



NEAR EAST UNIVERSITY  
GRADUATE SCHOOL OF SOCIAL SCIENCES  
INTERNATIONAL BUSINESS PROGRAM

**IMPACT OF GOVERNMENT INTERVENTION ON INTERNATIONAL BUSINESS  
ACTIVITIES IN THE ECONOMY OF ZIMBABWE**

CHIDO NDORO

MASTER'S THESIS

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2019

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## ABSTRACT

### IMPACT OF GOVERNMENT INTERVENTION ON INTERNATIONAL BUSINESS ACTIVITIES IN THE ECONOMY OF ZIMBABWE

The drive for the following paper is to figure out the impact of government part in international business and how the economy gets affected by it. Governments have the duty to decide on ways to control their economies. This is done with the hope of reviving suffering economies. Most countries that are developing seem to getting favourable outcome more on international business activities so their governments implement economic policies that facilitate trade and help businesses to be competitive in the global market thus bringing about a positive change. The research study focuses on pointing out positive and negative changes which aroused each time Zimbabwe came up with ten year economic policy and how it affected the economy at large. Quantitative research methodology was taken for this research as it enabled the researcher to get a better light of the phenomenon being studied and it also helped the student to learn people's feelings and values regarding government intervention in their business lives. The population was gotten from Ministries and other stakeholders. Statistical analysis of data which was collected was recorded in the MS Excel. The connection between government policies and international business was calculated using the Chi-squared test. Graphs and tables are used to present this data. The requisite research findings were obtained through the use of questionnaires to ensure sufficient collection of relevant material, taking into account lack of research in the subject.

**Keywords:** economic policy, government intervention, foreign direct investment, international business

## ÖZ

### IMPACT OF GOVERNMENT INTERVENTION ON INTERNATIONAL BUSINESS ACTIVITIES IN THE ECONOMY OF ZIMBABWE

Aşağıdaki yazıya itiraz, hükümet kesiminin uluslararası ticaretteki etkisini ve ekonominin bundan nasıl etkilendiğini bulmaktır. Hükümetler, ekonomilerini kontrol etmenin yollarına karar verme görevine sahiptir. Bu, acı çeken ekonomileri canlandırma umuduyla yapılır. Gelişmekte olan ülkelerin çoğu, uluslararası ticari faaliyetlerde daha fazla sonuç alıyor gibi gözüküyor, bu yüzden hükümetlerinin ticareti kolaylaştıran ve işletmelerin küresel pazarda rekabet edebilmelerine yardımcı olan ekonomik politikalar uygulayarak olumlu bir değişim yaratıyorlar. Araştırma çalışması, Zimbabwe'nin on yıllık ekonomi politikasıyla ortaya çıktığı ve ekonomiyi nasıl etkilediği konusunda her zaman uyandıran olumlu ve olumsuz değişimlere işaret etmeye odaklanıyor. Araştırmacıya çalışılan olguyu daha iyi anlayabilmesi ve aynı zamanda öğrencinin iş hayatında devlet müdahalesi ile ilgili duygularını ve değerlerini öğrenmesine yardımcı olması nedeniyle nicel araştırma metodolojisi alınmıştır. Nüfus Bakanlıklar ve diğer paydaşlardan elde edildi. Toplanan verilerin istatistiksel analizi MS Excel'de kaydedildi. Hükümet politikaları ile uluslararası ticaret arasındaki bağlantı Ki-kare testi kullanılarak hesaplandı. Bu verileri sunmak için grafikler ve tablolar kullanılır. Gerekli araştırma bulguları, konuyla ilgili araştırma eksikliğini göz önünde bulundurarak, uygun materyal toplanmasını sağlamak için anketler kullanılarak elde edildi.

**Anahtar Kelimeler:** ekonomi politikası, devlet müdahalesi, doğrudan yabancı yatırım, uluslararası işletme

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## **ABBREVIATIONS**

BACOSSI	Basic Commodities Supply Side Intervention
ESAP	Economic Structural Adjustment Programme
GDP	Gross Domestic Product
FDI	Foreign Direct Investment
IMF	International Monetary Fund
MERP	Millennium Economic Recovery Programme
NTT	New Trade Theory
OECD	Organization for Economic Co-operation and Development
OLI	Ownership, Location and Internationalization Framework
ZIMASSET	Zimbabwe Agenda for Sustainable Socio-Economic Transformation
ZIMRA	Zimbabwe Revenue Authority

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## **CHAPTER 1**

### **RESEARCH OVERVIEW**

#### **1.0 Introduction**

The most important objective of this study is to explore the impact of government intervention in international business and how this has affected the economy of Zimbabwe. The government of Zimbabwe has set a number of rules and regulations in its constitution which are to guide both local and international businesses and to enable them to compete against each other. These rules and regulations can be altered by the government from time to time, which will cause businesses to change the way they operate since the owners have to comply with them. Thus international businesses get affected by the government policy which mainly focuses on economic, political and social objectives. According to Nayak (2002), government policies towards international business activities have a wide series of incentives and disincentives, which can either affect revenues, input costs, or components of the value added of a business. These policy instruments can result in a positive or negative return on equity of the investors and traders.

The main levels of international business that this study is going to focus on are trade that is exporting and importing, franchising, strategic alliance and direct investment. These activities of international business of today can be traced back from the 19<sup>th</sup> century, the period of industrial revolution (Dunning, 1993) when business people were seeking raw materials and markets all over the world. Its growth was encouraged by World War, the efficient and mass production and colonial activities. Foreign direct investments started in Latin America and Asia because of their natural resources and routes of

trade were created by the Greeks and others. Britain executed the Navigations Acts which was to protect its traders and maximise income. It also regulated other nations' trade between England and its colonies.

In Zimbabwe which was then Southern Rhodesia, these activities began around 1900 when many whites came to settle for good because of the Second Boer War and they involved agricultural products and minerals. After independence new government policies were set to help with the international business activities. For example in 1992-3 and 1995 there was a drought which lowered output produced hence exports were under punitive tariffs. Thus the government failed to control fiscal deficit thereby increasing their debts which had very high exchange and interest rates. The once active industries which provided jobs for many Zimbabweans became uncompetitive and ended up closing down. Zimbabwe just like any other developing country has welcomed these activities because it hopes to benefit from the growth in trade and business, and economic development at large Nayak (2002).

Since Zimbabwe is currently having economic challenges which include money shortages, it has been left with no other option than to accept Foreign Direct Investments mostly from China. This is helping to finance the negative current account deficit to some degree though lower rather than borrowing money at high rates in the stock markets to cover up debts. Trade has allowed Zimbabwe to enjoy the benefits offered to World Trade Organisation (WTO) members since it joined in 1995. It is a member of these negotiating groups namely African, Caribbean and Pacific (ACP) countries with preferences in the European Union; African group members in the organisation; G-90 which consists of the African group, ACP and least developed countries; G-20 (coalition of developing countries pressing for ambitious reforms in agriculture in developed countries with some flexibility for developing countries); G-33 ( friends of special products in agriculture); Paragraph 6 countries (countries with less than 35% of non-agriculture products covered by legally bound tariff ceilings); and W52 sponsors where they proposed modalities. This has hence promoted Zimbabwe to enter the global economy. Zimbabwe's economic situation has worsened and this has

promoted Small to Medium Enterprises (SMEs) to team up with other trusted international companies who are involved in the same business with them and have the same goal alignment. These strategic alliances with their international supplier have helped to cope with the ever changing environment. Licensing and franchising is almost the same thing. Local business people namely franchisees are offered rights by franchisor to do business in that chain with their own capital. Royalties are then paid to the franchisor from gross sales and examples include Nandos and Wimpy. The economic situation is even worse though some government policies have been implemented and they have had huge impact on international business.

### **1.1 Background to the Problem**

Government policies and legislations on businesses differ from country to country. These same policies affect both local and international businesses since both kind of depend on each other for instance some may be suppliers and others distributors and consumers. This also entails that every level or activity of international business carry their different problems and benefits when looked at.

A lot of research studies have been carried out on how the government of Zimbabwe has been promoting local businesses and SMEs in the country. It seems as if the government has been trying to ignore the practicality of the economic law of comparative and absolute advantage by David Ricardo which was postulated in 1817. Most researchers agreed that developing countries as Zimbabwe are to liberalize their economies, privatize businesses and globalize so that they attract international businesses in their countries. Little research has been done on how the country's economy has been largely dependent on these international businesses despite the imposition of policies on them. This research tries to clarify whether government policies in Zimbabwe have been helping in improving the already unstable economy or not.

The international business concept had not been fully understood in Zimbabwe till around 2007- 2008 when the economy started to drown. Many people think that trade is the only activity in international business; all other

activities tend to be ignored. In Zimbabwe international business is not being studied as a degree program but rather as a course focusing more on trade rather than all other areas. This study therefore is trying to make this subject of international business to be fully appreciated on its own rather than being taken as a small topic and also its impact on the economy.

Brewer (1992) appealed that government policies area pillar of strength to the internalization theory. Furthermore, countries that will welcome international business have to offer good governance, fixed assets and permit mobile investments to be locked into these assets as purported by Narula and Dunning (2000). In 2002, Pradhan claimed that various incentives such as direct tax grants, employment grants and training allowances, subsidies on land and building purchase, interest subsidies, tariff protection, exemption from imports and exports duties, exemption from income tax, dividend and capital gains, guarantee for currency conversion, guarantee for profits and capital repatriation can entice international business. Nicholas Phillipson (2010) stated that the view of free markets by Adam Smith was rather mere theory to him because Smith himself claimed that governments always played a part in making markets.

However, Adam Smith in his book *Wealth of Nations* of 1776 argued that haughty government interventions would damage economies like what happened in India. In 1770 there was a huge drought in Bengal which was caused by East India Company, a quasi-governmental organisation which managed parts of India at the time. Most rich countries in the world like Germany are practising free trade with little and sometimes no government intervention.

As a result of these different opinions by different scholars, there is a need to clarify whether government policies executed on international business are crucial in the enhancement and development of Zimbabwean economy or not. Hence the purpose of this research study is to explore the impact of government intervention on international business in the Zimbabwean economy.

## **1.2 Statement of the Problem**

Some economies tend to be doing very well without implementing government policies when performing international business activities. In most rich countries there is free play in the market. China on the other hand seems to be doing very well under their government policies on international business. Meanwhile Zimbabwe among other developing economies seems to fail even if these policies are executed. Around 2007 to 2009 most businesses neglected government policies and the black market grew rapidly. Unfortunately the situation got even worse, the income distribution gap between urban and rural areas, the rich and the poor grew even wider, divided labour market there were serious money shortages, best commodities could not be found in the markets only to name a few.

Currently dollarization has been cut off and new Zimbabwean currency is being introduced and the 2007-9 situations back again with long queues at banks and a maximum of US\$50 withdrawal limit per day. There is need for the government of Zimbabwe to deliver good governance, attractive and competitive attributes that will promote international business that best revamp its economy. However government policies can only benefit the economy when they are appropriately implemented to international business activities.

## **1.3 Objectives of the study**

The objectives of this study are as follows:

1. To determine the relationship between government policies and international business activities in Zimbabwe.
2. To establish whether those government policies can improve the economic situation of Zimbabwe.
3. To recommend government policies that can be introduced to improve the economy of Zimbabwe.

## **1.4 Research Questions**

1. Is there any relationship between government policies and international business activities in the economy of Zimbabwe?

2. What is the impact of government policies on international business activities in Zimbabwe's economy?
3. How can good governance be implemented to improve the economy of Zimbabwe through international business?

### **1.5 Justification of the study**

The key aspect of this research study was to achieve a detailed understanding on how government policies impact international business and its effect on the economy of Zimbabwe. International businesses tend to prefer economies with good governance, stable political and economic environments more. These factors then attract trade, investors, franchisors and opens doors for strategic alliances in the country. So to conclude the possibility of the view being true, there is need to evaluate this relationship.

Moreover this research study aims to help international business people, students, government officials and employees to understand the concept of international business and formulate better policies that work towards the betterment of the economy. The findings of this study are supposed to help other developing economies as Zimbabwe on implementing policies that attract international businesses. This is because this study supported the views that good governance enhances international business hence work towards improving the economy.

The literature that still exists to date mainly emphasizes on the impact of government policies on trade and foreign direct investment rather than strategic alliances and franchising. This therefore creates a pathway for new knowledge. This research study will deliver more information to researches such as this one and it is also a requirement in attaining a degree.

### **1.6 Scope**

This research study focused on four government ministries in Zimbabwe namely Ministry of Economic Planning and Investment Promotion; Ministry of Industry and Commerce which is responsible for trade and industrial policy; Ministry of Regional Integration and International Cooperation which deals

with intergovernmental relations; and Ministry of Environment. These ministries were chosen since the researcher does not have enough resources to visit each and every local company that transact with international businesses. These ministries have all the records on all formal international business activities. These ministries are the ones that formulate and implement policies on international business and plans on how the economy of Zimbabwe must be run. This is then what led the researcher to focus on these government ministries.

### **1.7 Research Philosophy**

In this research study there is need to explore the impact of government policies on international business and its effect on the economy of Zimbabwe, that is why quantitative research approach was used. This then facilitated variables to be quantified in numbers and also investigating these variables' relationship mathematically using statistics. This is because the philosophy which is in use follows certain scientific methods as sampling, design and measurement. The approach used focused on generalisation and worked towards development of law. Thus working with both theory and collected data assisted the researcher in coming up with a solid conclusion on whether government policies on impacts positively or negatively on international business in the economy of Zimbabwe.

### **1.8 Data Collection and Instruments used**

There was a use of structured interview guide which had clear and specific questions. The interviewee had an allowance of commenting more on that guide so as to shed more light on some asked questions. The research used the views of the respondents as they were; no views from the researcher were added. Questionnaires were also distributed to government ministries representatives and employees, customers, suppliers, investors, franchising companies, traders and other international business professionals. This facilitated the need to provide answers to sensitive issues that could not be openly spoken of during the interview.

### **1.9 Reliability**

Data was collected from the interview guides and questionnaires that were answered by people who are directly involved in international business and the government that formulate and implement policies. Other information was taken from various already published journals and books. From all this information and data collected a conclusion was then derived on the impact of government policies on international business.

### **1.10 Validity**

The researcher submitted the questionnaire and interview guide sample to the supervisor for approval. Afterwards interviews were conducted via video and audio calls with respondents in Zimbabwe and questionnaires were distributed via email. The respondents were given enough time to explain further where necessary in interviews and on the questionnaires.

### **1.11 Limitations of the study**

1. Participants were not willing to provide their views because of the secret clauses they signed with the government. There was need to explain that the research was strictly for academic purposes only.

2. The researcher had limited financial resources to bring in more respondents. Therefore there was a triangulation of different methods of research.

3. Other participants had no time for interviews so they made use of questionnaires.

4. The researcher had limited time to collect different views from a greater number of participants. A sample size was taken into consideration instead.

### **1.12 Ethical considerations**

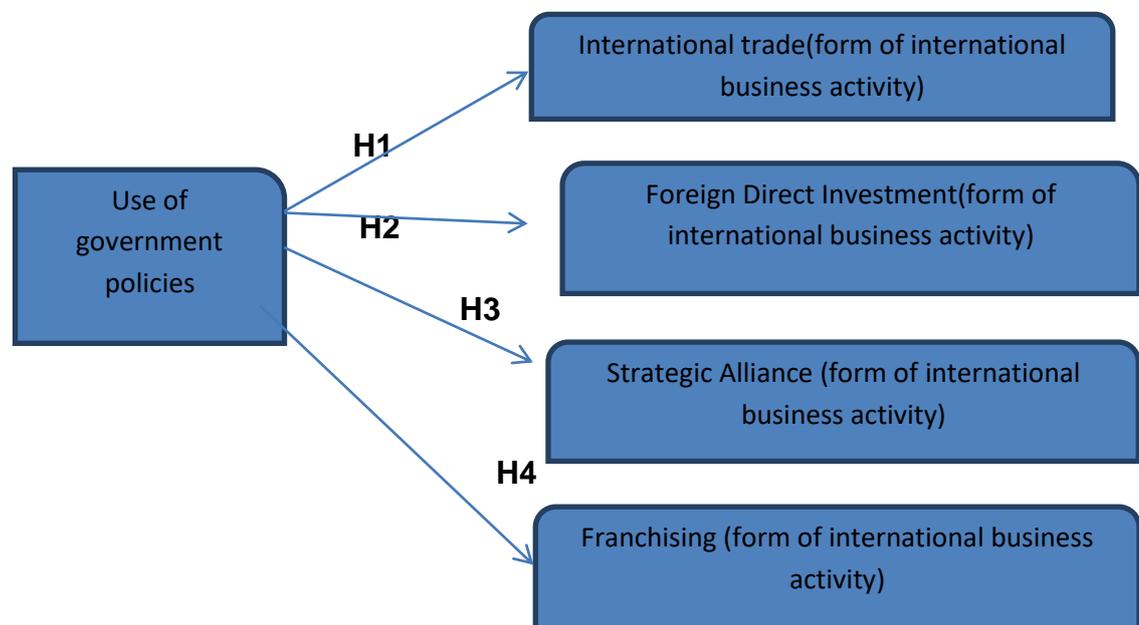
Because of ethical reasons participation was not forced on anyone, no physical or psychological harm was shown to them. The participants were allowed to withdraw at any point they deem necessary. No names were needed on the questionnaire or interview guide that the participants filled in.

The researcher respected the participants' private and confidential information.

### 1.13 Data Analysis and Presentation Techniques

Statistical analysis of the data which was collected was recorded in the MS Excel. The connection between government policies and international business will be calculated using the Chi-squared test. Graphs and tables will be used to present this data.

### 1.14 Research Model



**Figure 1 Conceptual Framework**

#### Research Hypothesis

*H<sub>1</sub>: There is a positive relationship between government policies and international trade.*

*H<sub>2</sub>: There is a positive relationship between government policies and foreign direct investment.*

*H<sub>3</sub>: There is a positive relationship between government policies and strategic alliances.*

*H4: There is a positive relationship between government policies and franchising.*

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

In this chapter the researcher will look at definitions, theoretical framework and research findings that link with this study. Literature will be reviewed from various scholars in relation to the impact of government policies on international businesses and strategies that can be implored to initiate fair governance for the growth of the economy. This reviewed literature will put together researches from different environments thus allowing generalisation. The sources used for this chapter consists articles, textbooks, publications and journals from the university library, government of Zimbabwe Ministries which proved to be more cost effective and reliable.

International business refers to a study of transactions of foreign direct investments, franchising, strategic alliances, importing and exporting that occur to fulfil individuals and organisations' needs across the borders of a country (Rugman, 2012). Akran (2011) in his article added that global business can take various forms which may include forming joint venture with a local company; licensing local companies to produce goods in the country; provision of expertise and technology ; and opening distribution outlets in the host country in this case Zimbabwe. Government policies on international businesses impact on all its activities because most studies bring out that the government is unavoidable in all industries. The Ministries ensures that all the rules are being followed by all businesses (Ingram, 2009). He also added that higher amounts of tax revenue are collected from highest income

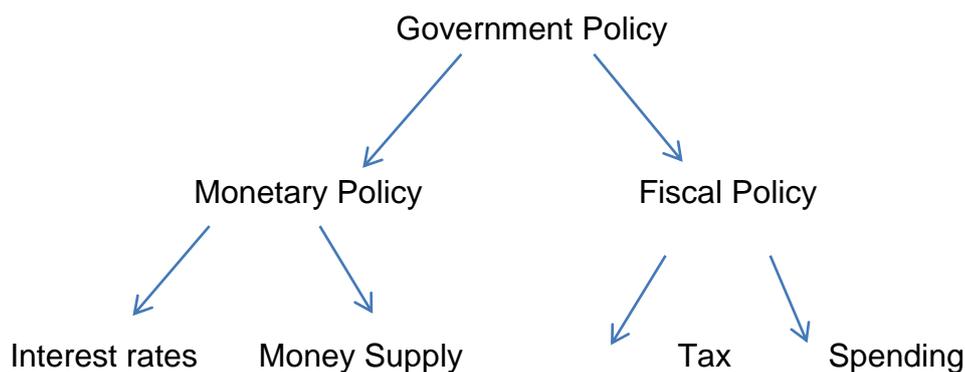
earners and powerful corporations thus paving way for a better economy rise. Williams (2002) claimed that government policies were very important to the global business world because it increases profits and has a competitive advantage to the businesses. He also supported many other authors in that effective and unbiased policies lead to business growth despite (Ingram, 2009) the government and business' different agendas.

## **2.1 Definition of key terms**

This will help the readers to fully understand and follow the study as put forward by Smith and his colleagues (1999). These terms include:

### **2.1.1 Government Policies**

Lindbeck and Kay (2010) defined them as measures set by the government to guide the economy which is mainly represented by the national budget. They added that the government should try to strategically raise, allocate, stabilise and distribute the economy's finances across all Ministries to ensure a better economy. The Keynesian economists encouraged the government to step in business cycles of the economy during recession and depression periods using the monetary and fiscal policy. The Keynesian theories discussed that if the monetary policy which controls money supply is imposed well, this means that interests rates gets lower and this aids economic activity. When the fiscal policy is imposed well government spending will increase. The government may be able to implement tax reductions at the same time increasing investment and consumption in the economy thereby creating jobs in the economy and purchasing power parity will rise as well. This then makes the economy provide more room for various international business transactions. The diagram below gives a clear picture on the types of government economic policies.



**Figure 2.1: Government Policies**

Extracted from Tematica Research

### 2.1.2 International business

Aswathappa (2010) wrote that international business encompasses acquiring inputs from foreign suppliers, assembling items from parts provided by different countries and selling those goods to customers in different parts of the world. There was need for facilitating easy transportation of goods and services across borders and to keep up with international competition in the late twentieth century which is still today. Aswathappa (2010) listed the transactions carried out in international business as follows:

- i. availability of goods and services in all markets around the globe;
- ii. presence of manufacturing plants in different parts of the world;
- iii. human resources to cater for different cultures all over the world;
- iv. investments in various global facilities like construction, banking, tourism and advertising; and
- v. Intellectual property rights which include trademarks, patents and copyrights.

According to Sinha (2008) businesses go international so as to obtain quality input materials at a lower cost, pursue world-wide markets to raise their sales and to cope with changes in the business cycle of different countries. Companies get involved in international business through different activities which include entering strategic alliances, foreign direct investments, franchising, licensing and trade (Collins, 2017). Both private and governmental companies are allowed to go international. The government should plan their policies strategically so that they create an attractive international environment for investors. They should also start programmes

that encourage international business prospects and gain a competitive advantage over countries that are surrounding.

### **2.1.3 Trade (Exporting and importing)**

**a). Exporting** According to Leeman (2010) exporting refers to marketing, vending and issuing tangible and intangible goods from one country to another. Each country follows its export policy which guides exporting companies to make sound decisions. The government provides companies with lists of countries, blacklisted agents and distributors to engage business with. When an economy experiences more exports than import this creates employment, raise aggregate demand hence higher economic growth and eases the current account deficit (Pettinger, 2013).

**b). Importing** In her article of 2016 Amadeo defined importing as procuring of foreign goods and services into the country by local companies and the government. She went on to support other authors on the point that if more goods and services are imported than exported the country will experience a trade deficit thereby reducing foreign currency which may lead to inflation, higher interest rates and devaluation of the domestic currency.

### **2.1.4 Foreign Direct Investments (FDI)**

International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development (OECD) definitions described direct investment as the flow of capital from a foreign company which has long-term interests to an industry in another country's economy. An economy needs more FDI inflows so as to increase its Gross Domestic Product (GDP) and exports. However, the unemployment rate increases if these FDI's decide to come with employees from their own country.

### **2.1.5 Strategic Alliances**

According to the Business dictionary, strategic alliance refers to the partnership of two or more companies who want to achieve the same set of goals but working independently. Companies gain competitive advantage in joining forces and risks and benefits are shared. Waverman et al (1997)

advocated that these alliances ensure quality products, and wise allocation of resources thereby eliminating wastages.

### **2.1.6 Franchising**

The FranChoice consultants defined the term as a long term agreement where a foreign business (franchisor) grants a local business (franchisee) rights to use an already established concept of business and in turn paid a certain fee. These rights consist of trademarks, brands, production, facilities and marketing approaches. When done well this creates employment and an increment in GDP of the economy.

## **2.2 Background on government intervention in activities in the economy of Zimbabwe**

Zimbabwe was a British colony until 1980 when it gained its independence. Before and shortly after independence the economy was doing very well with the support of the agricultural and mining industry and it was known as the breadbasket of Africa. The new government under the blacks developed their first economic and social policy which was called **Growth with Equity** article with set goals to promote and sustain economic growth. The government believed that this policy would help the economy to grow rapidly and produce extra revenue to finance other anticipated reforms. In 1980 and 1981 this policy worked and the attained GDP in real terms was 11% and 12% respectively which was highest among sub Saharan countries. Most probably this was because that British economic structure which was used before independence had not changed in those next two years. International economic sanctions were lifted as well because the political system was now stable.

Investors came but were driven away by 1982-3 drought which caused a turmoil to the economy which has not since then recovered. This national disaster killed more than 100 000 people because there was little food, shortage of water to drink and outbreak of many diseases. The government imported food aid only at about \$209 million only thus adding up financial cost at \$479 million. This then raised its balance of payments deficit by above

30% because Zimbabwe imported more maize thus making GDP fall by 4.4 to 4%. Lots of money was used, it could have been used for other reforms. The government did not replace old machinery in industries which caused low production. The goods produced could not meet local demand so they had to import. The government also spent a lot to meet demand for public goods like health, education and defense responsibilities in Mozambique which led to a rise in inflation from 8.6% to 17.9% in 1980 and 1983 respectively.

The authorities had to cut budgets, minimize maize subsidies and endorse devaluation of local currency in 1984 to 1985 by almost 40% following Bond's idea. Prices fell for a short while during devaluation. The country's total debt rose from \$786 million to \$2.3 billion in 1983. The budget deficit also rose from 6.6% to 8.7% in 1981-2 and 1984-5 respectively. Ever since independence up to 1990 a total of 10 000 jobs were formed while population rose to 100 000, employment grew sluggishly thus raising the unemployment rate. Between 1982 and 1990 average GDP rise was 1.3% and population's was 3.3%. The gap of income distribution between the rich and poor was too wide. Shortages of fuel and transport due to lack of repair and maintenance obstructed easy flow of imports and exports. Due to shortages of foreign currency Zimbabwe hired foreign trailer operators rather than buying their own heavy freight vehicles. On average, the yearly growth rate was 4.1% and 4.6% in the years 1980-1985 and 1985-1990 respectively. During this time the education and health services were better and roads and dams were built. By the end of 1980s it was clear that the government policies were not useful in that there was no industrial strategy, investment had not been enhanced and exports were not growing among other factors.

In 1991 the government came up with another economic policy namely the **Economic Structural Adjustment Programme (ESAP)** which was meant to curb challenges which were faced in the 1980s. This policy aimed at imposing real high interests, deregulating currency, and trade, devaluing the local currency and eradicating customer subsidies on basic goods. Health services expenses fell by 39% in 1994-1995 and many people died again

because they could not pay for their health care (Dr. Timothy Stamps, 1992) and many health professionals moved out of the country to greener pastures. According to UNICEF researches, in 1993 services dropped by 30% and many females died during childbirth. In 1995 a total of 265 000 students were supported by the government but still the need was not satisfied. The Zimbabwe Congress of Trade Union mobilized strikes against this economic policy in 1992 because real wages were falling but it was disturbed by the police. Eradicating subsidies on end user goods had a negative impact on the low income earners and the poor. Both industrial and peasant farmers' productivity were affected by ESAP because the government could not offer any form of support.

The country experienced another drought in 1990-91 which led again to more imports than exports. FDIs were automatically driven away because interest rates were extremely high. That is the time when the economy of Zimbabwe started to fall. In 1997 the local currency which was the Zimbabwean dollar lost a value of 7.1% counter to the US dollar. The GDP and share of wages of 1997 fell from 54%-39% when compared to that of 1987. The ratio of profit from that same period was from 47%-61%. The index for the real wage also plunged in the period of 1985-90 and 1996-1999 from 100.6 to 86.0. Employment index for the same periods also fell from 2.4 to 1.5 whilst inflation shot from 11.6% to 32.6%. Poverty struck the country's citizens and the level was 40.4% in the earliest 1990s then 63% in 1996 which led to the rise of prices of basic consumer goods. Instead of seeking to solve this economic situation, the authorities sent soldiers to Democratic Republic of Congo under their own expense which they had not budgeted for in 1998 putting inflation at 30%. The government would have used those large amounts of money to revive the already falling economy. In 1999 the government came up with a new economic policy called the **Land Reform Programme** of redistributing farm lands that were owned by the whites hoping the situation might be better, but demanded more money.

The Zimbabwean economy began to shrink between 2000 and 2008. According to the Reserve Bank of Zimbabwe report, this policy had a negative impact on the economy because financial crisis was created,

investors were scared away, International Monetary Fund ceased giving the country funds and over 900 000 lost their jobs. Thus citizens could no longer be able to finance their accommodation and healthcare and most people died of HIV and AIDS. In 2000 and 2009 volume output from the agricultural sector fell by 69% and 70% in value. In year 2008 production levels grew 73% lesser than in 2000 thus about \$12 billion was lost between 2000 and 2010. Maize, tobacco, wheat and other crops production fell and encouraged more imports and less export in the country. The economy experienced shortages in foreign currency.

This led to the implementation of a new policy in 2001 namely **Millennium Economic Recovery Programme (MERP)**. It aimed at working on macro-economic issues for instance to raise revenue and minimizing expenses. Many MNCs left the country and unemployment rate grew to 75%, GDP 47% lesser than that in 1980 and poverty datum line was 16.6 % in 2006. The economy had hyperinflation of 230 million % in 2008. The government then started to generate income through taxing formal employees which was very low. The country infrastructure could not be maintained because there was no money to do so. In 2008 dollarization was implemented because the local currency had lost value and it was in short supply. Basic consumer goods became scarce, some banks closed and the government could not pay back external amounts overdue and a more negative balance of payments which led to imposition of sanctions.

In 2007 another economic policy under the **Statutory Instrument 159A of 2007** came up in order for businesses to move back their prices by 50% which resulted in the shortage of basic goods in markets. This led to yet another policy by the name **Basic Commodities Supply Side Intervention (BACOSI)** which aimed at funding these affected businesses. The policy also had negative impact on the economy because it demanded more hard cash.

In 2008 the **Indigenization and Empowerment Act** policy was implemented. It targeted external businesses with share capital that is above US\$500 000 to surrender their 51% shares so that it benefits locals as a way

to control them. From 2008 to 2010 the GDP moved from -18.9% to 5.7% which was a massive better change. Dollarization helped in a lot of ways including deducting the inflation rate by 4.7% and there was a stable currency. Major companies that total to 700 like Heinz closed their business.

**Zimbabwe Agenda for Sustainable Socio- Economic Transformation (ZimAsset)** economic blueprint policy was set up in 2013 and to work till 2018 for the betterment of the economy. In this policy the government wanted to find a loophole to escape from sanctions, take advantage and add value on its natural resources. The results are yet to be seen at the end of 2018 but so far it has brought negative impact to the economy. There is shortage of foreign currency; local currency has been reintroduced, higher rates of unemployment and all other factors.

YEAR	ECONOMIC POLICY IMPOSED BY GOVERNMENT
1980-1990	Growth with Equity
1991-1998	Economic Structural Adjustment Programme (ESAP)
1999-2000	Land Reform Programme
2001-2006	Millennium Economic Recovery Programme (MERP)
2007	Basic Commodities Supply Side Intervention (BACOSS)
2008-2012	Indigenization & Empowerment Act
2013- to date	Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimAsset)

**Table 2.1: Government Policies**

### **2.2.1 How to measure international business activities performance in a developing economy**

It is of paramount importance that all business people and students carrying out researches should agree on how to measure international business activities performance in an economy. It has been agreed between business people, the authorities and researchers that financial measures are the best to use because they provide a basis for the international business performance measurement. This financial measure will deliver a way on how an economy can further develop with the help of various international business activities.

### 2.2.2 Performance indicators of international business activities in an economy

In his book Key Performance Indicators written in 2012, Bernard Marr described them as tools that give business owners an understanding on where their businesses are heading. A positive outcome may be based on the right set of tools that have been used for measuring. Below is a set of indicators that can be used to measure the four activities:

<p><b>Trade Indicators</b></p> <ul style="list-style-type: none"> <li>• Trade transactions that are succeeding.</li> <li>• Trade transactions that are failing.</li> <li>• The biggest successor.</li> <li>• The biggest failure.</li> </ul> <p><b>Direct Investment indicators</b></p> <ul style="list-style-type: none"> <li>• Fluctuations in investments coming into the country.</li> <li>• Fluctuations in investments going outside the country.</li> <li>• Risings and fallings of investment stocks coming into the country.</li> </ul>
<ul style="list-style-type: none"> <li>• Risings and fallings of investment stocks flowing outside the country.</li> </ul> <p><b>Indicators for franchising</b></p> <ul style="list-style-type: none"> <li>• Availability of assets that can be quickly changed into cash.</li> <li>• Profits that have been gained.</li> <li>• Total of sales and employment costs.</li> <li>• The cost of sold goods.</li> </ul> <p><b>Indicators for strategic alliances</b></p> <ul style="list-style-type: none"> <li>• Income share</li> <li>• The returns that have been made on either investing or sales in the business.</li> <li>• Part of contribution to the costs that are fixed.</li> <li>• Any changes made to access markets.</li> </ul>

**Table 2.2 Performance Indicators of International business**

### **2.2.3 Role of the government in the international business sector**

The government regularly target businesses when they set their policies. It helps to ease competition in various industries and also help them to attain the objectives that are set in the national policy. Intervention by the government also helps to improve the setup of the economy in terms of infrastructure and facilitates easy information flow on prices in the real market. Authorities try their best to allocate resources to all sectors for the continued growth of the economy. The international business sector has been bringing in a lot of revenue lately thus raising the need for the government to regulate it. The government makes sure that business is going on well by providing good services like safe water, railway lines, goods trains, roads, hospitals, land to erect structures and all other amenities. There is also need for the authorities to issue rights that safeguard business contracts and properties and punish violence and bribery acts. This is done well so that international business people will not opt to doing their activities in the informal sector.

## **2.3 Theoretical Literature Review**

Theoretical framework is not just extracted from already available literature Raj (2002) but by reviewing readings and relatable research literature for theories and analytic models to the research problem under consideration. Theories must be chosen based on its appropriateness, ease of application, and explanatory power. This study is underpinned on various classical and scientific business theories which are: the Keynesian Economic theory, New Trade Theory, the Agency theory and Eclectic paradigm. These theories are suited to the subject of this study because the Keynesian theory identifies the economic policies, while the Agency theory explains franchising and strategic alliances, and eclectic paradigm explains investment.

### **2.3.1 Keynesian Economic Theory**

This theory was purported by John Maynard Keynes an economist from Britain in 1936 who is also viewed as the initiator of macroeconomics mainly money, employment and interests. He advocated that an economy can become unwavering if the government intrudes to control it. His thoughts

were able to deliver the suitable public policy explanation on economic collapse, production and employment than those economic theories for example Laissez faire by Adam Smith which was there throughout the 1930s. Government control should assist in altering the regular economic dwindling that prevails in the market and the economic policies set should be able assist in attaining full employment and stabilize prices.

The Keynes theory also explains aggregate demand which is the total expenditure that is incurred by the government, various businesses and households in an economy. The output of an economy consists of goods and services which may be in form of net exports, consumption, government procurements and investments. When the economy is in recession the purchasing power parity of luxury goods decreases and consumers will be now focusing on necessities thereby businesses ceases to spend more on investments. When this happens it is advisable that the government takes the responsibility of increasing the economy's output and not the private sector. Keynesians came up with three prime views that depict how economies operate which are below.

**i. Economic decisions from both the private and public sector influence aggregate demand.**

The private sector can make choices that can have a negative effect on macroeconomic issues that can lead to market failures. These failures can be corrected by a set of economic policies imposed by the government.

**ii. Prices take time to react to demand and supply fluctuations.**

The consumers' wage rates are mainly affected and it causes oversupply and shortages of labor.

**iii. Employment and output react to fluctuations in aggregate demand.**

A fall or a rise in the overall demand of any of the above forms can increase or decrease unemployment rate in an economy. Keynesian concept also introduced the multiplier effect which takes place when output alters by multiple of the rise or fall in spending that caused the change. When the fiscal multiplier is above one it means an additional one

dollar in government spending results in output rise of more than one dollar.

The Keynesian economists further explained that in the course of recession, an economy can overspend on schemes that may demand more labor force seeking to create employment. The government is then responsible for making prices stable, increasing taxes to calm the situation at the same time avoiding inflation. The government can also implement the supply-side policies, monetary and fiscal policies to kindle the economy. For instance investments can grow when interest rates fall. These economists claimed that governments must correct failures in the short run but this does not mean that economic policies should be altered every now and then expect when necessary.

The school of economics in Austrian did not support Keynesian theory, they understood that the business cycle should occur naturally without control from the government because it disturbs the recovery period. Thus the school supported Adam Smith's laissez faire idea. The Keynesians accepted assessments which were made by monetarists on that availability or shortages of money can have an effect on prices and incomes but not on output and employment. The new classical school also contradicts to the Keynesian theory. It states that market players respond to expected policy alterations way before they occur thus leaving no room for the government to intrude. Supply-side economists also noted that when taxes increase productivity within an economy decreases and vice versa.

### **Application**

This theory was of use in 2007-8 when recession struck most economies in the world including the Zimbabwe, USA and UK. This theory helped to apprehend the functions of the financial system and the difficulties that were being experienced in the depression and recession periods by various economies (Mankiw, 2008). According to Dr Rao in 2016 the Keynesian multiplier does not necessarily upsurge the employment rate, quantity

produced or the real income of a developing economy like that of Zimbabwe. It gives a rise to inflation because money terms are mostly used.

If the economy was making use of idle capital stock in industries that produce consumer goods, investment would increase thus coming up with a real multiplier effect in the rise of both produced quantities and jobs for the citizens. The multiplier may not be that high because of the absence of advanced technologies and good infrastructure. The main reason why the government should intrude according to Keynes it is because full employment has to be achieved. The market on its own does not usually consider reaching full employment or sustain the growth of the economy when depression occurs. The government has to be responsible for implementing the monetary and fiscal policies that enhances growth through stabilizing prices and constructing needed economic infrastructure. The introduction of public investment helps to improve the built facilities thus causing the economy to grow.

### **2.3.2 New Trade Theory**

A number of researches indicate validations, details, complications or gains in their different models of international trade. The mercantilist and absolute concepts are now a bit old to apply in today's world of trade because they used to work well in their times. The new trade theory came about because it copes well with the ever changing world of technology, inflows and outflows of capital, exchanging information and a more developed way of how multinational operate. Trade began to grow during the 20<sup>th</sup> century thus making the idea comparative advantage not so helpful since larger quantities of different goods were being exchanged between and among countries. Paul Krugman (1979) then developed this theory which was more advanced than Ricardo and Hecksher Ohlin idea of comparative advantage. He presumed that despite having identical features of production in trading countries, consumers prefer assorted range of goods and services within their markets and that if these goods are produced in very large quantities there is an advantage of enjoying economies of scale. This meant that each country could specialize in producing various versions of one good. Krugman

also added the idea of transportation costs that would occur during exportation of their produced goods to meet demand in markets out of the country. According to Shenkar (2008) this theory gets to enlighten intra-firm and intra-industry trade.

Other scholars argue that the presence of economies of scale may promote overproduction which can harm various forms of trade. However, trade is still very important even to countries with identical features of production because it comes up with a number of benefits which included:

- ✓ Expanding the product range of goods to choose from;
- ✓ Reducing costs of production; and
- ✓ Increasing competition between and among producing firms.

Luo (2008) still supported the Hecksher Ohlin theory since it has not been entirely considered as outdated. He argued that the recent international trade could still be demonstrated perfectly by using this theorem by introducing newer and more advanced technologies and recruiting skilled workers in comparative advantages between and among economies.

**Application** In applying this to the economy of Zimbabwe, the government has to interfere because of a number of reasons explained. Since this theory suggests that other countries can gain rent seeking benefits in case strategic industries are identified in the economy. Rent seeking may be a disadvantage to the economy since the firm may choose not to participate in social responsibility thus giving back to the society after using their resources and sometimes after getting help from the government. Ekelund (1981) argued that rent-seeking was a system which was developed by mercantilism in strengthens the public policy for the firms' advantage. When producers are enjoying huge economies of scale and increasing returns to specialization in trade, the overall demand for these goods may be beneficial to one or very few firms. If an economy provides a wide range of products at a lower cost to its consumers this gives room to more trade which is a big advantage to the country. A vast amount of a variety of produce in an economy causes an increase in the size of the market and competition within the industry thus

enhancing quality. This leads to the lowering of prices and increase in real income.

According to Bernard (2014) article, the new trade theory can bring out political economy issues which may include how the externals are likely to retaliate and that the government may intrude incompetently. The restrictions of the new trade theory are mostly severe for developing countries like Zimbabwe because they have very small economies and how they trade. Many researchers have concluded that trade tend to benefit more in imperfectly competitive markets which usually leads to trade liberalization that works well as a long term industrial policy in developed economies. The advantage of constant returns to scale and use of protectionism by Krugman aids the growth of certain strategic industries, retain employment and encourage production which is crucial for the growth of the economy. For example Japan was still a developing economy in the 1950s when it imposed quotas and tariffs to protect its infant auto industry and it was successful. Zimbabwe needs a number of years to get acquire and get used to advanced technologies in their indigenous industries and without this it cannot cope with international competition. Meanwhile if tariffs were to fall consumers benefit more from cheaper imports whereas local production suffers from import rivalry hence adding quality to products.

Practically the Zimbabwean economy is poor and it cannot manage this theory because it lacks advanced technological machinery and equipment. Most main industries have closed down because they cannot cope with the local and global competition. Existing industries are operating below the expected standards and are producing lowly. Prices have been distorted and most products are ridiculously high and people's incomes are too low to cope up. This theory also gives room for governments to protect and support new and growing crucial industries in their economies. Zimbabwe has a disadvantage since it is a developing economy which needs to encourage capital intensive industries by using tariff protection and domestic subsidy. The government of Zimbabwe lacks information on which of them may need support and due to high levels of corruption government officials may decide to channel available funds to their personal or relatives' businesses and other

uses that may not benefit the economy. Developing economies are not conducive environments for free trade because local firms may not be able to compete with already established foreign firms. Due to ever-changing technologies, newer economic and political setups, international trade theories should be always reviewed to cope with various global environments.

### **2.3.3 Eclectic Paradigm/OLI Framework**

This model was developed by John Dunning (1977, 1981) so as to classify latest logical and firsthand researches on Foreign Direct Investment. He put clear three factors that are carefully considered before a firm goes internationally and these are Ownership, Location and Internationalization where ownership and internationalization advantages are internal factors and ownership advantages are external factors. These three are explained below.

**Ownership advantage** According to Neuhaus (2006) these benefits results from firm assets which may include goodwill, skilled workforce, trademarks, intellectual property and expertise from management, only to name a few which all helps to reduce costs and increase market control. It brings out the reason why firms choose to either stay or go abroad with their businesses. For example one firm can be able to produce at a lower cost in a foreign country than the other. A firm's assets can still be functional if added to production procedures at other various sites other than the headquarters without affecting its efficiency and effectiveness. The services that are provided at the head office are the same as those in different sites. Firms are grouped according to the level of their productivity, which are low, medium and high. Those with low do their business mainly for the home-based market while medium firms are able to pay for fixed costs that are incurred during exportations. Firms in the high productivity level are capable of paying even higher fixed costs to be foreign direct investments.

**Location advantage** This clearly states where the FDI decides to put its sites and in what forms. According to Krugman (1991) foreign direct investments flows rise depending with the distance thus nearness to target markets, inputs and lower taxes. This is caused by transportation costs which rise

when trade flows between two economies depend adversely on distance. The two forms of FDI that are mainly considered in this advantage are horizontal and vertical. In horizontal FDI a firm decides to go abroad with similar services to the ones at the head office so as to access foreign markets. Brainard (1997) focused on the benefit of siting production facilities near sources. Local plants can benefit an increment in functional profits and are able to prevent trade costs though extra fixed costs are incurred. This form is favorable when the host country provides a big market and exports are unfavorable due to higher transportation costs (Oliva, 2003). Vertical FDI is when a firm decides to go abroad in order to enjoy lower costs of production that are incurred there and afterwards goods are exported back to home country (Neuhaus, 2008). This form implies that a firm can still provide for its home market by operating at the head office or by operating near facilities in a lower cost site in other countries. The form is encouraged when costs of trade are low enough to allow the firm to take advantage of diverse prices rising from various factor endowments (Rivera-Batiz, 2003).

Many researches tend to opt horizontal more because it reduces risks by practicing the structures procedures and policies that are already there in the home country. The firm is hence enabled to gain and institute its competitive advantage in the foreign country since significant capabilities are easily transferred (Luo, 2008).

Internationalization advantage These benefits results from the ability that a firm uses to incorporate its various activities in adding value to the production series (Epperlain, 2005). Casson (1976) explained that keeping confidential information away from competitors and not signing contracts which are difficult to understand helps firms to manage their businesses well without including external associates who are more aware of their local economic environment. A firm decides to internationalize because economies of scale can be gained, goods can be protected, transaction costs and tariffs may be evaded.

**Application** Hymer (1976) came up with the FDI concept and postulated that it was a channel of moving skills, information, technology and all sorts of

intangible benefits of business based in one country to the host country for production purposes. The country already has minerals such as diamonds, platinum, gold, chrome and coal among others which can attract FDI. The Eclectic theory (Dunning, 1980), tries to clarify why a firm would want to produce in a foreign location instead of exporting or entering into a licensing arrangement with a local firm (Lim, 2001: 10). FDI may be considering these natural and efficiency resources of mining deposits among others in Zimbabwe. The Zimbabwean economy must be politically and economically stable so as to attract foreign investments. The processes to be undertaken during formation and registration of FDIs must be reasonable enough to attract them. The strategic industries must be identified and supported by the government in a manner that stimulates FDIs to internationalize (Dunning, 1974).

The government of Zimbabwe must be able to identify industries which produce vast quantities of wide range of goods that may qualify for foreign direct investments. There will be lot of cash inflow in the economy since FDI will have to spend much on communication costs so as to get along with the Zimbabwean culture and languages (Neuhaus, 2008) and the need to meet the country's business and investment regulations and legalities.

#### **2.3.4 Agency theory and strategic alliance**

This theory defines the association that takes place when one party namely the principal delegates its line of work activities to another called an agent to carry it out with the use of contracts (Mitchell, 2011). According to Eisenhardt (1989) the principal anticipates agents to work on the contracts' demands which are to the principal's own advantage. Agency problem comes about when the two parties fail to follow same interests which were agreed on their contractual agreement. This gives room to conflicts which may need to be resolved by implementing governing mechanisms like making use of a corporate policy (Arrow, 1971). Usually conflicts start because the agreement do not clarify the demands well of which some are not accounted for (Eisenhardt, 1989). It is also hard for the principal to administer property rights because it is expensive to monitor them closely. Barney and Ouchi

(1986) added the control and incentive mechanisms applied by the principal to discourage the agent to concentrate on its own interests.

Mclean (1995) argued on the existence of conflict of interests between principal and agent by supporting Adam (1994) who said that it is because agents have more information on the ground than principals. This makes principals unsure of whether agents are loyal or not. Problems may arise within strategic alliances when partner firms view risks and resources from a different perspective as their alliance which will allow distrust and higher agency costs (Chapman, 1993).

**Application** The set economic policies should include a framework in which strategic alliances must adhere to for the benefit of both parties. The government must ensure that the agreements match with their national labor and environmental laws. The government regulations should promote transparency of terms and conditions to be agreed in these strategic alliances because if done well this may be a channel for cash inflow into the economy.

### 2.3.5 Agency theory and franchising

The agency theory still has the same meaning as above and in this section there is need for the theory to be linked with franchising. The relationship between the franchisor and the franchisee are explained well by this theory. Franchising take place to take advantage of resources (Kelly 1969) and to spread risks, which helps their businesses to grow quickly (Lafontaine, 1992). Firms can franchise by:

- ✓ Opening their own new shops and then franchise in new places after some time;
- ✓ Authorizing their operations in many places and takes over some shops later; and
- ✓ Opening their new shops and franchising at the same time.

Many researches support Robin (1978) who argued that when new shops are opened, the appointed shop managers do not receive fair benefits when they work well because there is a very weak connection between the shops'

performance and their rewards which may demotivate them. The theory also serves to fix problems that come from demotivated workers and ways to cope with low levels in productivity. The franchisor holds the power of not renewing contracts whenever he deems necessary which is a great disadvantage to the franchisee. The weaknesses of this theory are:

- ✓ Franchisors are not more concerned with managing issues which is a vital aspect in the success of the franchisee;
- ✓ The use of advanced technology may reduce close monitoring since some franchisee are not to be trusted; and
- ✓ Franchisors may want to focus on both capital growth and motivating franchisees at once which may not be possible.

**Application** Franchising has become a quickest way of developing forms of international business in most parts of the world that the government can use for the benefit of the economy. The government should intervene through setting laws that solve employment and agency problems especially the one that divides ownership and control. The economy tends to benefit from new business ideas that come from foreigners through franchising. If the businesses are introduced in both rural and urban areas the citizens may benefit jobs and new ideas. The economy of Zimbabwe should be able to welcome franchising contracts that benefit both parties. According to Shane (1996) the government should promote and support firms to be franchisors so as to enjoy the benefits.

### **2.3 Chapter Summary**

This chapter gave more light on the different views of other scholars concerning application of the study topic. The next chapter is going to focus on research methodologies which were used by the researcher to gather information from different actors in the international business environment of Zimbabwe.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

In this chapter the researcher discusses the study methods that were used to explore the impact of government policies on international business and how it affects the economy. It gives answers to exact questions solves different practical obstacles. Thus more emphasis of this chapter is to outline various methodologies which were used to bring together evidence and study detailed government issues impacting international business.

According to Dawson (2002), research methodology refers to approaches that are to be executed for the purpose of data collection and analysis. It is also considered as the techniques and procedures that are used in the process of data-gathering. Cohen and Marion (1992) explained that it is used to describe and examine the methods, shedding more light on their restrictions and resources, expounding their assumptions and penalties. Its two categories are quantitative and qualitative. Nevertheless writers like Creswell (1994) advocated that these two kinds can be used in the same research study as mixed methods.

These approaches engaged are going to answer the stated objectives of this research study. In this research study research design engaged quantitative methods; data collection procedure; the research instruments used; selecting participants; the steps taken in managing instruments; and collection of data from subjects, as well as the data presentation and analysis procedures.

### **3.1 Research Philosophy**

Research philosophy was defined by Saunders and Thornhill (2007) as the enhancement of the research context, its knowledge and its nature. The purpose of science is to transform things believed into things known. Two familiar philosophies that have been identified are positivist and interpretive (Borg and Gall 1989).

Interpretive approach can be also called inductive, it opposes that only through the subjective interpretation of and intervention in reality can reality be fully understood. Positivism philosophy is usually quantitative in nature and it is being used in this study because of its independence. The researcher was independent during data collection so as to minimize chances of bias. Another characteristic of positivism or deductive thus it is deductive in nature, thus it pursues to explain casual relationships between variables. Therefore, in this study there is less bias in the data which was gathered and presented. More information could have been collected but the researcher had full control over the process.

### **3.2 Research Design**

Saunders (2007) indicated research design as a set of logical procedures and directives that are to be monitored when addressing the research problem and also a guide that permits the student to expect applicable study assessments so as to maximize the validity of the final outcomes. They determine the extent at which the researcher is wrong or right. It thus provides answers to the research questions and control variances. Associational research type is used in this study because it explores any relationship between two or more variables in this case government policies and international business.

#### **3.2.1 Quantitative Approach**

The quantitative approach mainly focuses on measuring physical or observable outcomes of a study and providing arithmetical value to the outcome of a study (Punch, 2004). It was used in this study to find out whether government policies have promoted the growth of international

business or not and examines with arithmetical measures so as to decide overviews. Robbs (2006) advocated that in this type information is obtained from a large group of different individuals with the knowledge of the subject by using sampling techniques to guarantee objectivity, generalisations and reliability. Questionnaires were distributed to government representatives, customers, suppliers, investors, franchising companies, traders and other international business professionals to gather information linked to the research topic.

### **3.3 Target Population**

In reference to MacMillan and Schumacher (1997) a population is an assembly of characters or subjects that follow detailed step in order to simplify outcomes of a research. This group is also called a target population or universe. The population consists of representatives from five government Ministries namely:

- Ministry of Economic Planning and Investment Promotion;
- Ministry of Industry and Commerce;
- Ministry of Regional Integration and International Cooperation;
- Ministry of Environment; and
- Ministry of Tourism.

These Ministries are run by full-time permanent government workers, temporary workers like students of training. From each Ministry four of the staff is top managers and the other six are general staff. This was done to have the information from both the staff that set the policies and those who work hard to make them known and applicable to the public particularly the international business world and to know the effect of these policies even in the operations of the government. Other population comprised of investors, freight forwarders staff as traders, customers, suppliers, ZIMRA customs officers at Beitbridge and Plumtree border posts and franchising companies staff all in Zimbabwe. This was done to collect first-hand information from people who are directly affected by the government policies.

### 3.4 Sampling Procedure

According to Cohen and Manion (2003) sampling techniques or procedures are a variety of methods that allows a researcher to acquire a representative sample of the population. They are used to categorize, indicate and gain access to applicable units which are used to generate data by any method. A small part of the population was drawn and used as participants in the research because it is not manageable and very expensive to collect data from all possible elements of analysis of the research problem. A sample was used because Zimbabwean population affected by international business was too large and there was not enough time and financial resources to explore every Ministry and everyone affected. Below are sampling techniques which were engaged in this study.

#### 3.4.1 Probability Sampling Methods

##### a) Stratified Sampling

In the Zimbabwean economy, international business people are already in groups namely investors, traders that is exporters and importers, franchising people and the government. These can also be called natural groupings or clusters in this study. A sample was then selected from each area in the international business world. Given the amount of time of conducting the research and financial constraints, this technique is relatively cheaper as it requires few travelling expenses and administration costs.

Stratified sampling in the Zimbabwean economy:

$$Tn \div Tt \times Tp = Nq$$

Where  $Tn$  = Total number of international business people in the natural group;

$Tt$  = Total number of international business participants in this case all coming from 5000 registered companies' staff;

$Tp$  = Total number of target population in this case its 500; and  $Nq$  = Number of international business people to be chosen from the natural group.

The results were then subjected to a simple random sampling procedure as discussed below.

### **b) Simple Random Sampling**

According to Peril simple random technique is the selection method whereby each element in the sample frame has an equal chance of being included and all possible combinations could occur. This involves the selection of people from the above identified clusters. Normally this is a sample picked from the various clusters as a representation of that particular cluster. This technique ensures that each individual within a selected population is given an equal and known non-zero probability of being selected. In coming up with the participants, the researcher used job titles to randomly select participants from each group.

Simple random sampling in the Zimbabwean economy was as follows:

*The researcher put together a list of **Tn** of job titles in the international business community from each natural group and randomly picked **Nq** job titles out of them. The random job titles were picked from a plastic bag.*

*Thus **Tn** and **Nq** were obtained from the part above.*

Questionnaires were sent via email to people with corresponding job titles for them to participate in this research.

### **3.5. Justification for sampling method**

The methods were chosen because they are cheaper and they take less time as well as produces samples which are well represented. The rationale behind the researcher's choice was guided by the following:

- a) The nature of the problem;
- b) The financial resources available/size of budget;
- c) Relative objectives of the marketing research study;
- d) Time limitations and
- e) The size of the international business community in Zimbabwe.

The study of the impact of government policies on international business requires participation from different people in the whole business community. This is so because of the way government instruments shape the way international business activities are handled in the country. Hence there is a requirement to collect as much information as possible from all the people who make up the business community. Nonetheless, it was impossible to have everyone in the international business community of Zimbabwe to take part in the research process due to time and resource constraints as well as the size. International business activities are carried in various parts of Zimbabwe, so due to financial and network constraints of the researcher it was not possible to contact all for data gathering. This called for a sampling method that was going to be used to make sure that at least everyone in the international business community's view was represented. Henceforth the researcher settled for the above sampling methods.

### **3.6 Research Instruments**

In trying to gather information on how government policies impacts international business various methods of data collection were used. These were both the primary data collection methods and the secondary data collection methods. Primary data collection methods include observation, interviews and questionnaires, whilst secondary methods include reading of textbooks, periodicals, newspapers as well as journals on impact of government policies on international business in developing economies.

### **3.7 Primary Data Sources**

The researcher used questionnaires, interviews and observation as primary data sources to obtain first-hand information.

#### **a) Questionnaires**

It refers to a documented list of problems which the participants are asked to answer as a way to gather data on the impact that government policies on international business. The researcher used open-ended and fixed response questions. This technique is cost-effective in terms of time and resources and structured questions are effective in assisting to avoid irrelevant answers,

that is, categorised responses make analysis easier. Questionnaires were directed to participants' in order to gain their responses. A questionnaire on **Appendix 1** was administered to each of the selected participants.

### **b) Interviews**

In order to acclim the information grouped from questionnaires the researcher also made use of the interview guide. This guide comprises of a dialogue between two people where the interviewer asks questions to an interviewee who will provide answers, (Leedy, 1985). These interviews were conducted via Skype and WhatsApp video calling.

This source was used in conjunction with the questionnaire because of its flexibility. Comparing the guide to a questionnaire, most unclear expressions were made clearer and simpler and probing was used for more details. The key informant interview guide is shown on **Appendix 2**.

### **3.8 Sample Size**

The Government of Zimbabwe has around 30 Ministries that focus on various issues, but this study will focus on 5 of them. The population consists of 10 representatives from 5 government Ministries. Other population comprised of 100 investors, 100 freight forwarders staff as traders, 50 customers, 50 suppliers, 50 ZIMRA customs officers at Beitbridge and Plumtree border posts and 100 franchising companies staff all in Zimbabwe. The questionnaires were distributed to 500 participants which is also our sample size as shown in the table below:

<b>Population Type</b>	<b>Frequency</b>	<b>% of the Population</b>
Top managers from 5 Ministries	20	4
General staff from 5 Ministries	30	6
Foreign Direct Investors	100	20
Traders (freight forwarders)	100	20

Franchising companies reps	100	20
Customers and suppliers	100	20
ZIMRA Customs officials	50	10
<b>TOTAL</b>	<b>500</b>	<b>100</b>

**Table 3.1: Sample size**

### **b.Observation**

It is a source of paramount importance in this research. The researcher is an International Business student who has learnt more of activities involved and so is able to observe participants in their natural settings. The researcher engaged structured and unstructured ways to observe and these aided in obtaining first-hand data and observe phenomenon as they occur in their natural setting thereby preventing contamination of information. In engaging structured observation elements to be detected were prearranged thus an observation schedule was developed so as to guide the research in the realm of the problem statement so as to obtain the likely impact of government policies in international business.

Punch (2004) recaps that unstructured observation is exceedingly dependable as it limits bias and allows elements to be detected as streams of actions and events as they transpire naturally. The collection of observational data ranged from two practical issues; approaching observation and recording. Approaching observation entails establishing the focus of the observations, selecting the cases for observation, thus the researcher decided on what was observed with reference to research questions.

<b>Research Instrument</b>	<b>Measures used to Control their limitations</b>
a) Questionnaires	- Tries to describe the need for research as well as the use of the research.
b) Interviews	<ul style="list-style-type: none"> <li>- Observation</li> <li>- Probing for emphasis</li> </ul>
c) Observation	<ul style="list-style-type: none"> <li>- Noting down of field notes during and after observation.</li> <li>- Interviews and once only group discussions in order to obtain a baseline of measuring phenomena under study.</li> <li>- Use of secondary data sources.</li> <li>- Being polite and participative to participants so that they open up and do things the way they usually do them.</li> </ul>

**Table 3.2: Methods used to control limitations of research instruments**

### **3.9 Secondary Data Sources**

These are used when data surveys are costly and labour intensive and that it may not be possible to conduct surveys with samples large enough to generate valid and useful data, (Winship, 2000).

In this research the researcher also made use of secondary data. This makes use of already existing sources of data. Data sources available for secondary analysis in conducting the study were obtained from analysing reports textbooks, journals, periodicals, newspapers and exploring the internet also proved to be handy sources of secondary data.

### **3.10 Data Collection Procedure**

The researcher made sure that all preparatory measures were considered before going into the field by firstly obtaining permission from the managers and individuals to gain acceptability to key informants in the research. Before

the interviews were conducted, appointments with research participants were done through emails and Skype messages and reminded them of the date two days before interview calls.

The distribution and administration of questionnaires was done via emails to participants. The researcher assured confidentiality and privacy to participants that their email addresses and responses will not be made public. Secondary data sources required the researcher's own presence and touch in order to access and identify the most relevant information for the study. During observational data and interviews the researcher was taking down notes and some points from the participants as interviews were going on. The date of sending back questionnaires via emails was set to give the researcher ample time to make conclusions.

### **3.11 Data Presentation and Analysis Procedures**

Information collected was converted into some usable data. The data was then presented according to logical themes using tables, graphs, pie charts and frequency curves. Microsoft Office Excel programs were used for data analysis and for the generation of the histograms, pie charts, frequency curves and graphs. These were described to reveal their meaning. Percentages were used as statistical tools. The researcher used these procedures on presenting and analyzing data mainly because of their clear and concise expressions of the collected data.

### **3.12 Ethical Considerations**

Since it was not going to be any easy task to go and extract information from the whole international business community of Zimbabwe, the researcher liaised with the managers and presented them with a scanned student letter from Near East University indicating that she is a student in the Graduate school of Social Sciences. The researcher clearly stated that this study purely for research and educational purposes only. This enabled the researcher to carry out a smooth study with participants willing to cooperate in the study.

In the conduct of the research, the questionnaires were drafted in a very transparent and unbiased manner and participants were given ample time to respond to the questions posed on them to avoid problems and conflicts as well as inaccuracies in their answers. All participants were assured that the data that was going to be collected was going to remain anonymous and treated with the strictest confidence to make them more open in answering the questions.

### **3.13 Chapter Summary**

The chapter described the various methods that were used in the study with the aim of collecting data to give a thorough view on the impact that government policies have on international business. The researcher was able to curb shortcomings of each approach in order to obtain meaningful data. The presentation, analysis and interpretation of data collected are done in Chapter 4.

## **CHAPTER FOUR**

### **PRESENTATION OF FINDINGS, ANALYSIS AND DISCUSSION**

#### **4.0 Introduction**

The findings, analysis and discussion of this study will be based on the research questions that are on the interview guide and questionnaire. The presentation of findings from participants will be in tables, graphs and figures. The use of Excel and scientific calculator helped in analyzing the findings. Comments and discussion of the findings combines comparing the research findings of desktop research as given in Chapter Two on literature review.

#### **4.1 Response Rate**

A high response rate of 80% was achieved in respect of questionnaires and a slightly lower response rate of 60% was obtained in respect of interviews. A user friendly approach was adopted in the administration of the questionnaires and respondents had ample time within which to complete the questionnaires which had been pre-tested and corrections made in a pilot study.

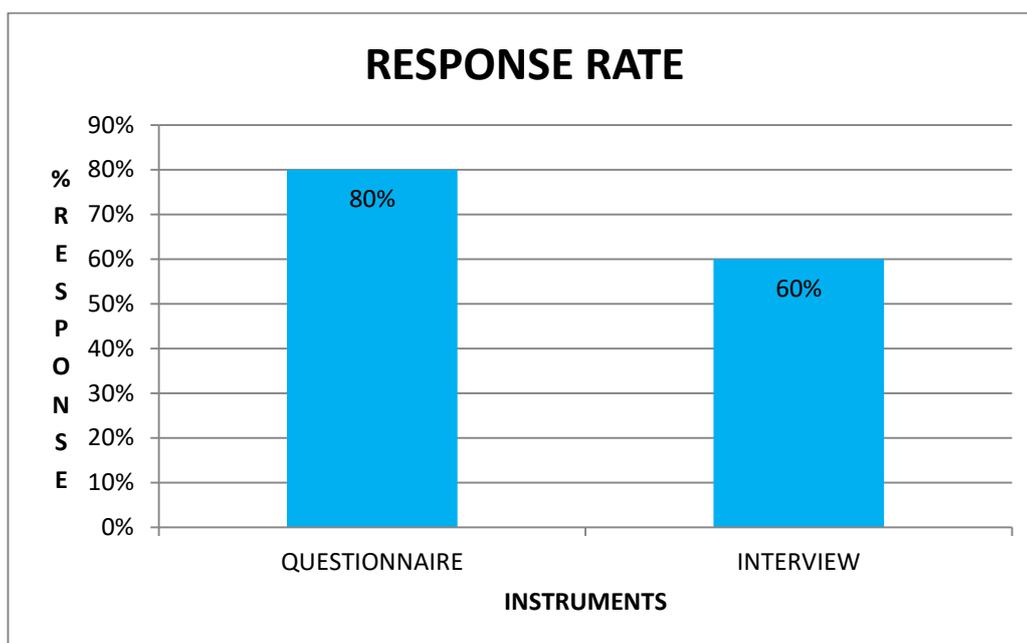
A lower response rate was achieved in respect of interviews largely because the majority of the respondents openly refused to accommodate questions due to high volumes of work. All efforts by the interviewer to enlighten them about the purpose and relevance of the research study were fruitless. The population interviewed was; top managers, ZIMRA customs officials, investors, traders and franchisors.

The findings in respect of response rate for different categories in the population are presented in **Table 4.1** and **Figure 4.1** below.

<b>INSTRUMENT</b>	<b>INTERVIEW</b>	<b>QUESTIONNAIRE</b>	<b>TOTAL</b>
<b>EXPECTED RESPONSE</b>	<b>50</b>	<b>450</b>	<b>500</b>
<b>ACTUAL RESPONSE</b>	<b>30</b>	<b>360</b>	<b>390</b>
<b>% OF TOTAL</b>	<b>60</b>	<b>80</b>	<b>78</b>

**Table 4.1 Response Rate**

From a total of 50 participants targeted by interviews 30 of them responded which made the response rate for interviews 60%. However, out of 450 questionnaires issued to government staff and ZIMRA officials, customers, supplier, traders, investors, franchisors 360 questionnaires were fully completed and collected, giving a response rate of 80%.



**Figure 4.1**

The overall response rate of both questionnaires and interviews depicts a high response rate of 80% and 60% from a representative sample. This then shows that the information gotten from questionnaires and interviews is valid. Hence it can be concluded that the responses comprehensively, fairly and truly represent the opinions and views of the population.

## 4.2 Demographics of participants

This subtopic will describe participants who filled in their questionnaires in accordance of their gender, age and education qualifications only to name a few. All these participants are involved in international business activities in one way or the other. Demographic data are presented in Tables and Figures below for those participants who responded to questionnaires. The data is then briefly explained below. A total of 500 participants were invited to participate in the questionnaire and interview and 390 participants responded.

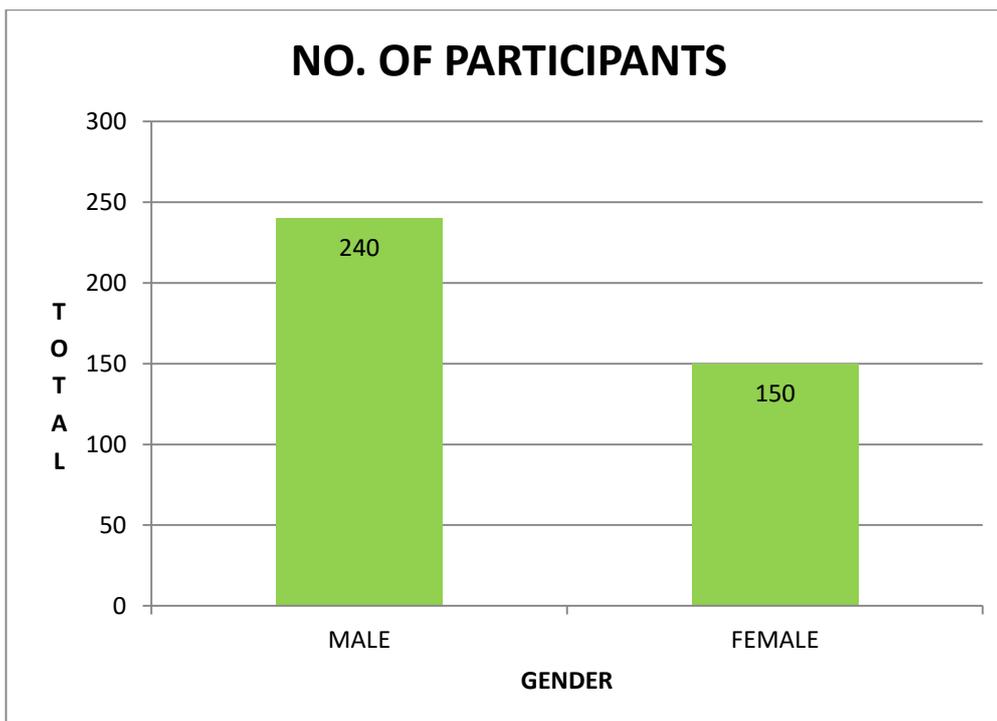
### i. Gender of Participants

Among the group of 390 participants 150 that is 38.5% were females and 240 that is 61.5% were males as displayed in **Table 4.2** and **Figure 4.2** below.

<b>GENDER</b>	<b>MALE</b>	<b>FEMALE</b>	<b>TOTAL</b>
<b>NO.OF PARTICIPANTS</b>	240	150	390
<b>% OF TOTAL</b>	61.5	38.5	100

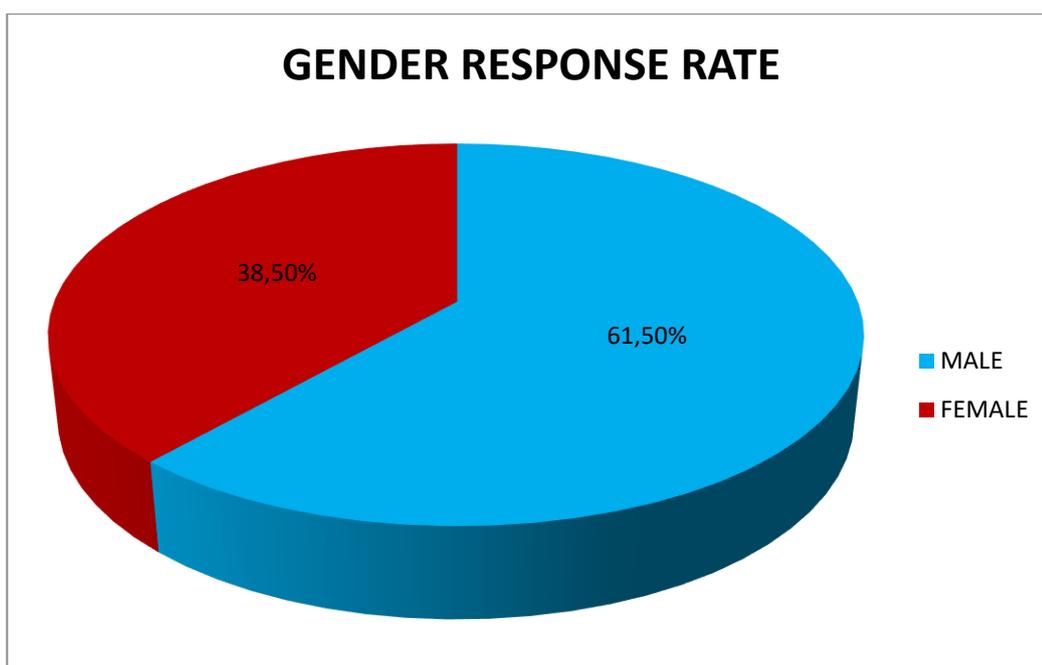
**Table 4.2: Gender**

These results were not fair in the sense that fewer women participated. There was need for gender balance, women's different experiences, ideas and voices would have been more appreciated. Because of gender inequality in the Zimbabwean international business environment, this means that a small number of women are involved and are appreciating the concept of international business and given more information others will follow. Women in Zimbabwe are mostly involved in cross-border trading in neighbouring countries which are Zambia, Mozambique, Botswana and South Africa and as far as Tanzania.



**Figure 4.2**

Male participants mostly dominate this sector because they are hard workers and can work for longer hours; they can withstand long queues at border posts and cannot be easily corrupted than female workers, more so males tend to be more knowledgeable than female. Men can cope with bureaucracy in government offices more than females.



**Figure 4.3**

Fig 4.3 above depicts that males have overpowered females by 61.5% to 38.5% which is lower in the international business environment. This therefore is an unfair equality representation structure of the Zimbabwean population in which the male and female gender ratio stands at 52:48% and for the formal employment sector where it is 62:35% (Central Statistics, 2013). These results also clarify the point that some societies in Zimbabwe still hold that men are supposed to work for the families thus bringing food to the table also catering for financial needs while women should stay at home to raise children and being responsible for various house chores.

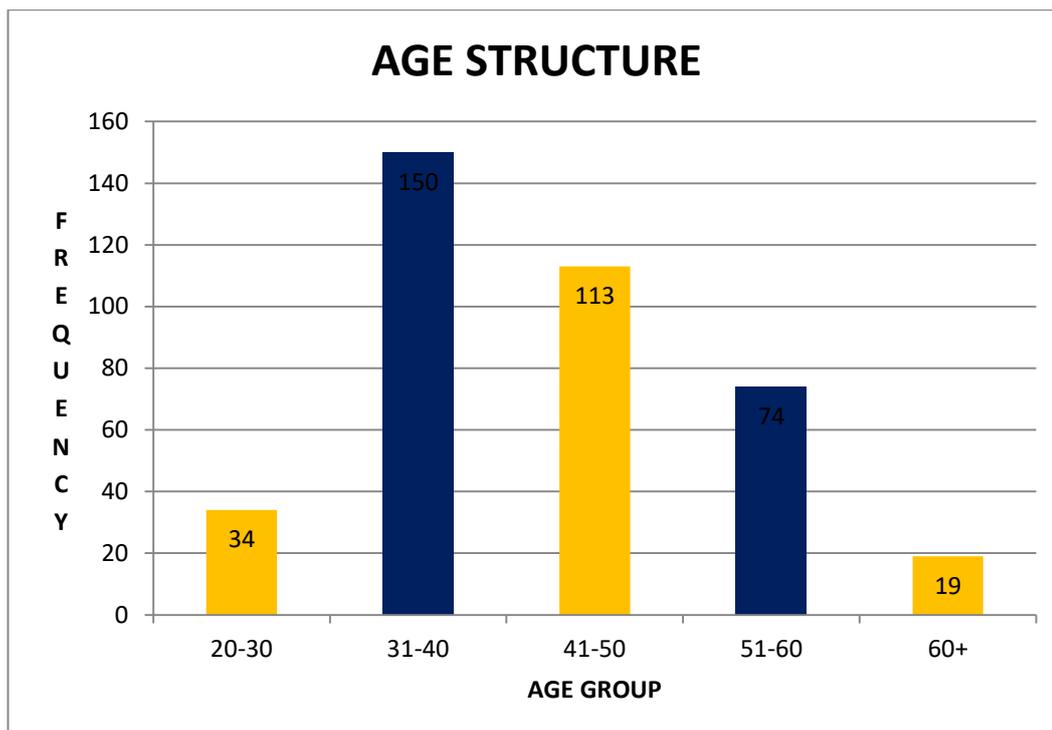
## ii. Age structure

The ages of the participants are depicted in **Table 4.3** and graphically shown in **Figure 4.4** below.

<b>AGE(YEARS)</b>	<b>20-30</b>	<b>31-40</b>	<b>41-50</b>	<b>51-60</b>	<b>60+</b>	<b>TOTAL</b>
<b>FREQUENCY</b>	34	150	113	74	19	390
<b>%OF TOTAL</b>	8.7	38.5	29	19	5	100

**Table 4.3 Age structure**

The age group which has more respondents is 31 to 40 years which constitutes 150 respondents making it 38% of the total respondent population. This is followed by the age group of 41 to 50 years which has 113 respondents thus a slightly lower fraction of 29%, followed by 74 participants within the range of 51 to 60 years of age pegged at 19%. 34 participants are between 20 and 30 years at 8.7%. Lastly age group of above 60years has the least number of 19 participants constituting 5% of the whole population.



**Figure 4.4**

In **Fig 4.4** ages between 31 and 50 years entails that most participants are within employable range which means that most of them were already experienced. This is the economic active age group and careers are at peak. Most Zimbabweans start to retire or leave work from 51years going upwards and most of them have already joined the pension fund. The international business environment consists of a number of youth's 20-30year because of the youth indigenization and empowerment for the youth as well as graduate trainee programmes set by the authorities. This is also done to take advantage of new information that has been taught to this age group from universities and colleges.

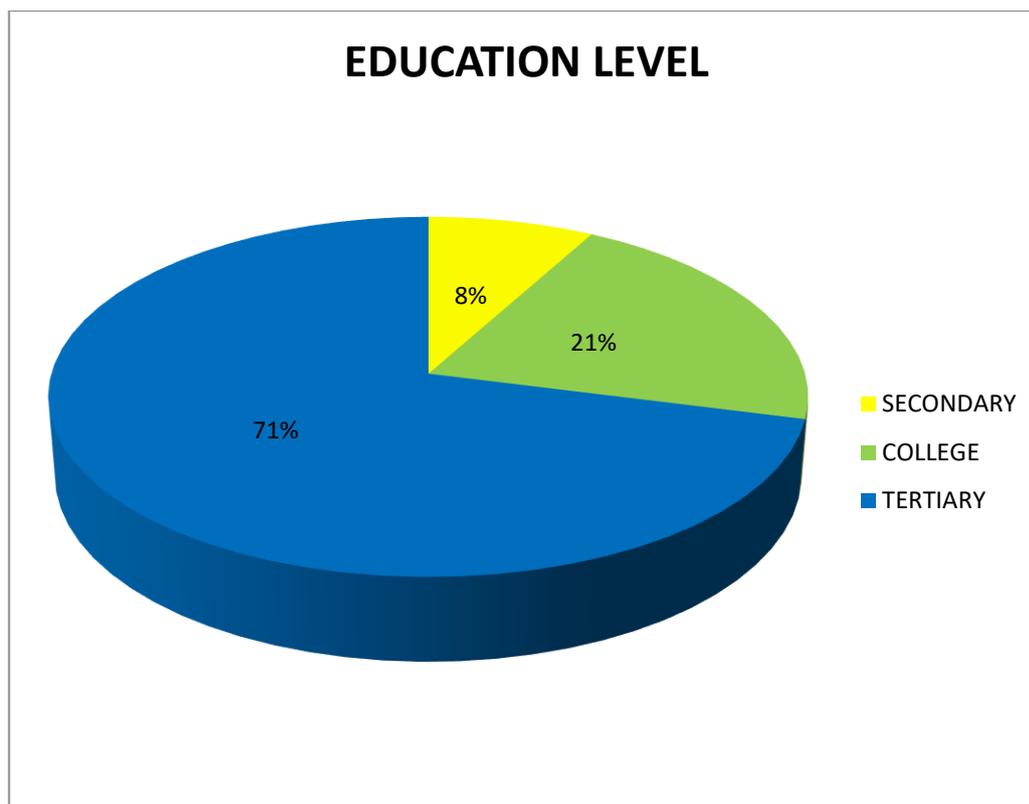
### iii. Education Qualification Level

Participants' level of educational qualification results are depicted in **Table 4.4** and **Figure 4.5** below.

EDUCATION LEVEL	SECONDARY	COLLEGE	TERTIARY	TOTAL
NO. OF RESPONDENTS	31	82	277	390
%OF TOTAL	8	21	71	100

**Table 4.4 Education qualification level**

Tertiary education level with 277 has dominated the market because the qualifications are needed for one to get a job so that international business activities may meet global standards and carried out professionally. A considerable number also have college 82 and 31 with secondary education which then supports that Zimbabwe has a high literacy rate. According to World Bank ratings of 2015, Zimbabwe had 86.9% literacy rate.



**Figure 4.5**

The above results depicts that many courses which are business related are being offered in the secondary, college and tertiary education. Most people have the knowledge of what is going on in the international business environment which helps to ease operations.

#### **iv. Length of relationship with the international business environment**

The participants' duration in international business environment is shown in **Table 4.5** and **Figure 4.6** below.

<b>Years of Experience</b>	<b>0-5years</b>	<b>6-10years</b>	<b>11-15years</b>	<b>16+</b>	<b>Total</b>
<b>Frequency</b>	159	189	25	17	390
<b>%of Total</b>	41	49	6	4	100

**Table 4.5 Duration of experience in the sector**

Since the international business concept was introduced in the early 2000s in Zimbabwe, the results show that it is being appreciated in the business environment. The highest frequency of duration is 189 from 6 to 10years which shows when this concept was highly taken into consideration in Zimbabwe. 159 participants are in the 0-5years range. Very few respondents are from 11years and above. This means that most Zimbabweans had no knowledge on this subject in matter. Trade was the main activity that was known other than the other three. This is the period when most investors left the country because the economy was falling and the harsh economic conditions that were being set by the government.

In **Figure 4.6** depicts that the number of very inexperienced participants involved in international business activities is higher than that of experienced one. This means that overall quality of service and knowhow is very low in this environment. In follow up of interviews the factors ascribed to the above situation due to exodus of people experienced in international business activities, they have moved to greener pastures in neighboring countries especially South Africa where there are more employment opportunities and higher remuneration than in Zimbabwe.

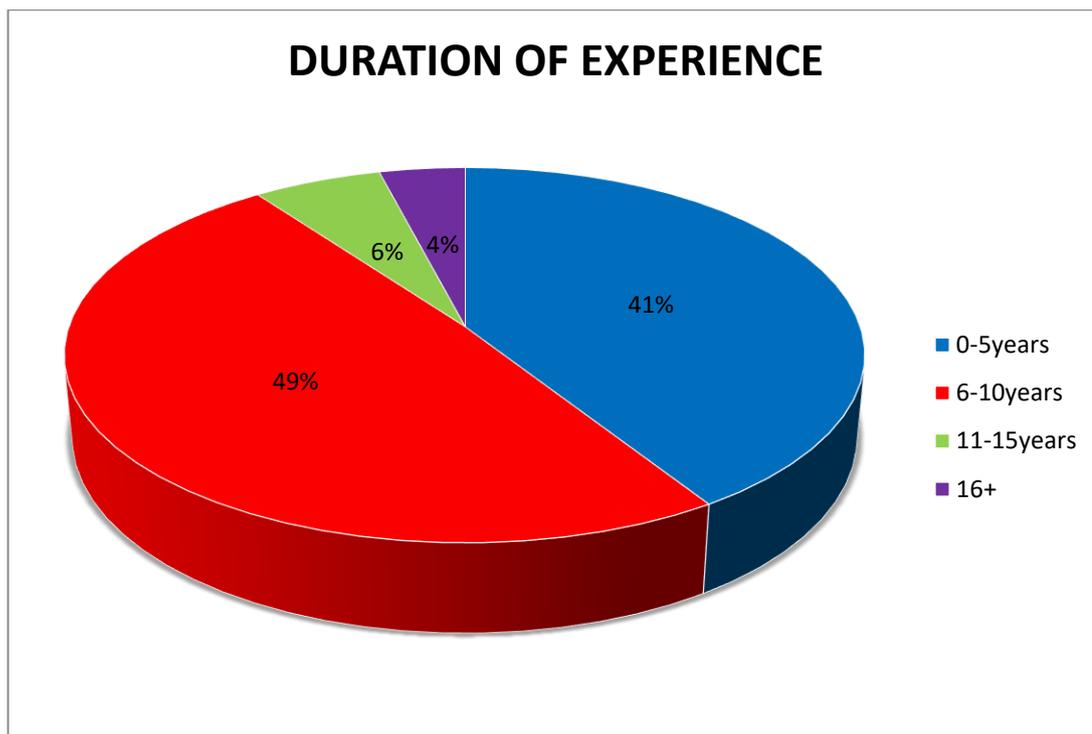


Figure 4.6

#### 4.3 Perceptions of participants about government intervention in activities

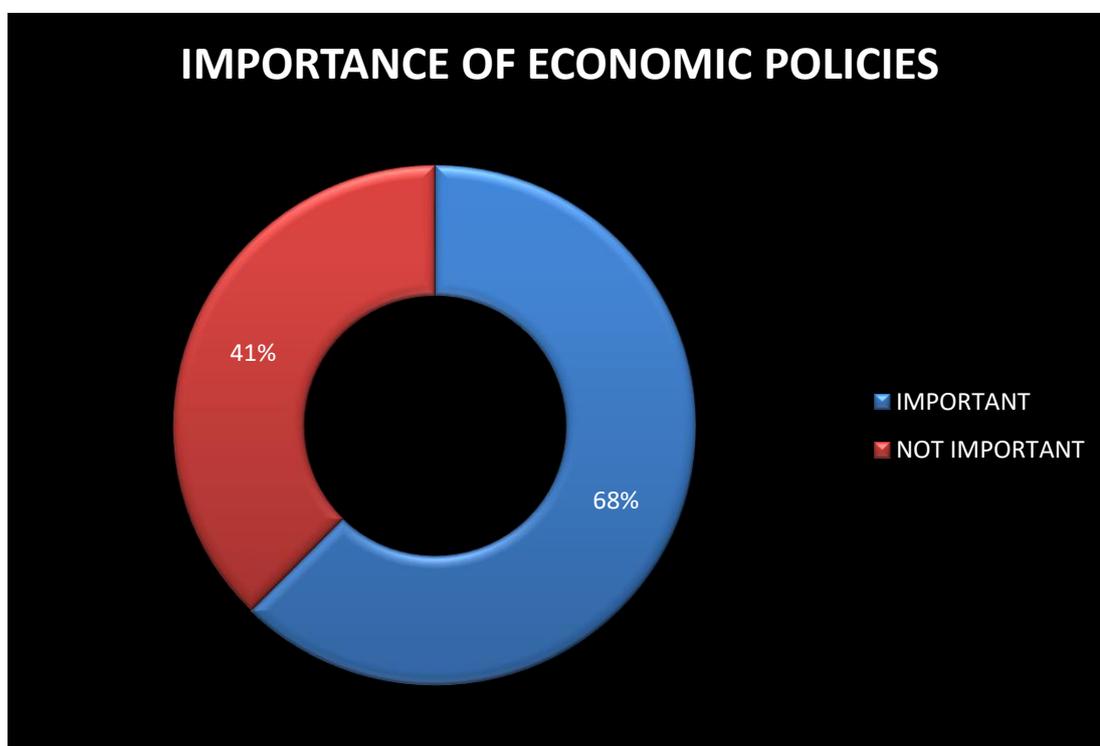


Figure 4.7

**Figure 4.7** analyses the importance of government influence through economic policies in an economy according to all participants. 68% of the respondents supported the importance of economic policies in the economy while 41% viewed government policies as not important in the economy. It is found out that economic policies are important for the reasons as follows:

- If implemented well it helps fair redistribution of resources, wealth, income and opportunities in the economy through tax payments, subsidizing and regulations;
- The government tends to understand the public's situation more than the free market;
- The government can find better ways to curb for recession and depression periods;
- It can also work towards creating jobs for the public; and
- Good policies provide positive behaviour from the public.

This means that when the government set up good economic policies and they work well towards them, the economy benefits to a greater extent.

#### **4.4 Impact of government intervention on international business activities**

Though a higher number of participants supported the importance of government intervention in an economy, the student sought to carryout statistical calculations of international business activities to assess whether economic policies are really vital to improve the economy of Zimbabwe. This allowed the researcher to come up with a conclusion on the actual impacts of government intervention on these activities in Zimbabwe, a developing economy.

##### **4.4.1 International business activities that take place in the Zimbabwean economy**

The findings of activities involved in the international business environment of Zimbabwe are shown in **Table 4.6** and **Figure 4.8** below.

ACTIVITY	STRONGLY AGREE		AGREE		NOT SURE		STRONGLY DISAGREE		DISAGREE	
	Fre q	% Total	Fre q	% Total	Fre q	% Total	Fre q	% Total	Fre q	% Total
Importing	312	80	70	18	8	2	0	0	0	0
Exporting	82	21	211	54	74	19	0	0	23	6
Franchising	135	35	206	53	49	13	0	0	0	0
Licensing	148	38	176	45	35	9	31	8	0	0
Strategic Alliances	168	43	168	43	54	14	0	0	0	0
Direct Investment	265	68	117	30	8	2	0	0	0	0
Contract Manufacturing	230	59	117	30	43	11	0	0	0	0
Outsourcing	277	71	113	29	0	0	0	0	0	0
Multinational companies	176	45	55	14	125	32	0	0	34	9
Countertrade	105	27	215	55	70	18	0	0	0	0
Offshoring	66	17	35	9	250	64	8	2	31	8

**Table 4.6 International business activities that are involved in Zimbabwe**

As shown in **Table 4.6** and **Figure 4.7**, 80% of the participants strongly agreed that importing which is part of trade was the major activity in the international business of Zimbabwe. Also a significant number of respondents had the same opinion to outsourcing which was at 71% strongly-agree outcome. A smaller number of was in total disagreement with the licensing and offshoring being part of international business activities;

which is indicated by the 8% and 2% respectively of strongly-disagree. Other activities were rated fairly which clearly shows that they are part and parcel of international business activities though not being the major functions. All the participants managed to note some of the activities that the student was not aware of which helped to conclude that they were quite aware of the activities involved.



**Figure 4.8 International business activities that are involved in Zimbabwe**

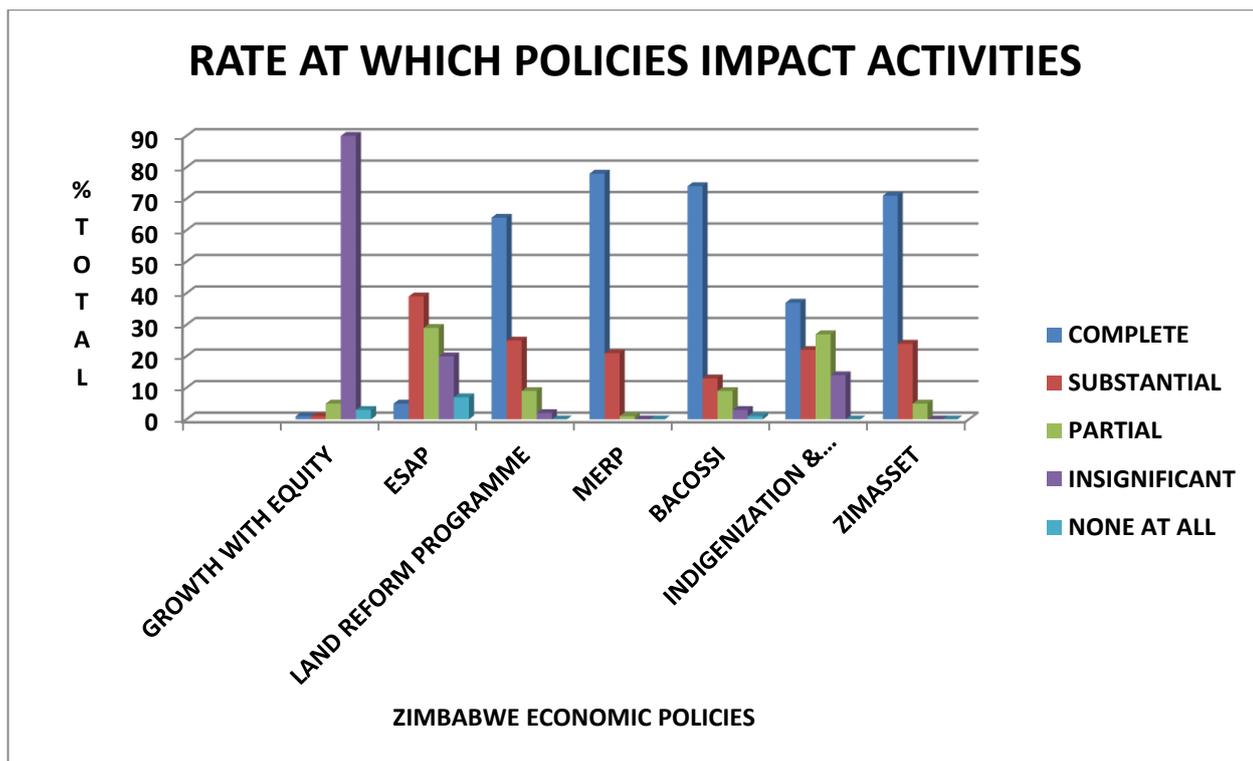
#### **4.5 Economic policies that have been involved in international business activities**

The findings in respect of extent to which economic policies have impacted activities in the international business environment are presented in the **Table 4.7** and **Figure 4.8** below according to participants. It is highlighted that many

people were not familiar with international business activities and also how they are impacted by economic policies. Because of this, majority of participants recorded that **Growth with Equity** had an insignificant rate of 90% to the activities. As the years grew participants became familiar with international business activities, **ESAP** had 39% substantial rate and frequency of 153. Economic policies became known during Land reform, MERP, BACOSI and ZimAsset at 64%, 78%, 74%, 71% complete rates respectively. This also shows that the government of Zimbabwe tries by all means to broadcast its new policies to its citizens.

POLICIES	Complete		Substantial		Partial		Insignificant		None at all	
	Fre q	%Total	Freq	%Total	Fre q	%Total	Freq	%Total	Freq	%To tal
Growth-with Equity	5	1	2	1	21	5	349	90	13	3
ESAP	18	5	153	39	114	29	77	20	28	7
Land-Reform Programme	251	64	96	25	35	9	8	2	0	0
MERP	305	78	80	21	5	1	0	0	0	0
BACOSI	289	74	52	13	34	9	10	3	5	1
Indigenization- &Empowermen t Act	145	37	86	22	105	27	53	14	0	0
ZimAsset	278	71	94	24	18	5	0	0	0	0

**Table 4.7 Rate at which policies impact activities**



**Figure 4.9**

This may have been done through Television programmes, newspaper bulletin and presentation in public places only to name a few. This then helps everyone to get involved in the progression of the policies. From the Land reform up to ZimAsset the government made sure that citizens are equipped with this knowledge one way or the other. Very few people do not know about these policies and the concept of international business since it is still growing in Zimbabwe.

#### **4.6 Impact of government policies on international business activities and how it has affected the economy of Zimbabwe**

The findings in respect of the above are depicted in **Table 4.7** and **Figure 4.8** below.

IMPACT	Very Strongly tve		Strongly Positive		Insignificant		Strongly Negative		Very Strongly -ve	
	Freq	%Total	Freq	%Total	Freq	%Total	Freq	%Total	Freq	%Total
Taxation	312	80	70	18	8	2	0	0	0	0
Tariffs-& Subsidies	230	59	117	30	43	11	0	0	0	0
Interest rates	265	68	117	30	8	2	0	0	0	0
Exchange rates	277	71	113	29	0	0	0	0	0	0
Public-& Private Partnership	148	38	176	45	31	8	0	0	35	9
Other impacts	78	20	20	5	70	18	211	54	11	3

**Table 4.8 Impact of government policies on international business activities**

312 participants agreed that taxation had a very strong positive impact on international business activities thus making a total percentage of 80%. The government has imposed various types of taxes that are to be paid by both local and international businesses as depicted in **Table 4.8** below:

Many businesses have suffered higher taxes in Zimbabwe. Import taxes were increased so as to promote the local upcoming industries which were however not producing goods in adequacy due to raised taxes on inputs. 70% were strongly positive about this same issue because many business were not able to fund for their own activities, pay workers and meet deadlines after paying taxes, thus they were left with little or no money. In direct investment, franchisors and strategic alliances fixed assets like machinery and equipment also motor vehicle that are useful for the business day to day activities can be held by the government in the case of failing to pay these taxes. This means that the business has been ceased, that is, production processes stops, transportation of

inputs, semi-finished and finished goods stops. Sometimes businesses sacrifice the money to be used to produce more quality products to paying taxes.

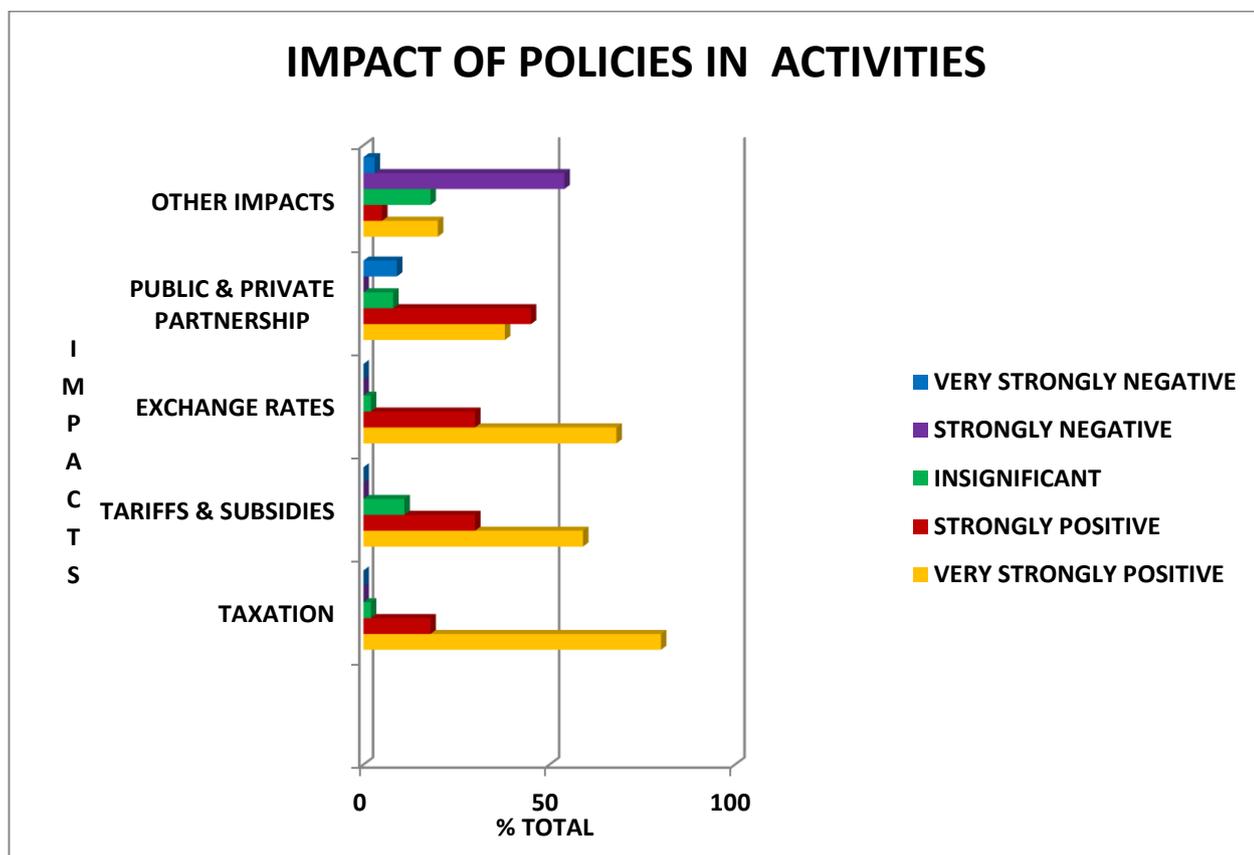
<b>Types of taxes</b>	<b>Statutory tax rates</b>
Property tax	Different rates depending on value of property
Corporate income tax	25% of profit to be taxed
Capital gains tax	20% of capital gains
Road tax	Fixed charge of USD240
Tax on check transactions	USD0.05 per check that have been stamped
Tax on interest	15% of interest income
Social tax on employee	3.5% gross salaries with top limit
Fuel tax	Small amount that is included in fuel price
Value Added Tax (VAT)	15% value added

**Table 4.9 Types of taxes in Zimbabwe**

On the other hand if taxes are lowered businesses will gain more because no high amounts of money are channeled out to the government. Their profits go up because clients will be demanding more highly priced goods than when high. Thus trading, investing, franchising and strategic alliance businesses now have higher returns in their business dealings. Inputs needed for processes tend to get cheaper to purchase and prices of the finished goods as well. In other words this is a very conducive environment for international business to take place. Investors, MNCs, trading companies only to name a few are easily attracted by lower taxes in an economy. There was no support on the very strongly negative and strongly negative impact of taxes which means that almost every business person involved in international business has enough information on what taxation has done to these activities.

About 2% that is 8 participants recorded that taxation had an insignificant impact in these activities. Most probably these participants may be directly involved with the government and they have the first hand information on how the authorities are struggling to make ends meet for the whole country. By charging higher taxes the government may not want that, but since it is the main way for

collecting revenue they have no other way. Since the government is in huge debts it has no other choice than to collect its revenue from its citizens. Zimbabwe was denied borrowing by international institutions like the International Monetary Fund (IMF) because it had failed to settle its existing debts.



**Figure 4.10**

In **Figure 4.10** taxation is higher at 80% which means that it is very difficult to distribute resources in the economy. It lowers employment, new innovations and investments. Lower taxes bring about more jobs and workers are motivated to work. Some companies may even consider investing in their own countries. Lower interest rates help to curb inflation in an economy and if they are high taxes then inflation rises.

There was also 68% of very strong positive, 30% on very strong impact results on interest rates. This means that investors, franchisors, strategic alliances and traders first consider these rates to start or carry on their operations. When the rates go higher it hinders savings and borrowing of loans on the side of business people. Hence operations may cease due to

lack of capital to boost production. While lower interest rates attract investors, some local companies may even consider not going abroad and there will be good returns. 2% respondents were not sure most probably because they belong to the lending loans sector. There was no response on strongly negative and very strongly negative most probably because business people do not remember any transactions that interest was not added whether loans have been covered before due dates or not, every money borrowing transaction always attracts an interest.

Many participants recorded on very strongly positive at 71% and strongly positive at 29% and null on insignificant, very strongly negative and strongly negative. 71% and 29% of the participants supported this impact because Zimbabwe no longer uses its local currency and it implemented dollarization in 2007-8. Zimbabweans are also making use of the South African rand which had a rate of 10R:USD1 during that time and has been fluctuating here and there ever since for example the Rand dropped because of Xenophobia violence to around USD1:R12. In line with dollarization when the dollar depreciates businesses are forced to drop prices on their products which then attract more purchasers. Raw materials providers raise their prices on imports making companies to realize lower profits thus no funds to boost production. Exporting businesses benefit more because prices of exports go down. Appreciation of the currency affects exporting companies because they experience lower profits due to decreased demand on high cost exports. Zimbabwe recently reintroduced its local currency and there is a shortage of the dollar which may be bad for the economy.

International business activities when financed by government subsidies do not normally adjust in total returns. 59% of participants gave a very strongly positive reaction because the agriculture is the main business sector so the subject of subsidies is not new. The government used to subsidize and it still does the Cotton Company of Zimbabwe. 30% ticked strongly positive because business that receives improves its production levels. Prices of subsidized goods in this case wheat, maize and tobacco only to name a few are lower than those of the free floating market rates. This will benefit companies who produce goods from these crops like bread, maize meal and

others also there is low competition since the government expects social benefits in return. In the economy jobs are created if more businesses get to operate again and investment in such sectors increase since there is government backing. A total percentage of 11 reacted to insignificance because their types of business do not get subsidies from the government. This may be because their business types are new and do not impact much on the GDP or sector is still very small.

Private and public partnerships have been recently introduced to the economy most probably because the government is no longer able to do other activities on its own. As supported by participants 38% and 45% for very strongly positive and strongly positive respectively. Businesses tend to improve functioning effectiveness and also create opportunities for bigger projects especially in the infrastructure industry. 9% reacted on very strongly negative because growth is affected when resources are shifted from their real use to meet political demands. When compared to the public companies, private companies tend to stick to the main goals of the partnership and they try their best not to go out of their set budget on any project. The citizens' benefit from jobs that are created from various projects and the jobs are usually highly paid thus an improvement in the standards of living.

According to the results a percentage of 54% ticked strongly negative about other impacts of government policies on activities. This was probably because citizens are not aware of other factors like unlike cultures, politics, climates and convenience of geographical locations, availability of natural resources and level of economic development that are taken into consideration when wanting to start international business activities. 20% and 5% agreed positively depicting that they had appreciated the concept of international business and were applying it in their activities.

#### **4.7 Hypothesis test for association:**

##### **Chi-squared test**

Chi-square is a statistical test commonly used to compare observed data with data we would expect to obtain according to a specific hypothesis. In this

case the null hypothesis is that government economic policies do not impact international business activities. This is what the researcher tested by this method.

*H0: There is no relationship between government policies and international business activities.*

*H1: There is a relationship between government policies and international business activities.*

*The test was carried out at 5% level of significance.*

The following table was constructed.

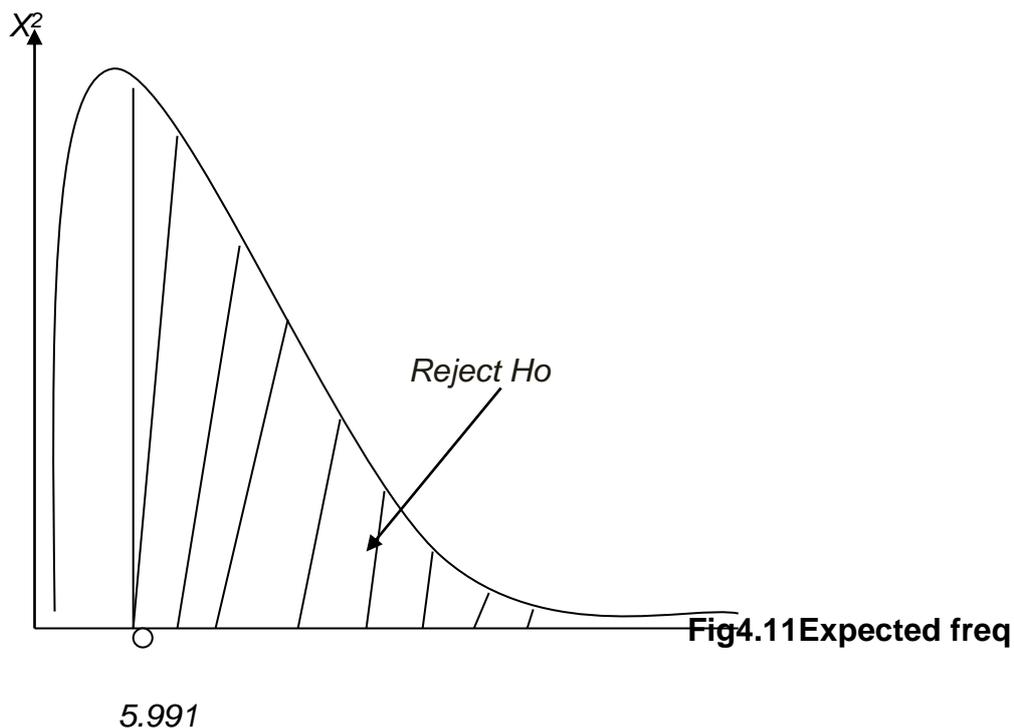
*In the table below the researcher combined complaints per international business activity with revenue targeted per activity, since revenue targeted per activity values are less than 5.*

**Table 4.10: Observed frequencies**

	International business activity metric			<b>Total</b>
	Capacity of activities per month	Failed transactions of activities per month	Complains per activity and targeted revenue per activity	
Without policies	16	30	33.65	<b>79.65</b>
With policies	50	7	5.75	<b>62.75</b>
<b>Total</b>	<b>66</b>	<b>37</b>	<b>39.4</b>	<b>142.4</b>

*With 2 degrees of freedom at 5% level of significance*

*Chi squared critical value  $X^2_{crit} = 5.991$*



Computation of expected frequencies

Row1:  $79.65(66)/142.4=36.9$ ;  $79.65(37)/142.4=20.7$ ;  $79.65(39.4)/142.4=22.04$ .

Row2:  $62.75(66)/142.4=29.08$ ;  $62.75(37)/142.4=16.3$ ;  $62.75(39.4)/142.4=17.36$

**Table 4.11: Expected frequencies**

	Organisational performance metric			Total
	Capacity of activities per month	Failed transactions of activities per month	Complains per transaction and Revenue targeted per activity target	
Without policies	36.9	20.7	22.04	<b>79.65</b>
With policies	29.08	16.3	17.36	<b>62.75</b>
<b>Total</b>	<b>66</b>	<b>37</b>	<b>39.4</b>	<b>142.4</b>

$$X^2_{calc} = \sum (f_o - f_e)^2 / f_e$$

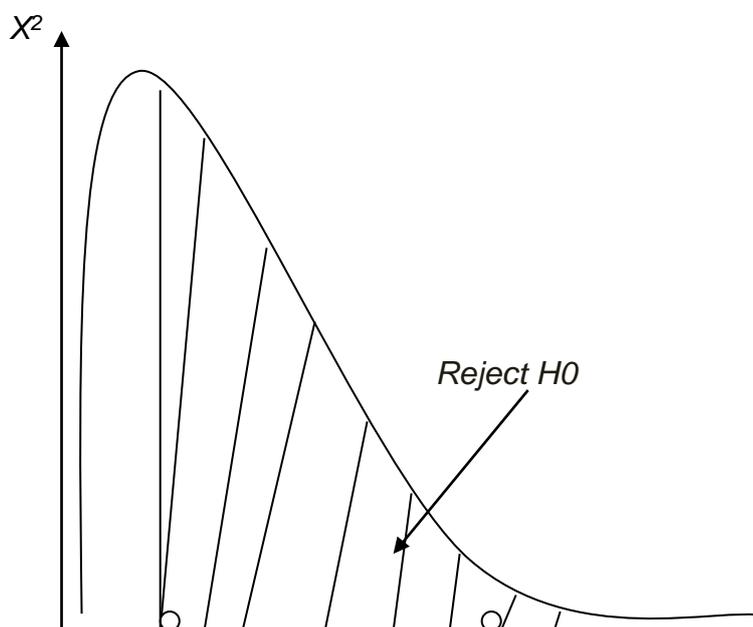
Where  $f_o$  = observed frequencies,  $f_e$  = expected frequencies.

Computation of  $X^2_{calc}$

$$\text{Row 1: } (16 - 36.9)^2 / 36.9 = 11.8; (30 - 20.7)^2 / 20.7 = 4.2; (33.65 - 22.04)^2 / 22.04 = 6.1$$

$$\text{Row 2: } (50 - 29.08)^2 / 29.08 = 15; (7 - 16.3)^2 / 16.3 = 5.3; (5.75 - 17.36)^2 / 17.36 = 7.8$$

$$\text{Therefore } X^2_{calc} = 11.8 + 4.2 + 6.1 + 15 + 5.3 + 7.8 = 50.2$$



**Figure 4.12: Observed frequencies**

5.991

50.2

Since  $X^2_{crit} = 5.991 < X^2_{calc} = 50.2$  we reject  $H_0$  and conclude that there is an association between international business activities and government policies.

Hereafter the student established that implementing of economic policies in international business by the Zimbabwean government contributed to the failure of the current economic situation.

#### **4.8 Strategies that international business sector and government should take to get in line with set economic policies in Zimbabwe**

Traders, investors, franchisors and alliances need to employ highly competent and qualified workforce that will come with approaches to handle their businesses in favour with the policies. According to the surveyed individuals the government should implement policies that make the environment supportive of these business activities since they bring in more money to the country if carried out properly. Majority of the workforce need to undergo training for the progress of both the sector and the economy at large. Other participants had a view that businesses need to firstly carryout a cost and benefit analysis when carrying out these business activities. This is because these activities need a lot of capital hence there is need for a careful understanding of the risks involved in undertaking such activities in case they fail to meet expected standards of the government. Therefore the key element of a good strategy is to continually adjust to the ever changing conditions set by the government on various business activities in competitive environment.

On the other hand the government need to evaluate policies and incentives that can lure international activities in the country. When considering investment, franchising and alliances the government should research thoroughly more about the organizations that want to start up in their country. Costs and benefits to the economy at large should be measured so that it is clear on what the citizens are to benefit. The government should also provide financial assistance to businesses that want to grow into worldwide markets. The government should be realistic, innovative and creative in their set of policies. In turn businesses will come up with aggressive tactics that will favour them export, direct investment, franchising and alliance deals on behalf of the country. Both the government and businesses can work together to come up with an effective international strategy all for the benefit of the economy.

#### **4.9 Chapter summary**

From the presentations above, it is found out the effect of government policies on international business is its ability to effectively shape an economy's direction and existence in order to remain competitive through stable economic growth.

## **CHAPTER FIVE**

### **SUMMARY AND RECOMMENDATIONS**

#### **5.0 Introduction**

In this chapter are presented the summary and feasible recommendations for sustainably and cost effectively resolving the issues raised in the statement of the research problem outlined in the first chapter as well as employing strategies that will help the government and international businesses to work together for the benefit of the economy. The summary and recommendations drawn in this chapter were based on data and facts gathered in chapter four.

The focus of this research study was to explore the impact of government policies on international business activities namely trade, investment, franchising and strategic alliances in Zimbabwe's developing economy. The general population for this study was 390 various business people directly involved in these activities. The researcher provided the questionnaires for the traders, investors, customers, suppliers, ZIMRA officials, franchisors and carried out interviews with top government officials in different ministries.

In this study quantitative research method was engaged to ensure a flexible and iterative approach. During data gathering the choice and design of research approach were constantly modified, based on on-going analysis. The researcher also uses percentage analysis of data gathered.

## 5.1 Summary

This part of the paper discusses the summary of the findings from the analysed data gathered from the previous chapters. Statistics in this study show that most of the participants who totalled at 150 are mature adults between 31-40 years who can be considered as experienced in their jobs and are at the peak of their various careers. The majority of them were males at 61.5% as compared to females at 38.5%. This was so because men have the strength and patience to manage stress that come at border posts through customs delays and bureaucracy in government offices and most of them were already married. They need quality time with their families at home. This also shows that most international business people especially females prioritize family time more than business. Most participants had tertiary education background which support statistics that there is a higher literacy level in Zimbabwe and also most business people were in the sector for not more than 10 years and wishes to settle in this sector. This shows that

As perceived by the participants, 68% of them agreed that government economic policies had a significant effect on international business activities thereby affecting the economy. Analysis of the subject was based on the answers that were provided by the participants as well as a test for association.

This study also clarified that major impacts were taxation, interest rates, subsidies, public and private partnerships and exchange rates. The set economic policies by the government effect on trade, direct investment, franchising and strategic alliances in any of those ways both negatively and positively. When taxes and interest rates are lower and manageable this attracts international business activities from bigger investors. When public and private partnerships focus on their main goals on a project and set aside their own interest, this will reduce corruption and facilitates one project to end well before moving to another one. Progress may be easily measured if all attention and resources are on one project.

According to the results and analysis in the previous chapter, business people started to get more familiar with set government policies because they were directly involved in them. Information of these policies seemed to have flowed well from the Land Reform Programme up to the ZimAsset era. It flowed from the government to its various ministries to investors, traders, franchisors and other business people to various suppliers and customers. For example the government imposes restrictions on imports and exports, they pay certain tariffs and quotas on their goods to ZIMRA on border posts and ZIMRA imposes penalties in the form of fines which reduces profitability in the international business sector while customers pay Value Added Tax when they purchase those products in various shops.

The most common international business activity in the Zimbabwean economy is trade and direct investments followed by franchising then lastly strategic alliances. Zimbabwean industries have not been able to produce adequate quantities of products especially consumer goods for its citizens so people have been importing a lot from its neighbouring countries that include South Africa, Botswana, Zambia and Mozambique. China has also been coming in to invest and a number of shopping malls have been built though profits are being repatriated back to their home country and cheap labour is being exploited. According to the hypothesis, it has been accepted that government policies impact international business activities. Participants also highlighted the importance of strategic alliances between importers and suppliers. They strongly agreed that this can significantly reduce instances of corporate failure emanating from weak capital bases.

This study paper also identified strategies that both the government and business can use to enhance easy adoption on set policies in all four activities which can be easily done when the government implement bearable and not harsh policies. In this regard, participants noted that the government needs to make known its instructions in accordance with the policies to the international business sector even in form of workshops to understand better. They also revealed that business people should be able to understand the goal and objectives behind these policies also the government should do as they have promised. Understanding of these will enable strategic planning in

both the sector and the government to apply their knowledge in implementing and adopting policies that will act as a link between the authorities' goals and business activities. Business activities' objectives and strategic direction need to government policies to avoid any mishaps. It should be noted that government policies acts as a means of raising revenue in the economy to cater for various expenses.

According to the surveyed individuals, the government should adopt business friendly environment for internationals so that the economy can join such benefits as job creation, inflow of foreign currency to pay national debts, improving of standards of living and avoid the poverty datum line. From the presentation in the previous chapter it was noted that the effect of government intervention in any of these activities allows the government to control the cash inflows in the economy and adhere to international institutional standards in international business activities. It also allows business people to cope with global standards and competition.

## **5.2 Recommendations**

Thus, with the result of this study, it is recommended that companies that carry out international business activities must consider the implementation and adoption of government policies in their day to day activities. This will make them relevant in the economy and also enhances growth in the sense that government subsidies and loans may favour those who stick to the legalities of the country. It also shows that a company is not fake in its dealings because usually does not make sense to be committed to policies of a country when you are just passing through. It is recommended that both the government and businesses should be able to come up with workshops, public meetings and seminars to address and introduce whenever new policies are set in an economy. Problems such as procedural barriers and inconsistencies will be reduced. Also this means every employee in the sector will have adequate knowledge of what is expected of them such that the speed of processing transactions is increased.

The researcher recommends that international business people should lobby the government through the ministries to seek donor aid funds to finance and start up other activities shown in **Table 4.6** and **Figure 4.8** other than the four they may be having a higher rate of return. This will pave way for more business opportunities for the citizens thus making them able to take care of their financial needs. A good economy should be conducive enough to attract various international business activities.

The customs clearing procedures on trade activities have to be standardized to allow smooth flow of goods in and out of Zimbabwe. Standardizing the procedures ensure transparency and minimizes corruption. The standardization can be extended across the SADC and COMESA regions. It is also important for businesses to develop and implement the codes of ethics specifying clearly what is acceptable and unacceptable in dealings with government officials so as to reduce corruption. Stiff penalties should be imposed on those found on the wrong side of the law. The process of pre-clearance should be encouraged by all customs authorities at the border posts so as to reduce congestion and delays.

We all know that international business concept is ever changing and dynamic as various activities are coming onto the market by each day. This makes it difficult for scholars to rely on current studies as a major predictor of what impacts future government policies will have on activities and later affects the economy. As a result there is no one stationary point when it comes to government policies therefore there is need for businesses and scholars to keep abreast with current trends.

Lastly the researcher recommends that future studies be carried out focusing on the same subject as well as other performance indicators which were left out in this research due to limitations discussed in the first chapter of this document.

## **CHAPTER SIX**

### **CONCLUSION**

Government policies are most important to consider in this globalised environment when dealing with international business activities. In this regard, most businesses are trying to consider integrating policies as part of their system and business practice. Indeed, many studies and published documents have noted significant effects of government policies on trade, investment, franchising and strategic alliances and how this affects the economy. Based on the findings of this study, the researcher concludes the following:

1. The participants who took part in this research study were already mature in age, responsible and reliable. In addition, the employees are also knowledgeable enough and aware about the existence of government policies in a globalised environment how it affects the economy's smooth running of international business.
2. The respondents agreed that government policies are important because it is a good and effortless way of raising revenue in an economy. The potentiality of government policies to be more friendly and creative to international business activities plays a negative impact in the economy to a greater extent.

3. The respondents also strongly agreed that government policies affect international business activities. This then implies that in some point in time the government has to drift away from the market and make it play freely.
4. The respondents strongly agreed that there are many other international business activities that are more profitable to the economy other than the four.
5. Based on these results, it can be concluded that government policies if not implemented well may seriously affect international business activities and the economy at large.

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## APPENDIX

### Appendix 1

#### Questionnaire

My name is Chido Ndoro, a student undertaking a Master of Science Degree in International Business at Near East University in Turkish Republic of Northern Cyprus. You are invited to participate in my survey on ***The Impact of government policies on international business activities in the economy of Zimbabwe.*** Your participation in this study is completely voluntary. Your survey responses will be strictly confidential and data from this research will be used only for academic purposes.

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#### SECTION A

May you please place a tick where necessary and fill in the gaps provided.

1. a). Your Gender:

Male  Female

b). Age in years:

20-30  31-40  41-50  51-60  60+

c). Marital Status:

Single  Married  Widowed  Divorced

2. Race Name:

African  Asian  European  American   
Other

3. Highest education level

Secondary  College  Tertiary

4. International business activity that you are involved in:

Importing  Exporting  Direct Investment   
Franchising  Strategic Alliance  Other (Specify)

5. Based on your own opinion tick in the correct box the most common activity in the international business sector of Zimbabwe? You can add other activities you are familiar with in the spaces provided in the table below.

ACTIVITY	STRONGLY AGREE	AGREE	NOT SURE	STRONGLY DISAGREE	DISAGREE
Importing					
Exporting					
Franchising					
Strategic Alliances					
Direct Investment					

6. For how many years have you been involved in this activity now?

0-5years  6-10years  11-15years  16+years

7. How often do you involve government policies in your activities?

Daily  Weekly  Monthly  Rarely    
Never

Explain.....  
 .....

8. How do government policies impact these activities?

Positively  Negatively

9. In your own view how has the following government policies impacted these activities in Zimbabwe.

<b>POLICIES</b>	<b>Complete</b>	<b>Substantial</b>	<b>Partial</b>	<b>Insignificant</b>	<b>None at all</b>
Growth-with Equity					
ESAP					
Land-Reform Programme					
MERP					
BACOSI					
Indigenization & Empowerment Act					
ZimAsset					

10. Is there any relationship between government intervention and the way you make decisions based on these activities?

Yes  No

Explain briefly.....

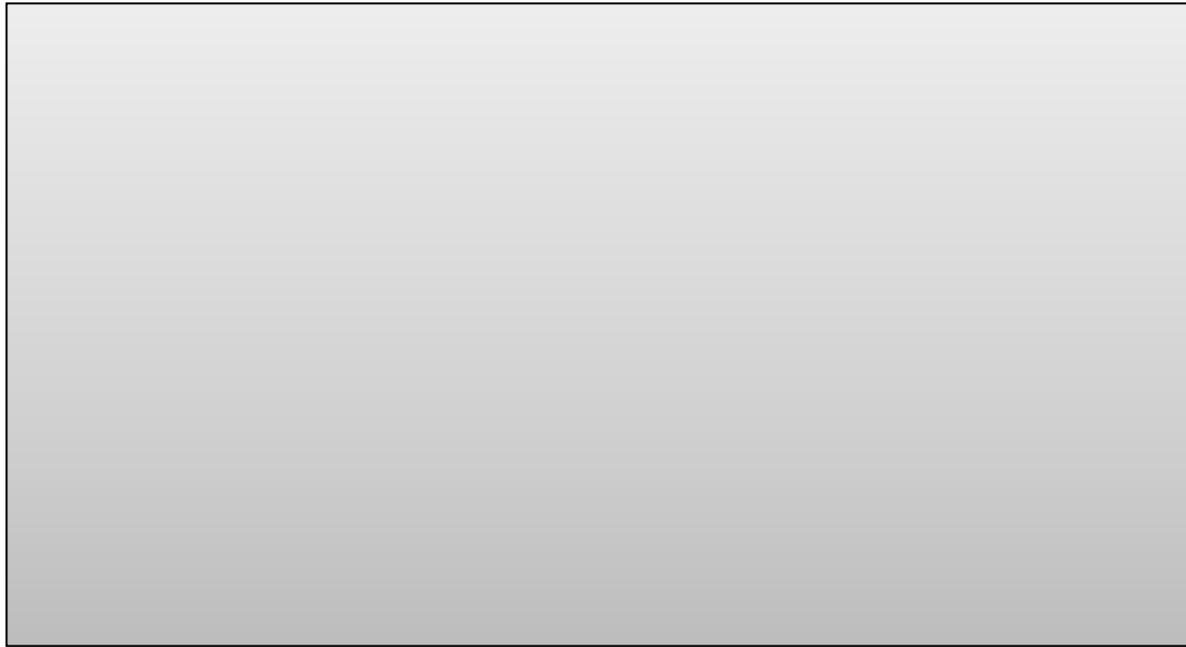
11. Below are stated impacts of government intervention on the activities, so based on your on point of view to what extent does this happen.

<b>IMPACT</b>	<b>Very Strongly tve</b>	<b>Strongly Positive</b>	<b>Insignificant</b>	<b>Strongly Negative</b>	<b>Very Strongly -ve</b>
Taxation					
Tariffs& Subsidies					
Interest rates					
Exchange rates					
Public& Private Partnership					
Other impacts					

10. What strategies would you recommend this whole international business sector in the following scenarios?

- i. When a company want to try a new international business activity.

- ii. When the government introduces and implements a new economic policy.



**The End**

## **Appendix 2**

### **Interview Guide**

1. What in your view are government policies impacting on how the economy of Zimbabwe is currently performing?
2. Do you as an employee or business owner understand the current set government policies and how are you coping?
3. Do you get information on these policies directly from the government ministries?
4. Do these policies allow faster and easier decision making?
5. Do these policies affect your personal decision effectiveness and overall business and economy performance?
6. How do you measure the performance of various international business activities in the Zimbabwean economy?