Challenges Facing Heavy Engineering Companies in Zimbabwe- A Case of Gulliver Consolidated Industries

Leonidas Ngendakumana[1], Nelson Jagero[2], Stanley T. Makweche[3]

[1] Lecturer, Department of Economics, & [2] Director, Distance Education, Africa University, Mutare, [3]Managing Director, Precision Grinders Engineers, , Harare, ZIMBABWE.

[1]makweche@precisiongrinders.com,[2]ngendakumanal@africau.edu, [3]ngendakumanal@africau.edu

ABSTRACT

The purpose of this study is to assess the challenges facing heavy engineering companies (HEC) in Zimbabwe with a particular reference to Gulliver Consolidated Industries. The companies have been in its worst state in the year 2008 while other neighboring countries economies were booming such as Zambia, Mozambique, Malawi, Namibia and Botswana. The study used a qualitative survey method to collect data using Gulliver Consolidated Industries in Zimbabwe using stratified sampling method. A descriptive analysis of the sampled firms was used to draw conclusions on the challenges facing heavy engineering companies. The study highlighted that heavy engineering companies in Zimbabwe are riddled with severe financing constraints, low volume of work, poor human resource base, undercapitalization, obsolete equipment, uncompetitive exports, unclearly structured Government policies, political, poor direct foreign investments, economic uncertainty and unavailability of cheap good quality raw materials which are affecting their viability and growth.

Key words: Heavy Engineering Companies, Gulliver Consolidated Industries, Icarus Paradox, ZimSteel Company

INTRODUCTION

The steel engineering sector was so vibrant between the 1980s' to the early 2000s' in Zimbabwe. Bulawayo was once a vibrant industrial hub that determined Zimbabwe's industrial credentials on the African continent followed by Harare. The country would compete on the export market with Africa's developed country South Africa. Exports grew from USD13, 276,210 to USD17, 810,657 between 2003 and 2006 which was a 34.2% increase (ZimStats, Exports to all Countries listed by HS6, 2011). Products such as trailers, road tankers, rail wagons, mine cars, car assembly, steam boilers, large diameter pipes, coach building, bridge construction and tower manufacturing just to name but a few, were all done by local companies. As of today, giant industrial steel companies have closed shops such as NRZ Workshops, Zeco, Astra steel, Tube and Pipe, General Steel, Tor Structures, Steward & Lloyds and Hogarth.

The Ministry of Industry and Commerce (Industrial Development Policy Document 2012-2016) indicated that the last decade has witnessed the engine for economic growth and development that is anchored in Zimbabwe's manufacturing sector declined in its contribution to GDP from averages of 20% in 2000 to below 10% by 2008. According to the Zimbabwe Institute of Engineers, there were just over 47 heavy steel engineering companies

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in Zimbabwe until 2006 and today, an estimate of only 14 are in operation among them Gulliver Consolidated Industries.

Gulliver Consolidated Industries as a group used to have a strong export base to the following countries i.e. South Africa, Swaziland, Lesotho, Zambia, Mozambique, Malawi, Democratic Republic of Congo (DRC), Angola, Namibia, Tanzania, Uganda and Kenya until the year 2005 (Apex Management Services- Exports Division).

Of late, the companies in the group have been in dire straits as explained by Mr G W Khumalo who is a non-executive director representing Apex Holdings (the major shareholder in GCI). Production at the company has taken a deep and workers have not been able to be paid their salaries from as far as May 2011 (Morewear Industries Human Resources Dept). Moresteel industries are also in the same predicament as Morewear but are a bit busier. Industrial Galvanizing and Fabricating are failing to purchase a new galvanizing bath and 40 tonnes of zinc for them to resume the galvanizing of steel. Lysaghts and Megasteel are also limping and do not have any stocks of steel to serve customers even though demand for steel remains high.

Sales, volumes and profitability of Gulliver consolidated Industries have been plummeting from 2005 to the year 2010. Exports have not been forth coming and at the same time the local market is as dry as customers are not committing themselves to capital projects. Sales volumes declined from 3 001 to 1 069 tons of processed steel in the whole group between 2005 and 2011 which is a 64% decline. This resulted in a loss of US$ 4 848 521.00 in 2010 from a profitability of US$ 10 569.77 in 2005 (Gulliver Consolidated Industries Annual Reports 2005-2011, audited by Ernst & Young).

OBJECTIVES OF THE STUDY

(i) To specifically internal and external causes of heavy engineering companies' failure in Zimbabwe;

(ii) To assess the extent to which each challenge affects heavy engineering companies in Zimbabwe;

SIGNIFICANCE OF THE STUDY

The study will enable heavy engineering companies to tackle decline and closure by suggesting some practical measures to be taken in order to solve a number of problems faced, thereby contributing to poverty alleviation which is one of the Millennium Development Goals (MDGS).

The study is also important because it will clearly indicate to Government the challenges being faced by these companies so that policies can be formulated to save them.

LITERATURE REVIEW

Business failure is not only common with new start-ups but also with listed companies, and can happen to firms of any and all sizes Wu (2010). Gaskill et'al (1993) defines business failure as wanting or needing to sell or liquidated to avoid losses or to pay off creditors, or the general inability to make a profitable goal of the business. While Pretorius (2009) defines

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failure as the end point at discontinuance (bankruptcy) and when it is reached, operations cease and judicial proceedings take effect.
According to Hubert Ought and Sofia Deer Pricked (2008) unsuccessful start ups, ambitious growth and big company bureaucracy hinder company growth. The world is now a global economy and if any manufacturing industry does not embrace technological changes, then the industry will lie behind in terms of industrial development, delivery and good quality products. The heavy manufacturing industry is normally affected by poor infrastructure, rising fuel costs, poor innovation and research and development, lack of experienced labor, lack of capital, competition and poor economic performance. Michael E Porter (1998) said that failure of most manufacturing industries is that they take competition for granted "only to wake up when the fire has already gutted the house".

Human skills are key to any organization and the human element needs to be motivated all the time. It is a make or break situation according to Laurie J Mullins and Richard Whittington in their Management and Organizational Behavior 8th edition. People need to be developed as they are working in an organization.

Kotler et al (2003) stated that poor product quality and marketing, has led to the fall of many organizations. He further argued that there is no company that can exist without the marketing aspect. Marketing is the heart of any thriving business.

Neophyton, Charitou and Charalambous (2001) identified reasons for business failure. These are high interest rates, recession squeezed profits, heavy debt burdens, government regulations and the nature of operations can contribute to a firm's financial distress. Drapeau et al. (2004) argued the causes leading to business failure and later bankruptcy could be divided into economic, financial, neglect, fraud, disaster and other factors.

Factors That Cause Company Failure In Strategic Management

Relevant Knowledge Of The Business Market

Lack of the relevant knowledge of the business market according to Coggins (2010) is a factor that leads to business failure. He states that in order to do anything well, a person or company must do their homework to gain a deep understanding about the factors that are essential for success. These days as the World Wide Web continues to expand, there is no excuse for a would-be entrepreneur to lack knowledge of whatever business they feel need to pursue. Sadly, many businesses are dead out of the gate because they do not take the time to gain a proper perspective on the industry.

Assessment of the Direct and Indirect Competition

It is stated by Coggins (2010) that when getting ready to implement a new business, another important factor for success or failure is the nature of the direct and indirect competition for the same product or service. He gives an example that if a person or group is wishing to open an online outlet for used furniture, should take at least a few days to research how many other entities are trying to do the same thing. When doing the research, the group is advised to ask such questions as: Who is the competitor? What products and services do they offer? What is their pricing structure? What kind of shipping do they offer? Gaining a firm grasp of the competition can definitely make the difference between staying alive long-term or filing for bankruptcy.

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Availability of Financing

Availability of financing is named by Coggins (2010) as important to the success or failure in business. The current economic crisis in America, he says has made venture capital difficult to find. He also says if a company can manage to avoid using credit altogether then this is not a problem but that most new businesses need some kind of seed money to get them up to speed and thus the ability to secure working capital is critical to keeping the doors open.

Proper Timing

Coggins (2010) indicates that "in 1998, when the latest housing boom began it was probably a good time to enter into the home mortgage industry; in 2006, when the housing bubble began to burst it was probably a poor time to set up a new mortgage outfit." He also indicates that part of learning about an industry is getting a good feel for its business cycle; although trying to time the market can lead to indecision.

Government Regulatory Measures

Another reason for business success or failure is how much the owners of an enterprise have a good grasp on the rules and regulations governing their sector of the economy; this includes having a clear understanding of the tax structure according to Coggins (2010).

According to Charles W.L. Hill and Gareth R. Jones (2006) state that company failure is caused by inertia, prior strategic commitments and the Icarus paradox as explained below. The inertia argument says that companies find it difficult to change their strategies and structures in order to adapt to changing competitive conditions, and one factor that seems to stand out is the role of organization capabilities in causing inertia.

Prior Strategic Commitments

Ghemawatt (2009) argued that a company's prior strategic commitments not only limit its ability to imitate rivals, but may also cause competitive disadvantage leading to failure. For instance, IBM prior strategic commitment of major investments in the mainframe computer business did not suit the newly emerging personal computers in the early 1990s which locked IMB into the shrinking business and shredding it off was bound to cause hardships to the shareholders.

RESEARCH METHODOLOGY

Research design

The researcher will use both qualitative and quantitative. Questionnaires will be used to obtain quantitative data, which will be subjected to statistical techniques of analysis such as measures of central tendency.

Data collection

Primary data was collected mainly through the use of specially designed and worded questionnaires. Primary data involved a survey research design that was adopted in this study using stratified sampling where questionnaires was sent to respondents who included the Group Chief Executive, Group Finance Executive, Unit Chief Executives, Unit Departmental Executives, Production Foremen and their Supervisors. The researcher sent out 35 questionnaires and conducted 10 interviews.

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Data analysis

During the analysis stage, the researcher made extensive use of the computer packages, in storing, retrieving, further processing and analyzing the data. This places emphasis on speed and accuracy, which are paramount in enabling schedule feasibility of the research. Microsoft applications such as Word, Excel and Access were used. Computing summations, calculating percentages and the drawing of tables that are necessary for a clear data analysis presentation were also carried out with the help of computer packages. Data obtained from primary research methods and secondary sources was aggregated and presented in the form of graphs, pie charts, scatter diagrams, histograms and tables.

DATA PRESENTATION AND ANALYSIS

Technology

The technological effect at 72% was explained by the interviewees as not having the latest technology to use in the manufacturing processes. Most factories are equipped with obsolete machinery which does not produce the right quality of product at the same time the machines are not as fast as the latest machine models. Obsolete machines created rejects and a lot of rework for the companies. For example, the youngest machine in Precision Grinders Engineers factory is a 1964 manufactured lathe machines. The heavy engineering companies do not have any resources to recapitalize and re-tool themselves with the latest technology that our regional neighbor South Africa has. This is in line with what Indicus (2009), Ssndaula (2002) and Cronje (1992) of the need for manufacturing industries to re-tool. There is also the major concern of machine break downs which delays customer product deliveries hence it earns the companies a bad reputation and at times orders are cancelled by customers out of disgruntlement in delayed deliveries.

Power Cuts

Power cuts were also rated at 72% in the very negative category in affecting the business environment. It confirmed what CTI (2011) found as the one of the major factors affecting the Tanzanian manufacturing industry. The long hours of power cuts hindered production and at times, power is only available during night when most industries are closed. One of the interviewees, Mr. Jabangwe (General Manager – More Wear Industries) indicated that they at one time were working during the nights only when electricity was available within the Gulliver group.

Availability of Raw Materials

The unavailability of raw material was rated at 65% in the very negative impact category. The main raw material in the manufacturing processes is steel which is not available locally since ZISCO (the Zimbabwean steel manufacturer) has long closed due to operational problems and mismanagement meaning that all steel sections are coming from South Africa. In the face to face interview, Mr. G Khumalo (a Gulliver Director) explained that the non availability of local steel has caused delays in the production processes, deliveries and has caused products to the highly priced due to the steel importation and logistics. In general, the estimated volume of imported raw materials decreased by 57 percent supporting the earlier point that companies are facing a shortage of raw materials. This is attributed to the cost of imported raw materials which is estimated to have increased by 100 percent (Zimstat, 2011).

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Lack of Working Capital

Lack of working capital (55%) was ranked third. Most engineering companies mentioned that they were not in a position to recapitalize them due to the liquidity crunch prevailing in the country and the world at large. This was also worsened by the lack of credit lines (ranked fifth at 49%) which are normally obtained from the banks. Coggins (2010), Snyder (2000) and Prijcker (2008) have all emphasized the need for credit lines for companies to be able to fund their operations. Any facility available in terms of credit would be very little to finance the working capital and at the same time, it will come with exorbitant interest rates that companies will not be able to repay such loans.

Electricity Charges

Electricity charges became factor number four at 53% in the very negative category. The local service provider ZESA is charging industrial companies very heavy charges in a way for it to be able to pay electricity imports that it gets from neighbouring countries in order to try and satisfy demand. There is a peak level to which if any one company exceeds, it will pay a fixed premium charge plus the standard rate charge per kilowatt of electricity. Mr. Johnson of More Steel industries says that, they would rather delay customer orders than to reach and go beyond the electricity daily peak usage set by ZESA since at one time they were charged USD18 000.00 for reaching the peak usage limit excluding the standard kilowatt charge rate.

Labor Skills and Development

Labor skills and development had a 48% in the very negative class. This factor arose due to the mass exodus of engineers, technicians and administrators to greener pastures especially South Africa and other regional countries, United Kingdom, America, Canada and Australia. This resulted in less experienced personnel getting to be in charge of operations.

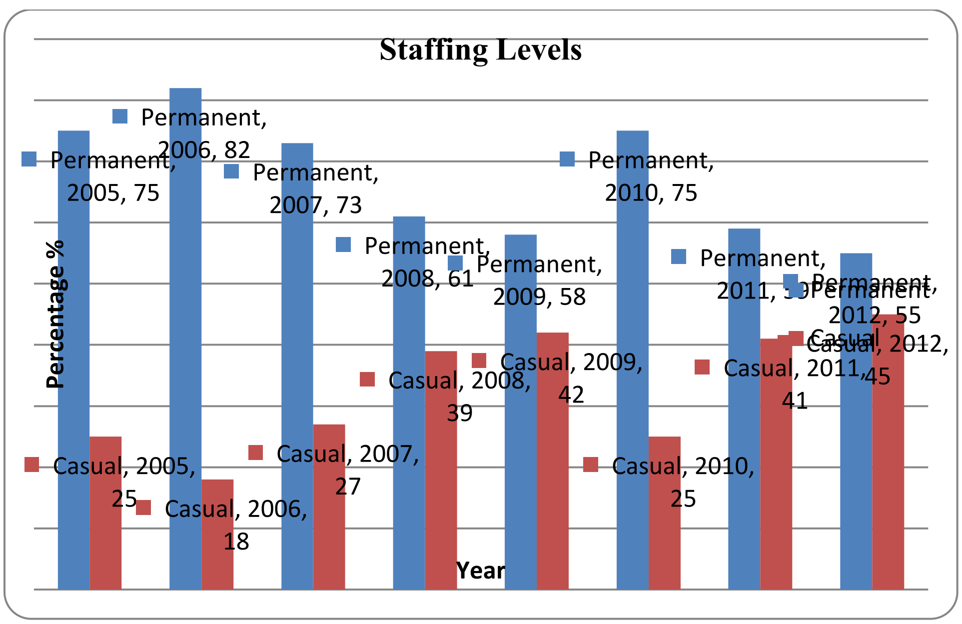

Figure 6.1 A Multiple Bar Chart Showing the Ratios Between Permanent to Casual Workers

Source: Computed from collected data

A lot of money therefore ended up being channeled to the development of new and enhancement of old skills. The exodus was caused by the harsh economic environment that is being experienced in Zimbabwe and the not so bright future of the industries. The bar chart above shows the staffing levels of permanent to casual employees.

Due to lack of working capital, raw material availability and decreased domestic demand, companies resorted to retrenching workers. The drop in the proportion of permanent employees to contract workers shows is attributed to the high staff turnover and the retrenchments. In a move to maintain viability, most companies have resorted to working more on contract basis to ensure that overhead costs for off-peak periods are reduced.

Competition and Substitutes

Competition and substitutes were placed seventh with a 41%. It is mentioned that the emergence of the Asian giants, India and China has put a lot of pressure on the world markets by Hubert & Pricket (2008) and Coggins (2012). The liberalization of the economy has allowed in a lot of completion into the country. Substitutes and cheap products have been imported into the country and these include trailers, mining equipment and agricultural equipment. This has rendered the local heavy steel engineering companies to be in the doldrums in the sense that the locally manufactured goods are highly priced due to the high production costs. For More Wear industries for example, they have stopped manufacturing their 30tonne trailers which they were retailing at USD56 000.00 resorting to importing from China the same trailer at USD25 500.00 and then retailing them for USD42 500.00. Manufacturing the same trailer, takes More Wear industries 6 weeks while in China, it only takes 12 hours.

Corruption

Companies complained about corruption as hindering their prosperity when it came to awarding of tenders by the tender board. This was mainly raised by Zeco and Mr. Jabangwe (General Manager) of More Wear industries who are involved in big water pipes, rail wagon manufacture and repair. Tenders in this kind of business range from USD 500 000 into millions in any given one tender. More Wear industries even mentioned that at times they are asked by representatives of the customer for kick backs if they want to win the tender. It is very unprofessional but if they do not respond positively, they have always lost the tenders. This practice will always end up eating into their profits on that particular job and it is unfortunate that at times the client representative will be basing their commission/kick backs on the gross sales figure and not on the profitability of the contract.

Minimum Wages

The major problem was that the workers would demand wage increases which are absurd for example an increase of 50% in wages and salaries through their National Engineering Council (NEC) in the month of May 2010, while the employers through their Employers Association of Zimbabwe (ESAZ) were proposing an increase of 5%. These discrepancies led to prolonged negotiations and battles between the employers and employees to the extent that cases will end up being with the arbitrators or labor courts. All this was being done with everyone being aware that there is not business at all to sustain such increases. Most companies estimated at 57% ended up having internal agreements with their employees to avoid disruption of work.

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Government Policies

In the survey, Government policies came almost towards the end of the list of factors that affected the business environment. The results from the questionnaire showed that all companies lost their monies which were either in bank accounts or as cash on hand during the Zimbabwe dollar era. Each time the Governor of the RBZ would announce his monetary policy, most of his changes will have an immediate effect by that particular day's mid-night catching people and companies unaware and hence they would lose out all the time. When it came to the move from ZWD to the US Dollar, the ZWD bank accounts were just frozen without any compensation for the moneys that the companies were having in their accounts up until today. Companies were left without any capital to continue smoothly in the new US dollar era causing most companies to be unable to recover and some have even closed shop.

Another policy that the companies raised was that of the Indigenization Act which stipulates that all companies in Zimbabwe must have a 51% shareholding being given to indigenous Zimbabweans. The complaint is that those who are coming to join into the companies are not going to put any monies into the company when they get such shareholding. This has caused a lot of panic in the industry with some firms cashing in on their businesses and leaving the country. The Indigenization program has not been received well even by the indigenous Zimbabweans as they feel that it is not being done properly, it is for the favored few. Lastly, the Government's "Look East Policy", allowed the importation of finished goods at low duty charges especially locomotives and trailers from China leaving the heavy engineering companies redundant.

Domestic Demand

A lot of people have lost jobs through company closures or retrenchments creating a reduced demand for product due to the fact that they can no longer afford to buy such products. Consumption has been reduced drastically since the end of 2008 (Zimstat, 2011). From most of the heavy engineering companies surveyed, domestic demand for local products was reduced because of substitutes and imports from China, India and Brazil. These countries are producing cheap products due to the status of their economies which allow them to do so.

Lack of Exports

Analysis of the results, largely show that most companies are still producing for the domestic market. This is depicted in the table below:

Table 1. The USD Amounts of Exports to Local Sales

	Year					
Average Sales	*2005*	*2006*	*2007*	*2009*	*2010*	*2011*
Local	2 712 114	2 388 026	924 672	2 720 559	4 730 580	4 285 800
Export	289 682	343 522	101 637	67 396	117 941	112 086
Total	3 001 796	2 731 548	1 026 309	2 787 855	4 848 521	4 397 886

Source: Computed from collected data

As depicted above, the total average export sales are only 5.5% of the total average turnover (total average export sales were US$ 1 032 264 and total average turnover was US$18 794 015), indicating that there is more of local production than exports.

Table 2. The USD Amounts of Exports to Regional Countries

	Year					
Country	*2005*	*2006*	*2007*	*2009*	*2010*	*2011*
Zambia	125 200	51 319	-	-	-	28 930
Malawi	55 749	67 833	-	45 155	-	-
Mozambique	20 860	104 358	54 442	-	28 586	-
D.R Congo	4 941	26 090	35 097	-	-	29 542
Botswana	17 639	93 922	-	-	89 355	53 614
South Africa	65 293	-	12 098	22 241	-	-
Totals USD	289 682	343 522	101 637	67 396	117 941	112 086

Source: Computed from collected data

The companies that were exporting highlighted that export levels remained depressed due to the unavailability of working capital to meet orders, unavailability of raw materials, uncompetitive local products both in price and quality when they go on the export market due to high production costs and lack of modern technology, inadequate export market knowledge leading to failure to penetrate the markets and failure to secure orders as a result of the negative perceptions on Zimbabwean business.

Research and Development (including Innovation)

In as far as research and development is concerned, the companies all indicated that nothing has been in place since the year 2007 when the country started to experience mass exodus of expertise to South Africa which was building extensively from the World Cup Soccer it held in 2010. There are very few mechanical and structural designers which have led to a slow pace in our research and development in the country (ZIE Journal, 2010). Innovation has been destroyed by the influx of Asian substitutes which are very cheap and most companies are moving from manufacturing to more of retail like what More Wear industries is doing that is, importing trailers from China instead of manufacturing them and then selling. CEDEFOP (2010) strengthens the need to have a strong R and D programs in the UK so as to guard against the giant Asian manufacturers.

Marketing

Ten percent representing 1 unit called Africa Steel is still putting a budget for marketing activities which they follow religiously as said by the General Manager Gita Madhoo. For the rest of the companies that participated in the survey, none of them are putting up any marketing budgets. It is now haphazard and will only advertise when they have excess cash.

Kotler et. al (2003) stated that" there is no company which can exist without the marketing aspect. Marketing is the heart of any thriving business".

The Sales Executives of all Gulliver companies were quite clear about the marketing situation and complained that they are not being taken seriously on the issue of marketing and advertising. From the Chief Executives, it was all to do with the availability of cash which seems to be elusive to all the group companies. In the case of More Wear industries, Industrial Galvanizing & Fabricating, Lysghts Steel and More Steel, they last advertised in the local newspapers in the year 2010.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study sought to identify the challenges facing the heavy engineering companies in Zimbabwe, to analyze the extent to which the challenges have affected the operations of the heavy steel engineering companies, to find ways on how to improve their operations and to proffer policy advice on the protection of the local heavy steel engineering companies.

Recommendations

The Government can work with countries like India and China on a Government to Government agreement in importing subsidized factory machines for production processes coupled with the transfer of knowledge on the use and servicing of the machines.

This will enable the heavy engineering companies in distress to finance acquisition of equipment.

There is need to have private players in the rail, electricity and water supplies to ease the supplies cut-offs that the heavy engineering industry has been experiencing. The Government needs to remove the monopoly on electricity by ZESA, water supplies through ZINWA and rail by NRZ. The Government can also engage other countries to come in on build-operate and transfer (B.O.T) program. Having more players in the utility supplies will reduce the current tariffs being paid by the companies which will then be passed on to the consumers as goods and services become cheap hence the improvement of capacity utilization

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