.004). The findings also indicate that in the long run, 58.6 % of the manufacturing SMEs' long term financial performance is due to cost leadership strategy (R squared= 0.586). The results of multiple regression analysis showed a positive and statistically significant relationship between cost leadership and the overall firm financial performance of SMEs in Zimbabwe (β=0.573, t=3.07, p<0.05). The qualitative findings also found support for these results.

These findings imply that a unit increase of cost leadership strategy strongly increases the long term financial performance of manufacturing SMEs in Harare while performance is moderately increased in the short run. Anderson (2014) claims that cost leaders can make a little bit of profit from each of a large number of customers which means that the total profits of cost leaders can be substantial ultimately.

These results are consistent with earlier studies on the effect of cost leadership on firm performance. In Kenya, Rukia investigated the influence of competitive strategies on a firm’s performance and found a positive but weak correlation between cost leadership and firm performance (r=0.253, p-value=0.004). Uchegbulam *et al.* (2015) accepted the hypothesis that cost leadership had a significant positive effect on sales growth (H2: β=0.343 t = 5.407, p ≤ 0.01). Gure and Karugu (2018) established that a unit improvement in low-cost leadership strategy leads to a 65.5 increase in the financial performance of the SMEs in Nairobi, Kenya. Because of these results, manufacturing SMEs in Harare will need to adopt cost leadership in the long run so that they enhance their financial performance.

The results of the study reveal that the cost leadership strategy's impact on financial performance differs from short term to long term periods. The findings point out that if applied consistently for a long period, cost leadership strongly and positively affects the financial performance of manufacturing SMEs (r=0.721) as compared to the short term (r=0.453). This implies that the long term application of cost leadership leads to a positive consumer attitude that results in increased financial performance. This could help SMEs in Zimbabwe as most of them are short-sighted and merely survivalists (Nyamwanza, 2015; Mufudza et al., 2013). Thus, based on this argument, this study brings a new and interesting contribution to the strategic management fora in that hardly any studies have investigated the financial performance impact of business strategies over long periods (Leitner & Gu¨ldenberg, 2010). Hence, this is a unique contribution.

Differentiation strategy and financial Performance

The findings of the study indicated that there is a moderate positive relationship between differentiation and short financial performance (r=0.432, p-value=0.004), and 18.7 % of SME's short term financial performance is due to differentiation (R squared=0.187). It was also established that differentiation strategy and long term financial performance of manufacturing SMEs in Harare, Zimbabwe is positively but weakly related (r=0.172, p-value=0.004). The results also indicate that in the long run, only 3.0 % of the manufacturing SMEs' long term financial performance is due to differentiation strategy (R squared= 0.030). The results of the multiple regression analysis showed that there is a positive and statistically significant relationship between differentiation strategy and overall financial performance of SMEs in Zimbabwe (β=0.473, t=3.756, p<0.05).

Given these findings, manufacturing SMEs will need not need to be concerned more with producing and offering highly differentiated products over long periods as they will not enhance their financial performance. The qualitative results also indicate that differentiation strategies enhance the financial performance of manufacturing SMEs. For example, one enterpriser indicated that we have had to apply differentiation to enhance our sales growth and profitability.

These results are comparable with earlier studies. Gure and Karugu (2018) found that there exists a strong and positive relationship between differentiation strategy and firm performance in Kenyan SMEs (r=0.876, p-value=0.004). In a similar study of competitive strategies and firm performance in Kenya, it was established that there is a positive significant relationship between differentiation strategy and manufacturing firm performance (β=0.48 and p-value<0.001) (Rukia, 2015). In Nigeria, Uchegbulam *et al.* (2015) accepted the hypothesis that better quality products have a positive impact on returns on investment (β=0.546 t = 6.322, $p \leq 0.01$). The regression results by Buul and Omundi (2017) also revealed a positive and significant influence of differentiation on SME performance (β=0.363, p-value<0.019).

Likewise, the results of the study reveal that the differentiation strategy's effect on financial performance differs over time. The findings seem to suggest that differentiation, as a strategy in manufacturing SMEs, can only favourably enhance financial performance in the short run while its application over longer periods may not yield any favourable results.

Thus, based on this argument, this study brings another new and unique contribution to the study of strategic management fora especially in Zimbabwe, in that the study reveals that differentiation strategy in SMEs, yields less favorable financial performance results over long term periods as compared to short periods. Thus, because SMEs are faced with resource challenges, they may not need to adopt differentiation over extended periods.

Focus strategy and financial Performance

The findings of the study indicated that there is a weak positive relationship between focus strategy and short term financial performance ($r=0.231$, p-value=0.004) and 5.3 % of SME's short term financial performance is due to differentiation (R squared=0.053). It was also established that the focus strategy and long term financial performance of manufacturing SMEs in Harare, Zimbabwe is also positively but weakly related ($r=0.133$, p-value=0.004) and in the long run, only 2.2 % of the manufacturing SMEs's long term financial performance is due to focus strategy (R squared= 0.022). The results of the multiple regression analysis suggest a weak positive connection between focus strategy overall firm financial performance of SMEs in Zimbabwe ($\beta=0.215$, $t=3.001$, $p<0.05$).

The qualitative data analysis indicated that focus strategy is not all the effects of enhancing financial performance. These results imply that focus strategy as compared to the other two strategies gives the least financial performance results in manufacturing SMEs in Harare, Zimbabwe. Given these results, these enterprises need to apply a focus strategy sporadically.

These results are consistent with other previous studies. In Kenya, Rukia (2015) observed a positive significant relationship between focus strategy and firm performance ($\beta=0.306$ and p-value=0.005). Contrastingly, Gure, and Karugu (2018:25) discovered a strong and positive relationship between focus strategy and firm performance in Kenyan SMEs ($r=0.945$, p-value=0.004). These findings also corroborate those of Buul and Omundi (2017) who found a positive and significant relationship between focus and firm performance ($r=0.385$, a p-value of 0.001).

In comparing the study results and earlier studies, it can be noted that the results differ in terms of the strength of the relationship between focus strategy and financial performance. The other three studies were conducted in more stable economies where market segments are likely not to change over time (Porter, 2008:07). Thus, the results of the study indicated that the focus strategy produces the least financial returns (both on short term and long term circumstances) for the manufacturing SMEs in

Harare, Zimbabwe, a developing country. This could be the reason why most of the small firms do not always use this strategy. This finding, therefore, is unique and new in a developing country and, therefore, contributes to the body of knowledge.

The combined effect of business strategies and financial performance

The regression analysis results revealed that the independent variables (cost leadership, focus, and differentiation strategies) were found to explain 7.73 % of the variations in the financial performance of manufacturing SMEs in Harare (r=0.278, R squared= 0.0773). These results have been witnessed by other researchers. These results imply that, to a greater extent (92.2 %), other factors come into play in explaining the financial performance of manufacturing SMEs in Harare, Zimbabwe apart from the combined strategy. These findings are further validated by qualitative insights. These results are contrary to the researcher's expectations. The results of the study are not in line with those empirical studies (for example Parnell *et al.,* 2004; Spanos *et al*., 2004; Wu *et al.,* 2007; Leitner & Gu¨ldenberg, 2010) that observed that combination perform equally well than pure strategies. These studies indicated that those SMEs that adopt a hybrid strategy performed best in terms of long-term profitability.

These results are contrary to previous studies. In a study of SMEs in Nairobi City County, Gure, and Karugu (2018:26) observed a strong and positive relationship between hybrid strategy and firm performance (R=0.899, R square=0.851). In support of these findings, Bull and Omundi (2017:17) confirmed that, indeed, there is a strong and positive relationship between combined strategy and firm performance (r=0.677, p=0.458). Leitner & Gu¨ldenberg (2010) found out that SMEs employing combination strategy achieved higher performance levels for profitability (3.94 on average), turnover growth (6.65% average annual growth rate) than the no strategy group.

These findings do not validate the assertion by Wu *et al.* (2007) who propose that firms adopting a combination strategy achieve higher profits in any industry characterized by an economic downturn. In line with the research question, these results reveal that manufacturing SMEs will not be able to enhance their financial performance by adopting a hybrid strategy.

7.4 CHAPTER SUMMARY

This chapter discussed the results of the study presented and analysed in Chapter Six. The findings of the study were discussed together with the existing literature about strategy formulation in SMEs and its financial performance implications. The objectives of the study guided the discussion of the findings. The following chapter wraps up the research study and presents the study’s summary, conclusions, and lastly recommendations based on the findings of the study.

CHAPTER EIGHT

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

8.1 INTRODUCTION

This chapter provides the summary, conclusions, and recommendations from the study findings. The chapter commences by providing the general purpose and summary of the study, and then gives the conclusions drawn from the analysis of the findings. Subsequently, the recommendations proposed are presented. The chapter also presents the contribution of the study to both practice and body of knowledge; limitations of the study and areas for future research.

8.2 PURPOSE AND SUMMARY OF THE STUDY

The study aimed to establish the impact of strategy formulation on the financial performance of SMEs in Harare, Zimbabwe. Thus, the statement of the problem that guided this study, in brief, is that the financial performance of SMEs in Zimbabwe is so low to affect the growth of the sector and economy at large (Nyamwanza, 2015; Makanyeza & Dzvuke, 2016; Tinarwo, 2016). The Government of Zimbabwe has made significant and frantic efforts to assist SMEs to enhance their performance, but these efforts have significantly and dismally failed as most SMEs closed their businesses citing poor financial performance. Hence, the objective of the government for enhancing the growth and development of the SME sector has not been successful. Academics agree that the SME needs to do something other than relying upon government assistance programs (Bomani, 2017; Nyamwanza, 2015). SMEs need to chat their destiny through the formulation of appropriate strategies to enhance their performance (Nyamwanza, 2015; Mabenge *et al.*, 2020; Simba & Nyandoro, 2016).

An opportunity exists to improve the financial performance of SMEs through the creation of breakthrough strategies. The success of SMEs in Singapore, China, and other developed economies is credited upon the effective strategies they have formulated and adopted over their life. The issue is how strategies are formulated in developing countries and how they can effectively enhance the financial performance of SMEs. This background, therefore, guided the study towards the following main research question: **Can strategy formulation enhance the financial performance of manufacturing SMEs in Harare, Zimbabwe?**

The first chapter covered the background to the problem and the purpose of this study which was to investigate the impact of strategy formulation on the financial performance of SMEs in Harare, Zimbabwe. The chapter presents the research objectives and questions as well as the contribution made

by the study. Thus, Chapter One sets the tone of the research study. Chapter 2 presented an overview of the SMEs sector in Zimbabwe, that is, their nature, contributions, and challenges. An overview of the manufacturing sector of the SMEs in Zimbabwe is given. The chapter wraps up with a discussion of the institutions that the government of Zimbabwe set to assist the sector.

Chapter Three of the thesis reviewed the literature on strategy formulation in SMEs. This chapter laid a solid foundation on which subsequent chapters were built while identifying existing gaps. Chapter Four provided the theoretical framework of the study which is based on a strategy-performance relationship. Two theoretical streams were discussed, that is the market-based view and resource-based view. The chapter outlined the implications and limitations of the theory upon strategy formulation in particular, in SMEs. The chapter wrapped up by discussing the harmonisation of the two theoretical streams.

Chapter Five provided the research methodology and methods used to answer the research questions. Thus, the research philosophy that guided the study, the research strategies, and choices together with the population, and the sampling techniques adopted were discussed in this chapter. The chapter also discussed the research instruments, measurement scales, data quality strategies adopted, as well as the statistical tools that were used to analyse the data before presentation and analysis.

This chapter covered data presentation, interpretation, and analysis. Data presentation and analysis were done based on the method of analysis that is descriptive analysis first followed by inferential and lastly qualitative data. However, this followed the order of the research questions. In Chapter Seven, the research findings were discussed about the research objectives. Lastly, Chapter Eight provides a summary of the study and conclusions based on the findings of the study and recommendations made. The chapter wraps up with the limitations of the study and avenues for future research.

8.3 CONCLUSIONS

The following conclusions are made by the researcher based on the empirical findings of the study.

8.3.1 Extent of strategy formulation in SMEs

The study indicated that SMEs in Zimbabwe, to a greater extent, are engaged in strategy formulation practices as they agreed to be engaged in establishing their vision and missions, setting both long term and short objectives, scanning the business environment, fusing data from the environmental audit and carefully choosing appropriate strategies. The interview results confirmed that SMEs in Zimbabwe understand strategy formulation and appreciate its role in management. Thus, they adopt it in their businesses. However, the study results also reveal that not all SMEs are not involved in strategy formulation. Interestingly, the study revealed that strategy analysis and choice are a prerogative for top

managers and, in some instances, the clear mandate or strategic direction of the business is not communicated to employees or stakeholders. It illustrates that in Zimbabwe there are still SMEs which thrive only by being at the right place at the right time. Contrary to the notion that strategy formulation is exclusively for large enterprises, the results of this study suggest that SMEs have also started to appreciate the language and practice of strategy formulation in developing countries as well. Thus, this study argues that Zimbabwean SMEs are being run professionally. These enterprises can effectively formulate their strategies following the recommended theoretical procedures.

8.3.2 Strategy formulation approaches adopted by SMEs

Given the study results (both quantitative and qualitative), it is clear that there is a definite trend in Zimbabwean SMEs to employ the emergent approach to strategy development. This trend is consistent with the previous studies pointing to an absence of formal planning in SMEs (Kraus *et al*., 2008; Mboko & Hunter-Smith, 2009). The study also noted that there are a few others who adopt a rational and structured approach to strategy formulation. These results are inconsistent with the findings from the developed world such as Turkey, where most SMEs adopt more deliberate approaches to strategy making. This implies that strategy formulation approaches of the developed world and developing world are different and most SMEs in the developing world, especially Zimbabwe, believe that strategies are formulated and implemented at the same time. It is, therefore, concluded that the organic structural attributes of SMEs in Zimbabwe translate to them adopting the emergent strategy-formation processes. Further to that, the study concludes that SMEs in Zimbabwe are driven to adopt the unplanned and irrational approach to strategising because of the unstable and volatile business environment. Thus, they need to continually learn and adjust their strategies.

8.3.3 Strategy formulation and financial performance in SMEs

Strategy formulation elements had a combined positive effect on both short term and long term financial performance. Thus, a positive relationship implies that the tools can effectively predict financial performance. These results mean that the more organisations involve themselves in strategy formulation, the higher will be their financial performance. Strategy formulation indicated its ability to enhance SMEs' financial performance and is, therefore, capable of enhancing the growth and development of a vibrant SME sector in Zimbabwe. It is, therefore, concluded that strategy formulation can bring greater financial returns for the SME sector in this regard, thus, fostering the development of the sector and national economic development at large.

8.3.4 Strategy formulation approaches and financial performance

Because of the study results (both qualitative and quantitative), it is clear that there is a positive relationship between the emergent approach and both short term and long term financial performance of SMEs in Zimbabwe. These results could explain why SMEs in Zimbabwe employ the emergent approach to strategizing. These results imply that the higher the extent of adoption of the emergent strategy in both the short term and long term, the greater the chances of financial performance. Although in some previous studies in strategy approaches, the planned approach was established as the strongest predictor of financial performance, this study had an unexpected finding when the emergent approach appeared to be the strongest predictor of financial performance. The probable reason for the finding was that the business environment in Zimbabwe is so volatile and complicated that those who do not formulate and implement at the same time might have poor financial performance. However, the study revealed that in the short term, the planned approach does not enhance financial performance. It was submitted that this insignificant relationship was due to a lack of responsiveness on the part of firms employing the deliberate approach to formulating their strategies.

8.3.5 Business strategies and financial performance in SMEs

The study concluded that cost leadership if applied consistently, over long periods, is likely to give huge financial returns as compared to its application in the short term. On the contrary, it was concluded that differentiation in the short run provides better financial leverage as compared to longer periods. Concerning focus strategy from the results, it can be concluded that the strategy is not frequently adopted by SMEs in Zimbabwe and though it is positively related to financial performance, both in the short and long run, the relationship is weak. The same conclusion can be drawn from the insights from the qualitative results. These results imply that if SMEs in Zimbabwe is to enhance their financial performance they should formulate and implement cost leadership and differentiation strategies while minimizing their focus upon a particular niche(s).

8.4 RECOMMENDATIONS

An investigation into the relationship between strategy formulation and the financial performance of manufacturing SMEs in Harare was the main focus of this thesis. According to the results of the study presented in Chapter Six, strategy formulation has a statistically significant effect on the financial performance of manufacturing SMEs in Harare. Thus, based on the conclusions presented in section 8.4 above, the following recommendations are proposed:

8.4.1 Recommendation 1

It is an interesting observation that SMEs in Zimbabwe appreciate the role played by strategy formulation. Therefore, the study recommends that SMEs, especially those that are yet to adopt strategy formulation, attend training workshops to develop their strategy formulation capabilities and skills. These workshops help to develop strategic planning culture among small businesses. This recommendation is inspired also by the fact that some of the SMEs in Zimbabwe do not have formal education or do not have any business management qualifications. The strategy formulation culture can only be inculcated by awareness sessions and training. Thus, the government is also recommended to reduce its financial support to SMEs, instead, it should offer more training sessions. This will go a long way in reducing the dependency of SMEs on an already financially crippled government.

8.4.2 Recommendation 2

Given the study findings, academics and practitioners need to develop tools that fit the strategy-making processes of SMEs. Academics and tertiary institutions need to develop their course curriculum on strategic management so that they also focus on more emergent approaches designed for smaller enterprises, especially developing tools and techniques that are inexpensive and less time-consuming but suited to the small and medium enterprises. This increases the variety of strategic tools to be used by small firms. Moreover, despite most SMEs in this study utilizing a more emergent approach to strategy formulation, to a greater extent than the deliberate approach, they should not lose sight of how they could augment the advantages that stem from professionally managing their businesses through rational approaches to strategy making.

8.4.3 Recommendation 3

SMEs in Zimbabwe should adopt strategy development practices to enhance their financial performance. This means that SMEs in Zimbabwe should professionalise the management of their business operations. SMEs managers and owners should also be reminded that to achieve the benefits of strategy formulation concerning improved financial performance, SMEs must empower their employees, ensure that all members participate in formulating strategies that will enhance financial performance. Participation will build high levels of trust amongst the employees and owners/ managers. It is further recommended that to ensure sustained financial performance, strategy formulation must complement the market based and resource-based approaches. Thus, the internal structures and external structures must both guide firm conduct for SMEs to have competitive advantages that will translate into increased financial performance.

8.4.4 Recommendation 4

The Emergent strategy formulation approach was the strongest predictor of both short and long term financial performance. The Emergent strategy formulation approach is essential in that it allows firms to quickly adjust to their environment, hence enabling firms to offer products that are rightfully demanded. Based on these findings, the study recommends owner/managers of SMEs to adopt the emergent approaches when strategizing, and their associated structures and systems should be user friendly to ensure quick strategy making and adoption. This will allow them to quickly match their strategies with the demands of the market. The findings of this study also revealed that a deliberate approach to strategizing enhances long term financial performance. It is, therefore, recommended that SMEs also balance planned with emergent approaches in developing their strategies this means balancing the need to adjust to the environmental forces together with being forward-looking.

8.4.5 Recommendation 5

Based on the study findings, the study recommends that SMEs in Zimbabwe adopt cost leadership strategy and differentiation. This is on the background that these two strategies have a significant impact on the financial performance of SMEs. The application of focus strategy in Zimbabwe by SMEs is, therefore, discouraged as these firms do not have adequate resources to satisfy the niches and also the fact that in Zimbabwe niches are hard to maintain because of the unstable and continually changing environmental forces. The results of the study seem also to discourage hybrid strategies as it presents no commitment to one particular strategy.

8.5 CONTRIBUTION TO THE BODY OF KNOWLEDGE

The contribution of this study is three-fold. The most important contribution of this study is that it helps to extend knowledge and understanding of the issues of the relationship between strategy formulation and financial performance in SMEs. Thus, it makes available more literature that looks into these two key study variables (strategy formulation and financial performance in SMEs) in an African and Zimbabwean context, to be specific. This work advances an understanding of issues that are not often researched in the Zimbabwean and African contexts. This study is also one of the few that have been conducted in Sub-Saharan Africa. Thus, owing to the limited research in strategy formulation, these findings are a valuable addition to strategy-related research in Harare and Zimbabwe.

Secondly, this thesis fills the research gap between strategy formulation and financial performance; concepts that are drawn from two diverse streams of literature. The literature on strategy development has been so diverse with some supporting it while others are against it (Ndungu, 2013; Simba &Nyandoro, 2016; Kumar, 2015; Aremu & Oyinloye, 2015; Harshim, 2016). However, most of these claims lack empirical evidence. Presently, there are contradictory research findings on the impact of

strategy formulation on the financial performance of SMEs (Leitner & Guldenberg, 2010; Germanos, 2012; Khan & Khalique, 2014; Harshim, 2016). The impact of strategy formulation on financial performance, particularly in developing economies, Zimbabwe, in particular, has received much less attention from academics (Nyamwanza, 2015; Mhizha, 2014). Few studies on strategy formulation in developing economies in general, tend to mainly focus on larger firms. This research attempted to close this gap.

Lastly, as per the discussion of strategy formulation, financial performance, and SMEs, strategy formulation is a critical aspect among businesses despite their sizes. However, strategy formulation amongst SMEs remains a daunting task given both the external and internal challenges faced by these enterprises. Small and medium enterprises may be pushed out of business if they fail to develop business strategies that produce financial benefits. Ultimately, this could account for a high failure rate of manufacturing SMEs in Zimbabwe (Bomani *et al.,* 2015). Hence, from a practice-oriented viewpoint, this thesis adds value by facilitating the detailed formulation and adoption of business strategies in the manufacturing sector of SMEs in Zimbabwe and, indeed, in many developing economies across the world.

8.6 IMPLICATIONS OF THE STUDY

8.6.1 Managerial implications

The prevailing dynamic business environment driven by globalization challenges how SME owners/managers conceptualize strategy formulation to enhance their financial performance. In the contemporary context of strategic management, unlike in the past, enterprises now have no choice of either adopting strategy formulation or not since the unstable business environment has created more challenges than opportunities. Thus, the survival challenge is to formulate breakthrough strategies that enhance financial performance since it is the blood of any enterprise for without financial resources non-financial goals can't be accomplished. To recognize strategy approaches that enhance financial performance is key. SMEs need however to combine emergent and rational strategies to balance responsiveness and professionalism as periods of instability comes and goes. SMEs' owners/managers must balance between long and short-sightedness.

The leadership challenge today is to develop and adopt business strategic approaches that can create and exploit opportunities for greater financial rewards. This requires managers with an entrepreneurial mindset and managerial competences to operate viably in periods of uncertainty. The use of a low-cost leadership strategy remains one viable option in the face of reduced consumer spending in Zimbabwe. In this regard, to remain competitive, product costs must be kept low while quality must be raised high. This delicate balancing act requires that SMEs effectively utilize their resources and dynamic capabilities (RBV) and market knowledge to remain viable (MBV). SME owners/managers must

balance these views. These new views take a more contemporary stance towards strategy formulation and the competitiveness of SMEs.

8.6.2 Policy implications

The research's findings have a bearing on how SMEs should flourish in the turbulent developing economies like Zimbabwe. The present study advises the Government of Zimbabwe to ensure that training for SMEs is grounded on strategic management and the quest for making money and not supporting them with financial resources. Financial resources would rather be channeled to other need areas like the basic social amenities like the provision of infrastructure such as roads, electricity, and water as these are often cited as challenges. The government must prioritise more on equipping SMEs with managerial skills and technical skills. Organisations, both private and public, that support SMEs are encouraged therefore to take consideration of the empirical findings presented herein to enhance their efforts towards the achievement of strategic management best practices in the SME sector. This is in the background that a system of donor funding among SMEs has grown in Zimbabwe. Professional management of SMEs gives confidence to the banking institutions to deal with the manufacturing MSEs. The unleashing of several training programs targeted upon self-sustenance of SMEs will build robust SMEs that can survive in difficult times.

8.7 LIMITATIONS OF THE STUDY

The current study had many limitations. The first limitation of the study is the lack of industry standardisation. Since this study examines different manufacturing sectors of SMEs, there could be no control over the uncertainty variances found in specific sectors. However, the decision to have multiple manufacturing sectors was made to achieve greater generalizability of the findings, otherwise, single sector studies are desirable and less 'problematic' than studies involving multiple sectors.

The second limitation is that the results were affected by the design of the study. The study adopted a cross-sectional research design. That is, it only investigated the relationship between the variables after their actions rather than before and after. Thus, longitudinal research may offer greater insights into the influence of strategy formulation on a firm's financial performance over an extended period, for example, ten years. However, to mitigate this challenge, the researcher adopted a mixed-methods approach to collect adequate data for answering the research questions.

Methodologically, the study adopted a case study strategy by focusing upon manufacturing SMEs in selected locations in Harare, Zimbabwe. This research study, consequently, excludes the views of other SMEs owners/managers in other sectors of the economy and in other parts of the country that contribute to the economic development of the country. However, the researcher considered a diverse spectrum of manufacturing SMEs to minimize the impact of this limitation.

Notwithstanding these limitations, this study fills a research gap on the impact of strategy formulation on the financial performance of SMEs in the manufacturing sector in Zimbabwe. There is a dearth of evidence on the influence of strategy formulation on the financial performance in the Zimbabwean context. The study helps also to lay a foundation for further and future research in strategic management.

8.8 AREAS FOR FUTURE RESEARCH

The present study focused on strategy formulation and financial performance in the context of SMEs in the manufacturing sector in Harare, Zimbabwe. Although the research study has important academic, managerial, and methodological implications, the researcher proposes that future researches be conducted with large manufacturing enterprises to observe if the same results could be witnessed.

Future studies, for comparison's sake, could be conducted with SMEs from other important sectors of the economy such as agriculture and mining from other provinces across the country as well. Such a wider scope is likely to produce answers beyond the ones provided by the current study.

Lastly, a longitudinal study investigating the relationship between strategy formulation and financial performance would constitute another promising area of study. This would be a progressive step in advancing strategy research.

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APPENDIX A: QUESTIONNAIRE FOR SME OWNER/MANAGERS

UKZN

School of Management, IT and Governance

PhD Research Project

Researcher: Mugove Mashingaidze (+263776 605 801/+263716 328 363)

Supervisor: Prof. M A. Phiri (+27332605843)

Research Office: Mariette Snyman (031-260 8350)

Dear Respondent,

My name is Mugove Mashingaidze, a PhD candidate **(Student no. 217075574)** at the UKZN. I am conducting a study in partial fulfillment of PhD in Entrepreneurship that is entitled: ***Strategy Formulation and Financial Performance in Selected Small and Medium Enterprises in Zimbabwe.*** Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this research project. Confidentiality and anonymity of records identifying you as a participant will be maintained by the School of Management, IT and Governance, UKZN. If you have any questions or concerns about participating in this study, please contact me or my supervisor on the numbers listed above.

It should take you about 15 minutes to complete the questionnaire. I hope you will take the time to complete the questionnaire.

Thank you for your cooperation

Sincerely

Mugove Mashingaidze
(Researcher)

Please complete this questionnaire by ticking in the appropriate box or writing on given spaces.

SECTION A: DEMOGRAPHIC INFORMATION
Please complete this part by ticking in the appropriate box.

1.1	Gender	Male	1	Female	2

1.2	Age	18-31	32-42	43-53	54-64	65+
		1	2	3	4	5

1.3	Level of Education	Post graduate	Bachelor's Degree	Diploma	O &A Levels
		1	2	3	4

1.4	Position in the organisation	Owner	Managing director
		1	2

SECTION B: COMPANY INFORMATION
This section seeks company background information. The information will be used for comparisons purposes. We assure you that your responses will remain anonymous. Your cooperation will be appreciated. Please complete this part by ticking in the appropriate box or writing on given spaces.

2.1	Period in operation	Less than 2 years	2-5 years	6-10 years	11-15 years	16+ years
		1	**2**	**3**	**4**	**5**

22	Number of full time employees	5-10	11-20	21-40	41-75
		1	**2**	**3**	**4**

2.3	Business Sector	Food processing	Clothing & footwear	Wood & furniture	Chemical & petroleum	Metals
		1	**2**	**3**	**4**	**5**

2.4	Firm's approximate annual turnover (US$)	Less than 199 999	200 000-499 999	500 000-799 999	800 000-999 999	more than 1m
		1	**2**	**3**	**4**	

SECTION C: STRATEGY FORMULATION

The following statements reveal beliefs and probable actions for the formulation of strategies. Indicate your level of agreement with the following statements with regard to your company:

STRATEGY FORMULATION		**Strongly disagree**	**Disagree**	**Undecided**	**Agree**	**Strongly agree**
	STRATEGY PURPOSE	**RESPONSES**				
C1	We have a well-articulated mission statement	**1**	**2**	**3**	**4**	**5**
C2	We have a well-articulated vision statement	**1**	**2**	**3**	**4**	**5**
C3	The strategy we follow is directed by our firm's vision	**1**	**2**	**3**	**4**	**5**
C4	Our strategy is made explicit in the form of strategic plan	**1**	**2**	**3**	**4**	**5**
C5	Our strategic purpose is communicated to everyone	**1**	**2**	**3**	**4**	**5**
	STRATEGY OBJECTIVES	**RESPONSES**				
C6	We have clear long term objectives	**1**	**2**	**3**	**4**	**5**
C7	We have clear short term objectives	**1**	**2**	**3**	**4**	**5**
C8	Our objectives cover all important areas of our business	**1**	**2**	**3**	**4**	**5**
C9	Our objectives are communicated to everyone in the organisation	**1**	**2**	**3**	**4**	**5**
C10	We have clear milestones for measuring our objectives	**1**	**2**	**3**	**4**	**5**
	ENVIRONMENTAL SCANNING	**RESPONSES**				
C11	Environmental scanning is important in strategy making	**1**	**2**	**3**	**4**	**5**
C12	We analyse our internal environment before making a strategy	**1**	**2**	**3**	**4**	**5**
C13	We analyse our industry before making a strategy	**1**	**2**	**3**	**4**	**5**
C14	We analyse our macro environment before making a strategy	**1**	**2**	**3**	**4**	**5**
C15	Instability in the business environments calls for strategy formulation	**1**	**2**	**3**	**4**	**5**
	INTERGRATION OF DATA	**RESPONSES**				
C16	Our strategies are consistent with any external threats and opportunities	**1**	**2**	**3**	**4**	**5**
C17	Our strategies are consistent with internal strengths and weaknesses	**1**	**2**	**3**	**4**	**5**
C18	Our final strategy is based only on our financial resources	**1**	**2**	**3**	**4**	**5**
C19	Strategy making is a result of many forces acting on our business	**1**	**2**	**3**	**4**	**5**
C20	The strategies we follow develop from the way we do things around here	**1**	**2**	**3**	**4**	**5**
	STRATEGIC CHOICE	**RESPONSES**				
C21	Strategy selection is the responsibility of everyone	**1**	**2**	**3**	**4**	**5**

C22	We have a systematic method of selecting the best strategy	**1**	**2**	**3**	**4**	**5**
C23	Our mission statement is the basis for strategy making	**1**	**2**	**3**	**4**	**5**
C24	We consider the long term impact of the each alternative in selecting the best strategy	**1**	**2**	**3**	**4**	**5**
C25	Our strategy is based on the vision of the founder	**1**	**2**	**3**	**4**	**5**

SECTION D: APPROACHES TO STRATEGY FORMULATION

Strategy formulation approaches can be planned or emergent. The following statements describe how strategies are developed in SMEs. Indicate the level of your agreement with the following statements with regard to your firm. Please answer either A or B.

		Strongly disagree	**Disagree**	**Undecided**	**Agree**	**Strongly agree**
	A: PLANNED APPROACH TO STRATEGY FORMULATION	**RESPONSES**				
D1	Our strategy making follows a particular process	**1**	**2**	**3**	**4**	**5**
D2	We formulate a strategy then implement it	**1**	**2**	**3**	**4**	**5**
D3	The success of our business is because of having formal plans	**1**	**2**	**3**	**4**	**5**
D4	Our objectives are clearly stated	**1**	**2**	**3**	**4**	**5**
D5	We view our environment as controllable	**1**	**2**	**3**	**4**	**5**
D6	Our strategy is governed by a detailed analysis of alternatives	**1**	**2**	**3**	**4**	**5**
D7	We have long term plans	**1**	**2**	**3**	**4**	**5**
D8	We view strategy making as science and rational	**1**	**2**	**3**	**4**	**5**
D9	Thus our strategy is carefully formulated	**1**	**2**	**3**	**4**	**5**
	B: EMERGENT APPROACH TO STRATEGY FORMULATION	**RESPONSES**				
D10	Our strategy making process does not follow a particular order	**1**	**2**	**3**	**4**	**5**
D11	We formulation and implement strategies at the same time	**1**	**2**	**3**	**4**	**5**
D12	Our business is successful because of just being at the right place at the right time	**1**	**2**	**3**	**4**	**5**
D13	Our company does not have clear objectives	**1**	**2**	**3**	**4**	**5**
D14	Our operating environment is unpredictable and uncontrollable	**1**	**2**	**3**	**4**	**5**
D15	Our strategy formulation is opportunity driven	**1**	**2**	**3**	**4**	**5**
D16	We plan on a daily basis	**1**	**2**	**3**	**4**	**5**

D17	We view strategy making as an art and through logical incrementalism	**1**	**2**	**3**	**4**	**5**
D18	Thus our strategy is emergent	**1**	**2**	**3**	**4**	**5**

SECTION E: BUSINESS STRATEGIES

Do you use any of the following competitive strategies in your business? If so, please indicate approximately how frequently you use them. Using the scale below, please circle the number that most closely matches your usage: (1 = Never, 2 = Not frequently, 3 = Sometimes, 4 = Often, 5 = Very Often).

BUSINESS STRATEGIES ADOPTED		**Never**	**Not frequently**	**Sometimes**	**Often**	**Very often**
	BUSINESS STRATEGY	**RESPONSES**				
E1	Cost leadership strategy	**1**	**2**	**3**	**4**	**5**
E2	Differentiation strategy	**1**	**2**	**3**	**4**	**5**
E3	Focus strategy	**1**	**2**	**3**	**4**	**5**

SECTION F: STRATEGY FORMULATION AD FINANCIAL PERFORMANCE: (2013-2017)

Rate your enterprise's financial performance over the last three years as influenced by strategy formulation in each of the following statements. Use a scale of 1 up to 5, where 1 strongly disagree and 5 strongly agree.

STRATEGY FORMULATION AND FINANCIAL PERFORMANCE		**Strongly disagree**	**Disagree**	**Undecided**	**Agree**	**Strongly agree**
	SHORT TERM FINANCIAL PERFOMANCE	**RESPONSES**				
F1	Sales revenue has been growing…….	**1**	**2**	**3**	**4**	**5**
F2	Profits have been……	**1**	**2**	**3**	**4**	**5**
F3	Cash flows have been …….	**1**	**2**	**3**	**4**	**5**
	LONG TERM FINANCIAL PERFORMANCE	**RESPONSES**				
F5	Growth in profitability has been...…	**1**	**2**	**3**	**4**	**5**
F6	Growth in sales revenue has been…..	**1**	**2**	**3**	**4**	**5**
F7	Growth in cash flows have been…..	**1**	**2**	**3**	**4**	**5**
F8	Growth in return on capital employed has been…	**1**	**2**	**3**	**4**	**5**

SECTION G: STRATEGY FORMULATION APPROACHES AND FINANCIAL PERFORMANCE (2013-2017)

Please rate your level of agreement/disagreement with your firm's financial performance during the last three years as a result of your preferred strategy formulation approach. Use a scale of 1 up to 5, where 1 strongly disagree and 5 strongly agree.

		Strongly disagree	Disagree	Undecided	Agree	Strongly agree
	SHORT TERM FINANCIAL PERFORMANCE	**RESPONSES**				
G1	Our approach has greatly improved profits	**1**	**2**	**3**	**4**	**5**
G2	Our approach has improved cash-flows	**1**	**2**	**3**	**4**	**5**
G3	Our approach has greatly improved sales revenue	**1**	**2**	**3**	**4**	**5**
G4	Our approach has improved cash-flows	**1**	**2**	**3**	**4**	**5**
G5	Our approach positively impact on sales revenue	**1**	**2**	**3**	**4**	**5**
G6	Our approach strategy has greatly improved profits	**1**	**2**	**3**	**4**	**5**
	LONG TERM FINANCIAL PERFORMANCE	**RESPONSES**				
G7	Our approach positively impact on sales revenue growth	**1**	**2**	**3**	**4**	**5**
G8	Our approach has greatly improved profitability	**1**	**2**	**3**	**4**	**5**
G9	Our approach has improved the growth of cash-flows	**1**	**2**	**3**	**4**	**5**
G10	Our approach has improved return on capital employed	**1**	**2**	**3**	**4**	**5**
G11	Our approach positively impact on sales revenue growth	**1**	**2**	**3**	**4**	**5**
G12	Our approach has greatly improved profitability	**1**	**2**	**3**	**4**	**5**
G13	Our approach has improved the growth of cash-flows	**1**	**2**	**3**	**4**	**5**
G14	Our approach has improved return on capital employed	**1**	**2**	**3**	**4**	**5**

SECTION H: BUSINESS STRATEGIES AND FINANCIAL PERFORMANCE IN SMES (2013-2017)

Please rate your level of agreement/disagreement with your firm's financial performance during the last three years as a result of adopting business strategies.

		Strongly disagree	Disagree	Undecided	Agree	Strongly agree
	SHORT TERM FINANCIAL PERFORMANCE	**RESPONSES**				
H1	Cost leadership strategy positively impact on our sales revenue	**1**	**2**	**3**	**4**	**5**

H2	Cost leadership has greatly improved our profits	**1**	**2**	**3**	**4**	**5**
H3	Cost leadership has improved our cash-flows	**1**	**2**	**3**	**4**	**5**
H4	Differentiation strategy positively impact on our sales revenue	**1**	**2**	**3**	**4**	**5**
H5	Differentiation strategy has greatly improved our profits	**1**	**2**	**3**	**4**	**5**
H6	Differentiation strategy has improved our cash-flows	**1**	**2**	**3**	**4**	**5**
H7	Focus strategy positively impact on our sales revenue	**1**	**2**	**3**	**4**	**5**
H8	Focus strategy has greatly improved our profits	**1**	**2**	**3**	**4**	**5**
H9	Focus strategy has improved our cash-flows	**1**	**2**	**3**	**4**	**5**
	LONG TERM FINANCIAL PERFORMANCE	**RESPONSES**				
H10	Cost leadership strategy positively impact on our sales revenue growth	**1**	**2**	**3**	**4**	**5**
H11	Cost leadership has greatly improved our profitability	**1**	**2**	**3**	**4**	**5**
H12	Cost leadership has improved the growth of our cash-flows	**1**	**2**	**3**	**4**	**5**
H13	Differentiation strategy positively impact on our sales revenue growth	**1**	**2**	**3**	**4**	**5**
H14	Differentiation strategy has greatly improved our profitability	**1**	**2**	**3**	**4**	**5**
H15	Differentiation strategy has improved the growth of our cash-flows	**1**	**2**	**3**	**4**	**5**
H16	Focus strategy positively impact on our sales revenue growth	**1**	**2**	**3**	**4**	**5**
H17	Focus strategy has greatly improved our profitability	**1**	**2**	**3**	**4**	**5**
H18	Focus strategy has improved the growth of our cash-flows	**1**	**2**	**3**	**4**	**5**

I APPRECIATE YOUR RESPONSES

THANK YOU

APPENDIX B: INTERVIEW GUIDE FOR SMES

Opening

I am a PhD. candidate at the University of KwaZulu Natal, conducting a study on the topic **"Strategy Formulation and Financial Performance in Selected Small and Medium Enterprises in Zimbabwe".** The primary objective of the study is to investigate the impact of strategy formulation on the financial performance of SMEs in Zimbabwe.

Your responses will inform the study in developing a conceptual framework of strategy formulation that would enhance financial performance among SMEs. Please take note that you may refuse to participate or withdraw from the interview at any time with no negative consequence. Your answers will be treated with confidentiality. All responses will remain anonymous. May you allow me about 30-45 minutes of your time to ask you a few questions?

1. Introduce yourself (Age, highest level of education) and your company (number of permanent employees, year of registration, sector)
2. What do you understand by the phrase 'strategy formulation'
3. What do you value most when formulating strategies (market forces or internal resources)?
4. To what extent do you think SMEs in Zimbabwe adopt strategy formulation?
5. How would describe strategy formulation among manufacturing SMEs in Zimbabwe?
6. What approach do SMEs in Zimbabwe adopt in strategy making? (planned or emergent)
7. What strategies are normally adopted by manufacturing SMEs in Harare, Zimbabwe? (cost leadership, differentiation, focus or hybrid)
8. Would you say strategy formulation enhances financial performance? (Be specific please)
9. Does the approach you mentioned in 6 above enhance your financial performance? (Be specific)
10. Does the strategy you mentioned in 7 above enhance your financial performance? (Be specific)

Thank you

APPENDIX C: GATEKEEPER'S LETTER

All correspondence should be addressed to
"THE SECRETARY"
Telephone: 730081/7; 791823/7 702731
Fascimile: 704116/723765/729311
E-mail: miit@indandcom.co.zw
Telegrams: "TRADEMIN", Harare
Private Bag CY 7708, Causeway, Zimbabwe

ZIMBABWE

Reference: NP/33/448
MINISTRY OF INDUSTRY,
COMMERCE & ENTERPRISE
DEVELOPMENT
Mukwati Building
4th Street/Livingstone Avenue
Harare
Zimbabwe

05 April 2018

Mugove Mashingaidze
House Number 23607
Umvovo
Chegutu

REQUEST FOR AUTHORITY TO CARRY OUT STUDY ON STRATEGY FORMULATION AND FINANCIAL PERFORMANCE IN SELECTED SMALL AND MEDIUM ENTERPRISE DEVELOPMENT IN ZIMBABWE.

Reference is made to your letter dated 26 March 2018 requesting to conduct a research on strategy formulation and financial performance in selected small and medium enterprise development in Zimbabwe.

Please be advised that the Ministry of Industry, Commerce and Enterprise Development has granted you the permission to conduct your research. Please note that you are to submit a copy of your final thesis to this Ministry for record keeping.

Shonhiwa A (Mrs)
Ministry of Industry, Commerce and Enterprise Development

APPENDIX D: INTRODUCTION LETTER

UNIVERSITY OF
KWAZULU-NATAL
INYUVESI
YAKWAZULU-NATALI

Ministry of Industry and Commerce
13th Floor Mukwati Building
Cnr. 4th Street Livingstone Avenue
Private Bag 7708
Causeway
Harare

February 27, 2018

To Whom It May Concern

REF: PERMISSION TO CONDUCT RESEARCH AS PART OF THE PhD QUALIFICATION

It is a requirement of our PhD qualification that the student completes a thesis based on research in a specific field of study. In this way students are given the opportunity to creatively link and discuss the theoretical aspects of the programme to the practical issues facing organisations in real life settings. Typically a thesis necessitates data gathering and the student is using questionnaires and interviews.

Student name: **Mugove Mashingaidze (Student No. 217075574)** has chosen to do a research project entitled: **Strategy Formulation and Financial Performance in Selected Small and Medium Enterprises in Zimbabwe**

Your assistance in permitting access to your organization for purposes of this research is most appreciated. Please be assured that all information gained from the research will be treated with the utmost confidentiality. Furthermore, should you wish any result's or findings from the research "to be restricted" for an agreed period of time, this can be arranged. The confidentiality of information and anonymity of personnel will be strictly adhered to by the student.

I am available at any stage to answer any queries and or to discuss any aspect of this research project. If permission is granted, please sign the attached form.

Thank you for your assistance in this regard.

Yours sincerely

Prof. Maxwell Phiri (Supervisor)

APPENDIX E: THE LANGUAGE EDITOR'S LETTER

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MIDLANDS STATE UNIVERSITY
LANGUAGE INSTITUTE

P. BAG 9055
Gweru
Zimbabwe

Telephone: (263) 54 260404/260337/260667/260450
Fax: (263) 54 260233/260311
Email: info@languageinstitute.msu.ac.zw
Mobile: +263 772883047 / 783392348
Website: www.msu.ac.zw/language-institute

LANGUAGE EDITING CONFIRMATION STATEMENT

This statement confirms that the thesis titled, **"Strategy Formulation and Financial Performance in Selected Small and Medium Enterprises in Zimbabwe"** , by Mugove Mashingaidze was edited by a Professional English Language editor, Dr. V. Jenjekwa (D. Litt et Phil (Linguistics) (UNISA); M.ED (English) (GZU); PGDE (English and Shona) (U.Z); BA (English and Linguistics) (UZ)), for grammar, punctuation, readability, coherence and cohesion.

The Institute certifies that the thesis document meets expected international standards of academic communication in English. Kindly refer to edited thesis manuscript and editor's report for details.

Thank you.

Vincent Jenjekwa (PhD)
Editor/Language Research Fellow

Date....13/11/19.....

Professor Wiseman Magwa (PhD)
A/Director

Date..13/11/19.....

APPENDIX F: ETHICAL CLEARANCE

UNIVERSITY OF KWAZULU-NATAL
INYUVESI YAKWAZULU-NATALI

20 June 2018

Mr Mugove Mashingaidze (217075574)
School of Management, IT & Governance
Pietermaritzburg Campus

Dear Mr Mashingaidze,

Protocol reference number: HSS/0507/018D
Project Title: Strategy formulation and financial performance in selected Small and Medium Enterprises in Zimbabwe

Approval Notification – Expedited Application

In response to your application received 21 May 2018, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL.**

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

Professor Shenuka Singh (Chair)

/ms

Cc Supervisor: Professor Maxwell A Phiri
Cc Academic Leader Research: Professor Isabel Martins
Cc School Administrator: Ms Debbie Cunynghame

Humanities & Social Sciences Research Ethics Committee
Professor Shenuka Singh (Chair)
Westville Campus, Govan Mbeki Building
Postal Address: Private Bag X54001, Durban 4000
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Website: www.ukzn.ac.za