A Case Study Review of the Strategy Formulation and Implementation Link among SMES in Zimbabwe

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Abstract

The importance of SMEs development in the economic activities in Zimbabwe cannot be overemphasized. It has been acknowledged that strategy formulation and implementation are important to both the survival and growth of SMEs, and their continued contribution to economic growth. Despite this realisation, SMEs performance has continued to be marginal, hence the need to review the strategy formulation and implementation linkage. There is evidence that SMEs undertake strategic planning but what happens there after is not very clear. The findings indicate that there are neither forward nor backward linkages between strategy formulation and implementation, nor that each activity is treated as an end in itself rather than as part of a process. SMEs do not benefit from accumulated knowledge and experience.

Key words: Strategy, formulation, implementation, linkages, performance, SMEs, strategic management, owner/manager, Zimbabwe

1. Background

There is a growing realisation in Zimbabwe that there is need to redesign its economic model to focus more on internally driven economic growth anchored in SMES development. Adedeji, as quoted by Acquach (1997, p. 356) states that if there are no major changes in either the domestic or external environments and present trends continue, the outlook for Africa is horrendous. The continent has witnessed significant changes across the spectrum from politics to economic activities. While the majorities of African countries are now recording economic growth, this growth has in the main been driven by exploitation of the continent’s vast natural resources, with foreign direct investment (FDI) playing a major role and China being the major player. African governments have started to question the sustainability of such a model; Zimbabwe, for example, is promoting indigenous entrepreneurship in the form of SMEs in order to attain more balanced economic activities. In the absence of such initiatives, Africa would become more economically dependent than it is at present; its economy would be more exposed to external competition, (Acquach, 1997).

SMEs in all countries including Zimbabwe have experienced stunted growth for more than a decade. In 2012, it was estimated that, of the currently employed population over the age of 15 of 5.4 million, 84% were in informal employment, 11% were in formal employment and 5% were in employment not classifiable (Zimstats survey results, 2012).

Having realised the contribution of SMEs to economic growth, the Zimbabwe Government came up with a cocktail of policy measures. Despite policy interventions which reached their peak (Mufudza, Jengeta and Hove, 2013) in the decade after the year 2000, Zimbabwe’s economic performance has continued to deteriorate. Studies by Zimstats (2012) have revealed that only 28 percent of the over 2 million informal businesses in the country offer employment to other people other the business owner. This means that the majority of informal businesses are mere job substitutes. Many policies were passed in a bid to solve the economic woes, to the extent that businesses had hardly had time to adjust to the policies when more were added (Mufudza et al, 2013). This suggests that while policy regimes may be helpful, in the case of Zimbabwe, they achieved very little and in some cases had negative effects. A case in point was the shortage of basic commodities during the period 2007 to early 2009 following government’s decision to slash prices or to print money (Mufudza et al, 2013).
The very survival of SMEs is thus under threat and there is need for them to strategise to counter these environmental challenges and increased competition. It is acknowledged that strategy formulation and implementation are important in achieving both SMEs survival and growth.

Most SMEs have adopted entitlement mentality which takes the responsibility for the success of individual organisations out of the hands of the owners and places it with government and other institutions. SMEs believe that someone, especially government, should support them; thereby creates a dependence syndrome. SMEs should take the initiative themselves. Urban (2004) adds that instead of hoping for massive capital injections to improve business performance, transitional economies would be well advised to implement formal self-efficacy programmes to foster individual initiatives for entrepreneurial empowerment. Such programmes would enable entrepreneurs to fashion their own destiny, through the formulation of a strategic plan.

It is therefore frustrating to hear Zimbabwean entrepreneurs continuing to call for government intervention and consequently SMEs tend to put in marginal efforts to attain self-set objectives in order to qualify for assistance programmes. This is reflected by businesses that were promised financial assistance through the Dimaf programme launched by the Zimbabwean government in 2010. The businesses have done nothing to increase their levels of production as they await government assistance. Their business outlook has continued to deteriorate in the meantime.

The lack of clear strategic plans and their proper implementation could be the missing link in SMEs development in Zimbabwe. This study seeks to examine whether SMEs in Zimbabwe implement what they had initially planned to undertake in the form of strategic plans. The objectives of this study are:

- To establish the planning behaviour of SMEs in Zimbabwe.
- To examine whether there are linkages between strategy formulation and implementation.
- To analyse whether SMEs use existing organisational knowledge in planning and implementation activities.

2. Literature Review

The very survival of SMEs is thus under threat and they need to strategise to counter environmental challenges and increased competition. All companies, including SMEs, are exposed to a harsh business environment in Zimbabwe. One might wonder how businesses can formulate and execute strategies in such a turbulent economic environment (Mufudza et al, 2013). Some authors have argued that most businesses fail due to management deficiencies. de Waal (2007) argues that, in the five years prior to his study, more shareholder value was destroyed as a result of mismanagement, wrong decisions and poor execution of strategy than through compliance standards and scandals combined. He cites the Booz Allen Survey of 1 200 large corporations that found that of the 360 worst performers, 87% of value destroyed was caused by strategic missteps and operational ineffectiveness.

Smit and Cronje (1992) observed that the survival rate of small businesses in South Africa tends to be quite low compared with similar organisations in Singapore and the USA. They note that the survival rate in Asia, Latin America and West Africa is on average 50%; while in East and Southern Africa (inclusive of Zimbabwe) it is only about 10%. There seems to be a major discrepancy in the manner in which SMEs are spawned in Southern African and how they are managed, resulting in this low survival rate. Ekwulugo (2006) confirms that small businesses are struggling to survive at both national and international level, an indication that all might not be well in terms of SMEs’ management practices.

Kohtamaki et al (2012) argue that strategic planning contributes to the success of SMEs; however, they indicate that there have been contradictory findings with regard to the planning-performance relationship. However, Dandira (2011) notes that although remarkable progress has been made in the field of strategic management, the problem of strategy implementation failure persists. To avoid failure, SMEs in Zimbabwe have to pay particular attention to issues of strategic planning and implementation.

Ekwulugo (2006) believes that strategy reflects a firm’s short and long term responses to challenges and opportunities posed by the business environment. Smallbone et al (2006) add that the management actions associated with these aspects are characterised as “adjustments” made by firms to changes in external conditions and in the circumstances of the firm, since actions are closely related to implementation and ultimately the performance of organisations. It is clear that a poor or vague strategy can limit implementation efforts.
dramatically; hence the kind of strategy that is developed will influence the effectiveness of implementation (Li et al, 2008). Increasingly intense competition has made continuous planning and quality improvements prerequisites for the survival not only of large firms, but SMEs (Temtime, 2003).

The benefits of strategic planning and implementation cannot be overemphasized. Mugler (in Raymond and Crouteau, 2006) advises that SMEs must develop themselves strategically in order to remain competitive, grow and prosper. However it has been acknowledged by authors like Mboko and Smith-Hunter (2009) that SMEs are reactive in their business approaches, which might mean that they do not have a clear, long term view of where they want to take their businesses to. Being reactive might affect SMEs’ ability to remain competitive or to grow. They are forced to adapt to new circumstances and as they play catch up, effective implementation might be compromised, to the detriment of their performance.

Given that Mboko and Smith-Hunter (2009) observed that Zimbabwean SMEs are in the early stages of strategy formulation, it is unlikely that they are using strategic planning tools. Effective strategy formulation requires the effective setting of objectives, the identification and evaluation of alternative action and the implementation of the selected choice (Tan & Platts, 2006). Mboko and Hunter-Smith note that these SMEs’ planning is limited to visioning and objective setting. This could cause differences in the implementation approach dictated by the economic environment in the country. Very little is known about how SMEs in Zimbabwe actually plan and implement for survival and growth. Given that strategy formulation is a critical step in strategy implementation, Crittenden and Crittenden, as cited by Tapinos et al (2005) contend that strategic planning should attempt to systematise the processes that enable the organisation to achieve its goals and objectives. In SMEs, the emphasis might lie elsewhere and the steps involved might be too cumbersome. They add that there are five steps in the strategic planning process: goal/objective setting, situation analysis, alternative consideration, implementation and evaluation.

Due to the processes involved in strategy formulation, most SMEs in Zimbabwe end up adopting strategies that have been used in other contexts. This implies a lack of commitment to the borrowed objectives and strategies by both the employer and the employees, resulting in less vigour in pursuit of the said objectives. Naicker and Saungweme (2009) showed that SMEs adopted strategic alliances as a strategy but the failure rate was as high as 75%. Strategy implementation has been the focus of numerous studies, particularly because the process from project formulation to project implementation is not effective and therefore not adequate in today’s business world (Sorooshian, Norzima, Yusof & Rosnah, 2010). Issues such as the involvement of the implementers (Dandira, 2011) could be the missing link in successfully implementing the strategy.

Adopting strategies from other organisations indicates that organisations are not considering their long term success, but are focusing on issues that might extricate them from the immediate situation. The “burning of cash” as noted by Mufudza et al (2013) sought to address liquidity challenges in the Zimbabwean economy, but this was short-lived and eventually decimated by the adoption of multiple currencies.

Suominen and Mantere (2010) argue that it is exceptional to come across an organisation that has no plans or objectives labelled ‘strategic’, whether it is operating in the private, public or third sector. They further contend that strategy appears to have penetrated almost every organisation, obliging managers to follow suit and submit themselves to the principles of strategic management. If the plans are not of the required quality, they might produce substandard performance or a lack of enthusiasm to implement them.

Dobbs and Hamilton (2007) argue that once such a goal has been established, the specifics allowing enterprises to achieve their growth strategy become less clear. Such specifics would include the manner in which organisations go about implementing strategy. Evidence of strategic planning does not in itself determine the performance of SMEs. SMEs have failed to deliver on their plans due to several handicaps. Bouzidine-Chameeva (2006) argues that formulating a credible strategy is explicitly based on analysing distinctive competencies that are unique to a company, difficult to copy and could be used to exploit opportunities and create synergies in order to provide distinct strengths, thus helping to generate significant profits as well as reduce risks.

Like elsewhere, SMEs in Zimbabwe tend to focus on the immediate, where implementation (Temtime & Pansiri, 2006) is driven by short term objectives, especially profits. The profit motive seems to drive strategic planning and implementation in Zimbabwe at the expense of other aspects of strategic management. SMEs therefore tend to take shortcuts to strategy implementation.
Ashill, Frederikson and Davies (2003) contend that corporate strategy should focus on internal resource allocation, which influences the short term performance demanded by controlling shareholders. Most SMEs are concerned with short term performance goals rather than what Ashill et al (2003) term “robust strategies” which concern long term survival by ensuring that steps are taken to counter potential threats.

Mufudza et al (2013) observe that organisations in Zimbabwe tend to adjust strategies at least four times a week in the hyperinflationary environment. This approach presents a uniquely Zimbabwean approach to strategy implementation which does not allow for strategies to be wedded to the psyche of the organisation concerned. There is pressure to react (Mboko & Smith-Hunter, 2009) and this might generally affect how SMEs in Zimbabwe implement strategies in the long term given the short term orientation of some businesses. Ninety six percent of the respondents in Temtime’s (2003) study stated that it was not possible to effectively operate without business plans. Bonn (2002:36) and Kraus et al (2006) found that there was a positive relationship between strategic planning and performance. Seventy percent of the studies in their analysis identified a positive relationship, which suggests broad support for the performance impact of strategic planning. The availability of a plan does not in itself translate to effective implementation because, as Chen et al (2008) argue, organisational implementation determines the implementation and operational results of an organisation’s strategy. Implementation, according to Chen et al, is core to the competitiveness of an organisation and determines its development.

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SMEs are said to have formal or informal visions and missions (Mboko & Hunter-Smith, 2009; and Naicker & Saungweme, 2006). The quality of planning among SMEs could also impact on strategy implementation. Every year, top management put great effort into developing strategic plans, but by the end of the year these have been shelved; often, middle and grassroots managers do not understand the strategy and are not provided with clear direction on the work they are expected to do (Dandira, 2011 and Chen et al, 2008). Therefore pre-implementation protocols might be totally overlooked even though they are critical to strategy implementation and include variables of strategy and structure (Snider, da Silveira & Balakrishnan, 2009).

Dobni et al (2001) show that there is clear evidence that executives have been unable to move strategy out of the boardroom onto the playing field. Failure to move from planning to action is a serious handicap to all businesses, particularly SMEs in Zimbabwe which have a key role to play in improving living conditions in the country. Brilliant strategies do not always succeed, often succumbing to less than brilliant implementation processes that reinforce traditional organisational boundaries (Dobni, Dobni & Luffman, 2001).

According to Jooste and Fourie (2009), for the past two decades, strategy formulation has been widely regarded as the most important component of the strategic management process - more important than strategy implementation or strategic control. They further argue that the high failure rate of organisational initiatives in a dynamic business environment is primarily due to poor implementation of new strategies. Kumar, Markeset and Kumar (2006) are of the view that strategic management is gradually shifting from paying 90% attention to formulation and 10% to strategy implementation, to paying equal attention to both. Strategy formulation is a key step in successful implementation but strategy formulation does not necessarily lead to robust performance. The missing piece in the whole strategic planning process could be strategy implementation.

Although remarkable progress has been made in the field of strategic management, the problem of implementation persists (Dandira, 2011). This study seeks to confirm the use of strategic planning by SMEs in Zimbabwe but, more importantly, establish the approaches that SMEs adopt to formulate strategies, given the country’s continued economic challenges. Do they follow a business driven approach in formulating strategy, they should ponder less and do more. They emphasized that businesses need to match strategy to implementation, pointing out that during the hyperinflationary era in Zimbabwe, most companies were changing strategies an average of four times a week, due to external forces, which were changing on a daily basis.

Dandira (2011) observed that there is a missing link between the formulation stage and the implementation stage. Dandira is looking at the strategy formulation process, but what happens when the plan is in place becomes very important. Apart from wasting considerable amounts of time and money, the failure of strategy implementation causes lower employee morale and diminished trust and faith in senior management (Sorooshian et al, 2010). The main issue is therefore for SMEs to carry out strategy implementation in an effective manner. In summary, the following conceptual framework developed by Sorooshian et al epitomises the focus of this study.
This study will examine the strategy formulation approaches used by SMEs in Zimbabwe and investigate whether the approach has any influence on how the strategies are implemented. Strategy implementation will eventually lead to strong organisational performance. The link between strategy formulation and implementation of strategy among SMEs in Zimbabwe needs to be investigated in order to enhance overall implementation and eventually overall performance. Do SMEs in Zimbabwe follow a structured format in moving from strategy formulation to implementation? What links exist between strategy formulation and implementation or are these activities completely divorced and not influencing each other? There is very little literature on how SMEs in Zimbabwe implement strategies; thus calls for exploratory studies on this issue.

3. Research Methodology

This was a qualitative study involving the use of multiple case study approach. Eight SMEs organisations in four Zimbabwean cities were selected for this study using convenient sampling. Organisations had less than 100 employees, having been in existence for 5 years and were showing signs of growth, were used in this study. In depth interviews were held with the owner managers for these organisations. In addition, observations and secondary document analysis were used to support the data gathered from the interviews. Data analysis was done using Atlasti and content analysis.

4. Findings and discussion

The study revealed that SMEs in Zimbabwe generally practice strategic planning although six organisation did not formalise the strategy formulation process. Only two organisations had written strategic plans and went through a formal strategic formulation process. The management team jointly came up with the strategic plan. With regard to the other six organisations, the owner or family members came up with the strategic plan/vision. As a result the emphasis was on the social security of the owners rather than a business focussed vision and goals. The focus of those SMEs who planned formally was business growth, while those that focussed on social security aimed more at survival.

Stonehouse and Pemberton (2000) confirm that the vast majority of organisations participating in the service sector appear to plan strategically in the sense of having a clearly articulated vision and mission statement supported by business level objectives. They report that organisations also set strategic targets in terms of sales, profits and costs, with the manufacturing sector placing greater emphasis on these aspects than service oriented companies. Unfortunately, these targets did not exist in the SMEs studied in Zimbabwe. The findings resonate with Tan and Platts’s (2006) study that observed that current strategy frameworks and processes focussing on broad direction and the establishment of objectives. However there was no indication in their study of whether or not SMEs actually implemented these visions or targets and how these targets were actioned or achieved.

The above findings seem to be at variance with Kraus et al (2006:336), who propounded that strategic planning is commonly characterised by the following three criteria:

- “A long term view
- Strategies in written form; and
- Evaluation and control (Rue and Ibrahim, 1998).”

The differences could have been due to differences in the operating environment. While Kraus et al conducted their study in a stable environment the Zimbabwean environment has at best been very volatile, not allowing business to focus on either the long term view or the formalised and written version. Temtime and Pansiri (2006)
SMEs. Strategies were not clearly thought through hence their negative consequences on the performance of the typical SMEs previous bought assets had to be sold to raise the necessary resources for the clearance of the businesses including retailing and transportation operations in this study focused more on socially driven months accumulating storage charges. The purchase of the trucks was a separate activity to clearing them and in terms of strategic planning, what was apparent was the nature of the vision adopted by the businesses. Traditional planning and performance in small firms. Although there was evidence of growth in the SMEs due to some form performance. However, the empirical results draw a differentiated picture of the relationship between strategic performance review mechanism and the absence of prior set performance targets. For example GRU 2 opened

Save for HRE 2 and BYO 2, the SMEs under study did not have written strategies or robust evaluation and control mechanisms. Despite the owners’ high levels of academic achievement, the other six did not have a long term focus or a formalised planning system. They did not evaluate performance, save for the ability to meet obligations and when they failed to meet obligations they tended to negotiate with employees to forego salaries.

The six entrepreneurs adopted an approach similar to that noted by Mboko and Smith-Hunter’s (2009) study. They found that while those cases using complete planning have a vision, it is short term in nature and has a high situational responsiveness. BYO 1, GRU 1 and MRE 1 favoured this approach; they de-emphasized their business focus to pursue ideas that had income generating potential. This could have been influenced by the rapidly changing business environment in Zimbabwe. As businesses struggled to recapitalise in an illiquid market, SMEs could have been more inclined to focus on survival rather than growth.

This study also confirmed that SMEs in Zimbabwe adopted some form of strategic planning. Kraus et al (2006), Mboko and Hunter-Smith (2009) and Temtime (2001)’s findings show that smaller enterprises do in fact plan strategically. In addition, Kraus et al’s empirical investigations show that strategic planning can contribute to performance. However, the empirical results draw a differentiated picture of the relationship between strategic planning and performance in small firms. Although there was evidence of growth in the SMEs due to some form of strategic planning, what was apparent was the nature of the vision adopted by the businesses. Traditional businesses including retailing and transportation operations in this study focussed more on socially driven visions, where the emphasis was on the social security of the owner. When they implemented strategies they tended to adopt diversification in unrelated businesses, e.g., GRU 1 started by retailing cement, then moved to transport, estate management, construction and is now gravitating towards real estate. This was also the case with the other five SMEs classified as traditional businesses. This provides evidence of some form of strategic planning and the selection of particular strategic choices. Mboko and Hunter-Smith (2009) concede that SMEs’ planning tends to be survivalist oriented, which is slightly different from the findings of this study which points to a social security anchoring.

On the other hand, businesses in competitive sectors like manufacturing and advertising adopted formalised strategic plans which were business focussed and used these to drive their organisations. Consequently these businesses witnessed substantial growth in both revenue and business assets. HRE 2 and BYO 2 confirmed the notion that formalised strategic planning enhances organisational performance. Stonehouse and Pemberton (2000) found that when SMEs practiced strategic planning, performance tended to be high. On the other hand, informal strategic planning led to suboptimal performance; the owners were merely concerned with their own security. For example BYO1 bought a ten hectare plot which was eventually put to commercial use after twelve years. It was just being held as an asset that will be utilised on a rainy day. It was only put to use when the principle bookshop operation began to experience problems. In the first year the plot was produced tomatoes at the rate of 8 tonnes per day yet the market required only one tonne per week. There was a serious mismatch, therefore SMEs owners did not fully use their strategic plans or than the plans were poorly crafted. Although the literature does not confirm this view, one would be inclined to believe that a lack of planning leads to suboptimal performance.

Secondly there was no effort made by the owner/manager to break down their overall plan into tasks and activities. For example GRU1 imported three trucks from the United Kingdom but no funds had been set aside for the clearance of the trucks from Namport in Namibia. The vehicles remained impounded for over four months accumulating storage charges. The purchase of the trucks was a separate activity to clearing them and in typical SMEs previous bought assets had to be sold to raise the necessary resources for the clearance of the trucks. Strategies were not clearly thought through hence their negative consequences on the performance of the SMEs.

Lastly the SMEs studied did not reverse link strategy formulation to strategy implementation, which in a way can be considered as utilising existing organisational knowledge in strategizing. Therefore these organisations tend to lose out on accumulated knowledge and experience. This resulted to a certain degree from the absence of a performance review mechanism and the absence of prior set performance targets. For example GRU 2 opened

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Lastly the SMEs studied did not reverse link strategy formulation to strategy implementation, which in a way can be considered as utilising existing organisational knowledge in strategizing. Therefore these organisations tend to lose out on accumulated knowledge and experience. This resulted to a certain degree from the absence of a performance review mechanism and the absence of prior set performance targets. For example GRU 2 opened
a new supermarket in Mutare but there was no prior consideration as to what revenues and profits the new unit will contribute to the organisation. Opening the branch was thus an end in itself and not a part of the overall organisational outlook. Strategic management thus became isolated activities that could not be harmonised for the benefit of the organisation.

5. Conclusions

Although there was evidence that, SMEs had strategic plans but the strategic planning approaches were in line with the whims of the owners. Owners in traditional businesses like transportation and retailing tended to adopt informal strategic planning; their major emphasis was security. This was considered to be suboptimal in that it did not take into consideration the environmental variables and resource availability. A case in point was the importation of trucks by one respondent without consideration of duty payments amounting to $30000. Businesses with a social security vision focused on survival rather than growth. This was reflected in the general strategy of unrelated diversification. This will not contribute much to the economic development of Zimbabwe.

The SMEs in competitive industries like manufacturing and advertising adopted aggressive business strategies which enabled them to achieve rapid growth. HRE 2 and BYO 2 focussed on success rather than personal security and hence adopted a different approach to both their choice of strategy and strategy implementation. If SMEs are to contribute to economic growth, they need to adopt business focussed strategies rather than focus on their own social security.

6. Recommendations

The following recommendations are offered to enhance the ability of SMEs in Zimbabwe to achieve both business growth and ultimately the growth of the country’s economy.

Universities and development partners should mentor local SMEs to develop their strategic planning and implementation skills by offering in house training to SMEs management. This will help to develop a strategic planning culture among SMEs. According to Al-Turki (2011), “Strategic planning is a culture as much as it is a process. Spreading the culture throughout the organisation is a major success factor of strategic planning. The culture can be achieved by awareness sessions and training workshops at all levels of the organisation.”

The Ministry of SMEs should be mandated to supervise, monitor and fund a training programme to give SMEs owners, hands on training in strategy formulation and implementation, since most will find it difficult to release funds for such programmes. Support for SMEs should be linked to such training programmes.

If SMEs are to grow and contribute to the Zimbabwean economy, there is need for SMEs owners to focus on a business vision and strategy rather than the owners and their family’s social security. One way to achieve this is the involvement of major stakeholders. The absence of key stakeholders in the development process leaves gaps in the analysis and evaluation of strategic options (Al-Turki, 2011).

For sustained growth, there is need for SMEs to focus on related diversification rather than unrelated diversification and national expansion. This will ensure that resources are properly focusses rather than the thinly spread approach adopted by the majority of SMES owners.

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