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Responding to the Global Economic Crisis: the engineering manufacturing sector in KwaZulu-Natal, South Africa

Kezia Fitzsimmonds and Charles O'Neill

University of KwaZulu-Natal, South Africa

Abstract

As the GEC is not only a threat to the economic well-being of the global economy as a whole, but to every government, business and individual, solutions will have to be found to address it. While this article will not attempt to address the impact of the GEC on all industries as it would be both unrealistic and too superficial, it shall attempt to investigate how an industry that has been severely affected by the GEC in a specific country and province has dealt with the challenges posed by the GEC. In order to address these objectives, a literature review on the nature and development of the GEC will initially be conducted in order to find a theoretical base for the empirical research that will be discussed in the research methodology section. The findings will then be analysed, followed by the summary, discussion of the limitations of the research and the recommendations for further research.

Keywords: Global economic crisis (GEC), engineering manufacturing sector (EMS), small and medium-sized enterprises (SMEs), strategic planning and competitive advantage

1. INTRODUCTION

It was just a matter of time before the initial global financial crisis of 2008 became a fully-fledged global economic crisis. This escalation from a global financial crisis to a global economic crisis (GEC) was to be expected as the factors of production and the global market are so inter-related that this escalation could not be halted. DiPiazza(2009,p.9) stated the quick spreading of the global economic crisis from the United States where it originated the rest of the world may be attributed to the fact that the world's economies are so inextricably linked. Although history tends to repeat itself and as such creates a frame of reference for future generations when an event recurs, the current GEC was characterized by unique elements compared to previous economic crises. This made it very difficult for governments and businesses to find tested ways to address the problem. Each government, branch of industry or business had to find its own solutions often based on an inward-looking approach to identify actions that successfully helped to address aspects similar to elements of the total GEC in the past, rather than try to find the hereto non-existent ready-made solution to the entire GEC in the external environment.

Whether these efforts to increase the chances of sustainability will be successful or partly successful will be relative to both the strategies implemented and the issues or problems addressed.

The objectives of the article are:

- * to determine whether the engineering manufacturing sector has been effected by the GEC
- * to determine what types of strategies are available to address the effect of the GEC in the engineering manufacturing sector
- * to determine whether small and medium-sized enterprises (SME's) in this sector have any strategies available to survive and grow in the GEC
- * to determine whether the engineering manufacturing sector in KwaZulu- Natal has succeeded to find appropriate strategies to address the GEC

2. LITERATURE REVIEW

a) The nature and development of the GEC

The global economic crisis originated in the United States of America and was caused by a number of factors. “According to economists, the actual financial problems began in the 1980s when, under political pressure from the banking industry, the Reagan administration and congress stopped regulating American financial institutions” (Enterprise Risk, 2008, p.24). Kiptoo (2009, p.14) identifies the major cause of the global economic crisis as being the utilization of free market financial instruments that are, for the most part, unregulated. These typically consist of subprime lending, credit default swaps and other complicated derivative instruments.

Balchin (2009, p.12) states that world trade growth fell to just 4 percent in 2008, and he argues that this was triggered by the absolute decline in demand resulting from the economic crisis, together with the corresponding declines in manufacturing and industrial production, trade credit financing problems and low consumer confidence. At that time, the International Monetary Fund voiced their fears that 2009 may be the worst year for the industrial economies since the great depression during World War II (DiPiazza, 2009, p.8). Balchin (2009, p.12) agrees with this stating that “world growth in 2009 [was] expected to decline to its lowest rate in 60 years” as a result of the current global financial crisis.

It was first believed that the economic crisis would not impact emerging or developing markets, particularly those in Africa. However, as DiPiazza (2009, p.9) points out, these economies are just as linked to the world markets as other more established markets. As a result of the interconnected relationship of the emerging markets with the world markets, it is evident that they will not continue to boom. Although many commentators argued that the impact of the economic crisis would be less for emerging markets it is apparent that these markets have been impacted on. . Balchin (2009, p.12) points out that the effects of the financial insecurity and uncertainty in industrialized nations resulting from the global economic crisis are beginning to have an impact on the developing world.

Each country will be affected by the global economic crisis in different ways. Balchin (2009, p.12) argues that the impact of the crisis is expected to differ across African countries and that the

ramifications of the crisis are dependent on the individual country's contact with the international financial system, the country's production and export structure, and their ability to use policy tools to lessen its undesirable effects. This means that the implications of the economic crisis on African countries may be minimized by the countries' contact with the global economy or by their limited dealings with the global economy. Balchin (2009, p.12) states in general terms that the immediate effects of the global economic crisis on numerous African countries are likely to be alleviated by the reality that the majority of the countries in Africa are considered to be somewhat separate from the global financial system. This does not mean that African countries will experience no negative effects as a result of the economic crisis. Any negative effects of the crisis may merely take longer to reach the African continent. Wiemar (2008, p.8) argues that South Africa is continuing to maintain its economic growth despite the global slowdown that it is now facing. However, this statement was made prior to the full extent of the global economic crisis reaching the continent and the full effects had yet to be felt.

Kiptoo (2009, p.16) agrees with Balchin, stating that the effects of the global economic crisis will differ between countries. This is to say that not all countries will be affected by the crisis in the same way. Some countries may be more harshly affected than others and the implications of the crisis may vary between countries.

A financial crisis occurs when the money supply is unable to meet the demand for money (Business Dictionary.com, 2010, paragraph 1). This leads to persons and businesses withdrawing their available funds from the bank so as to guarantee their individual cash flow. This causes banks to find other ways of increasing the supply of money to make up for their decreased liquidity. Even and Feldman (2009, p.181) argue that financial crises arise as a result of a breakdown in the operation of the financial system and that this is marked by "a slowdown in the flow of money".

An economic crisis occurs as a result of a financial crisis causing the economy of a country to experience an unexpected downturn (Business Dictionary.com, 2010, paragraph 1). Even and Feldman (2009, p.181) agree with this, stating that an economic crisis develops in the wake of a financial crisis. The symptoms of an economic crisis include declining GDP, decreased liquidity, and increases or decreases in the prices of goods as a result of inflation or deflation. An economic crisis can take the form of a recession or depression (Business Dictionary.com, 2010, paragraph 1).

Calitz (2009, p.3) notes that as a result of the fact that economic performance is measured with a time delay, it is often possible that a country can be in a recession without being aware that this is the case.

DiPiazza (2009, p.8) states that the crisis began as a global financial crisis but it has now evolved into global economic deceleration. This global crisis should thus be considered to be a global economic crisis as it developed in the wake of a financial crisis. De Rato (2007, p.8) concurs, stating that a problem that started off as a financial credit-related problem has developed into a crisis with economic impacts. The global crisis can thus be said to have evolved into more than a disparity between the supply of money and the demand for money; in fact the implications of the crisis are so vast that it is impossible to determine what all of the consequences of the global economic crisis will be.

In an attempt to overcome the problems originating from the complex nature of the US banking system, Calitz (2009, p.3) states that the US government formulated a new system whereby they

created two mortgage institutions that were able to issue housing bonds to persons in the United States and thereby acted as a nationwide financing instrument. Bonds issued by these two mortgage institutions were referred to as mortgage-backed securities (MBS) (Calitz, 2009, p.3). In other words, the government guaranteed these loans. This meant that the United States government would pay off any loans that were defaulted on. The two new mortgage institutions acted as intermediaries between those parties that had surplus funds and those that did not have enough funds and needed to borrow more; this was referred to as “securitisation of housing loans” (Calitz, 2009, p.3).

Calitz (2009, p.3) states that a market was created in which the “distance between the *de facto* lender and the underlying assets grew bigger and bigger, but the link with the home-owner and his/her ability to service the loan was not severed”. The ability of the person who was responsible for lending funds, through these two new mortgage institutions, to repay the loans was not taken into account in this market. As a result of the fact that their ability to repay the loan was not considered when a person applied for a loan, loans were given to persons that were unable to afford the repayments. This resulted in an increasing number of defaults on the repayment of loans. Kiptoo (2009, p.15) states that this ultimately caused the sub-prime mortgage crisis to develop into a financial crisis, in which banks and other financial institutions were unable to meet their financial obligations resulting from their declining liquidity and cash flow.

Calitz (2009, p.3) states that in conjunction with this, an equivalent private mortgage-backed securities market was created; however, these mortgage backed securities were not government guaranteed. Private financial institutions protected themselves against the risk of lenders defaulting on their payments by taking out private insurance. These private financial institutions and their insurers thus also became involved in the creation of the global economic crisis.

Calitz (2009, p.3) identifies three major developments that allowed these housing finance practices in the United States to expand into the current global economic crisis. The first problem was that loans were extended to high-risk borrowers (Calitz, 2009, p.4). These high-risk borrowers suffered from low job and income security. Calitz (2009, p.4) states that these loans were extended to persons who were deemed to be high-risk borrowers as a result of governmental attempts to promote home ownership in the lower income groups of American society. These high-risk borrowers are the subprime clients referred to earlier.

The second problem that led to the global economic recession was the lenient monetary policy in the United States post 2000. The US government attempted to use this lenient monetary policy to counteract the effects of the recession in 2000 and to boost confidence in the market after September 11 2001 (Calitz, 2009, p.4). Calitz (2009, p.4) states that the American government later failed to tighten the monetary policy when inflationary pressure in the country increased and it was required. As a result of this, and the increasing amount of defaults in bond repayments, the balance sheets of banks and other financial institutions suffered.

Calitz (2009, p.4) states that the third development that ultimately led to the contamination of the global economy were the financial innovations, in the form of derivatives, that were created on the back of mortgage-backed securities. These were distributed globally through integrated financial markets. Basically, banks redistributed and reclassified mortgage loans into “derived financial instruments with different risk profiles” and sold them to investors all over the world. “This involved leveraging billions of dollars of debt to purchase companies and created hundreds

of billions of dollars in wealth by simply shuffling paper, but not creating anything of value!” (Kiptoo, 2009, p.14). Investors later realised that these were worthless, as their worth was reliant on the ability of low-income households in the US to service their bonds and these were more and more frequently being defaulted on.

The global economic crisis that is now confronting the globe is unlike other crises that have occurred in the recent past. This crisis did not originate in a developing market rather, it originated in one of the most powerful economies in the world, in America. As a result of the inextricably linked global financial markets, the economic crisis quickly spread to all corners of the globe and many countries have been thrown into a recession (Fitzsommonds,2012,p.16).

b) Has the engineering manufacturing sector been affected by the GEC ?

Blake (2008, p.23) states that the current global crisis would impact all sectors of the economy. The engineering manufacturing sector is no exception. In order to determine what the impact of the global economic crisis on the engineering manufacturing sector in South Africa is, it is first important to define what is meant by the term the engineering manufacturing sector.

Defining the Engineering Manufacturing Sector

The engineering manufacturing sector is an extremely large sector that could include a wide array of organisations. For this reason, the Standard Industry Classification (SIC) codes will be used to define the parts of the engineering manufacturing sector that form the focal point of this study.

SIC codes are numerical codes designed by the United States government in order to create standardized descriptions of business establishments (Cipro, 2010, paragraph 1). These codes are used the world over. Each number in the SIC code is representative of something. The first number refers to a major economic division, for example manufacturing. The second number refers to a major economic group, for example crop production. The third number refers to the industry group, such as grains and fruits. The fourth number fine tunes the hierarchical structure into a specific industry.

This study has chosen to focus on the types of organisations as defined by their Standard Industry Classification (SIC) codes listed in Table 2-1 below.

Table 1 Standard Industry Classification (SIC) Codes of Respondents

SIC CODE	DESCRIPTION
3565	MANUFACTURE OF LIFTING AND HANDLING EQUIPMENT
3569	MANUFACTURE OF OTHER GENERAL PURPOSE MACHINERY
357	MANUFACTURE OF SPECIAL PURPOSE MACHINERY
3571	MANUFACTURE OF AGRICULTURAL AND FORESTRY MACHINERY
3574	MANUFACTURE OF MACHINERY FOR MINING, QUARRYING AND CONSTRUCTION
3537	MANUFACTURING OF INDUSTRIAL TRUCKS TRACTORS AND TRAILERS AND STACKERS

The Impact of the Global Economic Crisis on the Engineering Manufacturing Sector in South Africa

Now that the engineering manufacturing sector has been sufficiently defined and narrowed down to suit the purposes of this study, the impacts of the global economic crisis on the engineering manufacturing sector in South Africa can be looked at.

The majority of countries across the globe have been affected to some extent by the global economic crisis. South Africa has been no exception. Similarly, all sectors have been affected by the global economic crisis. This study has chosen to focus on the engineering manufacturing sector in South Africa in order to resolve the identified research problems.

The engineering manufacturing sector has been one of the hardest hit sectors and has been haemorrhaging jobs since the global economic crisis hit South African shores (Buhlungu and Mtyingizana, 2009, p.25). The massive loss of jobs is an indicator of the extent of the impact that the global economic crisis has had on the engineering manufacturing sector in South Africa so far. The number of jobs lost in the engineering manufacturing sector is alarming, with 9 000 of the 49 000 thousand people who lost jobs in KwaZulu-Natal in the last quarter of 2009 from in the manufacturing sector (Harrilall, 2010).

The Bureau for Economic Research and the University of Stellenbosch (2009, p.1) outline the performance of the manufacturing sector in the fourth quarter of 2009. In their executive summary, they identify and discuss a number of areas that have been impacted by the global economic crisis. These affected areas are mentioned briefly below.

Business conditions and confidence in the South African engineering manufacturing sector suffered a knock during the fourth quarter of 2009; however, 19% of producers expect business conditions to improve in a year's time. Domestic demand for manufacturers goods increased, albeit slightly, and the prices of goods were put under pressure to decrease by local consumers. Exports continued to decline however. Production volumes also continued to decline as a result of declining numbers of employees and export demand. The rate of increase in costs per unit increased for the first time since the start of the global economic crisis.

c) Strategic options available to the EMS and SMEs to address the GEC

It should be emphasised that the current global economic crisis is so unique that businesses may find it extremely difficult to find an appropriate strategy on how to address it. It is, however that the EMS and especially the SME's within this sector find a way to address the GEC. This research will take the approach that developing an appropriate strategy is one of the best ways to address the GEC. In this regard, Thompson *et al* (2006, p.2) stated, "Without a strategy the organisation is like a ship without a rudder". Strategy provides an organisation with direction, it steers the organisation in the 'right' direction. A well thought-out and clearly defined strategy provides the management of an organisation with direction. Strategy provides an organisation with a clearly laid plan describing how to obtain the long-term goals and objectives of the firm. Without this guidance the organisation will have no direction and it is more than likely that it will fail. The quality of an organisations strategy determines how likely an organisation is to succeed and how well it will succeed.

Ehlers and Lazenby (2004, p.2) define strategy as a premeditated action or series of actions that a business takes in order to best compete with its competitors (Ehlers and Lazenby, 2004, p.2). According to this definition, strategy is intentional, it is something that is thought out and planned. Strategy is depicted as an act or deed, something that is performed.

Thompson *et al* (2006, p.3) describe a company's strategy as "management's game plan for growing the business, staking out a market position, attracting and pleasing customers, competing successfully, conducting operations, and achieving targeted objectives". In terms of the aforementioned definitions, it may be determined that strategy is a deliberate plan for action that will result in positive outcomes for the organisation. These positive outcomes include attracting and pleasing customers in order to earn profitable benefits. Thus an organisation employing a successful strategy can expect an inflow of money as a result of pleasing these customers. This definition though not exactly the same as Ehlers and Lazenby's has similar traits. For one, both definitions describe strategy as something deliberate. However these definitions do differ, Ehlers and Lazenby describe strategy as an action whereas Thompson *et al* describe strategy as a plan for action and where Ehlers and Lazenby state that strategy is used merely to best its competitors, Thompson *et al* describe strategy as a tool used to achieve a number of goals or positive outcomes.

The above definitions refer to the planned aspect of strategy. McGee *et al* (2005, p.6) on the other hand argues that definitions of strategy as a “plan or something equivalent...fails to recognize strategy as an emergent process, which is best seen as a pattern in a stream of decisions”. Louw and Venter (2006, p.12) concur with McGee with the view that strategy is not merely a plan. McGee *et al* (2005, p.6) theorizes strategy in terms of strategic intent, which they describe as supplying a comprehensive strategic direction. McGee portrays strategic intent as being concerned with winning in a competitive game.

The most common definition of strategy may be credited to Alfred D. Chandler (1963 cited in McGee *et al*, 2005, p.7) who explains strategy as the determination of ways and setting aside of resources to achieve predetermined long-term goals and objectives.

Strategic models that the EMS could consider are for example:

- SWOT analysis as starting point for strategy formulation for the specific internal analysis of the business (McGee et al (2005,p.10)
- PEST analysis to evaluate the external environment and determine how the political, economic, socio-cultural and technological forces may affect the business (McGee et al, 2005, p.13)
- Porter’s five forces model that considers competition (Porter,1998,p.21)
- The Boston Consulting Group Matrix that considers market growth and relative market share of business units (Kotler,1997,p.72)
- The General Electric Model that is used to plot the business strength and market attractiveness of business units within an organisation (Thompson et al, 2006,p.214)
- The industry life cycle model that refers to the industry as a whole (McGee et al, 2005,p.292)
- The product life cycle model that refers to the life cycle of one product offering of an organisation (McGee et al, 2005,p.292)
- Pursuing competitive advantage through striving to be a low cost provider, differentiation, niche marketing and experience and resource strengths (McGee et al, 2005,p.201; Ehlers and Lazenby, 2004,p.100; Nieman and Nieuwenhuizen, 2009,p.292; Thompson et al,2006,p.4)

The question remains whether the strategies of EMS in KZN followed any of the above-mentioned strategies or any strategy at all in response to the GEC. That will be addressed in the empirical section that is dealt with next.

3. RESEARCH METHODOLOGY

The literature review posed the question whether the engineering manufacturing sector in KZN followed theoretical models or options to respond to the GEC. As a result, the following research problems were formulated:

Research problem

To determine the extent to which strategies in the engineering manufacturing sector in KwaZulu-Natal have been affected and needed to be specifically adapted to survive and grow beyond the GEC.

Nature of the Research

The research was both quantitative and qualitative in nature. The quantitative research method in the form of a predesigned questionnaire was used to obtain primary data from respondents while open spaces after each question on the same questionnaire was used to obtain qualitative answers from respondents with regard to their opinions and explanations.

Sample Frame

The sample frame consisted of all organisations in the engineering manufacturing sector in KwaZulu-Natal that conformed to the previously provided Standard Industrial Classification Codes (SIC).

Sampling Method

A convenience sample of 30 organisations within the EMS was selected as possible respondents. A minimum response of twenty organisations was aimed for.

Limitations of Sampling Techniques

Ideally a representative sample of the population should have been randomly selected in order to extrapolate the findings to the total population. As a convenience sample was chosen, this cannot be done.

Questionnaire design

The questionnaire was based on the literature survey and consisted of four sections, namely:

- A. Biographical details
- B. Operating history
- C. The organisation and the crisis
- D. The organisation and the strategy

Capturing of data

The capturing of data had two dimensions, namely the use of secondary sources as presented in the literature review and primary data collected from the thirty organisations within the EMS sector.

Analysis of findings

Primary data was recorded on Excel. This data was then statistically analysed as to transform the data onto numbers and figures in terms of the data they represent. Questions in the questionnaire were pre-coded in order to facilitate recoding and open-ended questions were categorised and post-coded.

Validity and Reliability

Face validity and content validity were considered. Face validity relates to whether the whether

the study will be of value and measures at face value whether the research project is representative (Shuttleworth, 2009, par.10).Content validity is apparent when the research covers every possible aspect that should be included (Cherry, 2010,par1).

Reliability that refers to the ability of the research to produce consistent results over time was tested by the use of Cronbach’s Alpha.

4. FINDINGS

Section A: Biographical Details (Add more)(p.83-86)

Table 2 Summary of the Biographical Details of Respondents

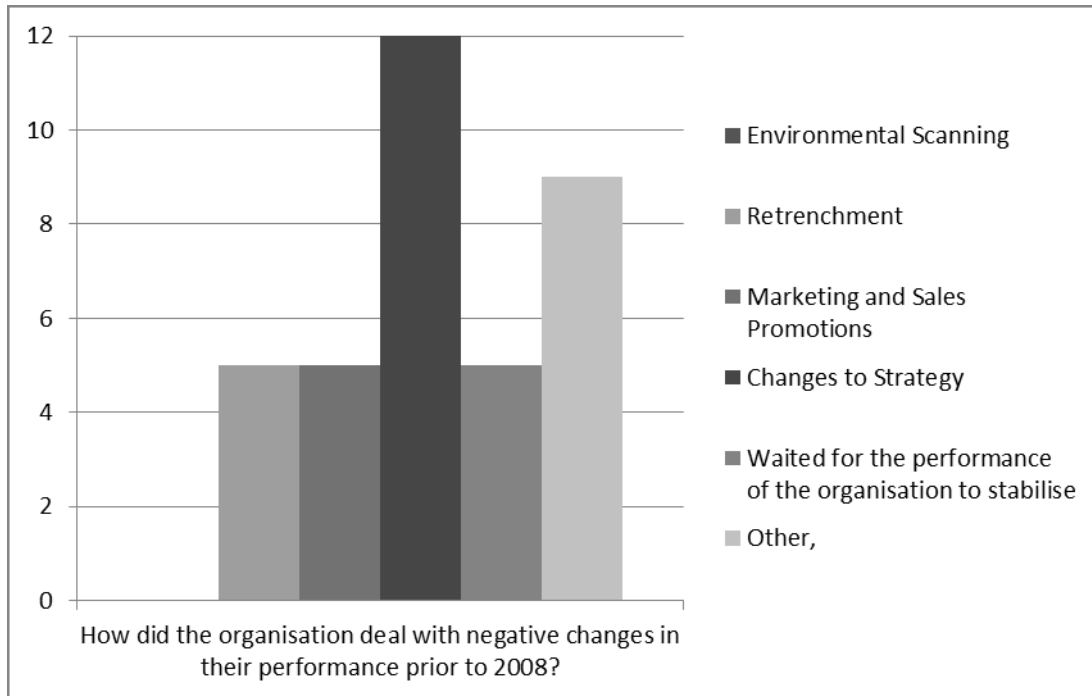
	KZN	SA	Africa	UK	EU
Area of Operation	22	12	8	5	1
	Durban	Pietermaritzburg	Richards Bay		
Location of Office	10	5	7		
	<10 employees	<50 employees	<100 employees	<500 employees	>500 employees
Size of Organisation	3	8	4	5	2
	5-10 years	10-20 years	20-50 years	>50 years	
Age of Organisation	9	6	5	2	

Table 3 Standard Industry Classification Codes of Respondents

SIC Code	Description	Number of Respondents
3565	Manufacture of Lifting and Handling Equipment	3
3569	Manufacture of Other General Purpose Machinery	10
357	Manufacture of Special Purpose Machinery	7
3571	Manufacture of Agricultural and Forestry Machinery	1
3574	Manufacture of Machinery for Mining, Quarrying and Construction	2
3537	Manufacture of Industrial Trucks, Tractors and Trailers and Stackers	1

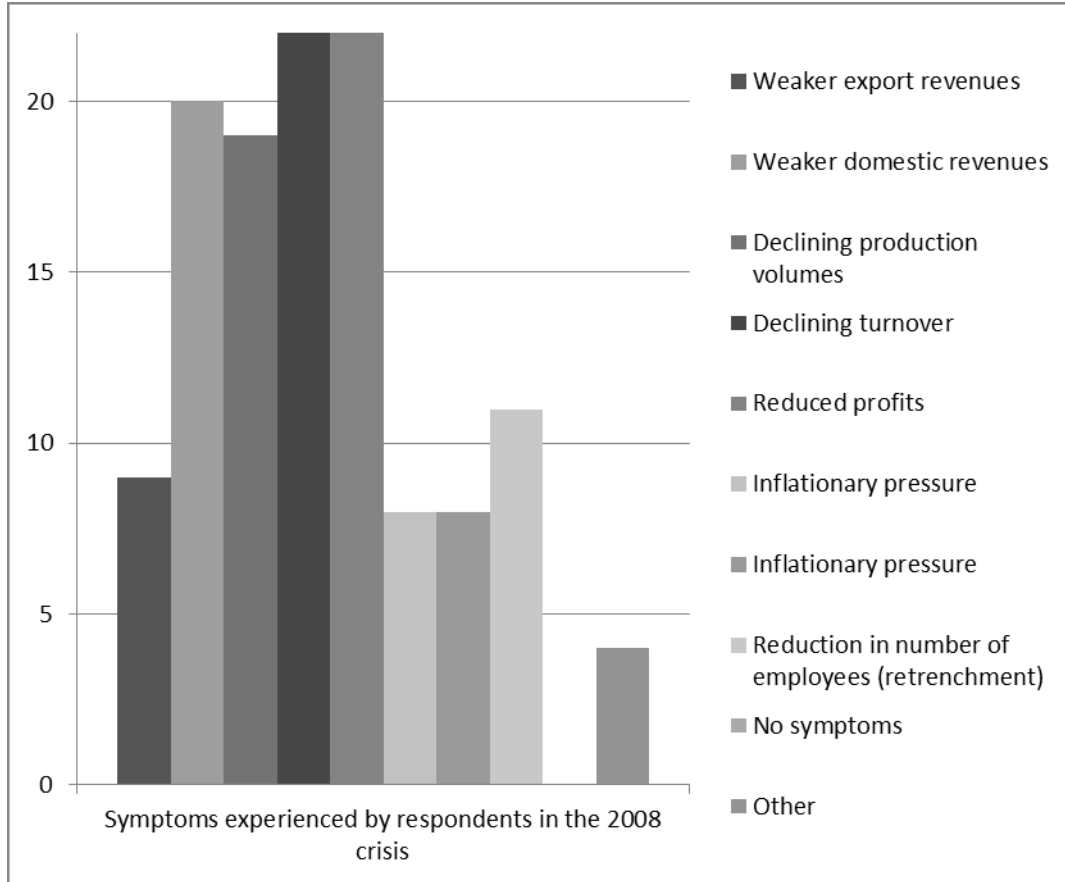
Section B: Operating history

Figure 1 How did the organisations deal with negative changes in their performance prior to 2008?



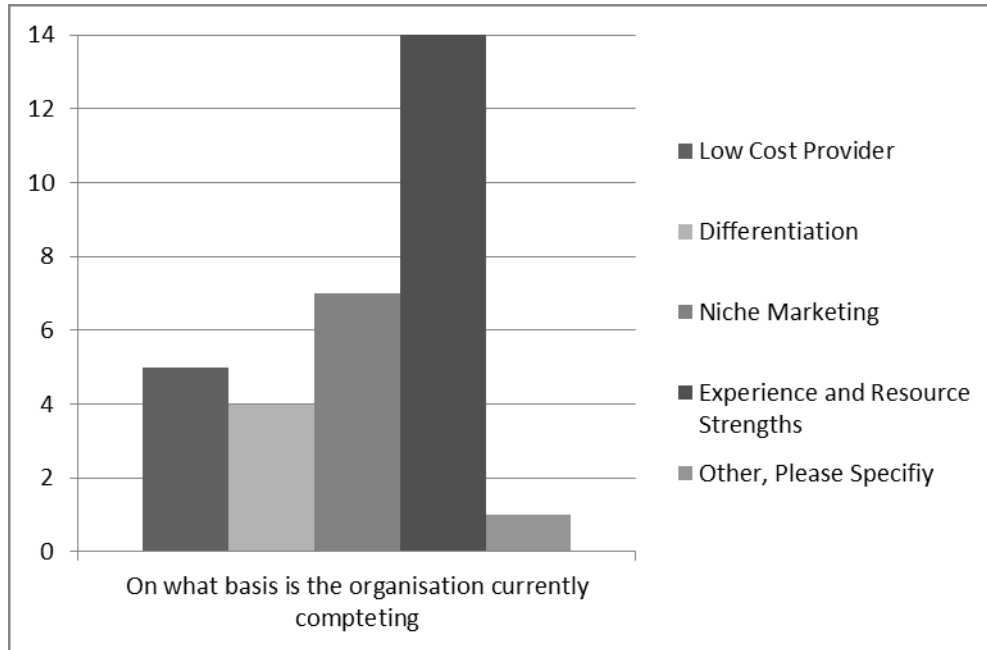
Section C:

Figure 2 Symptoms experienced by respondents in the 2008 crisis



Section D: The Organisation and strategy

Figure 3 On what basis is the organisation currently competing?



Summary of empirical findings and comparison with literature review

The findings of the study determined that:

- There is a global crisis;
- The crisis is economic in nature;
- The engineering manufacturing crisis has been effected by the crisis;
- The global economic crisis has impacted negatively on the engineering sector;
- Strategies had to be specifically adapted as a result of the crisis.

The crisis that originated in the United States has led to a domino effect in which organisations the world over have been left reeling in the face of the crisis. South Africa has been no exception and all twenty-two questionnaire respondents admitted to experiencing symptoms that may be linked to the crisis. It may thus be stated that **there is a global crisis**.

A financial crisis occurs when the money supply is unable to meet the demand for money. An economic crisis, on the other hand, stems from and often evolves in the wake of a financial crisis, thereby resulting in an unexpected economic downturn. The current 2008 crisis has far wider repercussions than the money supply not meeting the demand for money. The identification by respondents of symptoms such as weaker domestic revenues, declining production volumes, declining turnover, reduced profits, inflationary pressure, and retrenchments are testament to this. The current crisis may thus be described as a **global economic crisis**.

Buhlungu and Mtyingizana (2009, p.25) described the engineering manufacturing sector as being one of the hardest hit sectors since the global economic crisis hit South African shores. When asked whether or not they agreed with this statement, seventeen out of the twenty-two respondents stated that they found this statement to be accurate.

The engineering manufacturing sector has been haemorrhaging jobs since the effects of the crisis were first felt in South Africa. This along with other impacts cited by the Bureau for Economic Research and the University of Stellenbosch (2009, p.1) such as declining exports, declining production volumes, and declining business confidence are all symptoms of the crisis. Respondents confirmed the presence of the crisis in South Africa by identifying weaker domestic revenues, declining production volumes, declining turnover, and reduced profits as some of the more prominent symptoms being experienced locally. From the literature, as well as from this primary data, it can be concluded that the engineering manufacturing sector has been affected by the crisis. As all of the symptoms of the crisis cited in the literature and identified by the respondents have been of a detrimental nature, it can be said that the **global economic crisis has negatively impacted on the engineering manufacturing sector.**

Fourteen of twenty-two respondents to the questionnaire view the global economic crisis as a threat to their current business operations. This perception by respondents is indicative of the negative nature of the impact of the crisis. No respondents indicated a view of the crisis as an opportunity or identified any positive impacts of the crisis to their respective organisations.

The presence of the economic crisis in KwaZulu-Natal is an undeniable fact. All twenty-two respondents testified to their being negatively impacted by the crisis. As such, it may be reasoned that most, if not all organisations country-wide have already been impacted by the crisis. Organisations that have as yet endured and remained unaffected are unlikely to remain so for very long.

An organisation, like the environment that it operates in, is not stagnant. . The circumstances of the organisation are constantly changing and it is for this reason that the strategies of an organisation must periodically be revisited and revised. Strategy needs to remain current if it is to be effective. In order to achieve this, it is essential that organisations continuously evaluate not only their circumstances, but also their strategy in order that the two remain married.

Nineteen respondents stated that they currently have a strategy in place. The effectiveness of their strategy is periodically evaluated using a variety of techniques. Most respondents analyse the effectiveness of their strategies monthly, with more in-depth analysis being done once a year. Respondents stated that they are currently using several techniques to determine the effectiveness of their strategy. These include: profitability analysis; assessment of turnover; and whether the targets and goals of the organisation are being met.

It is a positive sign that the majority of respondents do have a strategy in place. However, very few of the nineteen respondents that do have a strategy in place are making use of any models to optimise their strategy. This includes the models to optimise strategy identified earlier, but is not limited to these. Five respondents make use of SWOT analysis, a mere three respondents make use of PEST analysis and no organisations make use of either Porters Five Forces model, the BCG Matrix, the General Electric Model, the Life Cycle Model, or any other model not specified by the questionnaire.

Seventeen respondents altered their strategy in some way to allow for their changing circumstances resulting from the global economic crisis. Accordingly, it may be stated that strategies had to be specifically adapted as a result of the crisis. However, it remains unclear as to how the respondents are determining in what way to alter or better their strategies as few respondents make use of the available models to optimise strategy.

Strategies were altered to include increased marketing, reduced profit margins, reduced stock holding, and tighter debtors' control. This allowed for extended repayment plans, though these had to be carefully monitored.

Organisations are able to increase their chances of attaining success in the market place by having a sustainable competitive advantage. A clearly defined strategy is the best means of attaining a sustainable competitive advantage. Ehlers and Lazenby (2004, p.2) identify three strategic options available to organisations trying to achieve such an advantage over their competitors. These are: Low Cost Provider; Differentiation; and Niche Marketing. Another strategic option identified by Thompson *et al* (2006, p.4) is the development of "expertise and resource strengths that give the company competitive capabilities that rivals can't easily imitate or trump with capabilities of their own".

Five respondents indicated that they are currently competing on the basis of being a low cost provider. Low cost providers aim to sell their products and/or services at the lowest possible price. This is only possible if the organisation is number one or two in the market in which they are competing. This strategy relies on the ability of an organisation to produce their products more efficiently than their competitors and thereby sell their products at a price that their competitors are unable to meet or beat.

This strategic option is not easily able to be adapted for organisations to use in times of economic turmoil. It is best suited to organisations that are already well established as leaders in their current market when a crisis hits. Organisations employing this strategy must then rely on the buying power that they already have to ensure their continued low costs of production. These organisations must also continue to rely on the expertise and resource strengths that they have gained to see them through any periods of economic turmoil. Specials and reduced prices may be employed by organisations not making use of the low cost provider strategic option in times of crisis as a means of attracting new customers and seeing the organisation through a difficult time. However, this is not sustainable and should only be seen as a short term measure to maintain cash flow.

Four respondents indicated that they are currently competing on the basis of differentiation. Differentiation relies on the ability of an organisation to make their products and/or services appear to be different to those of their competitors. It is essential that the organisation do this in ways that its customers perceive as having value in order that they are willing to pay a premium.

This strategic option is then also not easily able to be adapted for organisations taking strain in dire economic circumstances. It is suited to organisations that are established and respected in the marketplace. These organisations must rely on the superior value that they are perceived to offer and exploit their strong brand image to maintain and grow their loyal customer base. Differentiation may be developed during periods of crisis in order that an organisation may benefit from increased support whilst trying to overcome the uncertain economic climate. Although it would not help to protect an organisation at the time, if this strategic technique was not in place prior to the onslaught of the crisis, it would benefit the organisation in any similar

future circumstances. Seven respondents indicated that they are currently competing on the basis of niche marketing. Niche marketing occurs when an organisation narrows their target market to service the special requirements or preferences of their consumer base. In this way, the organisation is able to achieve a competitive advantage over their rivals by producing a product or offering a service that is more in line with their customers' needs and therefore more desirable to the customer. As a consequence, the organisation is able to charge a premium that is acceptable to their customers.

Niche marketing is not able to be easily adapted by a large organisation that was not making use of this strategy prior to the onslaught of a crisis. This is due to the fact that large organisations not employing niche marketing often make use of production lines to issue highly standardised products. It is thus unlikely that they would be able to easily alter their production techniques to focus on more specialised products that cater to the needs of individual customers. This strategic option would be more easily available for adaptation by small organisations that do not issue large amounts of standardised products. These smaller organisations would more easily be able to tailor their products or services to a changing customer base in economically uncertain times. One respondent who is currently competing on the basis of niche marketing is a two-man operation that upon being confronted by the dire circumstances faced by the organisation in the light of the current economic crisis, took on new customers with smaller more specific needs as a means of seeing the organisation through the difficult times. Although the organisation suffered from decreasing turnover during this period, taking on new customers meant that the organisation did not have to close their doors.

Fourteen respondents stated that they are currently competing on the basis of expertise and resource strengths. This technique involves developing competencies and resources that make it difficult for rival organisations to duplicate or better them with their own capabilities.

Though organisations are unable to adapt this strategy to better equip them to deal with an uncertain economic climate, it is in and of itself the best strategic option available to firms to deal with changing economic conditions. Experience teaches the organisation invaluable lessons that they might rely on time and time again. The organisation may thus employ the expertise that they have gained through their experience in similar economic circumstances to their best advantage and make use of this experience to see them through any difficulties that they are currently facing. The same is true for future crises that they may be confronted with, as any experience that the organisation gains through the current crisis will be of use to them in the future.

As previously stated, it is essential that an organisation adapt their strategy to meet their changing circumstances. As can be seen from the four strategic options available to organisations listed previously, it is not always possible to merely switch from one strategic option to another. Rather, it is best that organisations select one of the aforementioned strategies and then tailor this to their specific requirements. In this way, the organisation can match their specific circumstances and strengths to their specific needs.

Once an organisation has attained a competitive advantage over its competitors, it is important that the organisation maintain that competitive advantage in order that they may maintain or improve on their performance. As the environment of an organisation is dynamic, the organisation must ensure that their strategy remains dynamic also. The organisation must thus strive to constantly improve upon their current strategy as well as their business practices where possible.

When asked how they intended to maintain any competitive advantage that they may already have over their competitors, respondents provided responses such as: “supplying a reasonable product at a reasonable price”; “marketing”; and, “maintaining and developing relationships with customers”. These responses tended to be rather standardised as many respondents repeated the same catch phrases. None of the respondents implied that they would be making use of any unique methods or approaches to maintain a sustainable competitive advantage.

5. CONCLUSION

The objectives of the research as stated in the Introduction, have been achieved as it has been determined that:

- The EMS sector has been effected by the GEC;
- Although different strategies are available to address the effect of the GEC in the EMS sector, the majority of respondents designed their own survival strategies mainly based upon strategies that worked in the past. This finding was interesting but not surprising as the current GEC is unique with little known remedies. It is concerning though that it is possible that the wrong strategies may be pursued as they stem from different historical situations.
- SME’s tended to follow success recipes they used in the past and not the strategies suggested in textbooks although there was a strong tendency to use some of Porter’s determinants of competitive advantage and
- Considering the fact that respondents have managed to survive the first 3 years of the GEC, it appears as though their strategies have been reasonably successful.

Limitations

As pointed out in the research methodology, the sample was not representative of the total EMS population in KwaZulu-Natal. The findings can therefore not be generalised.

Suggestions for further research

A follow-up study of the respondents should be undertaken 3 years down the line to find out whether they have survived and perhaps developed strategies to improve their businesses beyond survival.

A representative sample of the EMS sector in KwaZulu-Natal should be taken and compared to other provinces in South Africa and other countries as well.

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