

# **Business Linkages as a Strategy for Marginalized Manufacturing Industries in the Townships of Gweru Zimbabwe**

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## **Abstract**

Research has shown that business linkages can be the most effective way for business to integrate, grow and secure footholds in emerging markets. Thus the value of networking in today's business environment which is characterised by rapid change and stiff competition cannot be overemphasised. This social capital—the networks which provide valuable information and resources—can greatly change the performance of small enterprises. This research seeks to determine the extent to which manufacturing industries in the townships of Gweru utilise business linkages for better performance. The main objectives of the research are, firstly, to identify the relationships that small manufacturers have with larger businesses

and with each other; secondly, to measure the benefits derived from such linkages; and, lastly, to isolate the deliberate networking strategies in manufacturing SMEs. After creating a profile of the SME manufacturing sector from exploratory research, data was collected to fulfill the objectives. Preliminary results indicate that those SMEs that have business linkages perform significantly better than those that do not, and business linkages can be a strategy to improve performance in township business as they open doors which, left to themselves, SMEs would never have found.

*Keywords: business linkages, business performance, small scale manufacturing, strategies*

## **Introduction**

The manufacturing sector in Zimbabwe grew under the Unilateral Declaration of Independence era from 1965 to 1980 when Ian Smith declared independence from Britain. This was a deliberate move by the white minority to guarantee minority rule and it resulted in the country being placed under sanctions by Britain. This was not acceptable to the majority of the people as evidenced by the liberation struggle that ended with the majority government being formed in 1980. Under the sanctions era, industry concentrated on import substitution brought about by being closed off from the international community. This closed up economy paid no heed to contemporary developments and this affected the quality of products and their competitiveness on the global market. The new government, which was ushered in in 1980, inherited this sector and it made inroads into the indigenisation of the sector: one of the strategies used was business linkages. The biggest hurdle was that there was a racial divide: the owners of big businesses were white and the SMEs were largely owned by black people. At the forefront of business linkages was the Confederation of

Zimbabwe Industries (CZI) which is an association of companies involved in manufacturing in Zimbabwe.

This paper seeks to evaluate the extent to which manufacturing concerns in the townships of Gweru are being brought into mainstream supply chains through business linkages with larger organizations. The study sets out to ascertain the existence of business linkages in the manufacturing SMEs located in the townships of Gweru, Zimbabwe and the benefits accruing to the SMEs as a result of the linkages. The main objectives of the research are

- to profile the small scale manufacturing sector in Gweru townships to determine their readiness for inclusion into big business supply chains;
- to identify the business linkages the manufacturing concerns have with larger organizations;
- to measure the effects/benefits such linkages have on the small scale manufacturing sector;
- and
- to suggest ways to forge linkage relationships for the benefit of small scale manufacturers.

### **Overview of the Gweru townships manufacturing sector**

The Zimbabwean townships are now known as High Density Suburbs (HDS): the word ‘townships’ was said to be derogatory and politically incorrect because of their denotation as African-only suburbs. The HDSs are managed by local authorities and the Gweru City Council has designated areas in which manufacturing activities can take place. In such areas, the council has constructed factory shells which they lease out for manufacturing activities. The council has also leased land where business people have managed to construct their own factories.

The manufacturing ventures can be defined as small scale since they generally employ fewer than 10 people. According to the Ministry of Small and Medium enterprises, a registered enterprise with employment levels ranging from 30 to 70 employees and depending on the type of industry will be referred to as a small or medium scale enterprise.

### ***Steel work and fabrication***

Steel work and steel fabrication involve the manufacturing of mostly domestic requirements in the form of window frames, door frames and burglar bars. The manufacturers utilise basic machinery and tools.

### ***Carpentry***

This is the manufacturing of timber products ranging from domestic furniture like tables, stools, coffee tables, shelves, wardrobes and coffins. At times the manufacturers supply building timber made into different products like trusses, ceiling boards and running boards. By far, coffin manufacturing is the most lucrative. One of the most sophisticated manufacturers indicated that he is in direct competition with the larger manufacturers and a business linkage would not be beneficial to him.

### ***Chemicals manufacturing***

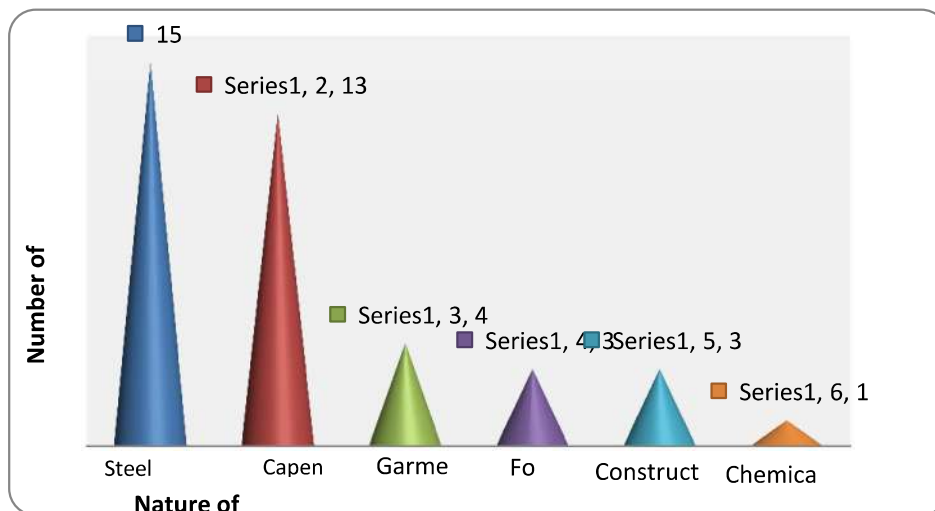
These are manufacturers of different chemical products which are not very dangerous. The products are mainly for the motor industry, like engine cleaners, battery water and the like. There is also a growing focus on industrial chemicals especially for the mining industry which is exploiting the growing small scale mining ventures in the Midlands province which is the mining hub of the country. Household chemicals for cleaning purposes are also manufactured.

### ***Garment tailoring***

These are involved in designing and sewing of different garments mainly according to customer specifications. There is no large scale cutting and designing but a lot of repeat business from loyal customers. The patterns differ.

Figure 1 below indicates the distribution of manufacturers, clearly indicating that steel fabrication is very popular.

**Figure 1**



### Concept of business linkages

Business linkages are defined as commercial dealings between separate, profit-oriented enterprises (Gierson and Gallen and Mead, 1995). Later, as posited by UNCTAD (2000), the term ‘business linkages’ generally refers to any upstream or downstream, formal or informal relationship that takes place between an organizations and its local business partners. Successful market economies are characterised by an extensive array of such relationships among businesses of all types and sizes.

Business linkages are win-win situations for the enterprises involved as well as for the economy and society. They can help micro and small enterprises thrive and grow in ways that lead to specialisation, diversification, economic efficiency, and widespread dispersion of benefits (Gierson and Gallen and Mead, 1995). These linkages can be on a local or international scale. Linkages between international firms and local SMEs are particularly important to the economies of developing countries because they provide a means of bringing much needed capital, and diffusing knowledge to the linked firms. Although international organisations are comparatively stronger in terms of their advances in technological development, local linkages have a role to play in opening marketing opportunities to SMEs. Business linkages can benefit both the large and small enterprises. Large companies with operations in developing regions of the world are often faced with low product standards and by developing SMEs' products through linkages, they have cheaper sources of supply. On the other hand, such linkages provide tremendous opportunities for SMEs to improve their technology and, thus, their products. Not only can increased local procurement ease operational issues for the large company, it also can help to stimulate the local economy and, more importantly, build the capacity of local SMEs by making them more competitive and ready for future challenges (Jaspers and Mehta, 2007) .

Linkages are generally backward in nature as when a larger firm source parts, components, indirect materials and services from local SMEs, although forward linkages are also known to exist. Such linkages can help to promote production efficiency, productivity, growth, technological and managerial capabilities and market diversification (UNCTAD, 2004). In agreement with this, Antoncica and Prodan (2008) posit that business linkages were important for the development of innovations and technologies of small- and medium-sized firms because networks tend to contribute to the diffusion and acceleration of technological innovation. Certain industries favour linkages above others, it was noted by a

UNCTAD survey, and manufacturing firms are more inclined towards linkages than other sectors. African businesses focused their linkages programmes on agro-industries, followed by foods and beverages, and then garments. They reported few linkages in the area of microelectronics, automotive components and electronics (UNCTAD, 2001).

The literature supports the fact that business linkages play a pivotal role in the success of small enterprises since the linkages generally upgrade the capabilities of SMEs more so than technological capabilities as far as manufacturing SMEs are concerned (Chipika and Wilson, 2006). SMEs hardly perform R&D for themselves, thus the bulk of their technology will stem from the business linkages. Subcontracting relationship with large firms can be an important means of gaining access to new production technologies for many small firms and can enable firms to innovate products requiring new production techniques, without having to invest initially heavily in R&D (Kumar & Subrahmanya, 2010). They further contend that there is a strong case for inter-firm networks as a key source of industrial and technological strength where small firms can learn from each other or where large firms play an important role in upgrading the capabilities of their small suppliers. The success of SMEs is of paramount importance in many economies because of their ability to be involved in all sectors and they have been recognised as engines for growth. This is critical for a recovering economy like Zimbabwe's.

According to Kumar and Subrahmanya (2010), business linkages not only develop technological capabilities although this is of utmost importance in the manufacturing scenario. Linkages can bring with them marketing assistance in the form of new markets and marketing capabilities for the SMEs. These would be avenues that the SMEs would never have envisaged outside the linkage. Business linkages also assist in human resource assistance in the form of training staff in a bid to meet the larger firm's manufacturing standards. Furthermore, they can assist with organisational know-how which means access to

modern management techniques since SMEs might not have the resources to invest in learning such practices. Financial support can also be part of the linkage agreement in the form of access to credit facilities initiated by the larger firm or through procurement agreements.

### **Business linkages in Zimbabwe**

Some of the forerunners of the business linkages strategy were CZI and USAID as far back as 1992. The main aims were “to increase economic growth that results in job creation, increased foreign exchange earnings, and broadened distribution of the ownership of the productive assets of the economy”. It was, however, noted that there was also a need to forge relationships as the large businesses were by and large owned by white people and the small scale manufacturers were largely black. The business linkages were to take the form of subcontracting exchanges where larger businesses outsource non-core areas to smaller concerns. The objective of the exchange was to facilitate the formation of active and ongoing business link ages so as to support the embryonic Franchise Association of Zimbabwe (FAZ). One objective is to enable FAZ to disseminate the franchise concept in Zimbabwe, to work with franchisors and franchisees to ensure that their relationship is well founded, and to represent franchisor and franchisee interests in direct negotiations and in policy-making forums. The implementing agency proposed is FAZ, assisted by the Zimbabwe National Chamber of Commerce.

A second objective us to support Affirmative Action. The objective is to make it easier for indigenous businesses to sell to the government. The project was meant to work with government agencies responsible for purchasing and tendering procedures to assist them in adopting practices that will enable indigenous businesses to increase their sales in this major market. It was recommended that the lead agencies include a key Government of



Zimbabwe agency with considerable public sector purchasing policy influence and a business membership organisation representing the indigenous business sector.

A third objective is to support a joint Subcontracting Exchange. A subcontracting exchange is a central point for collecting and matching buyer-supplier opportunities for large and small enterprises. The objective of the exchange is to facilitate the formation of active and ongoing business link ages.

## **Methodology**

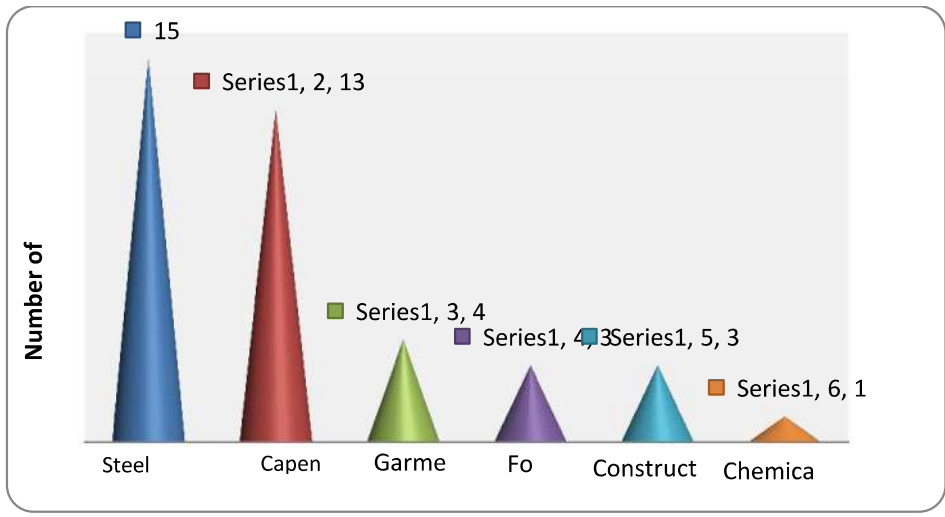
This research will follow the descriptive survey, which is a research design that seeks to understand the existence and/or the casual factors of observed common characteristics or practices in the research study area. The survey methodology is proposed specifically for its inherently multidisciplinary nature (Groves et al., 2009). The research was carried out in four Gweru locations: Senga, Mkoba, Mutapa and Shamrock, and a total of 39 SMEs in the manufacturing sector were identified and questionnaires were administered.

## **Findings**

### ***Overall Analysis of the Sample***

The data comes from 39 manufacturing firms in the four townships of Gweru. The nature of activities being carried out in the township manufacturing sector were identified. Figure 2 below indicates the nature of the business and number of SMEs that were in that business. Amongst the industries identified are steel fabrication, carpentry, garment tailoring, food staffs, construction and chemical manufacturing.

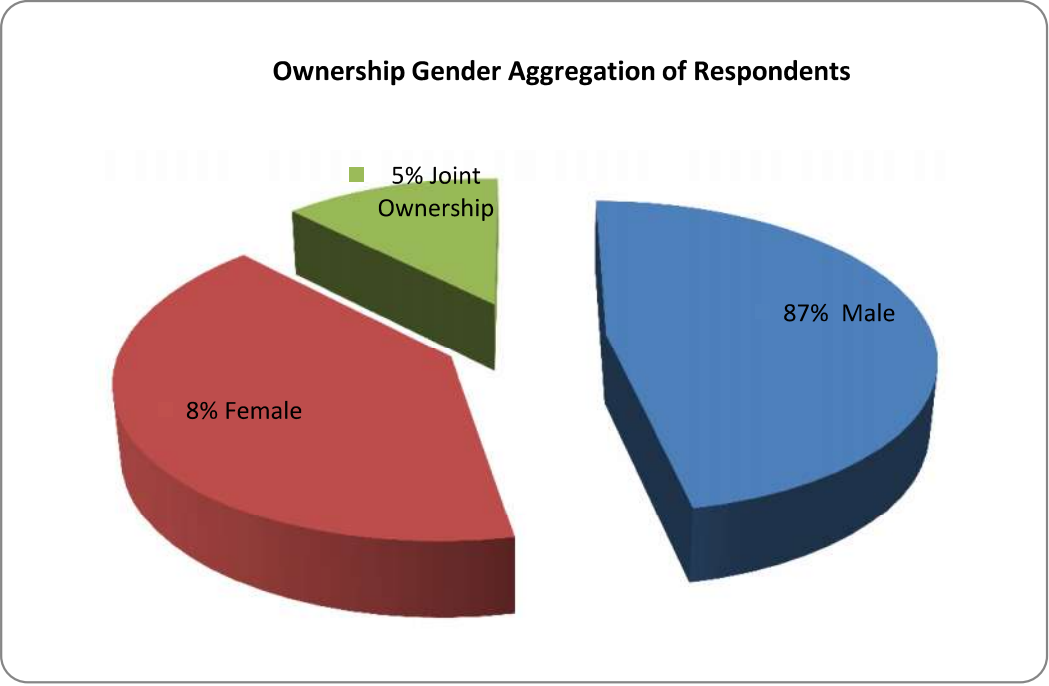
### **Figure 2: Nature of Business**



Of the above industries, it was also noted that the average duration of each SME in existence within the field was 6 years.

Figure 3 illustrates the ownership gender aggregation of the sample. It was noted that the majority of the SMEs were male owned with them taking a 75% stake while females owned 8%. It was also discovered that 5% was joint ownership in which it involved mainly husband and wife.

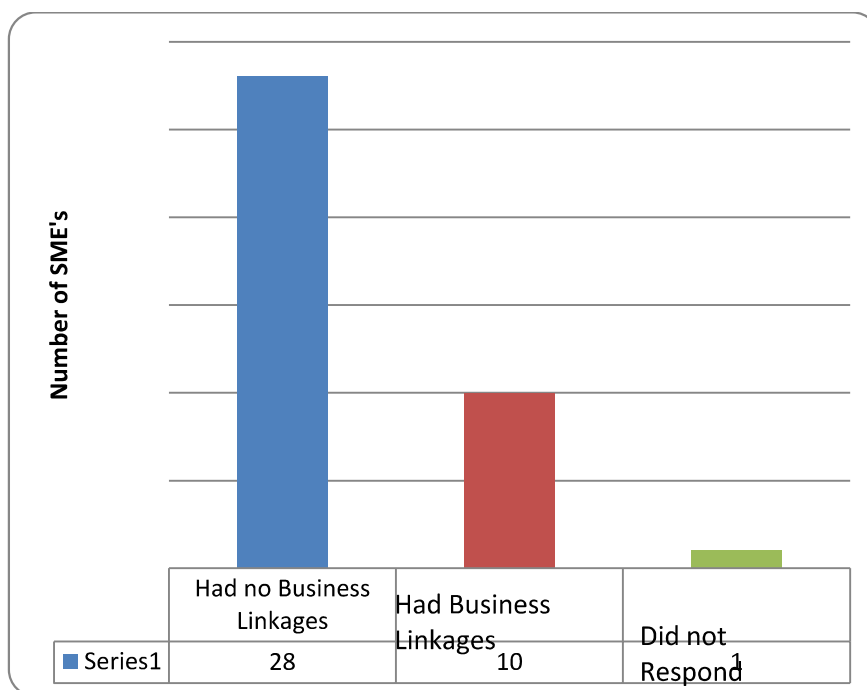
**Figure 3: Ownership Gender Aggregation of Respondents**



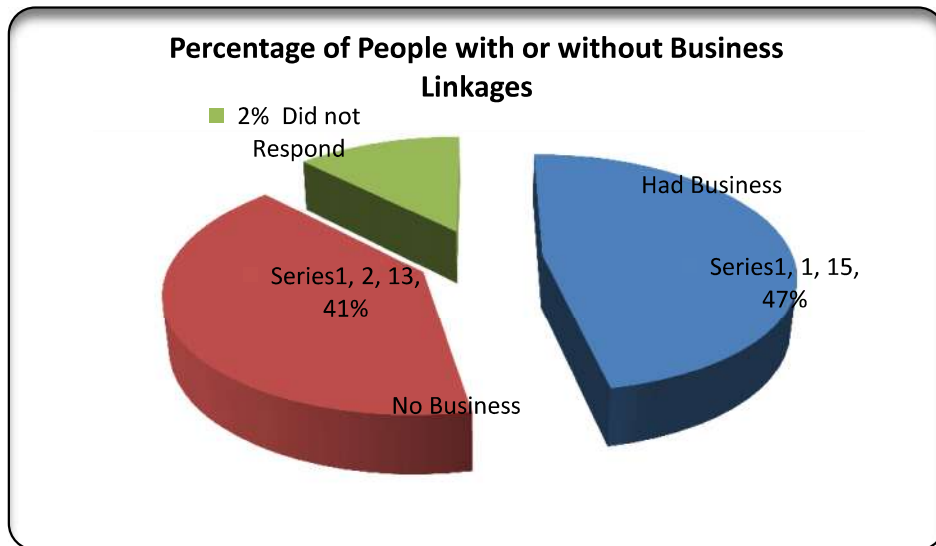
Entrepreneurship in Zimbabwe is very high among females (Zindeya,2008) but worthy of note is the fact that the manufacturing sector is dominated by men. The nature of the activities is perhaps the major contributor to the statistics.

Out of the sample 10 had business linkages while 28 did not have as presented below in Figure 4.

**Figure 4: Business Linkages**



**Figure 5: Percentage of people with/without Business Linkages**



The pie chart above presents a percentage comparison of those who had business linkages to those who did not have. 47% of the respondents had business linkages.

***Analysis of SMEs with business linkages***

At least 25% of the responding SMEs had business linkages and the characteristics and analysis of those respondents with business linkages are indicated below.

**Figure 6: Number of SMEs that received training**

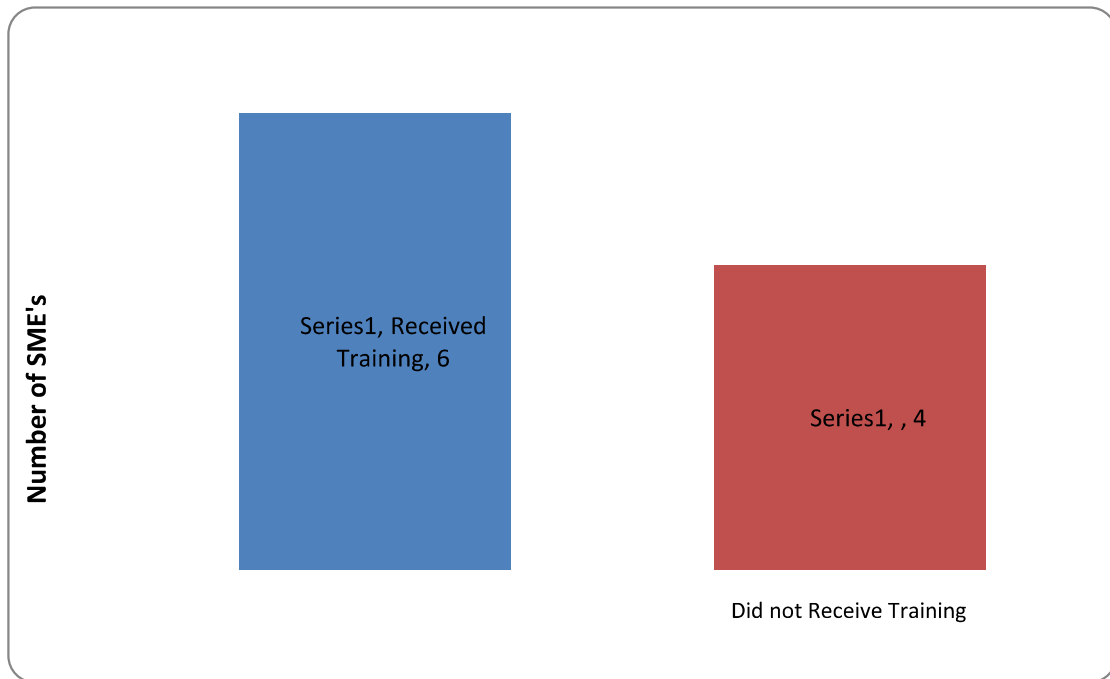


Figure 6 shows the number of SMEs which received training through the business linkages which they had established. Of paramount importance to note is that the training came in the following areas—safety and health management, packaging, management, bookkeeping and quality assurance, the main areas being safety and health and bookkeeping. This is contrary to the literature which posits that for manufacturing concerns there would be more enhancement of technological capabilities (Chipika & Wilson, 2006). Some respondents also indicated that the training which they received was not as a result of their then obtaining business linkages but through government and non-governmental engagements. On the recommendations made on training needed to make their SMEs vibrant and competitive Safety and Health Management, Packaging, Business Management were mainly noted.

**Figure 7: Access to Loans**

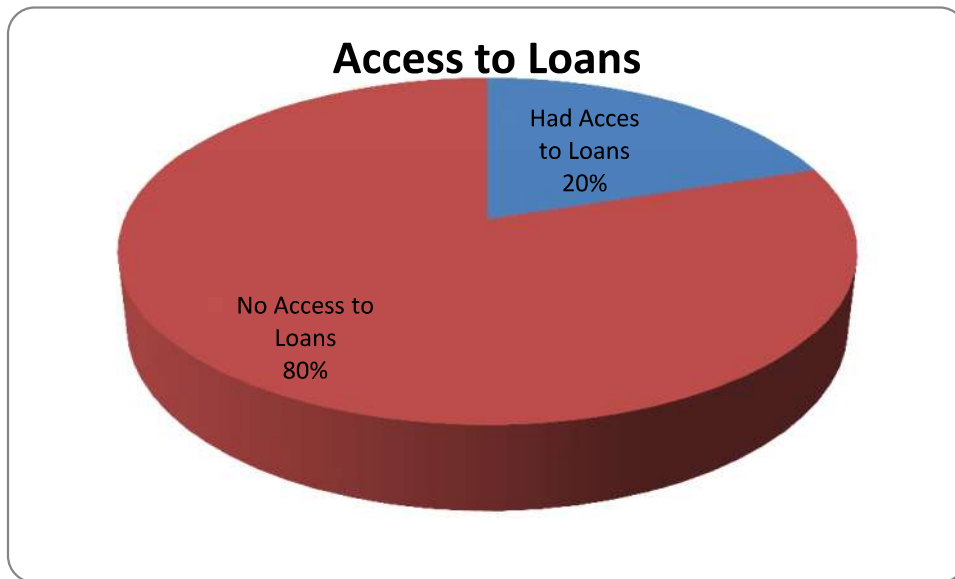
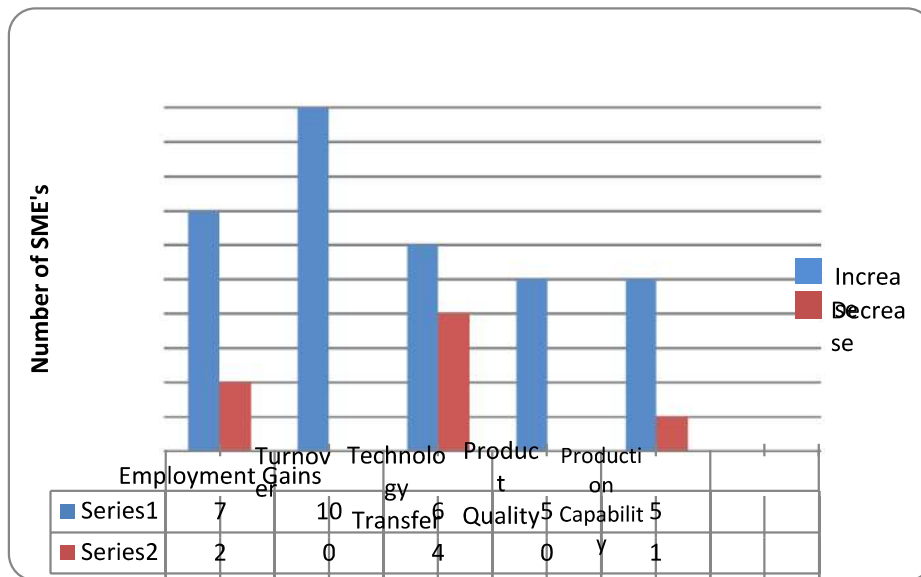


Figure 7 above illustrates the percentage of SMEs that had access to loans. Chiefly noted was that 80% had no access to loans despite having business linkages while 20% managed to access loans through the business linkages that they had established. This is in agreement with Kumar and Subrahmanya (2010) who indicated that business linkages can bring with them financial assistance or financial support in the form of access to loans or direct credit from the larger company.

The following indicators were used to determine the benefits that had accrued to SMEs with business linkages. At least 90% of the businesses confirmed that business linkages contributed positively to business effectiveness ranging from administration to quality output. 7 highlighted that they were able to increase their staff through business linkages. This is noted in Figure 8 below.

**Figure 8: Impact of Business linkages on Employment Gains, Turnover, Technology Transfer, Product Quality and Product Capability**



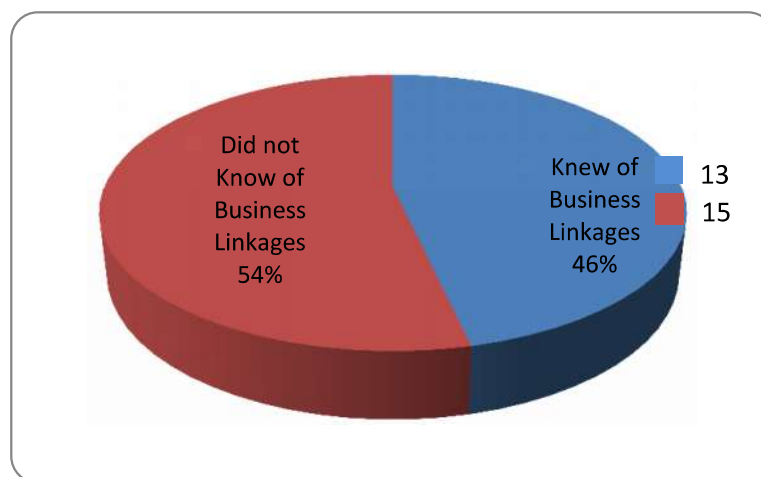
70% of the SMEs highlighted that they had increased their staff because of the linkages. Employment creation is a critical issues in any economy and more critical in a recovering economy like Zimbabwe's. Thus this benefit is not just for the SMEs but for the society at large as noted by Jaspers and Mehta (2007) that business linkages stimulate the whole economy. On the issues of turnover, 100% of the SMEs in a business linkage relationship indicated that their turnover had increased because of the linkage. This is an important benefit since its ripple effect has tremendous impact on growth and survival of the SME. As for technology transfer which is an issue closely associated with manufacturing companies, 60% of the SMEs indicated an increase in technological know-how. Closely related to this was production capability where only 50% of the companies indicated an increase. This is in line with a study by Gierson and Gallen and Mead (1995) on business linkages in Zimbabwe in which they noted that the big businesses in Zimbabwe were not keen to establish linkages because the technology gap was so wide as to render it practically impossible for technology transfer to take place. On product quality, 50% of the SMEs indicated an improvement, an issue well documented in literature that business linkages assist in increasing product quality

in a bid for the larger firms to standardise products for their own use (Jaspers & Mehta, 2007). Furthermore it has been noted that using local suppliers resulted in a net cost reduction of up to 15 per cent compared to the products previously imported (UNCTAD, 2004) thus the effort to improve product quality.

### **Analysis of those who did not have Business Linkages**

This section presents a characterisation of the segment of SMEs which did not have business linkages.

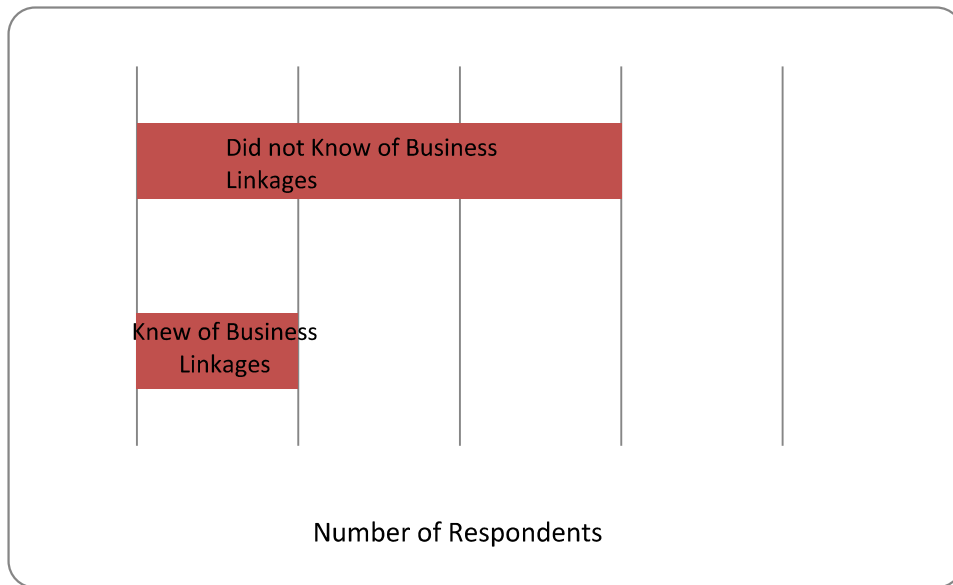
**Figure 9: Knowledge about Business Linkages**



In a bid to establish the levels of understanding of business linkages amongst those who did not have them, it was noted that 54% of the total SMEs which had no business linkages had no idea about their existence while 46 % knew of business linkages. Figures 10 and 11 present the percentages and number of respondents who had knowledge of business linkages.

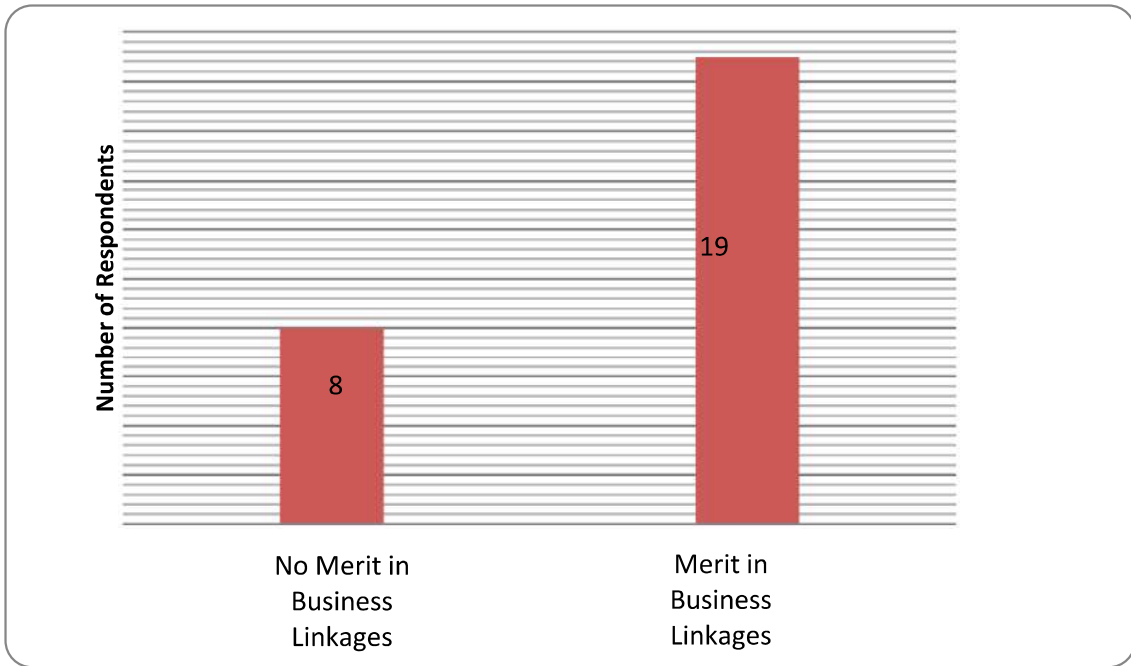
**Figure 10: Knowledge on Business Linkages**



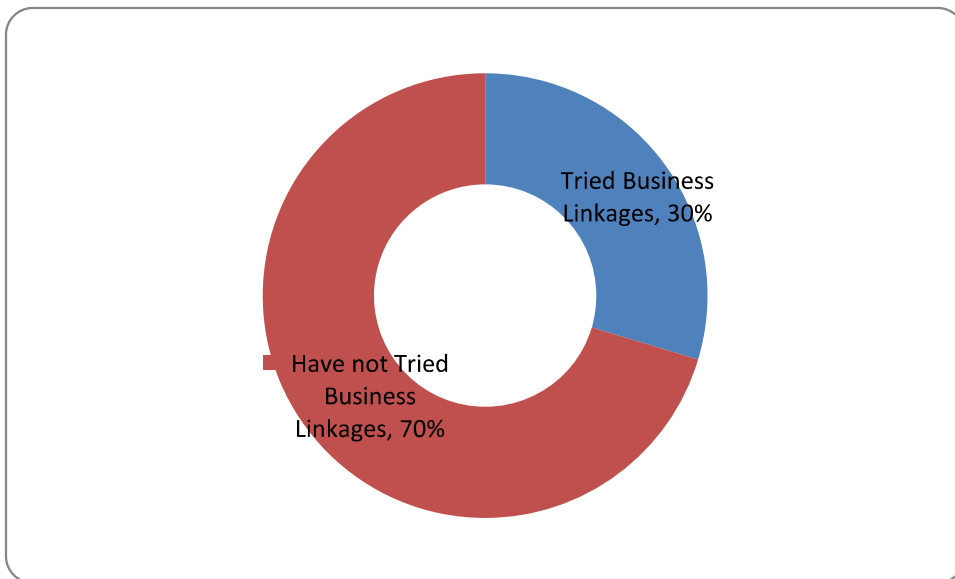


On whether business linkages had merit or not, 8 found no merit in having business linkages while 19 noted that there was merit in having business linkages, as illustrated by Figure 11 below. Of those who found no merit in business linkages, the main reasons noted were that the SME, in being smaller, lacks negotiating power with the larger firm hence the transactions will be skewed and unfair from the onset and the business linkages will end up simply exploiting them. It was noted by Chipika and Wilson (2006) that not all business linkages necessarily benefited the SME.

**Figure 11: Perception on Business Linkages**



**Figure 12: Percentage of those who attempted Business Linkages**



At least 30% of those who do not have business linkages have attempted them as shown in figure 12 above. The reasons given for abandoning them were that

- the larger businesses were buying their products at very low prices and then charging exorbitant prices so it was more lucrative to get the market themselves;

- the larger businesses was merely exploiting them as cheap labour and no real benefits accrued;
- the larger businesses closed down because of the economic meltdown; and
- larger businesses became their competitors and the linkage became cannibalistic in nature.

### **Conclusions and recommendations**

The concept of business linkages is not yet being fully utilised in the manufacturing sector in the townships of Gweru urban. There is no adequate information on the concept and there does not seem to be a central point where the SMEs in the manufacturing sector can access such information. The 25% who are linked indicate positive results from these linkages and the growth and success of the small scale manufacturing sector might depend on the establishment of such linkages. Gweru is the industrial hub of the Midlands province and as the economy recovers business linkages can be part of the recovery agenda. There was no evidence of membership of manufacturing associations and it is recommended that if the SMEs become members of appropriate associations it would be easier for information on business associations to cascade to players. Information can also correct the perceptions that the SMEs have about business linkages. It is also recommended that the larger organisations also need to be concerted about the concept of business linkages and the willingness of SMEs to participate. So a dialogue in Gweru urban needs to be established.

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