

Leadership Skills The Missing Link Between Stagnation And Growth In The Informal Sector. A Case Study of Harare High Density Suburbs

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Abstract: Leadership is a key aspect of any manager, administrator or entrepreneur which enables one to influence subordinates or followers in order to attain desired outcomes such as competitiveness and growth. This attribute seems to be lacking in the Informal sector as the players have failed to grow their businesses which have remained stagnant despite lots of potential for expansion. The study was conducted in high density suburbs of Harare and covered the popular congested home industrial sites which had degenerated into a hive of illegal dealings and unorthodox business practices. This qualitative study used the group focus method and the snowballing sampling technique to identify participants. The study found that they were different views given by workers and entrepreneurs' (owners) on how their businesses were directed and administered. Workers totally blamed the owners who used the autocratic leadership style without any room for involvement and inclusivity, thereby demoralising them. The entrepreneurs' blamed the economy which they claimed was making life difficult for their business operations and had no plans to regularise their businesses as they felt they were better off under the prevailing scenario of being informal. The study recommended a culture paradigm shift among the informal sector players which would be possible if they got leadership training to acquire appropriate credentials for business success with the support of key stakeholders like government, local authority, political leaders, donor community, financial institutions, empowerment indigenous groups as well as industry and commerce, so that there could be a holistic and integrated approach to transform this sector in order for it to play a significant role in the economy.

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I. Background Of The Study

During Zimbabwe's economic reforms of 1990's, spearheaded by the Economic Structural Adjustment Programme (ESAP), a lot of companies folded since there were a lot of reforms such as market deregulation policy which attracted a lot of powerful foreign competitors, removal of government subsidies and price controls as well as labour liberalization. In 2007 and 2008, Zimbabwe set one of the ever highest inflation records in the world of around 300 million percent. Most formal businesses struggled with the majority liquidating and others downsizing their operations. There was economic meltdown which culminated in the dollarization of the Zimbabwean economy in February 2009 under the Government of National Unity (GNU) as the Zimbabwean dollar had been constantly depreciating (Mpofu, 2011). Since then, the situation has continued to deteriorate although there were signs of stabilization after the dollarization of the economy in February 2009; but a lot of companies had already gone into liquidation culminating in millions of Zimbabweans losing their formal jobs. Even to date, a number of companies continue to restructure their operations by downsizing (massive retrenchments) and this has resulted in high levels of unemployment in the informal sector (Chimhangwe, 2013). This has seen phenomenal growth of the informal sector in which the jobless are finding reprieve to make 'ends meet' as they have families to sustain. A lot of small businesses have mushroomed all over the country particularly in the capital city of Harare and majority are not formalised.

Those companies that have not closed are operating below their capacity levels. According to the Confederation of Zimbabwe Industries report (CZI, 2012), capacity utilization in the manufacturing sector had declined from 57.2% to 44.2%. This means that the character of the Zimbabwe's informal sector is likely to be inclusive of skilled, semi-skilled and less educated individuals. The composition of the characteristics creates a window of opportunity to harnessing the vast potential that arises from the available skills that are possessed by those in this informal sector born out of redundancy and downsizing. Zimbabwe is said to have a high level of literacy of 90.9% (African Globe, 2013) as per the Africa Literacy Ranking 2013 report and as such it would be

highly unlikely that the informal sector would be dominated by uneducated and unproductive people. According to a Zimstat survey (ZIMSTAT, 2012), Zimbabwe's total employed population aged 15 years and above, was estimated to be 5.4 million and of that 4.6 million (84%) were considered to be in informal employment. A report by the Financial Express (2013), put the informal sector contribution at around 19.5% of Zimbabwe's gross domestic product or a total value added of \$1.73 billion. This would seem fairly significant such that regulation if achieved would bring about some fiscal benefits through revenue collection from a wide tax base that would be realized as a result of such regulation.

Currently Zimbabwe has no specific legislation to control and co-ordinate the activities of the informal sector. Legislation such as the Companies Act is in place to deal with registered companies while the activities of co-operatives are covered by the Co-operatives Act. In this regard it would seem that the informal sector is under no legal obligation to adhere to any legislation pertaining to registration as long as no enactment is promulgated to guide the sector. However, the informal sector activities must be conducted within the legal provisions that govern those who are regulated or the formal sector. For example, prostitution, money laundering and drug trafficking are illegal activities which even the informal sector would not be allowed to engage in as the sector is also bound by the laws that prohibit such activities. The level of contribution to the GDP by the informal sector at about 20% is such that it cannot be ignored. Regulation would seem to be the way to go if potential benefits are to be realised for the economy as a whole. Without regulation there is likelihood that there is a high level of non-compliance, to business best practices, by the informal sector in Zimbabwe.

Zimbabwe has one of the highest informal sectors in the world constituting of about 88% employment in the country (Financial Express, 2013). The collapse of the local industry which is struggling to resuscitate itself, has worsened unemployment rate in the country. It is also worrying that the Centre for International Private Enterprise (CIPE) and US Chamber of Commerce in 2010 rated Zimbabwe as the leading country with informal sector activity but concluded that such a large informal sector inhibits economic growth. There is a serious problem of stagnation in the informal sector which has lots of potential to grow into commercial SMEs (Small and Medium enterprises). There appears to be lack of effective leadership in this sector with critical aspects of leadership found wanting such as; *Communication, Motivation, Decision making, Creativity/innovativeness, Change management, Grievance handling (conflict resolution), Influence, Direction and Team work* (Nyamunda, 2002).

II. Statement Of The Problem

There is lack of effective leadership among business operators (owners) in the informal sector which explains why there is stagnation despite a lot of potential for it to grow and contribute significantly to the struggling Zimbabwean economy given the fact that the sector is currently employing more than 85% of the workforce. The business culture among the players is more of living from hand to mouth and those employed are undermined and seen as desperate with no alternatives to any form of employment owing to economic challenges in the country. The informal sector is largely characterized by stagnation in growth and lack of business creativity.

It is against this background that the researchers had a strong feeling that the informal sector has potential to improve Zimbabwean's economy if there was effective leadership among the players (entrepreneurs), and hence the motivation to undertake this research.

III. Research questions

In order to investigate the underlying problem, the study wanted to address the following sub-problems or research questions

- i) What leadership aspects are contributing to poor business in the informal sector in Harare?
- ii) How innovative are the entrepreneurs' who are operating in the informal sector?
- iii) What are the main leadership characteristics that should drive entrepreneurs in the informal sector to grow their businesses?

1V Literature review

4.1 Leadership is the activity of influencing other people to cooperate towards common goal which they come to find desirable (Val, 2016; Tead, 1955).

Qualities that make a good leader

According to Val (2016) these are;

1. **Honesty** – Strong ethics and values form a foundation for success.
2. **Delegate** – Perhaps Andrew Carnegie said it best, "No man will make a great leader who wants to do it all himself, or to get all the credit for doing it," or Dwight Eisenhower who said, "Leadership is the art of getting someone else to do something you want done because he wants to do it."
3. **Communication** – Many of the problems that occur within an organization are the direct result of poor communication. Knowing how to properly communicate thoughts, goals and expectations is key to success.

4. **Confidence** – This inspires the best effort from team members.
5. **Commitment** – The finest leaders lead by example. The more a leader is committed to a goal, the more effective they are at influencing the team.
6. **Positive Attitude** – Avoiding personal criticism and pessimistic thinking leads to more effective teamwork.
7. **Creativity** – There is a relationship between change, leadership and creativity. As Lee Iacocca once said, “Leadership is about managing change—whether you’re leading a company or leading a country. Things change, and you get creative.”
8. **Intuition** – One reason why leaders can make tough decisions is because they trust their intuitive instincts.
9. **Inspire** – Leaders challenge others but give them the support, tools and training to pursue their goals and become their personal best.
10. **Approach** – Knowing that all people are different and being able to customize approach and style on a case-by-case basis optimizes leadership effectiveness.

Nyamuda (2002) identified the following as key credentials of an effective leader; Drive, ambition, high energy, tenacity, honesty and integrity, leadership motivation, self-confidence, cognitive ability, knowledge of the business,creativityand flexibility.

4.2 Common features of the Informal sector

According to (ILO, 2013) the distinguishing characteristics of the informal sector are given and categorized under employment, enterprise, habitat and credit as shown and detailed below;

Employment

Characteristics of the people engaged in the informal sector

1. Absence of official protection and recognition.
2. Non-coverage by minimum wage legislation and social security system.
3. Predominance of own-account and self-employment work.
4. Absence of trade union organization.
5. Low income and wages.
6. Little job security.
7. No fringe benefits from institutional sources.

Enterprise

Characteristics of the activities in the informal sector

1. Unregulated and competitive markets.
2. Small scale operation with individual or family ownership.
3. Ease of entry.
4. Reliance on locally available resources.
5. Family ownership of enterprises.
6. Labour intensive and adapted technology.
7. Absence of access to institutional credit or other supports and protections.

Habitat

Characteristics of the informal sector land and housing

1. Unauthorized use of vacant public or private land.
2. Illegal subdivision and/or rental of land.
3. Unauthorized construction of structures and buildings.
4. Reliance on low cost and locally available scrap construction materials.
5. Absence of restrictive standards and regulations.
6. Reliance on family labour and artisanal techniques for construction.
7. Non-availability of mortgage or any other subsidized finance.

Credit

Characteristics of informal credit markets

1. Unregulated and non-subsidized.
2. Easy accessibility.
3. Availability in very small size and for short term.
4. Low administrative and procedural costs.
5. Little or no collateral requirements.
6. Flexible interest rates (from very high to no interest at all).
7. Highly flexible transactions and repayments tailored to individual needs.

Drawing from the above ILO listed characteristics, the informal sector activities seem to embrace all facets of economic activity albeit with a high propensity for a high level of non-compliance with the business best practices. The size, non-regulation, low cost, low capital requirements and easy accessibility makes the informal sector a more favoured choice for those who are out of formal employment or who after completing some form of training or equipping themselves with some skill, fail to be absorbed into the formal sector. This is most likely propelled by the survival instinct more than anything else (Briscoe, 1999).

4.3 Characteristics of Zimbabwe's Informal Sector

A physical inspection of Harare's informal sector seems to confirm the prevalence of the characteristics given by ILO above with the exception that most of the informal sector traders operate on designated and allocated stalls for which they pay a fee to the City of Harare (Mpfu, 2011). However, some owners of stalls seem to sub-let their stalls to non-licensed vendors for a fee which is paid monthly.

These ILO (2013) characteristics seem to be generally prevalent in the whole of Zimbabwe's local informal sector according to a report by Briscoe (1999). The informal sector in Zimbabwe comprises those enterprises which are not registered under the Companies or Co-operatives Acts, irrespective of whether or not they are licensed by the local authorities. Briscoe (1999) gives the general characteristics of the informal sector in Zimbabwe as;

- (i) the enterprises are family owned.
- (ii) the sector is easy to enter and exit.
- (iii) operators rent space from individuals with property, or local authorities.
- (iv) operators undertake small scale operations.
- (v) the sector is labour intensive.
- (vi) the enterprises are staffed by the owner, or relatives or a small number of employees.
- (vii) operators use their own financial resources, and the sector.
- (viii) operates outside the fiscal framework of the economy.

The above observations seem to point to a fragmented sector without any form of conformity with regulation and lacking control, organization and orderliness. Illegal activities such as dealing in drugs, prostitution, smuggling etc. usually find their way into such an unregulated sector.

IV. Methodology

The researchers were guided by the Research Onion (Saunders et al, 2007). The study was based on the *Interpretivism* (Constructionism or Subjectivism) philosophy. The approach was *inductive* since data collected was qualitative (Gulati, 2009; Neuman, 2003). The *target population* was drawn from entrepreneurs at the following Harare sites; Siyaso, Mupedzanhano, Mbaremusika and Magaba all in the high density suburb of Mbare, GazalandHighfield and Glen View Area 8. Focus groups were used and selected by use of the *snowball sampling* technique (Wiles et al, 2011). Data was analysed and presented using *Thematic content analysis* coupled with few *verbatim quotes* to illustrate those findings (Silverman, 2013). *Research ethics* were observed in line with best practice (Monette et al, 2005). These included; non-divulgence of participants, honesty, informed consent and beneficence (Goddard and Melville, 2004).

V. Findings

5.1 Leadership inadequacies in the informal sector;

- **Communication.** There are no proper communication systems and channels exacerbated by absence of clear cut procedures, regulations and policies.
- **Motivation.** Not much was being done to motivate workers either intrinsically or extrinsically which contributed to underperformance.

One worker said "*I am just here on a pass time phase because there is nothing worth working for. It's just as good that I am providing my services for free as I am also emotionally stressed since the owner hardly attaches any importance to us, the workers, except to threaten us with dismissal. We don't have any alternative due to high unemployment in the country and I am here to gain experience waiting for any opportunity to arise and explore*"

- **Decision making.** Most decisions appear to be ad hoc and emotional without being rational. Such decisions are usually for selfish or personal gains, rather than taking into consideration the welfare or plight of workers.
- **Change management.** There seems to be a lot of challenges in changing the attitude, business traits and way of doing business (poor business culture). There is normally resistance to change if new things are introduced especially by the local authority or government. Some use their political muscles to resist change as they are comfortable with the status quo.

One vendor said, "*We act according to what our political leaders tell us to do and this is the only means of survival rather than being stressed with the business environment demands*"

- **Grievance handling and conflict resolution.** There appears to be no mechanisms put in place to deal with these objectively. Majority of the players in this sector seem not to be conversant with the country's labour laws or are simply ignorant. There seems to be dominance of the Unitary perspective to industrial relations as workers' committees are discouraged and even forbidden. Workers are therefore supposed to comply with the dictates of the owner.
- **Influence and direction.** The common leadership style used is largely autocratic. There is no worker involvement and participation. One worker summed it " *You are told point outright that you should toe the line or you ship out as there is one boss here*"
- **Lack of sound business administration knowledge.** This was prevalent among most players who have no business acumen or business orthodox practices. They lack or do not have; financial discipline, business shrewdness, marketing skills, proper organizational structure and systems, business culture and appropriate technology. This adversely affected the growth of the informal sector. One entrepreneur said " *You do not need to be educated to run a successful enterprise but it requires brevity in order to take the bull by its horns, like fighting the municipal police officers who want to confiscate our belongings (goods) or force us to comply with paying unjustified levies and rates. Each day has its own plans and you do as the situation permits*".

5.2 Innovativeness of the entrepreneurs'

There was lack of creativity or innovation as the players seemed to be satisfied with the usual way of doing business. In some instances, attempts were being made but the problem is that there would be no continuity since ideas and processes are not documented for further reference and development. Owners do not want to impart such innovation to workers as there is fear of creating a competitor from within. One entrepreneur said " *We do not have a vision and mission; we dance according to the tune of the customer as we do not really have work specialization. We are guided by the demands of the market*"

5.3 Environmental challenges

- Running battles with local authority due to illegal operations which was traumatic at times.
- Poor hygiene and sanitation standards at the work sites.
- Congested working space.
- Failure to access bank loans due to failure to meet bank requirements.

One male entrepreneur said " *If we are able to access bank loans we should procure better equipment (machinery) to enhance production capacity and efficiency thereby enjoying economies of scale. This should make our businesses grow but that has not been the case. The financial institutions want collateral security and audited accounts of our financial management and this can only be day dreaming to us to meet such requirements*"

- High taxation if business is regularized, so it was better to evade taxes by remaining unregistered
- Liquidity crunch due to cash shortages resulting in loss of business hours since potential clients use make frequent bank visits for the larger part of the day, yet they are given small withdrawals which can not suffice buying some of the products of the informal sector.

One female entrepreneur said " *We have been affected by this cash crisis and business has gone down by more than 50% (from January 2017 to July 2017) because our suppliers want hard cash. The use of other alternatives such as money transfers (real time gross settlement), mobile money e.g. Eco cash or swiping, are very expensive and being resisted by our suppliers. This is giving us a gloomy picture about our survival*"

V. Conclusions

Most informal sector players (entrepreneurs') seemed to be content with their business status quo and survival means of "living from hand to mouth" as they try to make "ends meet" in a very harsh economic environment. although "ceteris paribus" they would like to transform their way of doing business. They lack leadership credentials or stamina to transform their businesses to become more organized and competitive. There is need to reinvigorate a spirited leadership culture.

Recommendations

1. **Transformational leadership** should help the informal sector to inculcate a sense of creativity and innovativeness in order to bring a new business oriented culture.
2. **Multi-sectoral collaboration and networking**
A holistic approach by all key stakeholders to transform the informal sector is required. There is need to encompass key stakeholders so that they come together and partner the informal sector on various aspects that should improve their businesses' growth and regularisation. These should be; the government,

financial institutions, local authority, (Harare municipality), the donor community, training organizations (consultancy firms) and business community (industry and commerce).

3. Training

Is needed for attainment of business acumen skills that should address the shortcomings of the informal sector entrepreneurs' indicated on 5.1 above. Training should cover especially the following areas; communication, leadership styles, motivation, decision making, team work, records management, Information technology (computer training from basics), employment contracts and other aspects of labour relations to improve workplace democracy.

4. Regularization of the sector

Government should facilitate the formalization of the Informal sector by harmonizing some of the requirements required for proper business (company) registration since the sector has the potential to contribute even more to the economy. This can include provision of properly designated industrial stands and also putting in place proper health and sanitation facilities.

5. Compulsory Entrepreneurship curriculum from primary school

Introduction of Entrepreneurship as a course from primary school and intensifying its application and relevance at tertiary level, should form the backbone of a business culture centered on innovation and risk taking from a tender age.

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