STRATEGY FORMULATION AMONGST SMALL AND MEDIUM MANUFACTURING ENTERPRISES: AN EMERGING MARKET CASE STUDY

Mugove Mashingaidze *, Maxwell A. Phiri **, Mapeto Bomani ***

* Corresponding author, Department of Management Studies, School of Commerce, Great Zimbabwe University, Masvingo, Zimbabwe
Contact details: Department of Management Studies, School of Commerce, Great Zimbabwe University, P.O Box 1235, Masvingo, Zimbabwe

** School of Management, Information Technology and Governance, College of Law and Management Studies, University of KwaZulu-Natal, Pietermaritzburg, South Africa

*** Department of Business, Management, & Entrepreneurship, Botswana International University of Science & Technology, Palapye, Botswana

How to cite this paper: Mashingaidze, M., Phiri, M. A., & Bomani, M. (2021). Strategy formulation amongst small and medium manufacturing enterprises: An emerging market case study. Journal of Governance & Regulation, 10(1), 158-166. https://doi.org/10.22495/jgrv10i1art15

Strategy formulation has traditionally been associated with large corporates (Damke, Gimenez, & Damke, 2018). The literature on strategy formulation is rich, but this literature does not capture the intricacies of small and medium enterprises (SMEs) in emerging markets (Ahmed & Mukhongo, 2017). The study aims to gain an understanding of strategy formulation practices among the SMEs in emerging markets, particularly Zimbabwe. The philosophy of interpretivism guided the study. The study adopted a qualitative case study strategy in which data collection was conducted through semi-structured interviews with 15 manufacturing SME owners/managers in Harare, Zimbabwe. The results of the study revealed that the majority of participants understand strategy formulation and are greatly involved in strategy formulation. However, the study revealed that strategy formulation is not logically and systematically done thus does not resemble the conventional textbook strategic formulation models. Theoretically, the findings revealed that strategy formulation in SMEs is both an externally (market-based) and internally (resource-based) guided practice. The study advises SMEs to balance professionalism and responsiveness when strategising, that is balancing the process perspective with the learning perspective. The study was conducted in one city; similar studies could be conducted in other parts of the world to find similarities and differences.

Keywords: Business Strategy, Small and Medium Enterprises, Strategy Formulation, SWOT Analysis, Zimbabwe

Authors’ individual contribution: Conceptualization - M.M.; Methodology - M.M.; Investigation - M.M.; Resources -M.M. and M.A.P.; Data Curation - M.B. and M.A.P.; Writing - Original Draft - M.M., M.B., and M.A.P.; Writing - Revision & Editing - M.M., M.B., and M.A.P.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

Acknowledgements: We would like to thank all the participating manufacturing SMEs in the survey. We also acknowledge the role of the Ministry of Women Affairs, Community, Small and Medium Enterprises.
1. INTRODUCTION

The need to understand the strategic management processes of small and medium enterprises (SMEs) has been the primary focus for many authors (Conz, Denicolai, & Zucchella, 2017). The current unpredictable operating environment requires enterprises of all sizes to engage in proper management practices, particularly those relating to strategy formulation (Melo, Sproesser, Campos-Silva, & Souza, 2018). Strategy formulation, a key facet of strategic management (Pasha & Poister, 2017), is one of the main processes through which enterprises identify and interpret strategic issues and events that may have a potential impact on their growth (Majama & Magang, 2017). Singh (as cited in Pratiwi, Sutopo, Roni, & Rasli, 2017) define strategy formulation as “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” (p. 87-47). The study defines strategy formulation 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 (Auka & Langat, 2016). Literature substantiates that the terms strategic planning, strategy formulation, strategy development, strategy making mean the same thing (Pratiwi et al., 2017; Abosede, Ohasan, & Alese, 2016). This study uses the terms interchangeably.

Several studies have been conducted on the strategy formulation amongst SMEs across the developed world (Damke et al., 2018). Valčić & Bagarić (2017) investigated the strategy process of SMEs in the United Kingdom (UK) and concluded that strategic management aspects are still and largely relevant to SMEs. In the United Arab Emirates (UAE), Siddique (2015) found that emergent strategising is common in the UAE SME sector and SMEs often plan for both short and longer periods. Mattheeusen and Spontak (2018) established that Swedish SMEs are more mature in strategy formulation and formalise their strategy making. Similarly, Damke et al. (2018) note that SMEs in developed countries have strategy formulation processes that resemble the textbook Strategic Planning Model. This is evidence that SMEs in developed countries have a great understanding of strategic planning.

Research on the practice of strategy formulation in SMEs is limited in emerging markets (Majama & Magang, 2017), especially Zimbabwe. While on this, David, David, and David (2017) claim that the strategy development process of enterprises in developed countries differs from those in emerging countries. Damke et al. (2018) affirm that much literature on strategy formulation in emerging markets has traditionally focused on large enterprises. Williams, Manley, Aaron, and Daniel (2018b) claim that the strategy formulation practices in SMEs may be different from their larger counterparts. The available literature does not capture the intricacies of SMEs in emerging markets (Ahmed & Mukhongo, 2017; Majama & Magang, 2017). The current study seeks to close the gap.

Williams Smith, Aaron, Manley, and McDowell (2020) claim that despite previous researches having acknowledged the role of strategy formulation in building SMEs’ competitiveness, none has dared to look at the theoretical models that guide strategy formulation in SMEs. According to Bekele (2018), the market-based view (MBV) and the resources-based view (RBV) are the two theories that are commonly used to direct strategy management research. Bamiatzi, Bozos, Cavusgil, and Hult (2016) note that the MBV recommends firms formulate strategies based on the external industry-level factors while the RBV insists that strategy formulation should be guided by the firm’s internal and unique resources and capabilities (Burvill, Jones-Evans, & Rowlands, 2018). The MBV is not a substitute for the RBV in explaining strategy formulation; rather the two theoretical perspectives should be seen as two sides of the same coin (Bekele, 2018). Hence, Burvill et al. (2018) note that the two theoretical streams shape strategy formulation in SMEs. In its quest to obtain an understanding of the strategy formulation practices of SMEs in emerging markets, the study endeavored to establish the theoretical perspective that best explains the development of business strategies in SMEs. The empirical findings of this study have important theoretical implications as they influence strategic management literature.

The results of studies conducted in other countries cannot be generalised to Zimbabwe, as the contexts are different. Shi, De Clercq, Zhou, and Liu (2019) called for further studies in other contexts as different countries have different cultures, environments, and dynamics that influence the strategic behaviours of enterprises. This paper considers Zimbabwe as its context. Zimbabwe is one of the emerging countries in Southern African (Government of Zimbabwe, 2018). The country has faced socio-economic hiccups characterized by poor economic performance, slow industry growth, the closure of large enterprises; inter alia (Derera, Croce, Phiri, & O’Neill, 2020). As such, SMEs are the only hope for the Zimbabwean economy (Mabenge, Ngorora-Madzimure, & Makanyeza, 2020). Thus, the current study addresses this gap by exploring how SMEs formulates their strategies to navigate the stormy waters. In Zimbabwe, SMEs are now regarded as the new economy given that as of 2018 more than 60% of large local enterprises had since collapsed (Mabenge et al., 2020).

The contribution of this paper is that it unravels 1) the strategy formulation practices amongst SMEs in emerging markets, and 2) the theoretical approach to strategy formulation amongst SMEs in emerging markets. Data were obtained from the manufacturing SMEs in Harare, Zimbabwe. The rest of the paper is organised as follows. Section 2 presents a review of the literature. Section 3 presents the research methodology. The study results are discussed in Section 4, and lastly, Section 5 presents the paper’s conclusion and managerial implications.

2. LITERATURE REVIEW

2.1. Small and medium enterprises

Small and medium enterprises (SMEs) are defined differently across various countries, regional blocks, sectors, industries and, multinational institutions
The term "SME" incorporates a diversity of measures and definitions that vary across countries and SME statistical sources (Corsi & Prencipe, 2017). The absence of a standard definition of SMEs has negatively affected the design, implementation, and evaluation of SME-related policies (Hettihewa & Wright, 2018). The absence of a universally accepted definition of an SME makes scholars and practitioners define them either by using qualitative and/or quantitative measures (Corsi & Prencipe, 2017; Mageto, Prinsloo, & Luke, 2018). SMEs are defined by their qualitative aspects, which are in most cases their assumed characteristics (Omsa, Ridwan, & Jayadi, 2017). These characteristics reflect the economic patterns of their home countries (Mamman, Bawole, Agbebi, & Alhassan, 2019).

The quantitative criterion for defining SMEs include the number of full-time employees, total net assets, annual turnover, and investment levels (Makiwa & Steyn, 2019; Williams et al., 2018b; Mageto et al., 2018). In Zimbabwe, SMEs are defined both quantitatively and qualitatively. The Zimbabwe Revenue Authority (ZIMRA) (2018) defines an SME as "a non-subsidiary, formally registered independent firm with total annual sales not exceeding USD 2 million, net assets worth not more than USD 2 million and employing between 10-40 permanent employees (small) and 41-75 permanent employees (medium)" (p. 3).

The current study defines a manufacturing SME as a formally registered, non-subsidiary, independent enterprise that transforms raw materials, components into items of greater value, employing between 10 and 75 people, annual turnover not exceeding USD 2 million and asset base of not more than USD 2 million. According to Bomani (2015), there are 3.4 million SMEs in Zimbabwe, of which 5% are found in the manufacturing sector generating about USD 356 million annually. The Small and Medium Enterprises Association of Zimbabwe (SMEAZ) (2019) survey revealed that the manufacturing SMEs cuts across all sectors from furniture processing, food processing, clothing production, chemical petroleum to metal fabrics.

According to Makiwa and Steyn (2019), the majority of manufacturing SMEs are found in Harare. Mutengezanwa (2018) notes several benefits that accrue from a thriving manufacturing SME sector. The author submits that manufacturing SMEs enhance entrepreneurial development leading to a reduction in imports. In addition, manufacturing SMEs encourage wealth creation by utilizing local material and human resources (Mutengezanwa, 2018). The sector enables industrialization, which is one of the objectives of the Zimbabwean government’s Vision 2030. Manufacturing SMEs contribute to industrial production and the establishment of new industrial enterprises (Government of Zimbabwe, 2020). Makiwa and Steyn (2019) approximately 5.7 million people are working in the SME sector with a tenth of this in the manufacturing sector.

Zimbabwe is pursuing a new plan for economic recovery, Vision 2030, whose main objective is to accelerate economic development through local industrialisation and resource (Government of Zimbabwe, 2020). The government identified the manufacturing SME sector as having the potential and capacity to assist in achieving this objective. The Zimbabwean government has so far formulated and effected a multiplicity of policies and strategies to address the developmental and growth challenges of the manufacturing sector since independence (Mabenge et al., 2020). For instance, before the establishment of the Ministry of Small and Medium Enterprises Cooperative Development (MSMEDCO) in 2000, the government established the Ministry of Industry and Commerce (Bomani, 2017). According to Dube and Chipunyo (2016), debt finance was also provided through the Zimbabwe Development Bank, Agribank, Confederation of Zimbabwe Industry (CZI), Small Enterprise Development Cooperation (SEDCO), etc. Training on marketing and management skills was also offered through Zimbabwe Youth Council, the MSMEDCO, the SEDCO, the CZI and ZimTrade (Mutengezanwa, 2018). Despite these support systems, the sector needs to chat in its own ways to sufficiently contribute to economic development.

2.2. Strategy formulation

The literature on strategic management shows that the terms "strategy formulation", "strategy-making", "strategy development" and "strategic planning" are used interchangeably (Pratiwi et al., 2017; West, Chu, Crooks, & Bradley-Ho, 2018). According to Pasha and Poister (2017) “strategy formulation deals with establishing an overall direction for the enterprises, setting targets at various levels in the organisation, and developing strategic alternatives to reach those targets” (p. 504). Williams et al. (2018a) add that strategy formulation should be viewed as 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) views strategy formulation as 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. Cokins (2017) notes that strategy formulation is a controlled and thought-out process. David et al. (2017) add that effective strategy formulation prepares organisations for all the future eventualities by abstraction. Hence, strategy formulation is a critical and indispensable element of strategic management that enhances organisational success (Williams et al., 2020; Nwachukwu, Chladkova, & Fadeyi, 2017). Against this background, the success of SMEs is not only based on government support but also effective strategic management practices (Melo et al., 2018; Conz et al., 2017).

2.3. Strategy formulation in SMEs

The process of developing an effective business strategy in SMEs is so complex and multi-dimensional (Simba & Nyandoro, 2016) and yet it is a key catalyst for their survival and better market performance (Pratiwi et al., 2017; Williams et al., 2020). Businesses, especially SMEs are operating in a constantly changing environment. In this context, effective strategy formulation becomes imperative (Melo et al., 2018). The need to understand the strategic management practices of SMEs has been the primary focus for many authors (Conz et al., 2017). Research on the practice of strategy
formulation in SMEs is limited and scarce in emerging markets (Majama & Magang, 2017). Similarly, Pasha and Poister (2017) note that SMEs combine strategy formulation and implementation as they respond to changing environments. Conz et al. (2017) note that strategy formulation in SMEs is equated to the enterprises’ short-term responses to challenges and opportunities posed by the changing business environment. In the same vein, Damke et al. (2018) note that strategy development practices in SMEs may be characterised as “adjustments” made by SMEs to their changes in the business environment. In such cases, SMEs are reactive in their management approaches (Williams et al., 2020). In their attempt to respond to the constantly changing environment, SMEs compromise the strategy formulation process (Cokins, 2017).

Majama and Magang (2017) note that SMEs’ strategy formulation is limited to visioning and objective setting. Williams, Manley, Aaron, and Daniel (2018a) claim that SME leaders devote much of their efforts and time in strategy formulation but make unknowingly. Adeyemi, Isacig, and Olutemi (2017) accuse SME owners-managers of being “strategically myopic” and lacking the “long-term vision as to where their company is headed”. Agwu (2018) concurs and adds that strategy formulation, as defined in the literature, is rarely professionally performed by SMEs. SMEs are often criticised for a lack of a formal method to the definition of their strategy (Chladkova & Formanikova, 2016; Sandada & Chikwama, 2016). Many SMEs owners/managers believe that real entrepreneurs do not plan instead they argue that limited time and resources should be allocated effectively to operational and/or sales activities (Sandada & Chikwama, 2016). Additionally, formal planning is often regarded as limited to large enterprises and thus not transferable to the requirements of the fast-moving and flexibly structured SMEs (Simba & Nyandoro, 2016). It is at odds with much of the strategic management literature that dictates that enterprises “must actively plan for the future” to compete effectively and survive (David et al., 2017; Cokins, 2017). From the foregoing discussion, it is evident that strategy formulation in SMEs does not take place in a rational, and formal way (Agwu, 2018). It often occurs unconsciously, as a sign of strategic thinking (Simba & Nyandoro, 2016). In this respect, Adeyemi et al. (2017) describes SMEs’ strategy formulation activities as unstructured, intuitive, and often in an irrational approach.

Studies exploring the strategic scanning practices of SMEs have produced mixed results (Valačić & Bagarić, 2017). Consequently, researchers have recently focused on the theoretical models that may guide strategic planning in SMEs. For example, the research found that due to the unstable operating environments, most SMEs use external environmental data for strategy development, that is strategy formulation is directed by the MBV (Wolugbom, Levi, & Onuoha, 2018; Damke et al., 2018). Similarly, Agwu (2018) claims that SMEs’ strategy formulation nowadays draws much from the MBV as they experience very demanding and ever-changing conditions. Other studies have concluded that strategy formulation in SMEs is informed by the internal enterprise sources (Omsa et al., 2017). Abosede et al. (2016) claim that SMEs should arrange their available resources and capabilities accordingly to formulate breakthrough strategies. In support of this, Makanga (2017) adds that the quality of SMEs’ strategy formulation is related to how effective the enterprises’ internal resources are used by the external environment. The lack of resources, management, and capital capabilities however affects the strategy effort of many SMEs (Ahmed & Mukhongo, 2017; Majama & Magang, 2017). In order to enhance the literature on SME strategy theory, the current study also sought to establish the theoretical approach of strategy formulation in SMEs in emerging markets.

David et al. (2017) note that the majority of strategic management concepts have been developed for large firms. Conz et al. (2017) note that a specific strategy process for SMEs needs to account for their unique conditions and problems. SMEs tend to have time and resource constraints that force their leaders’ heavy involvement in day-to-day operations (Williams et al., 2018b). These unique characteristics may entail both problems and opportunities for strategy formulation (Adeyemi et al., 2017; Williams et al., 2018a). Generating a greater understanding of the process of strategy development in SMEs is of interest and importance to both academics and SME owner/managers. It is also important that SMEs choose the most effective combination of strategic management practices that enhance their growth. The current study sought to gain an understanding of the strategy formulation practices in emerging markets, specifically in Zimbabwe.

3. RESEARCH METHODOLOGY

The purpose of the study was to explore the strategy formulation practices of manufacturing SMEs in Zimbabwe. Thus, given the little existing information on the study area, the researchers adopted the exploratory qualitative research design. The researchers used the qualitative case study strategy to gather data from fifteen manufacturing SMEs in Harare, Zimbabwe. Harare is the commercial nerve center of Zimbabwe and is home to registered successful manufacturing SMEs. The results would be representative of SMEs in Zimbabwe. The case study design was chosen as it provided an opportunity to describe and analyse strategy formulation, an area that is little known in Zimbabwe. Gligo (2016) observed that when conducting studies on real community experiences, qualitative research is the most appropriate method as it helps researchers to gain a deeper understanding of the population’s involvement regarding the investigated phenomena.

The target population for this study was the manufacturing SMEs in Mbare, Harare, Zimbabwe. According to the data obtained from the Department of SMEs in the Ministry of Industry, Commerce, and Enterprise Development, there are approximately 35 registered manufacturing SMEs in Mbare. Purposive sampling was employed to select samples for the study. Purposive sampling also referred to as judgemental sampling, involves selecting cases that the researcher feels appropriate in answering the research questions (Saunders, Lewis, & Thornhill, 2016). The researchers chose those manufacturing SMEs with registered offices,
who contribute to economic development through paying taxes, have operating premises, and with at least five years of operations. Peng, Ferreira, and Zheng (2017) observed that established and mature enterprises could develop breakthrough-marketing strategies. Guided by these parameters, only fifteen small and medium manufacturing enterprises were eligible to participate in the study. The researchers were confident that the sample size was large enough to ensure that all-important perceptions were going to be uncovered (Saunders et al., 2016), and to gather adequate data to answer the research questions (Bryman, 2016). In these enterprises, the researchers took each owner/manager as the sampling unit as they are the ones involved in the strategic activities of the enterprises.

An interview guide was developed from the four research themes designed to obtain a better understanding of the strategy formulation in SMEs. In large, interview guides help researchers follow the interview themes to enhance the comparison of data, and ensuring reliability and consistency throughout data analysis (Saunders et al., 2016). The interview questions were focused on the nature and extent of strategy formulation, theoretical underpinnings of strategy development, and the process of strategy formulation. The research instrument included demographic information for example age, gender, education, years in business, and the number of employees. Following permission from the University and the Department of SMEs, the principal researcher went on to conduct in-depth interviews. The interviews were designed to elicit explicitly more data from the participants. Each interview took roughly 30-45 minutes. The researcher provided each participant with a leaflet that contained information relating to the purpose of the study and their participation in the study. The principal researcher took notes during the interviews. Interview data were analysed using the content analysis.

To ensure privacy and confidentiality, the respondents were numbered from participant (P) one (1) to participant fifteen (15). The principal researcher obtained a Gatekeeper’s letter from the Ministry of Industry, Commerce, and Enterprise Development, and ethical clearance from the X University. Additionally, a consent letter concerning confidentiality and voluntary participation was signed by the study participants. This informed the research participants about the aim of the study and that their participation in the interviews was voluntary.

4. DISCUSSION OF RESULTS

This section presents and discusses the in-depth interviews conducted with participants from the fifteen manufacturing SMEs in Harare, Zimbabwe. The respondents interviewed were from the five manufacturing sectors, namely, food processing, clothing and footwear, wood and furniture, chemical and petroleum, and lastly the metals sector.

4.1. Demographic information of participants and firm

The study participants were aged between 30 and 64 years old. The results reveal that the majority of the participants (80%) had at least a diploma while only 20% had basic education. It was also revealed that the majority of study participants were males (78%) and the remainder females (22%). These results confirm the findings of Derera et al. (2020) who observe that females in the business are few due to their social and family roles. The majority (73.3%) of the participants were owners while only 26.7% were managers. These results are an indication that most of the SME owners in Harare are actively involved in the operations of their businesses. These findings are further confirmed by Mutengezanwa (2018), who notes that the majority of SMEs in Zimbabwe are owner-managed. The results of the study further showed that of the fifteen SMEs that took part in the study, the majority (66.7%) had less than 10 employees while 33.3% had more than 10 but less than 20 employees. These findings are a testimony that SMEs in Zimbabwe are capable of employing only a small number of people (Bomani, 2017). The majority of the firms (65%) have been in operation for the past 10 years while a few (35%) have been in operation for more than 15 years. Research has shown that the survival rate for most SMEs in the manufacturing sector is very low, and most small businesses fail in the first four years of incorporation (Mamman et al., 2019).

4.2. The meaning of strategy formulation

The first question sought the participants’ understanding of strategy formulation. The results of the study showed that most SMEs in Zimbabwe understand the meaning of “strategy formulation”. The following were some of the comments made by some of the participants concerning the meaning of strategy formulation.

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”.

P6: “It is a process of coming up with strategies that will allow a business to be competitive in the market”.

P3: “Strategy formulation is a process of finding a match between organisational capabilities and opportunities that are present within the competitive environment”.

P10: “Strategy formulation means deliberately coming up with business plans and the strategies of how exactly we achieve the plans”.

These views reveal that the participants have a sound understanding of strategy formulation. The results point to critical issues involved in strategy formulation, such as the development of long-term plans, competitive advantage, and matching capabilities and opportunities (Auka & Langat, 2016; Pearce & Robinson, 2013). These quotes further illustrate that strategy formulation is seen as a carefully coordinated process to create breakthrough strategies to enhance the performance of a business (Williams et al., 2020). The findings indicate that some SMEs believe that the process of strategy development takes a process school prescription. This is observed in the view of P10 who suggests that strategy formulation involves deliberately coming up with business plans to achieve organisational aims. This participant shares the same sentiment with Cokins (2017) who explains that strategy formulation should be a fully controlled and thought out process.
4.3. Extent of strategy formulation amongst SMEs in Zimbabwe

The participants were also asked whether SMEs in Zimbabwe practice strategy formulation. The results reveal that all the study participants answered positively to this question. Participants noted:

P1: “Strategy formulation is the sole responsibility of the managers at times with the vision of the owner founder directing them”.

P7: “Strategy formulation is very important for SMEs especially in this turbulent environment”.

P12: “The owner-manager sets up what is supposed to be completed and how and everyone other 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”.

P5: “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 communicates to others”.

The statements show that strategy formulation is not only understood by the participants but also practiced. These results are consistent with earlier findings. For instance, Agwu (2018) claims that SMEs should engage themselves in strategy formulation just like their larger counterparts to develop into more professional enterprises. The findings are contrary to Sandada and Chikwama (2016) who surmised that many SMEs owners/managers believe that real entrepreneurs do not plan as they cite limited financial resources. The challenges and opportunities presented by the challenging operating environment drive SMEs to strategy formulation (Damke et al., 2018). Additionally, study findings indicate that strategy formulation is mainly done by the owner/manager and then communicates to others. It is top management who sets the vision, and how it is accomplished. These findings are validated by Williams et al. (2018b) who claim that the vision of the founder models strategy development practices. This social welfare anchored vision makes the owner/manager cautious and opt for a multipronged approach to strategy formulation rather than focusing on a core business activity. Adeyemi et al. (2017) claim that in doing so, SME owner-managers lack the “long-term vision as to where their company is headed” (p. 115).

4.4. Strategy formulation theory

The third item required study participants to establish which theoretical model guides strategy formulation in SMEs. Thus, participants were asked what they value most: external environmental market forces or internal resources when crafting their strategies. The following quotes highlight the participants’ perceptions:

P1: “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. Our actions need to be aligned to what is taking place in the market environment”.

P8: “We use information from whatever source but mainly focus on our budget and human resource when strategising. We do SWOT analysis as well”.

P5: “Resources only can’t give an equally good strategy; we also need to align our strategy with our market factors”.

P13: “Strategising is about using information from the market and the available financial, human and technical resources to gain a competitive edge over rivals… however; the process is done informally and unknowingly as most of us lack the management skills”.

These statements indicate that strategy formulation is both an externally (market-based) and internally (resource-based) guided practice. Strategy formulation in SMEs is inextricably linked to both internal and external environment scanning. The results do not support the earlier findings by many scholars that either enterprise resources or market forces shape strategy-making in SMEs (Omsa et al., 2017; Abosede et al., 2016; Makanga, 2017). The participants indicated that the combined approach helps them to draw the strengths, weaknesses, opportunities, and threats (SWOT analysis) that informs them of their strategy process. According to David et al. (2017), the SWOT analysis framework helps to identify possible strategies to counter threats, exploit external opportunities, and eradicate weaknesses at the same time building on their strengths. These findings are a piece of evidence that strategy formulation is not shaped by either the MBV or the RBV alone (Williams et al., 2018a; Agwu, 2018). The findings validate the assertion by Burvill et al. (2018) that despite the differences in perspectives, the two theoretical streams co-exist and shape strategy formulation.

4.5. Nature of strategy formulation in SMEs

The participants were also asked if strategy formulation in SMEs follows a particular process. The purpose of the question was to establish how strategies are formulated in SMEs in Harare, Zimbabwe. Participants commented as follows:

P2: “We follow what the environment says…. In other words, we should make sure that we adjust and recondition to our changing business…. Many of our strategies are not planned and intelligence gathering on a daily basis provides information that shapes our strategies…. Hence we can’t say we have long term objectives that we focus on”.

P14: “Our business does not have enough resources so we operate informally…we would not say we follow the formal process of strategy formulation as you have explained to me….If we had all resources and our operating environment not changing like currently, we would be formally planning. In the meantime, we are mainly concerned with selling our products to survive”.

P15: “Our strategy making is attached to the founder’s vision and we don’t have a formal fashion. However, this is done with an informal application of SWOT analysis. We try to be more professional as we have our business vision and mission statement”.

These views are testimony that the basic process of strategy formulation (Wheelan & Hunger, 2014), as stated in literature is not followed when SMEs formulate their strategies. These findings validate earlier findings. For example, Mattheeussen and Spontak (2018) note that the actual process of strategy formulation observed in reality frequently deviates significantly from the ideal picture of rationality. More so, Conz et al. (2017) concluded
that strategy formulation in SMEs is accomplished when the enterprises respond to challenges and opportunities from the ever-changing business environment. In this way, a strategy formulation is merely a reactive event to changing operating environment. The results are a piece of evidence that the majority of SMEs combine strategy formulation and implementation (Pasha & Poister, 2017). However, the results of the study do not validate the claim by Damkea et al. (2018) SMEs have strategic planning processes that follow Wheelhen and Hunger’s Strategic Planning Model.

SMEs lamented the limited understanding and financial resources to adopt more formal and rational strategy formulation. These findings validate the assertion by Adeyemi et al. (2017) that SMEs strategy formulation is rather sporadic, incremental, and often not formalized. Moreover, the results find support from a study conducted by Siddique (2015) in UAE who discovered that planning is informally executed, in simpler patterns that could not perfectly fit the strategic planning conceptual model. However, this style of strategising according to Melo et al. (2018) helps move SMEs from their “dream world” into their “real world”. The results of this study indicate that strategy formulation amongst SMEs in emerging markets has some similarities with strategy making in many parts of the world (Auka & Langat, 2016 in Nigeria; Majama & Magang, 2017 in Botswana; Melo et al., 2018 in Brazil; Ahmed & Mukhongo, 2017 in Kenya).

5. CONCLUSION

Studies that have dared to investigate strategy formulation amongst SMEs in emerging markets, Zimbabwe in particular are scarce. The study sought to address this knowledge gap. The study sought to determine the level of understanding of strategy formulation, the extent of strategy formulation, the theoretical model underpinning the formulation of strategies amongst SMEs, and lastly the nature of strategy formulation in SMEs. The results revealed that strategy formulation is well understood by SMEs in emerging markets. These findings substantiate the current understanding in the literature that the current volatile and unpredictable business environment requires enterprises of all sizes to engage in strategy formulation (Melo et al., 2018; Conz et al., 2017; Majang & Magang, 2017). Contrary to the belief that strategy formulation is for large enterprises, the results of this study show that SMEs in emerging markets appreciate the language and practice of strategy formulation.

The findings of the study revealed that strategy formulation is not logically and systematically done. The study strengthens the understanding that it is not the process that matters in SME strategy development but the outcome. The study’s findings illustrate that SMEs in emerging markets have strategy formulation that does not resemble the textbook Strategic Planning Model. Against this backdrop, the study concludes that not all conventional textbook strategic management fundamentals are applicable in the strategy formulation processes of SMEs in emerging markets. These findings concur with earlier studies that SMEs strategy formulation is different from that of larger enterprises. This calls for the need to develop a body of strategic management literature that captures the uniqueness and complexities of SMEs in both developed and emerging markets.

Interesting to note is that strategy formulation in SMEs is theoretically informed. The findings of the study revealed that the perspectives of both the MBV and the RBV help shape strategy development in SMEs. However, the majority of SMEs apply these theoretical models unknowingly as they do not have the proper business and management skills. Empirical findings illustrate that strategic management tools such as SWOT analysis are unknowingly used to inform the formulation of business strategies. SWOT analysis combines the internal and external analysis of an enterprises’ environment. This paper provides evidence that despite the differing perspectives, the two theoretical streams co-exist to shape strategy formulation amongst SMEs. These findings are consistent with the literature that explains that the two theories are complementary in shaping strategy formulation in SMEs (Bamiatzi et al., 2016).

An understanding of the strategy formulation practices of SMEs in emerging markets like Zimbabwe is important in management practice in that it enables scholars to design relevant strategic frameworks that capture the peculiarities of SMEs in emerging markets. SMEs are advised to balance professionalism and responsiveness when strategising, that is balancing the process perspective with the learning perspective. Additionally, it advised that SMEs apply the empirically proven strategic fundamentals when developing strategies to enhance their competitiveness. SMEs should invest in activities such as environmental scanning, setting strategic goals, and determining the best strategic direction for the business.

The article is one of those few that have explored strategy formulation practices amongst SMEs in emerging markets. The study collected data from manufacturing SMEs in the major enterprises’ commercial hub and capital city. When interpreting the results of this study, consideration must be given to its limitations. The findings are based on a survey of 15 SMEs between 2014 and 2017. The findings must be treated with caution as the sample size is fairly small and the study area is volatile. This background makes the generalisability of the findings difficult. Therefore, more similar studies should be conducted in the future using data collected from a large sample size composed of SMEs from different sectors of the economy, and even various parts of the world. The resultant findings will likely uncover similarities and differences of strategy formulation amongst SMEs from different parts of the world.

REFERENCES

1. Abosede, A. J., Obasan, K. A., & Alese, O. J. (2016). Strategic management and small and medium enterprises (SMEs) development. A review of literature. International Review of Management and Business Research, 5(1), 315-355. Retrieved from https://www.irmbrjournal.com/papers/14600914535.
2. Adeyemi, I. I., Isaac, O. A., & Olufemi, A. S. (2017). Strategic management: A policy to enhance sustainable business development in small and medium scale enterprises in Nigeria. Archives of Business Research, 5(9), 108-118. https://doi.org/10.14738/abr.59.3638
3. Agwu, M. E. (2018). Analysis of the impact of strategic management on the business performance of SMEs in Nigeria. *Academy of Strategic Management Journal, 17*(1), 1-20. Retrieved from https://www.abacademies.org/articles/analysis-of-the-impact-of-strategic-management-on-the-business-performance-of-smes-in-nigeria-6933.html

4. Ahmed, A. S., & Mukhongo, A. (2017). Role of strategic management practices in organizational performance of customs department in Mogadishu, Somalia. *Imperial Journal of Interdisciplinary Research, 3*(9), 1201-1211.

5. Auka, D. O., & Langat, J. C. (2016). Effects of strategic planning on performance of medium sized enterprises in Nakuru town. *International Review of Management and Business Research, 5*(1), 188-203. Retrieved from https://www.irrmbjournal.com/papers/1455102998.pdf

6. Bamiatzi, V., Bozoz, K., Cavusgil, S. T., & Hult, G. T. M. (2016). Revisiting the firm, industry, and country effects on profitability under recessionary and expansion periods: A multilevel analysis. *Strategic Management Journal, 37*(7), 1448-1471. https://doi.org/10.1002/smj.2422

7. Bekele, Y. T. (2018). Industry and firm effects on the performance of financial services mediated by competitive advantage in Ethiopia (Unpublished Doctoral thesis, University of South Africa). Retrieved from http://uir.unisa.ac.za/handle/10500/23736

8. Bomani, M. (2015). Government policies and strategies in dealing with challenges Confronting small and medium enterprises: A case of Harare, Zimbabwe (Unpublished Ph.D. thesis, University of KwaZulu-Natal). Retrieved from https://researchspace.ukzn.ac.za/handle/10413/15281

9. Bryman, A. (2016). *Social research methods* (international edition). Oxford, UK: Oxford University Press.

10. Burvill, S. M., Jones-Evans, D., & Rowlands, H. (2018). Reconceptualising the principles of Penrose’s (1959) theory and the resource based view of the firm: The generation of a new conceptual framework. *Journal of Small Business and Enterprise Development, 25*(6), 930-959. https://doi.org/10.1108/JSBED-11-2017-0361

11. Chladkova, H., & Formanova, S. (2016). Strategy for SMEs in the area of primary agricultural production. *Agricultural Economics, 62*(9), 395-406. https://doi.org/10.17221/260/2015-AGRI/CON

12. Cokins, G. (2017). *Strategic business management: From planning to performance*. https://doi.org/10.1080/0965254X.2017.1151161

13. Conz, E., Denicolai, S., & Zucchetta, A. (2017). The resilience strategies of SMEs in Mature clusters. *Journal of Entrepreneurising Communities: People and Places in the Global Economy, 11*(1), 186-210. https://doi.org/10.1108/JEC-02-2015-0015

14. Corsi, C., & Prencipe, A. (2017). Foreign ownership and innovation in independent SMEs. A cross-European analysis. *Journal of Small Business & Entrepreneurship, 30*(5), 397-430. https://doi.org/10.1080/08276331.2017.1413751

15. Damke, E. J., Gimenez, F. A. P., & Damke, J. F. W. (2018). Strategic configurations and performance: A study in micro and small business retailers/Configurações Estratégicas e Desempenho: um Estudo em Micro e Pequenas Empresas Varejistas. *RAUSP Management Journal, 53*(1), 11-22. https://doi.org/10.1016/j.rauspm.2017.12.005

16. David, M. E., David, F. R., & David, F. R. (2017). The quantitative strategic planning matrix: A new marketing tool. *Journal of Strategic Marketing, 25*(4), 342-352. https://doi.org/10.1080/0965254X.2016.1148763

17. Derera, E., Croce, F., Phiri, M., & O’Neill, C. (2020). Entrepreneurship and economic empowerment in Zimbabwe: Research themes and future research perspectives. *The Journal for Transdisciplinary Research in Southern Africa, 10*(1), a787. https://doi.org/10.4102/td.v10i1.787

18. Dube, C., & Chipumho, E. (2016). Response of the manufacturing sector to the Zimbabwe economic crisis. In G. Kararach, & R. O. Otieno (Eds.), *Economic management in a hyperinflationary environment: The political economy of Zimbabwe, 1980-2008*. http://lup.lub.lu.se/student...e/203. Retrieved from https://aran.library.nuigalway.ie/handle/10379/6492

19. Government of Zimbabwe. (2018). *Towards an upper-middle income economy by 2030: “New dispensation core values”*. Retrieved from http://www.verificationzim.net/sites/veritas_d/files/GoZS%20Presentation%20%DC%20-%2019-4-2018.pdf

20. Government of Zimbabwe. (2020). *The new economy: Micro, small and medium enterprises and cooperatives*. Retrieved from https://search.informit.org/doi/abs/10.3316/ielapa.590303920466497

21. Gliga, G. M. (2016). *Entrepreneurial networking and the development of marketing capabilities in SMEs. A study of Irish entrepreneurs* (Unpublished Ph.D. thesis, National University of Ireland Galway). Retrieved from https://aran.library.nuigalway.ie/handle/10379/6492

22. Government of Zimbabwe. (2018). *The Strategic Journal of Business & Change Management, 4*(1), 1-26. https://doi.org/10.1007/s40621-020-1725727

23. Mageto, J. N., Prinsloo, G., & Luke, R. (2018). Logistics outsourcing and performance of small and medium enterprises in Nairobi. *The Southern African Journal of Entrepreneurship and Small Business Management, 10*(1), a162. https://doi.org/10.4102/sajems.v10i1.162

24. Majama, N. S., & Magang, T. (2017). Strategic planning in small and medium enterprises (SMEs): A case study of Botswana SMEs. *Journal of Management and Strategy, 8*(1), 74-103. https://doi.org/10.5430/jms.v8n1p74

25. Makanga, R. O. (2017). Influence of strategic management practices on performance of Kenyan insurance companies. *The Strategic Journal of Business & Change Management, 4*(4), 298-306. Retrieved from http://strategicjournals.com/index.php/journal/article/view/757

26. Makiwa, P., & Steyn, E. (2019). An investigation of the government-related factors that inhibit small to medium enterprises’ adoption and effective use of information and communication technology in developing countries: The case of Zimbabwe. In K. Krauss, M. Turpin, & F. Naude (Eds.), *Locally Relevant ICT Research*. IDMA 2018 Conference Proceedings. (pp. 3-16). https://doi.org/10.1007/978-3-030-11235-6_1

27. Mamman, A., Bowele, J., Agbebi, M., & Alhassan, A.-R. (2019). SME policy formulation and implementation in Africa: Unpacking assumptions as opportunity for research direction. *Journal of Business Research, 97*, 304-315. https://doi.org/10.1016/j.jbusres.2018.01.044

28. Mattheussen, S., & Spontak, T. (2018). Strategic planning in small and medium-sized enterprises in Sweden. (Unpublished Master of Management Dissertation, Lund University). Retrieved from http://up.lub.lu.se/student-papers/pdf/8945187
Describe the nature of strategy formulation in Zimbabwean SMEs? Does it follow the conventional textbook approach?

What do you understand by “strategy formulation”? Explain briefly.

What is the extent of strategy formulation by SMEs in Zimbabwe?

What is the effect of strategy formulation practices on SME performances in Makassar, Indonesia.

Exploring the change in strategy formulation and performance measurement practices under turbulence. Public Performance & Management Review, 40(3), 504-528.

Strategic management: Planning for domestic and global competition. New York, NY: McGraw-Hill/Irwin.

A university-industry cooperation model for small and medium enterprises: The case of Chengdu KEDA Optoelectronic Technology Ltd. International Journal of Learning and Change, 9(1), 29-45. https://doi.org/10.1504/IJLC.2018.084236

Formulating strategy through QSPM based on SWOT framework: A case study spin-off company in Malaysia. Advanced Science Letters, 23(9), 864-8651. https://doi.org/10.1166/asl.2017.9945

The driving forces for the practice of strategic planning in SMEs: Evidence from Harare Metropolitan Province, Zimbabwe. Acta Universitatis Danubius, 12(4), 95-114. Retrieved from https://journals.univ-danubius.ro/index.php/econometrica/article/view/3268/3511

Research methods for business students (7th ed.). Noida, India: Pearson India Education.

Government institutional support, entrepreneurial orientation, strategic renewal, and firm performance in transitional China. International Journal of Entrepreneurial Behavior & Research, 23(3), 433-456. https://doi.org/10.1108/IJEBR-07-2018-0465

A comparative study of strategic planning practices of SMEs and large-sized business organizations in emerging economies: The case of UAE. Strategic Change: Briefings in Entrepreneurial Finance, 24(1), 553-567. https://doi.org/10.1002/jsc.2039

Strategic management in retail pharmacy: The case of Zimbabwean companies. African Journal of Business Management, 10(9), 233-244. https://doi.org/10.5897/ABM2016.8010

The Small & Medium sized Enterprises’ Association of Zimbabwe (SMEAZ). (2019). Organisation profile. Retrieved from https://www.smeaz.org.zw/

Crafting and executing strategy: The quest for competitive advantage-concepts and cases. New Delhi, India: Tata McGraw-Hill Publishing Company Limited.

Return on strategic effectiveness - The need for synchronising growth and development strategies in the hotel industry using revenue management. Economic Research-Ekonomska ISTRAŽIVANJA, 30(1), 1631-1654. https://doi.org/10.1080/1331677X.2017.1383173

Strategy war games: How business can outperform the competition. Journal of Business Strategy, 39(6), 3-12. https://doi.org/10.1108/JBS-11-2017-0154

Strategic management and business policy (13th ed.). New York, NY: Prentice Hall Inc.

The relationship between a comprehensive strategic approach and small business performance. Journal of Small Business and Strategy, 28(2), 33-48. Retrieved from https://cutt.ly/pzZP5eW

The interactive effects of entrepreneurial orientation and a comprehensive strategic approach on small business firm performance. American Journal of Entrepreneurship, 11(2), 52-81. Retrieved from http://americanjournalentrepreneurship.org/wp-content/uploads/2020/07/Williams-Jr-Manley-Aaron-Daniel-2018.pdf

Small business strategic management practices and performance: A configurational approach. Economic Research-Ekonomska ISTRAŽIVANJA, 3(1), 2378-2396. https://doi.org/10.1080/1331677X.2019.1677488

Environmental scanning and strategic decisions of small businesses in Port-Harcourt, Nigeria. International Journal of Management and Marketing Systems, 13(3), 103-114. Retrieved from https://arcnjournal.org/images/ARC-IJMMS-13-2-8.pdf

Zimbabwe Revenue Authority (ZIMRA). (2018). 2018 ZIMRA annual report. Retrieved from https://www.zimra.co.zw/downloads/category/2/annual-reports

**APPENDIX: INTERVIEW GUIDE**

1. Introduce yourself (Age, gender, educational level, and position) and the firm you are representing (number of permanent employees, years in business).

2. What does strategy formulation mean to you? How do you define it? (Refer to project -2017)

3. What do you understand by “strategy formulation”? Explain briefly.

4. What is the extent of strategy formulation by SMEs in Zimbabwe?

5. What approach do you use in formulating business strategies (MBV or RBV)? Explain your position.

6. Describe the nature of strategy formulation in Zimbabwean SMEs? Does it follow the conventional textbook strategic management literature?