Manufacturing firms and hyperinflation- survival options: the case of Zimbabwe manufacturers (2005-2008)

Samuel Gumbe
University of Zimbabwe

Nyasha Kaseke
University of Zimbabwe

ABSTRACT

The study assesses the survival strategies implemented by manufacturing firms during hyperinflationary period 2005 to 2008 in Zimbabwe. Evidence from literature reviewed indicated that firms can implement different strategies to survive under hyper-inflation environment. Survey method was applied to manufacturing firms in Harare. Questionnaires were used for data collection from a 100 firms. Survey findings revealed that firms applied different strategies such as quantity reduction, decentralization of decision making, reducing quality of products, development of syndicates, shorter pay periods and other forms of financial, marketing and purchasing strategies. Firms which were reluctant in adopting survival strategies collapsed in business. Therefore, survival strategies were of paramount importance for companies in hyper inflationary environments.

Keywords: Hyperinflation, Survival Strategies, Pay Periods, Syndicates, Decentralized decision making, Centralised decision making, Volume reduction

INTRODUCTION

The study analyses survival strategies or options implemented by Zimbabwean firms under a hyper inflationary period. A hyperinflationary environment presents huge challenges especially cost control. The last official inflation figures stood at 231 million percent as of July 2008 (Besada and Moyo, 2008). The prices of raw materials generally rose substantially over a very short period of time. In addition, there was no guarantee of supply. Over time there was high probability that customers would begin to resist the frequent price adjustments. A lot of Zimbabwean companies closed down during that period. Some companies managed to continue operating as a result of survival strategies that were employed.

Confederation of Zimbabwe Industries (CZI) (2007) stated that the manufacturing sector, which has the responsibility of supplying other downstream manufacturing industries, tends to bear the brunt of hyperinflation. It further highlights that the manufacturing sector in Zimbabwe is one of the most significant players in the economy due to its contribution to the GDP, export earnings, employment levels and investment opportunities.

The objective of this research is to find out what management of these companies did that prevented them from total collapse. Did they implement what other researchers had already discovered, like Eisenhardt and Sull (2001) who recommended that strategy in turbulent environments must be flexible but disciplined. This requires a set of strategic rules to help managers to cope with opportunities and threats without having to refer to superiors. Did managers in Zimbabwe take advice of the above recommendations? While some manufacturing companies succumbed to this harsh economic environment, an increasing number of new-generation companies defied the odds and continued flourishing.

BACKGROUND OF ZIMBABWEAN ECONOMY

Zimbabwean government inherited a robust economy from the Rhodesian government in 1980 (UNDP, 1992). The country experienced a boom from 1980 to 1981 as shown by high GDP figures of 10.7 and 9.7 percent respectively (*ibid*). These exceptionally high GDP figures could be explained by the opening up of international markets, lifting of the UDI sanctions and a good agricultural season.

In 1991 the government embarked on an economic policy; Economic Structural Adjustment Program (ESAP) (Hawkins *et al.,* 1992). Its major objective was for the country to move from an import dependent economy to an open-market economy. The program was also aimed at reforming the monetary policy through the introduction of market determined interest rates. Also, ESAP attempted to liberalize the labour market and to commercialize public enterprises. Due to drought and policy inconsistencies, the benefits of this program were never achieved.

ZIMPREST (1996 to 2000) which comes after ESAP was targeted at reducing the budget deficit and the introduction of public sector reforms. It also failed to yield the desired results (Makochekanwa, 2007). The macroeconomic problems during the ZIMPREST era started in 1997 when unbudgeted gratuity payments were made to the veterans (*ibid*). During the same period, the Zimbabwean dollar (Z$) crushed against all major currencies and the economic situation has never recovered until today. The situation was further worsened when Zimbabwe sent troops to the Democratic Republic of the Congo resulting in massive expenditure. These two unbudgeted expenditures contributed to the ballooning of the fiscal deficit (Makochekanwa, 2007).

The farm invasions of 2000, prior to the general elections destroyed the once robust agricultural sector as most of the productive white commercial farmers were driven out of the farms (Besada and Moyo, 2008). The same authors argued that the land distribution was not done transparently and as a result some influential people in the government ended up having multiple farm ownership. They also mentioned that the government dumped the 1998 agreed land reform process and allowed illegal and sometimes violent occupation on farms, and as a result, the donor community terminated their support for the process. These farm invasions as well as the disputed 2000 parliamentary and 2005 presidential elections caused isolation from the international community. Against this background, World Bank announced in October 2000 that it would not extend loans to Zimbabwe *(ibid).*

Zimbabwe also experienced massive brain drain due to economic meltdown. People migrated all over the world but the greater number to United Kingdom, Australia, Canada and neighboring countries (World Bank, 2008). HIV and AIDS also reduced the number of skilled people who remained in the country (*ibid*). Further, the local banking sector failed to consistently fund the requirements of the manufacturing sector (RBZ, 2006).

Zimbabwe has a huge foreign and domestic debt, isolated from major international funding institutions and low per capita income during the period prior to January 2009 (RBZ, 2009). Hundreds of Zimbabweans died as result of a serious cholera outbreak that has ravaged most urban areas in 2008 (WHO, 2008). This was necessitated by government's failure to provide basic amenities such as clean water and sewerage system. The manufacturing sector was not an exception to the problem. In addition, the private sector was heavily constrained by severe shortages which included electricity, foreign currency, skilled labour and a shrinking domestic market (The Herald, 2009).

THEORETICAL REVIEW - HYPERINFLATION

Hyperinflation is defined as inflation that is out of control, a condition in which prices increase rapidly as a currency loses its value (Makochekanwa, 2007). He further described hyperinflation as an inflation cycle without any tendency toward equilibrium. Cagan (1956) described hyperinflation as the general increase in prices of goods and services exceeding 50% per month translating into an annual inflation rate of 12,875 percent compounded.

Stanlake (1976) states that hyperinflation is an extreme form of inflation were prices rise at a high rate daily. In 1923 Germany experienced this kind of inflation and by the end of that year prices were one million times greater than their pre-war level. Towards the end of 1923, paper money was losing half or more of its value in one hour, and wages were fixed and paid daily. In 1924 the currency was withdrawn and new marks were issued at the rate of 1 Reichsmark = 1 000 000 000 000 old marks. In 1944 Hungary experienced an even more severe inflation, the note circulation reaching a figure with 27 zeros. Under this condition of hyperinflation people lose confidence in the currency's ability to carry out its functions.

All the scenarios of daily increases in prices were experienced in Zimbabwe and zeros in the currency figures reached 24. This showed hyperinflation as also experienced by other countries.

CAUSES OF HYPERINFLATION IN ZIMBABWE

The main cause of this hyperinflationary environment in Zimbabwe was the massive increase in money supply which was not supported by growth in the output of goods and services (Makochekanwa, 2007). He undertook a study into the causes of hyperinflation in Zimbabwe. The period of his research was February 1999 to December 2006. The study employed co-integration and error correction modeling to establish a more specific relationship between hyperinflation and its environment. The impact of the money supply variable on hyperinflation was found to be significant, suggesting that money supply growth in Zimbabwe does accord with normal behavioral expectations towards inflation trend. This relationship, where money supply causes hyperinflation in Zimbabwe is explained by the use of money printing as one of the major source for financing government deficits.

The parallel foreign exchange market was found to play a significant role in the hyperinflation function for Zimbabwe (Makochekanwa, 2007). The premium affects the inflation rate indirectly through expensive imported inputs. Most of the companies in the manufacturing sector operated at very low capacity levels, negatively affecting output and productivity, which further worsened the hyperinflation as supply could not match demand – demand pull inflation (Besada and Moyo, 2008). Excess demand pushes prices up daily.

Adapted and rational expectations that buyers will use both previous hyperinflation figures as well as all the relevant available information to forecast future inflation trends have a significant short run and long run influence on hyperinflation. Structural changes also contributed to decline in output – land reform and partisan government approaches (Makochekanwa, 2007). Poor governance result in shortages of raw materials, water, electricity and demotivated workforce which also contributed to low output levels, hence the highly turbulent environment during the period. Besada and Moyo(2008) added that political instability had a significant long-run influence on the level of prices in Zimbabwe. Thus the country needs to improve its political environment across the spectrum, from international relations, internal governance, and restoration of all the basic human rights.

EFFECTS OF HYPERINFLATION ON THE MANUFACTURING SECTOR

The manufacturing sector which has the responsibility of supplying other downstream manufacturing industries tends to bear the brunt of hyperinflation. The CZI (2007) states that the manufacturing sector in Zimbabwe is one of the most significant players in the economy due to its contribution to the GDP, export earnings, employment levels and investment opportunities.

According to CZI (2007) the sector has lost working capital as a result of the continued rise in the price of inputs due to the depreciation of the local currency. CZI (2008) indicates that the manufacturing industry capacity utilization averaged 18.9 percent in 2007 down from 33.8 percent registered in 2006. The sector's contribution to GDP has declined to around 17 percent. The major constraints faced by the sector in 2008 were:

i. Failure to finance working capital as there is no finance in the system.
ii. A dysfunctional pricing policy in the country
iii. Reduced aggregate demand for products and services.
iv. A highly demoralized work force
v. Rising costs which continue to deplete the working capital base

Davis *et al.* (1991) described a turbulent environment as the dynamism in the environment, involving rapid, unexpected change in the environment sub-dimensions. They said in this environment, decision windows are shorter; risk of obsolescence is greater, long term control becomes impossible and managers have to learn new ways to operate in this turbulent environment.

The scenario is related to what happened in the manufacturing industries in Nigeria between 1980 and 1985 (Oleyede, 1999). This period was the beginning of Nigerian economic crisis where high levels of inflation were experienced resulting in a negative impact on the manufacturing industries (Olukushi, 1989). A sizeable number of companies closed plants, reduced production drastically and laid off workers. Companies also managed to survive during this 1980 and 1985 hyperinflationary period in Nigeria through changing their manufacturing strategies (Oleyede, 1991). For example the change in both product and the labour markets, mediated by new technology of production influenced the manufacturing industries towards gaining a competitive advantage in order to survive (*ibid*). The author also noted the adoption of the maximization of profit through maximum utilization of production machines many of which were fast becoming obsolete. Management also devised strategies for maximum utilization of labour effort and minimum product defects (*ibid*). Factory Managers had the responsibility to manage and organize their workers in ways that would ensure attainment of these goals.

STRATEGIES APPLICABLE IN A HYPERINFLATIONARY ENVIRONMENT

Thompson, Strickland and Gamble (2010) define strategy as " management's game plan for strengthening the organizations position." Strategy is therefore, the way managers decide their organisations should operate in an industry/market. They argue that managers' choice of the way organisations operate is a function of the industry's life-cycle stage. Industries life cycles are in four stages namely: emerging, growth, maturity and decline. Decline stage is characterized by low or shrinking demand. This is also a characteristic of hyper-inflation as customers are left with very little disposable income which is continuously eroded by the increase in prices. Thompson, Strickland and Gamble (2010) identified three strategic options that businesses in declining industries can pursue. These are:

Focus strategy **-** This strategy is based on pursuing a narrow piece of the total market share and attempt to either achieve cost advantage or differentiation, (Thompson, Strickland and Gamble, 2010). It is based on the belief that even in declining markets there exist niches that may be growing hence businesses need to identify them and concentrate on them thereby escaping declining or stagnant profits. Kotler and Keller (2009) and Evans and Berman (1992) asserts that business can grow its market share pursuing niche strategies. Niche needs may be a result of product uses, geographic uniqueness or product attributes that appeal only to relatively small markets. Kotler (2002) asserts that focus strategies are not only confined to small businesses, but are also used by large firms in a bid to gain market share. Kotler (*ibid*) cites the examples of Johnson & Johnson, and EG & G who have used this strategy through their strategic business units (SBUs) with great success.

Differentiation **-** Differentiation is offering the market a service or product that is unique from competitors. Differentiation should be based on product quality improvement and innovation. Doyle (2002) argues that differences that businesses claim to have over competitors' products or services must be something that customers' desire and can benefit from. Kotler (2002) also emphasizes the need for businesses to have "unique" products in order for them to be competitive. Therefore, businesses pursuing this strategy are doing so based on the assumption that an improved product will give them competitive advantage over rivals thus increasing sales as they take away competitors' customers. Differentiation affords a business the opportunity to compete with rivals on a turf that is not price.

Cost Leadership Strategy **-** It is a concerted effort by a business to drive costs down. This strategy focuses on improving profit margin. The rationale is that profitability in a declining/stagnant market can not be increased by increasing sales (Kotler, 2002). Therefore, the only route that a business can use to improve return on investment and profit margins is through improving productivity and cost reduction on a continuous basis. Thompson, Strickland and Gamble (2010) provide the following as ways to driving costs down:

a) Outsourcing- this is where business identifies activities that can be done by outsiders at a cheaper cost. This strategy benefits creating business linkage opportunities particularly where small business are concerned
b) Business process re-engineering (BPR)- this involves a complete overhaul of the internal business process removing all the production process that do not add value

c) Closing low volume, high cost distribution channels
d) Cutting marginally beneficial activities out of the value chain
e) Adding more distribution channels to ensure that unit volume distributed ensure lowered production costs.

Kotler (2002) agrees that cost leadership is a strategy used by businesses to maintain their sales while reducing their costs. He suggests that the first cost to be cut would be research and development, followed by a reduction in sales force size and the advertising budget. Kotler (*ibid*) goes further to suggest that businesses might reduce product quality in their effort to drive costs down.

Kotler (2002) and Thompson, Strickland and Gamble (2010) emphasize that strategic options discussed above are not mutually exclusive. Businesses in declining or stagnant markets need to clearly understand their situation and use the most appropriate strategic options that help them reduce costs and maintain or grow market share.

Mason (2007) in his study used the case study and in-depth interviews to investigate the influence of the external environment on the choice of strategic management activities, from a chaos and complexity perspective and noted the following:-

i. More successful companies in a complex/turbulent environment have a culture of acceptance and encouragement to change. They react quickly to achieve an advantage over competitors.
ii. In terms of planning, these successful companies adopted a short planning horizon from three to six months.
iii. In terms of management style, successful companies in turbulent environments have an open, democratic leadership style with independent and entrepreneurial action encouraged. These companies also aggressively enter into new markets.

Swanson (2007) also, highlighted that there are also a number of strategies organizations can adopt. The following are important financial management issues to be considered in a hyperinflationary environment:

i. Make absolutely certain that managers understand the time value of money.
ii. Never allow cash to remain idle
iii. Good cash management can provide a major source of profit, while poor cash management can destroy a company in a matter of months.
iv. Be prepared to convert local currency into a stable foreign currency
v. Inventory valuation should be based on NIFO (next in first out) rather than LIFO (last in first out).
vi. To develop an appropriate inflationary adjustment for capital replacement or the value of your capital will disappear.

Under marketing, Swanson (2007) business must sell products with the largest profit margins since government intervention and regulation inevitably become more oppressive. In terms of pricing, fluid pricing becomes an absolute necessity, and prices must change frequently and sharply to accurately reflect the impact of inflation. Other important issues are that procurement must become strategic and management must guard against illegal procurement activities. Management must be prepared to shorten pay periods.

On manufacturing, Swanson emphasizes that management must be flexible, innovative and implement effective cost control measures. Fringe benefits must be adjusted to reflect inflation, and to consider a type of index that will be used for cost of living adjustments in order to ensure stable industrial relations (Swanson, 2007).

According to Kotler *et al.* (2000) rising costs in a hyperinflationary environment squeeze profit margins and lead companies to make regular rounds of price increases. Where possible, the company should consider ways to meet higher costs or demand without raising prices for example, it can shrink the product instead of raising the price. Nyambayo (2008) also added that when the business environment is unstable business decisions are made frequently.

Davis *et al*. (1991) further support the situation and described a turbulent environment as the dynamism in the environment, involving rapid, unexpected change in the environment sub-dimensions. They said in this environment, decision windows are shorter; risk of obsolescence is greater, long term control becomes impossible and managers have to learn new ways to operate in this turbulent environment.

Prendergast and Berthon (2000) advised that in turbulent and complex environments, management is best practiced in flat decentralized organic structures as they can maintain global stability but absorb a high degree of uncertainty and still adapt at the detail level. In turbulent environments, planning is still important but it should have a short time horizon, information should be freely distributed and used quickly, it should be about how to do things rather than what to do, and it should include alternative possible outcomes, in other words, less prediction, control and stability and more self or group control to enable quick adaptation to the changes (Jaworski, 1998).

METHODOLOGY

This section discusses and validates the choice of methodology used in the study. The section outlines the research methodology, research procedures and instruments that were adopted in this study.

RESEARCH DESIGN

The survey research design was used in the study. According to Saunders *et al*. (2003) survey research is popular and common in business and management research, as it is associated with the deductive approach. Surveys allow collection of large amount of research information from a sizeable number of people in a way that is very economical. Survey information is easily comparable and easy to standardize.

THE TARGET POPULATION

Population refers to a similar group of people who form the subject of the study in a particular survey. Wegner (2005) states that in research, population parameters comprise of all the possible observations of the random variables under study. The population of this study included all manufacturing companies in Zimbabwe. Respondents of particular target were functional directors as they are involved in strategic decision making for the organizational functions.

SAMPLING

Sampling is a process of selecting a representative subset of observations from a population to determine the characteristics of the random variables (Wegner, 2005). The sampling frame was the CZI list of manufacturing companies in Zimbabwe. Stratified random sampling was applied dividing the population into relevant and significant strata or segments based on industrial location using the four major industrial locations - Graniteside, Workington, Msasa and Willowvale. A random sample was then drawn from each segment.

SAMPLE SIZE DETERMINATION

The sample size was reached by applying the Yamane (1967:886) approach to sample size determination. This approach makes an assumption that there is normal distribution of the estimated sample size. If population sizes (N) are known, the sample size can be computed as follows:

$$n = \frac{n_0}{1 + \left[\frac{n_0 - 1}{N}\right]} \qquad 3.1$$

$$n_0 = \frac{N}{1 + N(e)^2} \qquad 3.2$$

Where: n_0 = first approximation of n
n = is the sample size
N = population size
e = level of precision

QUESTIONNAIRE

This was the research instrument used in data collection. Goode and Halt (1990), define a questionnaire as a device of securing answers by using a form, which the respondents fill by themselves. Wegner (2005) contends that questionnaires are considered most suitable when the targeted respondents are geographically dispersed like the target Harare Manufacturing industry population. The questionnaires were administered personally in order to increase the responds rate and to increase contact with the respondents. The questionnaire was pre-tested on five firms before the final administration. Corrections were made to the questionnaire based on suggestions and recommendations from the pretesting. The researchers administered out 100 questionnaires and only 37 were successfully completed and returned. The 37 questionnaires were assessed in terms of their representativeness; it seems all sectors were represented. Even if it is below 50 percent, the 37 percent was considered for this study

DATA ANALYSIS AND RESULTS

This section presents the analysis of the research results. It first describes the background statistics and then presents the relationship between them. The results are grouped under two sections; general information and research questions. The distribution of the firms sampled by industrial location is shown in Table 4.1.

TABLE 4.1: Response Rates by Industrial location

Location	Frequency	Response rate (Percentage)
Graniteside	8	21.6
Workington	6	16.2
Msasa	10	27.0
Willowvale	13	35.2
Total	37	100

The highest responses were from Willowvale industrial location, followed by Msasa industrial site while Workington industrial site reported the least.

GENERAL INFORMATION

The first question was to ask the respondents to tick the appropriate functional director title. The results are shown in Table 4.2.

TABLE 4.2: Profile of Respondents

Functional Manager	Frequency	Percent (%)
Finance directors	3	8.1
Marketing/Sales directors	8	21.6
Human Resources directors	4	10.8
Operations/Production directors	9	24.3
Procurement/Purchasing directors	5	13.5
General Manager/ Managing Director	7	18.9
Other (IT Director)	1	2.7
Total	37	100.0

The highest number of respondents (24.3%) came from production/operations directors, followed by marketing/sales directors (21.6%). This was followed by managing directors (18.9%) and procurement/purchasing directors (21.1%). The order could be indicating the functions which were mostly affected by hyperinflation.

INDUSTRY CATEGORY

Question 3 asked respondents to indicate capacity utilization levels at their companies between 2006 and 2008.

TABLE 4.3: Industry Category

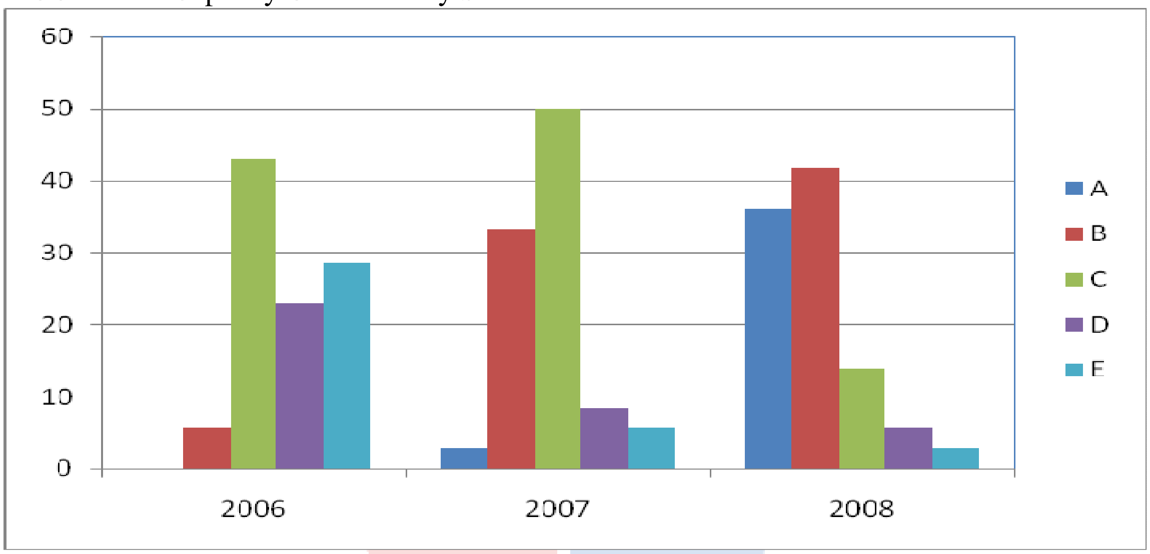
Industry	Frequency	Percent (%)
Food processing	13	35.1
Clothing	4	10.8
Packaging	3	8.1
Pharmaceuticals	1	2.7
Heavy Engineering	1	2.7
Engineering	5	13.5
Chemical	6	16.2
Other(s)	4	10.8
Total	37	100.0

The highest number of respondents came from the food processing category which contributed 35.1%. This was followed by chemical (16.2%), engineering (13.5%), clothing (10.8%), others contributed 10.8% and packaging had 8.1%. The difference could be attributed to the fact that Zimbabwe is an agro based economy. The food industry in any economy ravaged by hyperinflation is likely to continue surviving as compared to other industries. This could be another explanation why this food processing has the highest number of respondents.

CAPACITY UTILIZATION

Most companies (about 78%) operated at less than 31% capacity in 2008 while about 95% of total respondents operated at more than 30% of normal capacity in 2006 and prior. This indicates that capacity was greatly affected by the hyperinflationary period which reached its peak in 2008.

FIGURE 4.1: Capacity Utilization by Selected Period



Key

A=Less than 15%

B= Between 15% and 30%

C= Between 31% and 50%

D= Between 51% and 75%

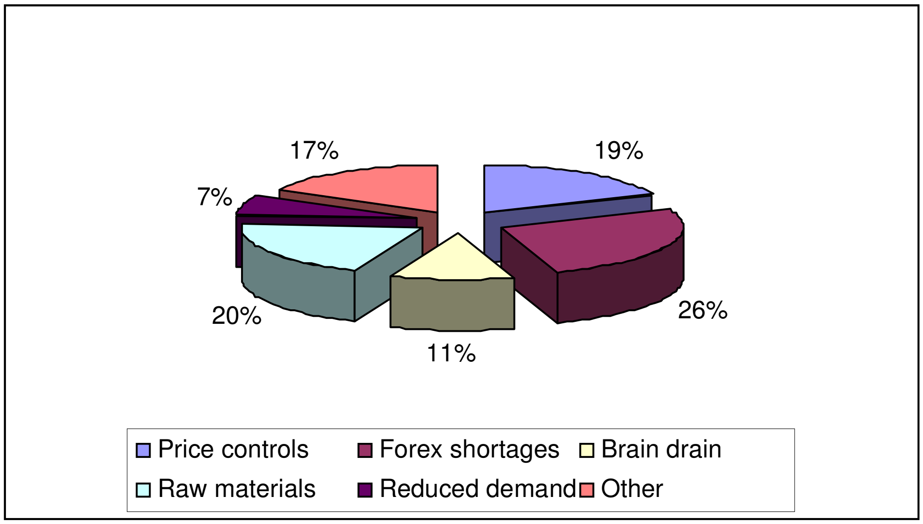
E= Above 75%

From 37 respondents 43% (2006), 50% (2007) and 14% (2008) indicated they were operating at 31% to 30% of their normal operating capacity. Those who indicated that they were operating at 51% to 75% contributed 13% (2006), 18% (2007) and 15% of the respondents. Those who indicated that they were operating at less than 15% contributed 0% (2006), 4% (2007) and 36% (2008) of the respondents. Only 18% (2006), 5% (2007) and about 3% (2008) of the total respondents suggested that they were operating at more than 75% of normal operating capacity.

CHALLENGES FACING COMPANIES

Challenges related to hyperinflation such as continued losses, inadequate resources or other reasons could have been the cause of reduction of normal operating capacity. Question 4 asked respondents to indicate the greatest challenges that their companies faced during this period.

FIGURE 4.2: Challenges Facing Companies

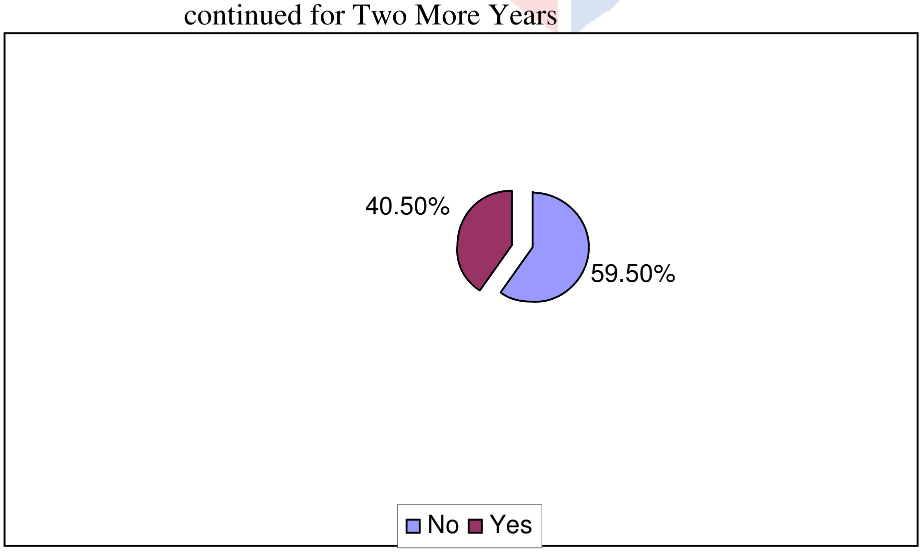


The biggest challenge companies faced during the hyperinflation as indicated by respondents; foreign currency shortages contributed (26%), raw material shortages (20%) and price controls (19%). These also contributed 65% of the challenges that companies faced in the hyperinflationary environment. Brain drain accounted for 11% of the challenges. Fewer companies felt demand did not decline as it only accounted for only 7%. Other specified challenges that were faced include lack of credit lines, high transport costs, shortage of spare parts and machine breakdowns.

PERCEPTIONS ON COMPANY SURVIVAL

The following question asked respondents whether their companies were going to survive if the hyperinflation period had continued for two more years.

FIGURE 4.3: Perception on Company Survival if the Hyperinflation Environment had continued for Two More Years



Out of 37 respondents 59.5% believed that their respective companies will not survive while 40.5% felt their companies will survive.

Of the 15 (40%) who said their organizations could have survived the hyperinflationary environment, their reasons were as follows:

- Getting cheap imports 40%
- Reduced production capacity 13%
- Adjusting operations to suit demand patterns 40%
- Other reasons(eg black market dealing) 7%

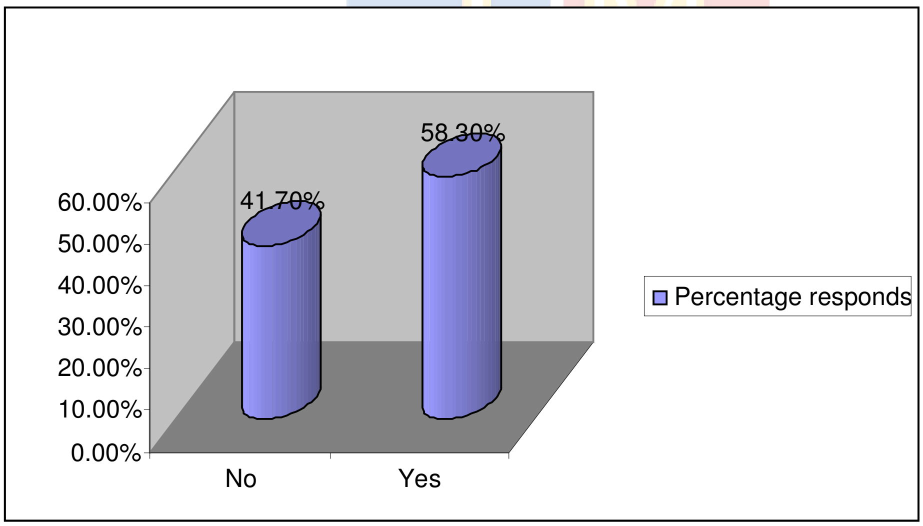
This indicates that these strategies were working. Of the 22(60%) who said their organization could not have survived the hyperinflationary environment, their reasons were as follows:

- Cheap imports flooding market 9%
- Reduced demand 19%
- Low capacity utilization 29%
- Other reasons (e.g. constant price changes) 43%

CENTRALIZED DECISION MAKING

The participants were asked questions whether decision making was decentralized or not during the period of hyperinflation. Of 37 respondents 58.3% (21) did not decentralize decision making while 41.7% (15) employed decentralized decision making as a strategy to ensure faster decisions.

FIGURE 4.4: Decentralized Decision Making



This finding is also consistent with what other researchers found out. For example, Davis *et al*., (1991) described a turbulent environment as the dynamism in the environment, involving rapid, unexpected change in the environment sub-dimensions. They said in this environment, decision windows are shorter; risk of obsolescence is greater, long term control becomes impossible and managers have to learn new ways to operate in this turbulent environment.

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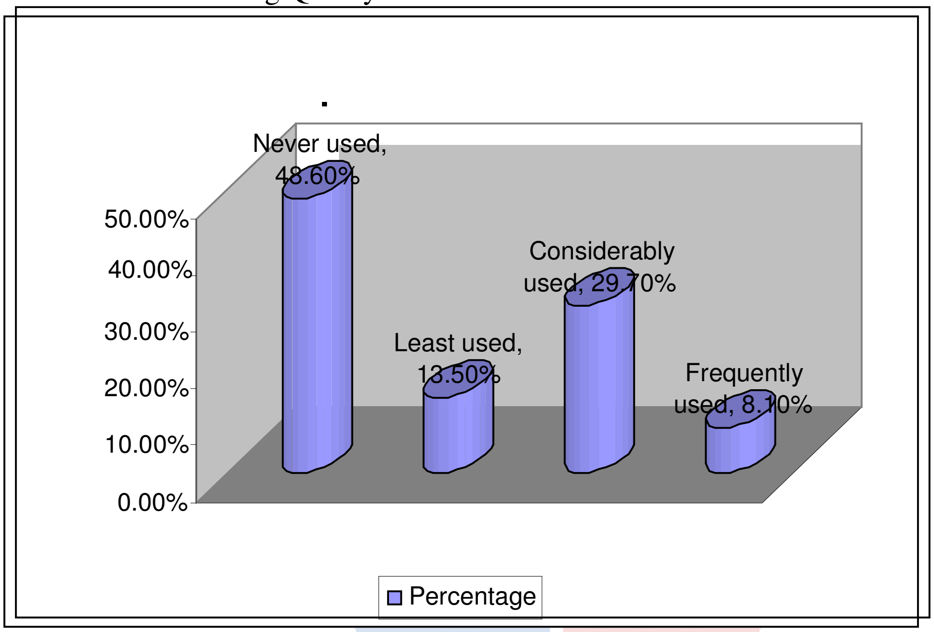
REDUCING QUALITY OF PRODUCTS

FIGURE 4.5: Reducing Quality of Products versus Controlled Price



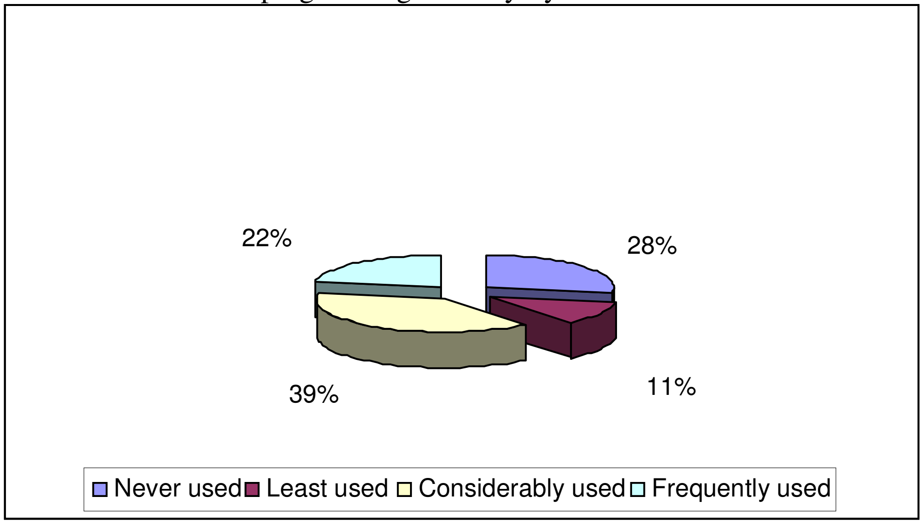
The respondents were asked questions on how the strategy of reducing quality of products to be consistent with the controlled price was used. Of the 37 respondents only 18 (48.6%) never 51.4% used the strategy at least to some extent. Those companies that used this strategy probably wanted to compete with cheap imports from China. Companies that did not employ this strategy may have done so to avoid compromising their product and corporate brands. However, the larger number of the respondents admitted that they used this strategy at some point. This strategy is used by a number of firms according to Manson (2007).

DEVELOPING SYNDICATES

The respondents were asked whether they formed syndicates to establish appropriate reaction to wage and price controls or not. From the 37 respondents 10 (27%) said never used this strategy of joining industry syndicates to develop appropriate reaction to wage and price controls while 25 (73%) used in varying degrees.

Lobbying with those with political power becomes inevitable in order to survive. This could have been the reason for forming syndicates which was not explicitly revealed by the respondents. The milling industry in Zimbabwe for example was very vocal against price controls and wage demand from unions. Speaking with one voice is effective during times of distress. Industry syndicates for the purposes of speaking with one voice were formed during this period. This strategy is effective during period of economic turmoil especially is the government is trying to protect its citizens.

FIGURE 4.6 - Developing/Joining Industry Syndicates



Other marketing strategies that organizations were using to counter the hyperinflationary environment include cash sales, pricing in foreign currency, importing raw materials, investing in fixed assets and holding raw materials.

FINANCIAL STRATEGIES

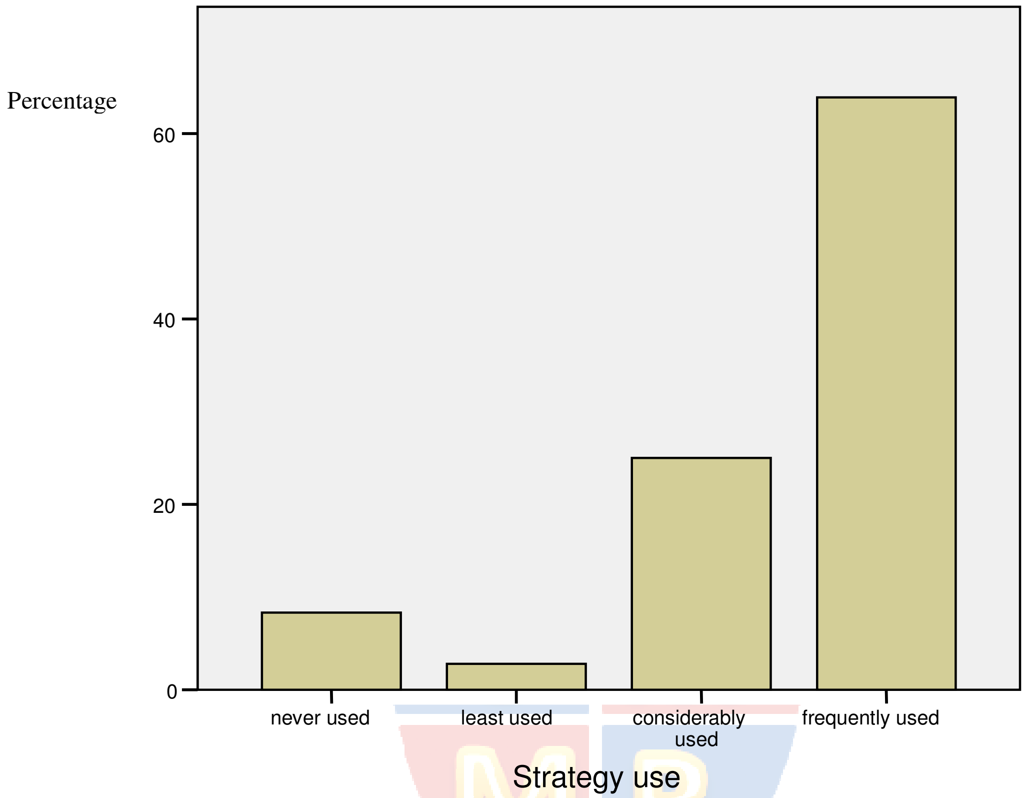
The respondents were asked whether they reduced credit terms and accepted fuel coupons as a mode of payment. The most utilized financial strategy to survive the hyperinflationary environment was the reduction of credit sales. About 87% of the respondents reported that the strategy of reducing credit sales was frequently used as a survival strategy.

The second most used strategy was accepting fuel coupons and foreign currency as a medium of exchange. About 73% of the respondents said that this strategy was frequently used while 19% said that it was considerably used by their organizations. The following graph shows how the acceptance of fuel coupons and foreign currency was used as a financial strategy to survive the effects of hyperinflation.

Other financial strategies that were used include converting Zimbabwe dollars to foreign currency, investing on the stock market, using barter trade and involvement in speculation in commodities and currencies that had better return than capital projects.

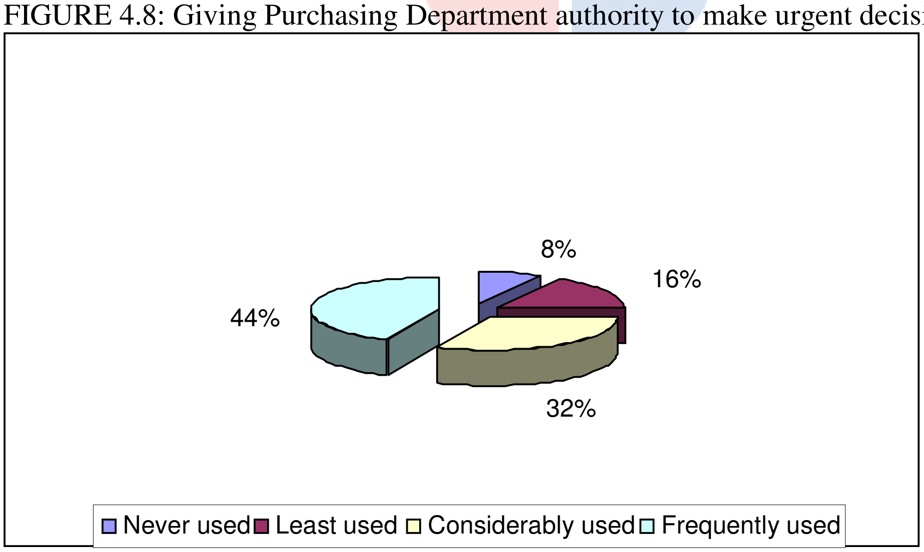
These two strategies that were recommended by Swanson (2007) for a manufacturing firm in a hyperinflationary environment were extensively used by manufacturing companies in Zimbabwe as indicated from the results above.

FIGURE 4.7: Strategy- Reducing Credit Sales



PURCHASING DEPARTMENT

FIGURE 4.8: Giving Purchasing Department authority to make urgent decisions



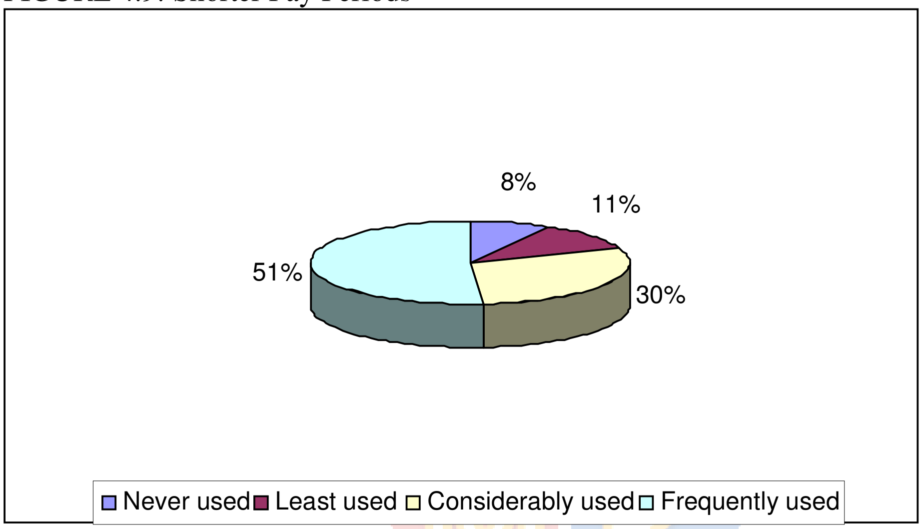
The graph shows that 43% of the respondents gave the purchasing departments authority to make urgent decisions. Of 37 respondents 12 (32.4%) used the strategy considerably and 6 (16.2%) least uses it. Overall, 92% used the strategy for survival. This could have been one of the major reasons that made most companies survive in a hyper inflationary environment. The 92% usage in the study confirms that this strategy is effective in a hyperinflationary environment as indicated by Swanson (2007).

During periods of hyperinflation the workforce is demoralized as remuneration fails to meet the ever increasing cost of living. A demotivated workforce means that the manufacturing firm may not be able to achieve its desired goals.

SHORTER PAY PERIODS

Shorter pay periods were frequently used methods by the Human recourses departments. Most organizations paid their employees twice a month instead of the traditional month end.

FIGURE 4.9: Shorter Pay Periods

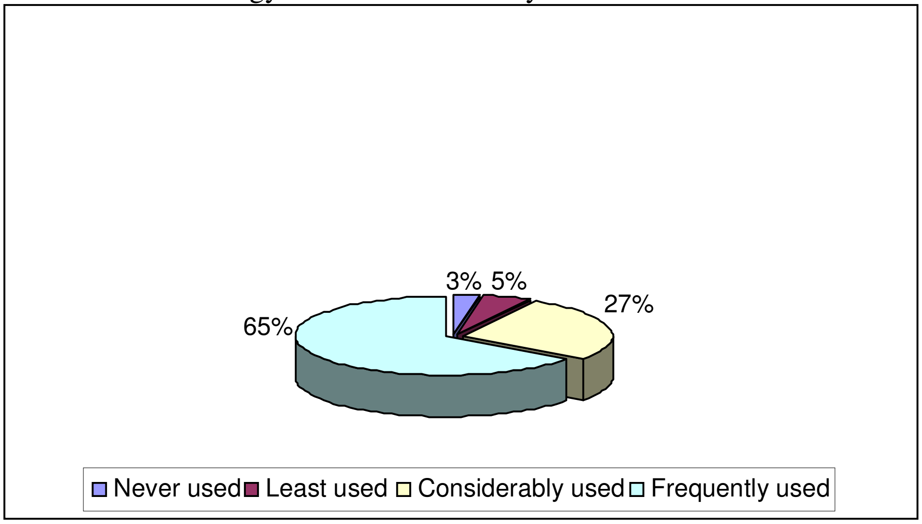


This strategy was also recommended by Swanson (2007) for manufacturing companies operating in a hyperinflation period. There is need for companies to ensure that the workforce is motivated and is focused on achieving the desired goals. Reducing pay periods was effective in trying to achieve this objective.

OTHER FORMS OF PAYMENT

A large proportion of companies indicated that they used other forms of payment such as vouchers, fuel coupons or foreign currency contributed 92% who considerably used the strategy. These were relatively stable currencies compared to the Zimbabwe dollar. Very few indicated that they least used or never used the strategy.

FIGURE 4.10: Strategy: Other Forms Of Pay



Accepting fuel coupons and foreign currency was a common strategy to most companies. These companies could be the same companies which were heavily impacted by brain drain as they fail to pay their employees in the currency which is valuable. Other financial strategies that were used include converting Zimbabwe dollars to foreign currency, investing on the stock market, using barter trade and involvement in speculation in commodities and currencies that had better return than capital projects. It therefore shows that in hyperinflationary environment the value of the currency losses value as both measured by the gorvenment and as perceived by business. Most business would avoid holding cash in local currency in favour of more stable currency to reduce risk of losses due to depletion of assets.

EFFECTIVENESS OF STRATEGIES

TABLE 4.4: Effectiveness Of Strategies

Parameter	Declined	Improved	Breakeven
Profitabilty	26.5%	26.4%	47.1%
Capacity utilisation	77.4%	9.7%	12.9%
Market share	46.4%	21.4%	32.1%
Working hours	63.3%	13.3%	21.3%
Cost reduction	45.2%	41.9%	12.9%

Profitability for 26.5% of the companies declined despite employing the survival strategies, whilst 26.4% had improved profitability. The remainder 47.1% had a breakeven. These figures show- that the survival strategies that were employed by various manufacturing firms in Zimbabwe were effective as they resulted in over 50% of the firms either experiencing a breakeven in profitabilty or an improved profitability.

In terms of capacity utilisation 77.4% of the respondents indicated that there was a decline in this aspect. This may appear to be contradicting with the results on profitabilty. However it is possible that companies did experience a declined capacity utilisation levels but on the other hand achieved improved profitability. Most firms scaled down operations and as a result they managed to reduce operating costs and hence improved profitabilty. Strategies like frequent adjustments of prices, reducing credit terms and barter deals whilst they may not necessarily improve capacity utilsation, have a positive effect on profitabilty.

As expected market share for most manufacturing firms declined as there was a huge influx of low quality cheap products coming from China. Working hours declined significantly during this period. There was also cost reduction as a result of the survival strategies that were employed.

CONCLUSION AND RECOMMENDATIONS

Some companies collapsed while others survived and are still operating to date. The research was undertaken to establish how these companies survived and specifically to identify the strategies that were employed.

CONCLUSIONS

The results showed that the manufacturing sector employed marketing, financial, operational and human resources survival strategies to counter the effects of hyperinflation. The strategies were employed with varying degrees. The employment of strategies resulted in over 50% of the companies experiencing a breakeven or improved profitability. Overall the capacity utilization declined during the period as most companies scaled down operations.

The challenges that were faced by the companies during the hyperinflation included foreign currency shortages, raw material shortages, brain drain, price controls, lack of credit lines and cash shortages. Of the respondents surveyed, 59% indicated that their companies were not going to survive had hyperinflation continued for another two years.

The major findings of the research were that:

- All respondents in the study used some form of strategies to ensure survival.
- The strategies employed were varied. The most frequently used strategies were the marketing and financial strategies. This result correlated with the findings of Swanson (2007)
- Hyperinflation makes a mockery of traditionally sound business practices and makes day-to-day decision making an impossible choice between short-term survival and long-term suicide. Davis et al. (1991) concurred with the same sentiments when he laments that decision windows become shorter and long term control becomes impossible.
- Capacity utilization declined sharply from 2006 (above 75% - 28.6%) to 2008 (above 75% - less than 3%). This is in line with CZI (2007) survey.
- Products without substantial profit margins will disappear from the shelves and production will be increasingly ignored in favour of speculation as the later comes to play a greater role in corporate profit making (Swanson, 2007).
- Of the companies that responded 60% expressed the view that if the hyperinflation environment were to continue for a further two years they would not survive mainly due to constant changes in prices and the low capacity levels at which they were operating.
- Foreign currency shortages, price controls and shortage of raw materials accounted for 65% of the challenges that companies faced in the hyperinflationary environment. Brain drain accounted for 11% of the challenges. Other challenges that organizations faced include lack of credit lines, transport costs, restocking, shortage of spare parts and machine breakdowns. CZI (2007) expressed the same sentiments.

The manufacturing companies that frequently utilized marketing strategies to survive the hyperinflationary environment constituted 40%. Overall utilization of these strategies was 81%. Other marketing strategies that the companies employed to counter the hyperinflationary environment included cash sales, pricing in foreign currency, importing raw materials, investing in fixed assets.

From the total respondents 87% frequently used the financial strategy of reducing credit sales as a survival strategy closely followed by accepting fuel coupons and foreign currency as a medium of exchange. Other financial strategies that were used include converting Zimbabwe dollars to foreign currency, investing on the stock market, using barter trade and involvement in speculation in commodities and currencies that had better return than capital projects.

The research revealed the need to spread the decision-making authority throughout layers of management.

In a hyperinflation environment staff shorter pay payment periods were used. Vouchers, fuel coupons and foreign currency were also used as forms of remuneration.

PRACTICAL IMPLICATIONS

Companies employ different strategies in a hyperinflation environment compared to those under stable environment. In an increasingly turbulent environment the pace and complexity of change also accelerates. Managers must take a more proactive and entrepreneurial approach to the environment. They must look ahead seeking to identify problems and opportunities, reframing problems as opportunities. Operational managers need to be given latitude to make quick decisions as observed by Nyambayo (2008).

Managerial competences vary along with the nature and changes in the business environment. Increased environmental turbulence accompanied by change in uncertainty demands new abilities in the face of new challenges. Companies must be prepared to operate with little or no credit and anticipate difficulty financing capital expenditures. There is need for companies to be prepared for wage and price controls. They should monitor and anticipate government actions.

RECOMMENDATIONS

The following are recommendations for any manufacturing organization that may one day operate in a hyperinflationary environment;

- Decentralized decision making is important to take care of sudden changes in the environment. Functional managers must be given enough room to make decisions without a lot of interference from Head Office. This decentralized decision making is key especially in procurement where verbal orders were allowed.
- There is need for innovation if an organization is to survive the effects of hyperinflation. Innovation comes from a motivated work force. The recommended strategies under human resources of shorter pay periods and paying in vouchers, fuel coupons and hard currency are essential to ensure that the objective of keeping employees motivated are achieved.
- Marketing has one of the greatest responsibilities of making sure that the firm survives in a hyperinflationary environment. The need to constantly adjust prices, understand the changing shifts in consumer tastes and expectations and ensuring that the market share is maintained are key in ensuring survival. Customers may opt for a downgraded product sold at an achievable price. If the marketing department fails to realize this and continues with previous product specifications and adjusting prices accordingly, the company can easily lose its market share. However, during this period there are other customers who may still want the original product and the firm

must satisfy this demand. Companies can go around this problem by introducing new brands into the market which can then be removed once the economy improves.

- Strategic procurement becomes a pre-requisite in this environment. The procurement people must understand the time value of money. For non-perishable goods, it is better to store value in raw materials. Negotiating for quantity discounts, credit terms and procuring from foreign markets must be pursued in such an environment.
- The finance department must spearhead the preservation of wealth for the organization. There is absolutely no need to keep huge amounts of money in the bank. This is the period to acquire raw materials and other assets or to convert the local currency into hard currencies.

AREAS FOR FUTURE RESEARCH

The research was done in Harare for convenience. The study focused on companies that survived the hyperinflationary environment. It looked at the manufacturing sector and not other sectors.

Respondents were functional managers and not company executives like CEO's as they were not readily available. These were not the intended strategists. The subject matter was of a sensitive nature and some companies were unwilling to divulge information on their strategies as these could have been illegal or of strategic nature. There was limitation of time as this was done on a part time basis.

There is a need for further research on the following:-

i) It may be of interest to search for empirical evidence of how much the survival strategies employed by companies perpetuated or exacerbated the hyperinflation. The research findings shows that some of the strategies used were unethical and illegal such as adjusting down the quality of products, changing prices hourly and black market activities.

ii) There is need to study the relationship between companies that survived using survival strategies and those that survived without employing survival strategies.

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