

Manufacturing Firm Survival in the Face of Economic Crises

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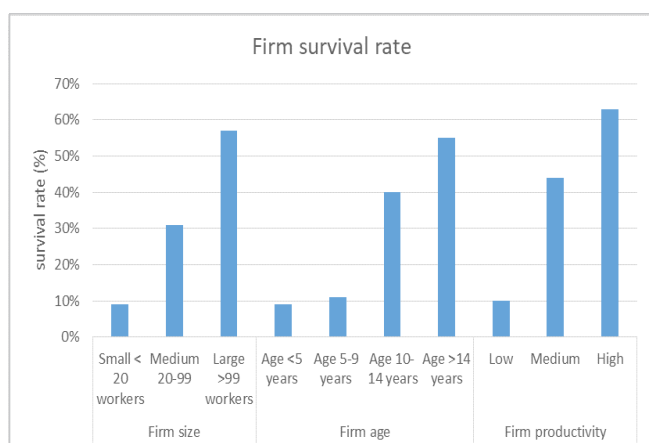


Zimbabwean manufacturing firms are resilient
in the face of economic crisis.

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Topic at a Glance

From 2000 to 2009, the Zimbabwean economy collapsed in the face of severe macroeconomic imbalances, hyperinflation and a fast-track land reform programme. While overall economic growth recovered with the stabilisation and ending of inflation through the 2009 dollarization, growth in manufacturing has lagged that of the economy as a whole and employment in manufacturing has continued to fall. To understand how manufacturing firms respond to extreme and persistent economic crises and policy shocks, this research project conducted a Tracer Survey in 2015 of 203 Zimbabwean manufacturing firms previously surveyed under the Regional Programme on Enterprise Development (RPED) programme in Zimbabwe over the period 1993 to 1995. Through identifying the relative importance of initial firm-based factors (age, scale productivity, access to credit, foreign ownership, export status, etc.) in driving survival outcomes, the research aims to provide a deeper understanding of how economic crises impact upon firm behaviour and firm survival.



Caption: Zimbabwean manufacturing firm survival rates by firm characteristics

New Insights

This project traced 203 firms, initially surveyed in the early 1990s, to understand the factors associated with survival and the challenges surviving firms faced. Firms were traced through a wide range of databases (trade directories, business associations), internet based searches, published articles, registers of firms with tax clearance certificates and site visits. In many cases conclusive evidence of closure could not be found, despite there being no evidence of production at the last known location.

The Zimbabwean economic environment made firm survival very challenging. Out of the 203 manufacturing firms surveyed in 1994, 78 firms were still surviving and operating in the same business, while strong evidence of closure was found for 40 firms. In between the two extremes, were different categories that include firms that merged (8 firms), as well firms for which no information on operational status was found (32 firms).

Three characteristics stand out as being closely associated with firm survival (see the attached figure):

Larger firms are more likely to survive. Firms originally employing more than 100 people have a survival rate of 57% compared to a survival rate of 9% for those with 20 or fewer workers.

Younger firms are more likely to have exited. A firm younger than 5 years had a 9% survival probability compared to 55% for a firm aged 15 years or more.

Finally, more productive firms (measured as sales per worker) have higher survival rates. Firms in the top third of the productivity distribution had a survival probability six times higher than those in the bottom third.

Other firm characteristics such as sector, export status, ownership (foreign and/or African), education of manager and market share had no systematic relationship with firm survival.

Despite the sequence of severe adverse shocks Zimbabwean

firms have experienced, firm survival probability in Zimbabwe was not remarkably low compared to three other Sub-Saharan African countries: Kenya, Tanzania and Ghana. In fact, the survival rate was much lower in Kenya and Tanzania.

Various factors explain the resilience of Zimbabwean firms compared to the other African countries. Manufacturing firms in Zimbabwe were on average older and larger compared to other African countries during the early 1990s. The period is characterised by a lack of firm entry – Zimbabwean firms in 2015 are on average still very old relative to other African countries and there has been a decline in the proportion of small firms. Rather than close, Zimbabwean firms contracted and operated with very low capacity utilisation. Alternative economic opportunities for both owners and workers were very limited, leading to a reluctance by owners to shut down operations and workers to resign. Further, during the hyper-inflation period, wages failed to keep pace with inflation offsetting some of the cost disadvantages firms faced.

Policy recommendations

The results of the research are not unexpected. Firms which are more productive produce more output for the same amount of inputs compared to other firms and thus are likely to be able to weather shocks better. Larger firms have more leeway for contraction compared to smaller firms and older firms may have a pool of experience and resources built up over time which helps survival. Going forward though the key question is whether these types of firms will be able to continue to survive, should economic uncertainty continue, and even expand should economic circumstances improve.

Limitations

This research does not look at how economic and policy uncertainty affects firm performance such as growth and employment. Other research of ours shows that the economic uncertainty in Zimbabwe has been associated with a worsening in the allocative efficiency of the sector. That is productive firms are not growing as fast as they should be relative to less productive firms. This has dampened growth in aggregate productivity of the sector. In the uncertain environment, Zimbabwean manufacturing firms have focused more on surviving than on expanding.

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