

**A Report on Six Studies of Small,
Medium and Micro Enterprise
Developments in
Kwazulu-Natal and Northern Province,
South Africa**

Research Report
June 1998

Edited by Tom McEwan, University of Natal

Funded by
United States Agency for International Development
Bureau for Africa
Office of Sustainable Development
Washington, D.C. 20523-4600

The views and interpretations in this paper are those of the author(s)
and not necessarily of the affiliated institutions

Table of Contents

| | |
|--|-------------------|
| FOREWORD | <u>1</u> |
| ENHANCING ECONOMIC DEVELOPMENT BY FOSTERING BUSINESS LINKAGES BETWEEN THE PHARMACEUTICAL COMPANIES AND THE TRADITIONAL MEDICINES SECTOR | <u>9</u> |
| PROMOTING THE GROWTH OF MICRO AND SMALL ENTERPRISES THROUGH BUSINESS LINKAGES IN THE NORTHERN PROVINCE ... | <u>28</u> |
| BUSINESS LINKAGES INVOLVING SMMEs WITH UMGENI WATER AND HULETT ALUMINIUM IN KWAZULU-NATAL | <u>53</u> |
| LINKAGE PROMOTION IN SOUTH AFRICA: INSIGHTS FROM RESEARCH CONDUCTED IN DURBAN AND RICHARDS BAY: AN EXPLORATORY STUDY | <u>80</u> |
| THE ROLE OF BUSINESS LINKAGES IN RESTRUCTURING THE FOOTWEAR INDUSTRY IN THE GREATER PIETERMARITZBURG METROPOLITAN AREA | <u>128</u> |
| SMALL ENTERPRISE GROWTH THROUGH BUSINESS LINKAGES IN SOUTH AFRICA | <u>144</u> |

FOREWORD

Professor Tom McEwan
Professor Don Mead
University of Natal
Pietermaritzburg
November 1998

The six studies on Small, Medium and Micro Enterprise (SMME) Development: **1.** Enhancing Economic Development by Fostering Business Linkages between Pharmaceutical Companies and the Traditional Medicines Sector by E.C. Bbenkele, **2.** Promoting the Growth of Micro and Micro and Small Enterprises through Business Linkages in the Northern Province by C.L. Machete and F.D.K. Anim, **3.** Business Linkages Involving SMMEs with Umgeni Water and Hulett Aluminium in KwaZulu-Natal by T. McEwan, D.C. Mead and N.M. Ndlovu, **4.** Linkage Promotion in South Africa: Insights from Research Conducted in Durban and Richards Bay: An Exploratory Study by F.O. Skae, **5.** The Role of Business Linkages in Restructuring the Footwear Industry in the Greater Pietermaritzburg Metropolitan Area by B. Strydom, and **6.** Small Enterprise Growth through Business Linkages in South Africa by D.C. Mead were carried out between September 1997 and March 1998. Five of the studies were carried out in KwaZulu-Natal Province under an agreement between the University of Natal, Pietermaritzburg, the United States Agency for International Development, and Harvard University, through a sub-agreement with Michigan State University. The final study was arranged between the same American principals and the University of the North, Sovenga, Northern Province, in South Africa.

The choice of where to carry out these studies on SMME developments was not entirely accidental. The Northern Province, for example, was found to be the poorest of South Africa's nine provinces in the 1996 census with an average income of R17,900 (approximately US\$3,000) and 46 percent of its 4.9 million population unemployed, which is the second highest after Eastern Cape (49 percent) in South Africa.

Third in terms of high unemployment (with 39 percent), was KwaZulu-Natal Province, which has the largest population (8.4 million) of South Africa's 40.8 million population. The average income is barely R24,3000 (approximately US\$4,200), despite the large contribution made by the Durban Greater Metropolitan Area to the South African and Provincial economies. Because the principal source of investment in the past has come from South Africa's white population, large disparities still exist which distort average income calculations, according to the 1996 census. Among unemployed Africans, for example, the average income for women is R12,000 and R16,000 for men. This compares with an annual income for men of R30,000 and R20,000 for women across the whole working population in South Africa.

There are also daunting development backlogs in both provinces. For example, nearly one million people in KwaZulu-Natal have received no formal education, and a further 700,000 are classified as "functionally illiterate". A further half a million households live in traditional housing with no direct access to electricity or potable water supplies. (The Sunday Times Report, 25 October 1998, p.5). The Income Distribution for the province (Gini Coefficient) is 0.7 which indicates the same skewness as for the rest of South Africa, compared with an

ideal coefficient zero. However, the Human Development Index for the province, which measures life expectancy, income and literacy rate, etc., was 0.59 when data was last collected in 1991, compared with 0.69 for the rest of South Africa and an ideal index of 1. (Source: Industrial Development Report on the Pietermaritzburg Spacial Development Initiative, 1997).

Northern Province is the least urbanized province in South Africa and 90 percent of its population still live in traditional housing or shacks in the rural areas on the outskirts of towns. It also has the highest proportion of women (54 percent of the population) compared with 52 percent across South Africa. The highest population of uneducated or “functionally illiterate” people live in this province, and over 60 percent of households still use wood for cooking and heating purposes.

As if high unemployment, illiteracy and restricted rural development are not burdens enough for any province to have to carry in the New South Africa, KwaZulu-Natal and Northern Province have also still to come to terms with the added problems of HIV/AIDS and, in the case of KwaZulu-Natal, politically-motivated crime and violence.

Accurate data on HIV/AIDS infection is hard to come by, notwithstanding the commendable efforts of specialists and other experts in the field, because the full extent of the problem only attracted full media attention in South Africa earlier this year when the Deputy-President, Thabo Mbeki, made an eloquent plea for more sympathetic understanding of those infected, and also called for rapid action plans of contain the spread of this pandemic. If forecasts are accepted, they make chilling reading as 53 percent of the beds in the University of Natal’s Medical School hospital are already occupied by HIV/AIDS patients. Over one in four people in KwaZulu-Natal is probably HIV/AIDS positive and, nationally, South Africa is already planning to cope with an estimated two million orphans, or abandoned children, as well as one-third of all women attending ante-natal clinic being infected with HIV/AIDS, over the next 10-15 years.

It would be out of place to comment much further here about a subject of which we possess no expertise. Two things which are relevant to the SMME studies need to be stated. Firstly, a major consequence of South Africa’s economic and political history up to 1994 was the gradual decline of the “Lobola” system, whereby families were started before the African version of Western “marriage” took place. Women remained in rural areas with their families to raise new off-spring, whereas the men left to find work in urban/industrial areas so that they could raise the money to pay off the “Lobola” dowry to the woman’s parents and support their families. Since then, the 1996 Census reveals that the migration of men to rural areas has become a permanent feature of the South African economy. For example, 63 percent of African males under the age of 20 live in rural areas but this figure declines to only 40 percent by the age of 30. This trend begins to reverse itself after the age of 55, with almost 70 percent of males returning to their rural homelands by the age of 70 years.

Secondly, in view of this cycle of male migration, the prominence given to SMME development in the South African economy is easily justifiable since, although African women are also becoming more urbanized, this occurs at the lower rate. For example, 63 percent of African women are born in rural areas yet almost three-quarters remain at home throughout the most economically active period of their working lives. Raising the living standards of

African women and their children through SMME development is an obvious way of combating HIV/AIDS in rural and urban communities since less migration and greater discrimination against African women, in terms of equal pay and job opportunities, means that over 50 percent are unemployed, compared with a national average of less than 30 percent. Starting up SMMEs is even less common and, in the six studies performed we experienced great difficulty in finding more than a few SMMEs in KwaZulu-Natal which were owned and run by women.

Politically-motivated crime and violence have also retarded economic development in South Africa and nowhere more so than in KwaZulu-Natal. Recent statistics indicate that more people have been killed in KwaZulu-Natal since 1994 than in the whole of the former Yugoslavia (SABC News Report, 3 November, 1998). Again, the reasons are far too complicated for detailed discussion in this report. However, that the Zulu nation is the largest ethnic group in South Africa, yet has failed to secure what might be regarded as an equitable share of political and economic power, because of divided support for the two largest political parties, provides part of the explanation why political-motivated crime and violence has brought economic development (eg. tourism) almost to a halt in some regions of KwaZulu-Natal. It also reinforces the argument for learning more about SMME development in the expectation that, if ever political differences can be reconciled, then the expansion of appropriate economic activity among African people in particular should proceed far more rapidly in KwaZulu-Natal.

This research project attempts to explore the business interests of two very different sets of South Africans. On the one hand, there are the senior and middle managers employed by two well-known, undoubtedly successful organizations in Pietermaritzburg. Mostly, but not solely white, these represent the buyers and include well-informed managers, trained in modern business practices, who see their primary functions as raising productivity and expanding their markets in ways which will eventually benefit all of the expanding population of the Greater Pietermaritzburg Metropolitan Area. As part of how they go about achieving these aims, the managers of both companies are committed to purchasing goods and services from Small, Medium and Micro Enterprises (SMMEs) amongst the historically disadvantaged Zulu Community in particular.

On the other hand, the “sellers” in the list of companies provided by “buyers” included a mixture of successful white-owned SMMEs alongside a wider range, in terms of financial performance, of entrepreneurs from the Zulu Community. In passing, it should be noted that Indian SMMEs were deliberately excluded because these were already being studied in a separate survey. The Zulu entrepreneurs could be divided into a small portion of successful medium-sized enterprises, as defined by the South African Department of Trade and Industry (DTI), which are clearly well-run and trade regularly with the largest companies in KwaZulu-Natal without need of any assistance from third parties, including government agencies.

Outside of this small apex of successful, largely self-made, black enterprises lies a large phalanx of Zulu-run SMMEs which are owned and operated by up to three, but mostly one, individual. Of the original list of over 1,200 SMMEs provided by both corporates, more than 80 were invited to participate in view of the limited time available. Of these, over one-third finally took part in the survey.

The research questions we sought to answer were based on the premise that around the world, modern, forward-looking businesses interact with other enterprises through a complex web of commercial relationships. This is because many efficient managers find it cost-effective not to try to do everything themselves “in-house”. Instead, they purchase some of the goods and services they require for their production activities from other enterprises that specialize in particular aspects of the production process. These purchases and sales, which we refer to as business linkages, are a pervasive characteristic of efficient and productive economies.

South Africa is expanding the scope of these commercial transactions. Many large corporations are moving toward a lower degree of vertical integration; many are reaching out more beyond their traditional corporate patterns, sometimes to smaller suppliers. While there is a long tradition of support for small business in South Africa, much of the energy in the past has been devoted to the promotion of small, white-owned businesses. In recent years, there has been considerable discussion of the way in which that process can be opened up to newly-established enterprises that had been excluded under the old Apartheid regime.

A research project at the University of Natal and the University of the North, in cooperation with Michigan State University, funded by the US Agency for International Development, set to examine the nature of these business linkages, as well as the extent to which they currently provide opportunities for improvement for historically disadvantaged small enterprises, and the kinds of steps that can be taken to expand such opportunities in the future.

In the first of these studies, Professor Bbenkele set out to identify existing and potential business linkages between the traditional medicines sector and registered pharmaceutical companies in South Africa. He also investigated how these business transactions could be developed to create an estimated 1,000 jobs per year in Durban, plus a smaller number of job opportunities in Pietermaritzburg.

His findings indicate that it cannot be assumed that expansion of the traditional medicine sector is straight-forward or a foregone conclusion, as different types of business linkages in an increasingly complex chain or network first need to be explored. These linkages involve gatherers, traditional healers, local authorities, National Parks Boards, pharmaceutical companies, the South African Medical Control Council and Ministry of Health, as well as health authorities overseas. All would need to be consulted further before the potential growth in job creation can be achieved. Job creation of this magnitude is of importance not just because it would help to reduce the high unemployment in the two Metropolitan Areas, but also because many of these envisaged new jobs would be taken up by rural women as gatherers of traditional medicine ingredients in the raw material form.

In the second study, Charles Machete and Francis Anim studied business linkages between small suppliers, in mainly black-owned businesses, and large buyers, in mainly white-owned businesses, and attempted to evaluate their contributions to SMME development in The Northern Province by seeking answers to the following questions: What are the distinguishing characteristics of small suppliers with, and without, business linkages? What are the determinants of business linkages? How can knowledge of these factors promote and strengthen new and existing business linkages? What are the constraints on the establishment of business linkages. Finally, what measures need to be taken to promote successful business

linkages in The Northern Province?

In the third study, two interview teams led by professors McEwan and Mead identified existing and potential business linkages by carrying out a detailed study of 29 SMMEs which supply two leading corporates in Pietermaritzburg. These corporates were selected because of their public commitment to assisting historically disadvantaged enterprises, which predates the creation of the “New South Africa” in 1994, but also because the policy of both corporates is directly influenced by national and regional government agencies which seek to act in a beneficial or interventionist manner.

In-depth interviews were carried out with entrepreneurs and managers using a standard survey instrument, which preceded a comprehensive study of the values, objectives, strategic behaviors and the problems encountered by both suppliers and buyers, most of whom were situated in the Natal Midlands along the Durban-Pietermaritzburg corridor of the proposed Eastern Seaboard Spatial Development Initiative project. This study is far from exhaustive as much more needs to be known about other contributing factors affecting the vital task of enabling larger numbers of historically disadvantaged people to participate in business activity in the Natal Midland and play a fuller part in expanding the South African economy.

In the fourth study, Owen Skae studied the existing and potential business linkages of 32 SMME suppliers located in the Durban and Richards Bay Metropolitan Areas and their business linkages with 15 other companies, which are large buyers in the same Eastern Seaboard “corridor”.

These suppliers may be regarded as representative of the wide range of SMME activity in both coastal industrial centres, since no fewer than 26 different manufacturing and service sector enterprises have been included in this survey. In-depth interviews were carried out with entrepreneurs and managers using the same standard survey instrument used in the previously-mentioned study, which resulted in a comprehensive analysis of the motivations, aims, strategies, outcomes, and difficulties experienced by both suppliers and buyers. More still needs to be known about how to enable increasing number of historically disadvantaged people to participate in business activity in this region of KwaZulu-Natal, thereby helping to expand the South African economy, but a valuable start has been made in this research project.

In the fifth study, Barry Strydom carried out a detailed analysis of existing and potential business linkages of 32 SMME’s and larger companies which make up the declining footwear industry, mostly based in the greater Pietermaritzburg Metropolitan Area. These enterprises either purchase from or supply other companies both in and outside South Africa.

The reasons for the steady decline of the South African footwear industry are complex and probably came to public attention for the first time as a result of the lifting of tariffs following South Africa’s readmission to the Global Economy in 1994. However, international isolation, the failure to introduce new technology in the past, inadequate training, low productivity, coupled with a genuine concern by the industry to avoid shedding manual jobs carried out by historically disadvantaged people, have all contributed to this loss of market share. More than 4,000 jobs were lost in the Greater Pietermaritzburg Metropolitan Area alone, between 1994-1998, and the situation is likely to deteriorate further as the industry braces itself for the full

impact of further cuts in tariffs under the GATT Agreement which are due in 1999. However, many local SMME's and larger companies have shown themselves to be both adaptive and resilient in the face of unavoidable change, and this study succeeds in identifying key forward, backward and horizontal linkages which will have to be evaluated and probably implemented during the next 18 month, if the South African footwear industry is to survive intact into the 21st century.

Special thanks are due to Professor Donald C. Mead, Michigan State University, for helping negotiate these last-minute arrangements; and also for sharing some of the interview load undertaken by Barry Strydom, with further assistance by Professor Tom McEwan. It should be noted that the six papers are a part of an ongoing study, and some analysis has been excluded because it forms part of a Masters dissertation, which has still to be assessed. Since completing this study, however, members of USAID/EAGER team have been invited to carry out an evaluation of the government-backed Workplace Challenge initiative, which will explore ways of improving collective bargaining and introducing new technology into the local footwear industry. A further report on this research is planned for 1999.

In the final study, Professor Mead undertook the task of drawing the disparate research findings together into a coherent whole which will hopefully be useful to all stakeholders with an interest in the successful expansion of the SMME sector in South Africa. Attention should be drawn to the following synopsis of his findings which would seem to have a wider range of application in South Africa outside the provinces of KwaZulu-Natal and the Northern Province.

The research shows that buyers establish business linkages with three principal motivations in mind; namely, either because it is good business to do so; or out of a sense of community service, or because they wish to shift to a production pattern that enables them to escape payment of taxes, or evade the impact of rules and regulations, usually imposed by Government agencies. While the last of these motivations was clearly true in many cases, a number of other suppliers paid all relevant taxes and fees while employing workers who were members of unions and were covered by the standard labor benefits. These enterprises were generally the most efficient of the small suppliers, and the ones that were growing the most rapidly.

Some linkage contracts were much more helpful than others to historically disadvantaged small suppliers. The key determining factors of these arrangements were the characteristics of the contract (size, period covered, stability), and the degree to which the contract provided a channel for the supplier to learn how to do things better. Where the motivation for the contract was based on community service, these factors were much less likely to be present. In such cases, linkages generally resulted in frustrations for the buyer and little development impact for the supplier. In contrast, where the motivation was commercial, the buyer had an incentive to serve as mentor to suppliers, for example by helping them improve their efficiency and productivity. Unfortunately, our interviews uncovered relatively few cases where the buyers played a significant role in mentoring their suppliers in either KwaZulu-Natal or the Northern Province.

Since there is considerable interest on the part of both buyers and suppliers in expanding the involvement of historically disadvantaged small enterprises in business linkages, with several

initiatives currently under way and others just starting, it is clear from our research that to be most effective, institutional support for the promotion of business linkages needs to be based on a number of clear principles:

Firstly, the driving force must be economic, not a paternalistic goal of community service. All linkage promotion activities must have an orientation that starts from markets and works back to suppliers, thereby helping them take advantage of these identified market opportunities.

Secondly, the institutional structure must be cost-effective, taking account of the limited resources available to support this type of activity. Specialization and focus among promotion agencies can be important in helping achieve this objective. Buyer mentoring, a key factor in many successful linkages, also contributes in important ways to the goal of cost-effectiveness.

Thirdly, there are three specific building blocks which support the promotion of linkages; namely, information, capacity-building, and capital. While each may be needed to bring a particular contract to successful fruition, in general, one organization should not attempt to supply all three because the risk of inefficiency increases.

Fourthly, issues of imbalance between buyers and sellers are important and must be addressed in establishing equitable policies or programmes for linkage promotion, and some of these approaches are discussed in the papers.

Fifthly, much has already been achieved in the expansion of business linkages involving historically disadvantaged small enterprises in South Africa, thanks to the efforts of Ntsike Enterprise Promotion, the Centre for Small Business Promotion and the National Small Business Council. The interviews we carried out make clear that there is a strong will on all sides to do more. With stronger institutional support, there is much more that can be done.

It would be impossible to express thanks to the large number of people who either assisted or participated in this project, but special mention must be made of the contribution of Professor David Maughan Brown, Senior Deputy Vice Chancellor at the University of Natal, who supported the research programme from the start and made it much easier to implement. Mr. Hollie Clarkson and Mrs. Cheryl Pratt from the University Finance Department have to be thanked for their professional monitoring of expenditure which ensured that compliance with rigorous US funding regulations was achieved.

Charmagne Howe, Kathy Acutt, Joy Gauche and Debbie Bowen, from the Department of Business Administration, must also be thanked for their administrative support, without which many interviews would never have been arranged and the two large workshops in Pietermaritzburg would certainly never have run so smoothly. Special mention must also be made of Nhlanhla Moses Ndlovu, who proved to be an outstanding research assistant, and provided invaluable support in "breaking the ice" during interviews with Zulu-speaking respondent, and who stored and analyzed data in an accurate way which augurs well for his own future research into SMME developments. We must also express our gratitude to Professor Anthony Lumby, Dean of the Faculty of Economics and Management at the University of Natal Durban Campus, for supporting Owen Skae's study of emerging SMME activity in the Durban-Richards Bay region of KwaZulu-Natal province; and additional thanks

are due to Mel Clarke , KwaZulu-Natal Regional Economic Forum, for “opening doors” which resulted in us gaining quick access to the key players in the local footwear industry. Finally, the patience, helpful advice and insights of Alwyn Pollock, Commercial Manager at Umgeni Water, and his assistant Jill McEwen and Dennis Ndlovu, were much appreciated, along with those of Mervyn Webb, Senior Purchasing Manager at Hulett Aluminium, as was the interest shown by Andrew Layman, Director of the Pietermaritzburg Chamber of Commerce and Industry, and the coverage provided by Johan Beukes, Business Editor of the Natal Witness, South Africa’s oldest daily newspaper.

Special thanks must also be expressed to the various English- and Zulu-speaking entrepreneurs who took part in the various surveys. They ranged from the obviously successful to those who run their fragile businesses on tightly-stretched shoe stings in back gardens, on in houses converted into make-shift workshops, with small children at play in the room next door. Here, in the townships or on run-down industrial estates, we interviewed mostly male respondents, many of whom possessed little knowledge of basic business skills and practices, which are essential in order to survive.

Their dire situation raises fundamental questions about the nature of the “Transformation” process in the New South African civic society. Simply put, in our view, if whatever has been inherited by the more fortunate, as either wealth, health, education, or even as better career opportunities, was at the expense of the near-defeated in society, then natural justice insists that better ways must be found of helping these brave, anxious, inadequately-trained “survivalist” entrepreneurs to place their tiny businesses on a sounder economic footing in the future. Otherwise, for them, “Transformation” and ”Redistribution” will become two long, meaningless words in South African newspapers and dictionaries, which some are unable to read and most are unable to purchase.

Ever optimistic, some off these respondents asked if they could see our final reports, and it is with this commitment in mind that most of the following studies have been compiled with the minimum number of tables , diagrams and calculations which, for reasons outside their control, most said they might not be able to understand, We hope that better ways of assisting these people to run their small enterprises more effectively occur as a result of the publication of our reports which indicate that their business aims are simple enough and, not surprisingly, very similar. They wish to raise their living standards more rapidly by dint of their own efforts, enjoy better health, educate their children beyond the basic standards they achieved, and take their rightful place in a civic society of which they and all other South Africans can feel justifiably proud.

**ENHANCING ECONOMIC DEVELOPMENT BY
FOSTERING BUSINESS LINKAGES BETWEEN THE
PHARMACEUTICAL COMPANIES AND THE
TRADITIONAL MEDICINES SECTOR**

June, 1998

E. C. Bbenkele

Centre for Partnerships in Enterprise Research and
Technology Transfer (CEPERTT)

University of Natal

ABSTRACT

This study examines a wide range of issues surrounding business linkages in the traditional medicine sector of South Africa. Utilizing qualitative data collected through unstructured interviews and two focus meetings of groups of traditional healers and gatherers, the study describes the existing division of labour in the gathering, marketing and preparation of traditional medicines. The traditional linkages between gatherers and healers are described alongside the new and growing linkages between gatherers and large pharmaceutical companies. Backward linkages that involve the cultivation of medicinal plants are becoming commonplace as are forward linkages, under which the pharmaceutical companies use black representatives and traditional healers in the marketing of their products.

Along with its description of existing linkages, the study discusses impending changes in such factors as the physical environment, regulations and market incentives. These factors include: the problem of increasing scarcity due to over-harvesting and deforestation; potential changes in South Africa's health product marketing policies due to the new National Drug Policy; and, the lack of protection for intellectual property rights of traditional healers and gatherers of traditional medicines. A number of policy recommendations are made, aimed at ensuring sustainable growth in the sector, including: the establishment of a sector-wide association of gatherers and traditional healers; encouragement of the cultivation of traditional medicinal plants; a commitment on the part of pharmaceutical companies to test and produce useful traditional medicines; and support from local business centres for gatherers and traditional healers as small business persons.

Author:

Edwin Kachesa Bbenkele [bbenkelee@outs.unp.ac.za] was formerly Associate Professor in Marketing in the Department of Business Administration, School of Business, at the University of Natal, Pietermaritzburg. He is currently Director of the Ford Foundation-funded Centre for Partnerships in Enterprise Research and Technology Transfer (CEPERTT), which is jointly located in the University of Natal Department of Business Administration, School of Business, Pietermaritzburg, and Natal Technikon, Durban, South Africa.

Author's Note:

This study of a little-known part of the South African economy would not have been possible without the award from the US Agency for International Development, through their project, Equity and Growth through Economic Research in Africa: Public Strategies for Growth with Equity (EAGER/PSGE). In extending thanks to them for their generosity, we must also express gratitude to Professor Donald C. Mead of Michigan State University for his outstanding contribution in helping to arrange for the award in the United States, and for liaising with staff at the University of Natal, to ensure that all the USAID/EAGER requirements were met and for his hard work and enthusiasm in organising and conducting research as Visiting Professor in the Department of Business Administration between October 1997 and March 1998.

1. INTRODUCTION

This study on business linkages in the traditional medicine sector is part of the USAID/EAGER project which investigated the contribution of business linkages to the growth of productive employment among micro and small enterprises in South Africa. The author identified the gatherers of traditional medicinal plants and herbs as a group which if linked to the pharmaceutical companies (which manufacture traditional medicines) could result in an improvement of the quality of life of the gatherers and other actors and ultimately contribute to employment generation and increase the supply base of the medicinal plants and herbs. The various types of linkages are identified, relationships and roles of the various actors are discussed and the things to be done to ensure that linkages take place are suggested.

Traditional medicine is usually identified as one of the philosophies of medicine alongside the other alternative medicines. In this regard, the Department of Health is currently working on the National Drug Policy¹ in which it openly calls on the traditional healers to work closely with the formal health sector but without making them part of the sector. How realistic this is will be a matter to be considered by the traditional healers. The draft document further suggests that once the traditional healers enter the formal medical sector, they will have to be closely monitored on efficacy, safety and quality with the ultimate aim of registering them. These gestures and policy frameworks are being made without considering the views of the traditional healers and the other actors.

What is even more worrying is that the National Drug Policy is not very clear on how the Ministry will accept the traditional healers, and yet not make them part of the sector. This study, to the contrary, aims at showing how this neglected sector can be brought into the mainstream of economic activities and how it can significantly contribute to job creation by linking it with the big pharmaceutical companies.

These issues are presented and critically examined in the current study. Hence this paper will discuss the nature of the problem which is being investigated and the methodology used to collect the information, and outline the different types of linkages which exist or could be fostered, the rationale for the linkages and the problems, the necessary institutional arrangements for the linkages to work and the policy implications for effective implementation.

2. NATURE OF THE PROBLEM

In order for the traditional medicines sector to live up to the challenge of being an active participant in the health sector, a number of issues will have to be carefully considered and these serve as the initial problems to be solved, without which, to get their active and beneficial involvement would be mere rhetoric. The issues which should be addressed are as follows:

2.1 Problem of depletion of indigenous forests and flora

¹ From draft documents from the Ministry of Health, Medical Control Council.

In the initial study conducted by the Institute of Natural Resources in collaboration with the researcher, the main problem was to identify ways of reducing rapid deforestation of the indigenous forests and flora in South Africa. In this study a few traditional plants were not found on the market. A question was raised as to whether these medicines were merely not in season or whether they were extinct. It is a well-documented fact that certain plants are extinct and are not available any more in the forests of most of the countries in Central and Southern Africa.

This problem has been caused by irresponsible harvesting of the plants where shrubs are pulled out, roots all dug out, trees debarked etc. In two markets in Durban, Mander (1996) found that a total of 490 to 730 tonnes of materials (tubers, leaves, bark etc.) were sold in the market in a year. It is clear that the amount of materials passing through the traditional medicine markets in South Africa is very high. Extinction of the precious indigenous plant species is quickly creeping in and if this not reversed, it will cause economic and social problems to the people who depend on the traditional plants and flora.

Further, with the high level of migration from the rural into the urban areas, this figure is bound to increase as 80% of the black population in South Africa consult a traditional healer either before or after consulting a Western doctor². This point suggests that there will be an increased demand for traditional plants in the urban areas. As expressed by a traditional healer in Johannesburg, such a condition allows the street medicines gatherers to make money from their limited knowledge. The role of the traditional healers differs from this; it is to provide health. Therefore as the demand for traditional plants and herbs remains high, there will be a corresponding increase in deforestation. In addition, it was alleged by the traditional healers that it is the gatherers and not the traditional healers who are irresponsible in the harvesting of the medicinal plants. The study by Mander (1996) confirms this allegation when it points out that the gatherers were aware of the deforestation taking place caused by irresponsible harvesting methods.

This finding should be seen in the correct perspective, as groups of gatherers are also receiving instructions on the best methods of harvesting traditional medicinal plants. In fact, other areas responsible for deforestation have been identified as crafts, hut building, overgrazing, commercial sugar plantations etc. (Cunningham, 1988).

2.2 Marginalization of actors in the traditional medicines sector

Currently, there seems to be a lot of interest in traditional medicines by researchers. This interest includes a concern as to how equitable the relationships will be between the pharmaceutical companies, who produce the traditional medicines, and the unsophisticated "gatherers" and traditional healers (the main actors in the sector). The fear which exists is that the allopathic or Western medical practitioners will exploit the knowledge to their advantage. For fear of such exploitation,³ which could lead to marginalization, knowledge of the various traditional medicines could well be withheld.

² According to *Personality*, 29th May, 1994. (*Personality* is a popular South African magazine.)

³ The Focus Group in Johannesburg (Feb. 1998) clearly gave examples of cases of exploitation.

Examples exist where traditional healers have provided their know-how to pharmaceutical companies, and then products were manufactured with no monetary or other benefits being passed on to the originators⁴. As a result of this, not many traditional medicine practitioners and gatherers will be prepared to share their knowledge as they feel they are being exploited. This aspect needs close attention as the issue of intellectual property rights has caused problems and is discussed later.

The immediate question which arises is how best the sector could operate effectively and for the actors to participate fully in the formal monetary economy by being linked to better market opportunities. This is necessary if any significant contributions to employment generation will be realized. Of course, this will ultimately depend on the willingness of the pharmaceutical companies to operate in a dyadic relationship with the traditional healers and the gatherers of traditional plants.

Furthermore, the apparent power and role conflict between the traditional healers and the gatherers in which the traditional healers consider themselves as the masters of the knowledge in traditional medicine and also see themselves as active gatherers of these medicines, has to be addressed. If this is ignored, a few people (traditional healers) would want to do everything, thereby frustrating the role of gatherers who are significant actors or business people of interest in this study.

3. METHODOLOGY

Data for the study was collected using unstructured interviews, with a questionnaire as a guide. As the traditional medicine sector consists of survivalists, most of the questions in the supplier business linkage questionnaire were not appropriate. Similarly, unstructured in-depth interviews were conducted in the ten companies and organizations at work in the sector. These included big and medium-sized companies and various government agents.

In addition to unstructured in-depth interviews, two focus group interviews were held. The first interview brought together twenty traditional healers in Gauteng. The second one held, in Groutville, KwaZulu-Natal, consisted of thirty-six traditional healers representing all the nine provinces in the country. The study conducted by Mander (1996) was also extensively used as the author was a member of the project team.

Hence the data collected were qualitative and no attempts at a quantitative analysis have been made.

4. RESULTS

4.1 The participants in the traditional medicines marketing system

⁴From the focus group interviews held with the Traditional Healers in Johannesburg, South Africa.

A marketing system is defined as a set of interdependent institutions which serve to move products and services from the point of production to the point of sale. At present the marketing system in the traditional medicines sector is fragmented and consists of supplier/gatherers of medicinal plants, manufacturers (pharmaceutical companies, gatherers) and customers consisting of *izinyanga*, patients, *muthi* shops, wholesalers etc. It is therefore important to explain the nature of these institutions so that effective suggestions on how they should interact can be made. This will be done in the latter sections but in the present section the various functions performed by members will be described and a general description given of the main actors in the marketing system.

4.1.1 Functions performed in the marketing system

The first function is the source of supply of traditional medicine. Traditional medicinal plants grow in forests and are harvested mainly by gatherers (and at times by traditional healers). However, due to commercial sugar plantations, overgrazing etc., it is becoming difficult to source most traditional medicinal plants. In an overview of the failure of traditional methods of forest conservation (Bbenkele 1997), the author points out that the few gardens which were established to supply traditional medicinal plants failed as the gatherers and traditional healers did not see any sense in buying from these places while the same plants and herbs were abundantly available in the forests and free. With the rapid extinction of most of the popular medicines, there is a need for growing traditional medicinal plants as an alternative source of supply.

Processing of the traditional medicinal plants and herbs is the second function in the marketing system. This involves preparing the raw materials in a form for them to be put on the market for sale or for prescription to customers. The traditional medicinal plants and herbs are cut into small pieces, dried and if necessary ground into powder. The gatherers usually do this on the streets as they sell. The traditional healers who are also involved in gathering employ about five young boys and girls to process the plants and herbs for them.

The pharmaceutical companies who produce traditional medicines are also involved in processing and packaging/bottling of the medicines. For example in the manufacturing of "Blood Mixture", an extraction process is used, and appropriate concentrations made for efficacy and mixed with preservatives for long-shelf life.

The third function is marketing of the traditional medicinal plants and herbs and the processed medicines. Once the plants have been processed, the gatherers sell these to the customers (*muthi* shops, patients, *sangomas*, *izinyanga*). The processed medicines from the pharmaceutical companies finds their way to the market through traditional marketing channels.

Diagnosing and giving prescriptions is the fourth function which is performed in the marketing system. This involves divining and giving prescriptions for certain problems or ailments. In varying degrees this is done by the *sangomas* and mainly by the *izinyanga*. The differences and similarities of these two are discussed in the next section.

For the marketing system to benefit the gatherers as a group of particular interest in this study, it will be important to have some specialisation where the different actors concentrate on the

things they know or can do better or to pass on certain tasks to others to perform. Whether this cooperation can exist is something which needs to be further explored.

4.1.2 The traditional medicinal plant gatherers, *izinyanga* and *sangomas*

The gatherers of the traditional medicines in the study conducted in two markets in Durban (Ezimbuzini and Russell Street) were described as follows:

Table 1: Summarized gatherer profile

| | Ezimbuzini | Russell Street |
|-------------------|---------------------------------------|---------------------------------------|
| Gender | Females 89% Males 11% | Females 79% Males 21% |
| Age | Range 24-89 Mean 44 | Range 18-104! Mean 45 |
| Educational Level | No schooling 68% Junior school 32% | No schooling 52% Junior school 44% |

Source: Mander (1996)

Table 1 describes the medicinal plant gatherers as women in their middle age, with low education and making less than R200 to slightly above R2000 per month. This group can best be described as survivalists. However, the Durban study assumed that the gatherers were not traditional healers. In fact, it was hypothesized that the traditional healers would be the main customers in the two street markets. To the contrary, the study in Gauteng found that the traditional healers also gather medicinal plants and the traditional healers there made a very strong point that the street *muthi* traders, also known as the gatherers, have very limited knowledge of the traditional medicines and are only interested in making money, as opposed to contributing to the health of the patients.

These allegations have to be understood by contrasting the traditional and the contemporary roles of the *izinyanga*, *sangomas* and gatherers. Traditionally, a *sangoma* was a visionary and a diviner and would often consult with an *inyanga* on the medicine to be used. *Izinyanga* were both diviners and experts on medicines. They tended to occupy a very high level in society and passed on small tasks of medicine-gathering to their assistants (gatherers). It was believed that gathering was too low for the status of the “master of medicine”, the *inyanga*. The gatherers were shown where to collect the medicine by the *sangomas* and *izinyanga*. However, nowadays the distinction is becoming more blurred as actors are driven more by commercial reasons.

Notwithstanding the above, one point is clear, namely that both traditional healers (a few of

those in rural areas) and gatherers are involved in the gathering of medicinal plants. The only difference is in how they use the raw materials. The traditional gatherers on the one hand use them to prepare medicine for the patients whilst on the other hand the gatherers sell them to patients to fill the prescriptions from traditional healers and Izangoma. These roles are consistent with what is described by most authors. However, attention should be paid to when the articles were written.

In the first instance and according to Calloway (1870), a *sangoma* was understood to be a doctor of divination. Various he or she was called *isanusi*, or *ibuda*, *inyanga* and/or *umungoma*. A *sangoma* was described as a traditional healer or diviner who employs music, dance, and the throwing of bones to discover evil and diagnose disease. This definition, as can be seen, identified the *sangoma* as being an *inyanga*.

However, the *Weekly Mail* gives a very clear separation of *sangomas*, *iziyanga*, herbalists and others, but does not describe their various responsibilities (*Weekly Mail*, 1988). Hammond-Tooke (1962), in his attempts to describe the functions of the *sangomas* and other actors, added more confusion by stating that “a distinction should be drawn between the herbalist (*inyanga*) and the witchdoctor proper (*isangoma*), sometimes called a diviner, who communes with the ancestral spirits (*amathongo*).

This respectful definition is in line with that given by Longmore (1959) when he describes an *inyanga* as “... [one who] must diagnose and prescribe remedies for ordinary ailments and diseases, prevent or alleviate misfortune, bring prosperity and good luck, and provide protection against bad luck, accidents and witchcraft.” Other more demeaning and sceptical roles are described by others such as Garden (1852)⁵. This suggests unclear roles of the various actors in society, which seems to be very obvious in literature.

It would appear that the separation of roles is there but is blurred. However, in this study, the *sangomas* are diviners and mostly women; *izinyanga* are the healers and mostly men; and the gatherers are collectors of medicinal plants and herbs and are mostly women. This would seem to be in line with the findings of Mander (1996).

This paper posits that these gatherers could be assisted to do bigger and better business by teaching them how to grow the traditional medicinal plants and linking them to bigger and high value-added market opportunities.

4.1.3 The pharmaceutical companies producing traditional medicines

As pointed out above, for their traditional medicines range, the pharmaceutical firms buy traditional medicinal plants and herbs from the gatherers. Once received, the raw materials are stored to preserve their potency. An extraction process is used to get the desired chemical components from the plants and these are further processed to provide the appropriate concentrations. Finally, the medicine is either bottled or made into tablets. These are packaged and put in the warehouse ready for dispatch to wholesalers, retailers and individual sales agents (as in the case of Impilo Drug Company).

⁵ Readers interested in pursuing the distinctions further are advised to refer to the work of Gardner (1852).

As an example of the various product lines, Marshall Chemicals in Johannesburg at present produces a wide range of traditional medicines and the other product lines include cosmetics and registered medicines. For example, the company produces a total of sixty-nine products in the *muthi* range alone. In addition to this, there are thirty-one product items in the Marshall range, twenty-one in the Du Toit medicines, six in the "77" range, nine in the general, six ointments, five in the children's range and four tablet medicines⁶. There are a few others which manufacture products relating to "love." GM Pharmaceutical also produces a very wide range of love syrups, pills and capsules mostly aimed at increasing sexual potency or pleasure and complements this by selling condoms made by another company.

For these companies, there seems to be a need for both backward and forward linkages, i.e., sourcing of raw materials used in the production process and ensuring that a large number of consumers for the traditional medicines is reached. This opens up potential opportunities for involving the gatherers, *izinyanga* and the *sangomas* at appropriate levels in the supply chain. As long as members of the supply chain or the marketing system act in a responsible manner by allowing all members to freely perform their specialized activities and passing the benefits to other members in the supply chain, there is a real possibility of making the gatherers and the other actors active participants in the pharmaceutical industry. This will require minimizing the conflict which currently exists between the gatherers and traditional healers and among members of the traditional healers association. This is a very difficult task but one which is necessary for improving the effectiveness of the traditional medicines marketing system.

4.1.4 The customers of traditional medicines and medicinal plants and herbs

The customers for Marshall Chemicals include *izinyanga*, *muthi* shops and pharmacies throughout the country. This suggests that the manufacturers use the formal forward market linkages to get their products onto the market. In particular, the study conducted in Durban showed that the customers are males, look wealthy, (by the way they dress), are old, not concerned with prices and mainly from within town. One could ask if this is not a good description of an *inyanga*?

An important aspect of the above lies in the acceptance of grown medicinal plants by the customers or the users of these medicines. Encouragingly, the gatherers in previous studies supported growing as an effective method to ensure that the traditional medicinal plants were not wiped out from the forests in Southern Africa (Mander 1996). In fact the growing of traditional medicinal plants as a means of conservation was favoured by a number of gatherers (Mander 1996).

An important reason underpinning acceptance was that potency would not be affected by cultivated medicinal plants. However, it was pointed out that proper harvesting methods and traditional rituals were to be observed. This meant that certain parts of trees were debarked, that medicinal plants were harvested at night when they would be at their most potent and that at times the harvester had to be completely naked to preserve the potency of the medicine.

To conclude this section, this study calls for an effective marketing system which will allow

⁶ The nature of the product items in the different product lines carried by Marshall Chemicals is available from the author or directly from the company.

various actors in the traditional medicinal sector to come together and establish effective networks to exploit an existing market opportunity. An improved marketing system in this respect would lead to improved supply of raw materials (by growing these), marketing and storage of the traditional medicinal plants, reduced deforestation, and gatherers not required to stay too long in the open street markets. This should result in added benefits to all the participants in the supply chain. Ultimately the gatherers should realize a better quality of life and would employ more people as a result of higher incomes due to higher sales brought about by a wider market acceptance of the final traditional medicinal products. If these medicines do in fact contribute to the health and welfare of the final consumers, then improved availability of the medicines will make an important contribution at that level as well.

4.2 Existing linkages Identified

The following linkages were identified in the traditional medicines sector.

4.2.1 Traditional medicinal plants supplied to pharmaceutical companies and *izinyanga*

The first business linkage identified involved a few gatherers supplying traditional medicinal plants to pharmaceutical companies for processing. A company like Marshall Chemicals buys directly from the gatherers who from time to time come to the factory. In most cases the herbs brought to the company are those in season and as such, the company does not have an option but to buy whatever is brought in large quantities. This is done because of the uncertainty of supply and the seasonality of some of the herbs. Hence, to some extent this gives the suppliers of the traditional medicines some power in the business relationship.

In Gauteng, the suppliers were from surrounding areas and also from as far afield as KwaZulu-Natal (Natal Herbs). Another pharmaceutical company from Durban reported dealing with suppliers for love dust from as far as the Northern Province whilst another reported importing devil's claw from Botswana and Namibia,

As some of these materials look similar, Marshall Chemicals have employed a traditional healer who sits in a "dark office" as the "Purchasing Manager" *cum* "Production Manager" for the traditional medicines line. The traditional healer ascertains whether the plants are the right ones and also determines their quality levels. Apparently in this sector it is very important that certain plants are harvested at the right time to allow for maximum ingredients to be retained. In other cases a tree has to be debarked from both sides to be used for medicine for curing kidney problems. All these facts are checked by the traditional healer.

These examples show that backward linkages in terms of sourcing traditional medicinal herbs, plants, dust etc. are very common in the industry. The only problem is that the source of supply is the forest as opposed to cultivated traditional medicinal plants and herbs.

Of course, it should not be ignored that in the old and also in the current arrangements, the *izinyanga* in urban areas and at times in rural areas, depend on the gatherers to supply them with traditional medicinal plants and herbs which they use for medicine. Or, they will prescribe the medicinal plants to be used by the patients (customers) and these would be purchased from the gatherers on the street muthi markets. This in itself is a very important linkage indeed and

is supported by the studies of Mander (1996) in Durban and the follow-up article by Bbenkele (1997) in Durban.

4.2.2 Growing the traditional medicines and herbs

The second business linkage is a potential core activity which would involve getting the gatherers to grow the traditional medicines and herbs in their back gardens or fields and to sell the crop to the manufacturers. In this respect, Pharma Natura reported that it would be very willing to out-source the growing activity to the gatherers for its envisaged expansion in the manufacturing of traditional medicines. The company is even prepared to assist the gatherers in methods of cultivating the medicinal plants. At present even if the company grows about seventy herbs on its farm in Kranskop, it still has to depend on imports for *Scheuder bitter* (used for liver problems), *Ottomisia* (anti-malaria drug) and the famous *Iscador* being researched for curing AIDS.

In both focus group interviews, the traditional healers accepted the growing of plants as something they would be very interested in and an activity which would supplement their incomes. In the market study conducted in Durban, the gatherers were willing to grow the traditional medicinal plants to ensure a continued source of supply (Mander 1996).

It should be pointed out that this linkage (out-sourcing of growing and gathering) is an important one and should be seen as supportive of the first one as the indigenous plants are becoming extinct. To continuously depend on the forests for the supply of traditional medicinal plants and herbs would be destructive to the entire marketing system and this is the direction of things in this sector at present. Growing of the traditional medicinal plants and herbs is vital.

Examples can be given of such schemes/initiatives being used by farmers in Switzerland. After a spell of bad prices, Swiss farmers started diversifying into specialist crops, in particular the production of herbs and medicinal plants in mountain areas. With the help of cooperatives and a marketing board a market opportunity was exploited by these farmers.

4.2.3 Traditional medicines as a non-traditional export product

The third type of business linkage identified involved the supplying of medicinal plants and herbs in the form of roots, leaves and barks to export markets for further processing as raw materials or finished products for the pharmaceutical industry. In one case, *Cape aloes* (used as a laxative) are grown and picked from the forests in the Cape Province, exported to Europe for processing and bought for use as raw materials by the pharmaceutical companies in South Africa.

The reason for this circuitous route is to meet the quality standard requirements imposed by the South African Medical Control Council, which dictate that suppliers of raw materials used for registered medicines be approved by the Council. However, if the medicine is not to be registered, this requirement does not apply.

Again, companies like Adcock are also willing to assist gatherers to grow medicinal plants, buying these from the growers and semi-processing them locally for the European and USA export markets. It is believed that the demand for these seems to be very high due to the shift

to alternative medicines in these countries. This was reported to be a "guarded" activity in Cape Town and Bloemfontein, where small-scale farmers are assisted to grow the medicinal plants solely for the export market. This business linkage has the potential of opening up tremendous export opportunities for the industry which could be driven primarily by the gatherers of traditional medicinal plants.

The vast market potential in the USA is widely exposed by Brevoort (1996) in his study of the medicinal herb and plant market in USA. In his study he identifies the types of medicinal plants that are most popular and the top sellers in US commerce.

4.2.4 Forward market linkages

The last type of business linkage which was discovered involved the use of a black businessman playing the role of a middleman selling traditional medicines from the manufacturing companies. It seems that the pharmaceutical companies producing traditional medicines have a problem of getting their products to consumers and for these to be readily accepted on the market.

This linkage was used by Impilo Drug Company in Isithebe. The staff at Impilo described this businessman as having made a lot of money from the business linkage. The method he uses is to buy final traditional medicines from the company and hold sales meetings throughout the country in black communities where powerful sales speeches are made on the efficacy of certain traditional medicines. This approach has worked wonders and both parties are very happy with the business linkage.

In other companies like GM Pharmaceuticals, which has a wide range of *muthi* love medicines, the company reaches the market directly by owning an adult shop situated next to the manufacturing company. Another company uses the Indian-owned *muthi* shops to sell its medicines.

The two focus group interviews revealed that retailing is another area in which the traditional healers could be involved, that is, owning the *muthi* shops to stock products from the manufacturing companies, selling these to other traditional healers and directly to the patients. This was seen as an activity which would be very important and could support the efforts of the Indian retailers who in some cases are not well versed in the traditional *muthi* they sell. This suggestion leads to more blurring of roles and tends to make the traditional healers (*izinyanga*) the only able actors in the sector. The marketing system being proposed in this study respects specialization of roles and a search for equitable participation by a variety of different actors⁷.

5. DISCUSSION OF RESULTS

5.1 The driving force behind the business linkages

⁷ It should be pointed out that if there is any indication that the traditional healers also want to gather the traditional medicinal plants and herbs, this is done only by a few and due to changes brought about by commercial reasons, i.e., to reduce costs wherever possible for them to survive. Otherwise, in the old order their status did not permit them to take such low tasks as gatherers.

For all four types of business linkages discussed above, economic motives for both parties would seem to be the main driving force. Put in other words, both parties expect to be better off financially within any particular linkage activity. Paternalistic types of linkages were not common in this sector as the "marriage of players" between the small suppliers and the big buyers is usually very delicate due to the sacredness of the traditional medicines and the fears of exploitation of this knowledge by the Western medical practitioners⁸. Hence, unless the benefits are very clear, business linkages will not be established..

Further, as has been pointed out above, a clear separation of functions is very important to ensure that all the parties benefit. Fears that the traditional healers will emerge as more dominant are unwarranted and rather unrealistic as they cannot perform all tasks. To expect the traditional healers to spend weeks in the bush gathering medicinal plants and losing out on consultation fees of R100-00 per patient seems unreasonable given the commercial reasons which are driving the activities/roles in the traditional medicines sector.

It would seem appropriate to indicate that if gatherers are to benefit in this sector, deliberate attempts ought to be made to target them as beneficiaries to benefit from the transfer of traditional medicinal plant and herb cultivation technology. It is believed that such an approach would expand the market opportunities for the gatherers to actively participate in the monetary economy, thereby contributing more significantly to employment generation and ultimately economic development.

5.2. Constraints on the potential of the business linkages for contributing to economic development

A number of problems which could limit the economic impact of the business linkages discussed in Section 4 are outlined as follows:

5.2.1. Regulatory requirements from the Medical Control Council

Under Act 102 (1965), the Medical Control Council (MCC) is mandated to ensure that any medicine put on the market passes the safety, efficacy, quality (SEQUA) test and that no misleading claims are made. Shalala in his paper concludes that "... It is evident that the strict requirements for registration of allopathic (orthodox/western) medicines cannot at present apply to the traditional medicines. Findings clearly demonstrate that requirements cannot be met" (Shalala 1996). He further points out that even if other requirements could be relaxed, safety should not be compromised.

Cases of problems arising as a result of the MCC regulatory requirements are common among the pharmaceutical companies producing traditional medicines. The most common one involves false claims made for the traditional medicines. For example, MCC insist that a blood mixture should not claim to cleanse the blood as it is a mere laxative and should be marketed as such. Usually this has been regarded as "protection of the big pharmaceutical companies" from the small companies which are active in the lucrative traditional medicine sector. A lot of close

⁸ 'Western medical practitioners' is a widely used concept which includes pharmacists, medical doctors, Medical Research Councils etc. It should not be myopically used to include only pharmaceutical companies as there are many potential 'exploiters'.

contact and massive education will be required to resolve this issue.

If the members of the supply chain which link directly with the gatherers are constrained to operate, this would have a direct and negative impact on the ease with which the gatherers can enter the mainstream of economic activities and contribute significantly to the economic development process. Hence, the ease with which the pharmaceutical companies can produce traditional medicines will affect the benefit which would be realised by the gatherers.

Additionally, even if regulatory requirements might not be required for the effectiveness of the linkages between the traditional healers and the gatherers, the two parties seem to need each other and should be seen as being in a dyadic relationship. This simply means that each party depends on the other to attain goals. For this relationship to exist, writers in business-to-business markets suggest that confidence and mutual trust have to exist between the parties involved in the relationship. Without this very simple fundamental, confidence will be eroded and lack of trust will be the order of the day, and this will lead to problems in the traditional medicine supply chain.

5.2.2. Intellectual property rights issue

The traditional healers believe that their profession is a call from the ancestors to preserve the life of people and that the knowledge they have should be protected as much as possible from Western medical practitioners. This problem makes the traditional healers withhold information.

Additionally, the gatherers of traditional medicinal plants and herbs feel that they cannot pass on their knowledge to anybody for fear of being exploited as they fear that whatever has been passed on to them by the 'masters' (*izinyanga* and *izangoma*) might be exploited. Brush and Stabinsky (1996) suggest that traditional medicine knowledge is some form of intellectual property and monetary compensation for utilization of such resources could provide indigenous people with an equitable reward for sharing it.

A number of initiatives are being worked on to solve this problem by the Ministry of Health. A listing method using the Australian Therapeutic Goods Administration (TGA) is being adapted to establish a national reference centre for traditional medicines which among other things will develop a national database of indigenous plants that have been screened for efficacy and toxicity.

In other cases the Medical Research Council has funded research initiatives at the University of Cape Town to test the plants supplied to them by the traditional healers from all over the country. This initiative is supposed to share the royalties on a 50-50 basis with the traditional healers who supplied the information. These funds will be paid into a trust which the traditional healers will administer. Whether this approach will reduce the suspicions held by the traditional healers still remains to be seen.

The South African Traditional Medicines Research Group is also in the process of drawing up a draft agreement that will protect the intellectual rights of the providers of the plant information as well as their own. This is intended to provide legal protection for people who are vulnerable to possible exploitation and to dispel the fear of being swallowed by the Western

medical system. It is assumed that these medicines will be registered with the Complementary Medicine Committee.

These approaches are very good but they do not aim at developing trust at the grassroots level of the parties involved in the business linkages. The Medical Research Council and the South African Traditional Medicines Research Group, no matter what they do, might fail to gain the trust of the traditional healers, simply because this sector is very sensitive and needs better confidence building approaches than simplistic "orange juice-sandwich" or "hotel lunch" boardroom agreements.

This issue is still very new in South Africa and needs developing. However, in as much as intellectual property rights are important, the government has to develop suitable institutions and policies, governing local communities to receive the full benefits from the traditional knowledge they have (Bhat, 1996).

5.2.3 Expectations of the traditional healers and gatherers from the pharmaceutical companies

For the business linkages to work, the gatherers and traditional healers expect the pharmaceutical companies to provide a number of services to support the anticipated linkages. These expectations are as follow: firstly the pharmaceutical companies should provide adequate laboratories to test the medicinal plants. Secondly, they should have adequate storage facilities to conserve the chemical properties of the harvested traditional medicinal plants and herbs. And lastly, they should have sufficient capacity to buy the medicinal plants and herbs for processing and be able to distribute these to the ultimate markets.

The question to be posed here is whether the pharmaceutical companies have the required infrastructure or whether they will be prepared to invest in such to support the business linkages with the gatherers. One could suggest that there should be some economic benefit seen by the pharmaceutical companies for them to support these linkages. If these are not apparent, government could possibly broaden the concept of black empowerment to include the companies which are actively involved in out-sourcing to historically underprivileged companies.

However, an encouraging point mentioned by all the pharmaceutical companies is that the traditional medicines sector is very lucrative to the extent that some companies are prepared to relocate to nearby countries in the Southern African Development Community to avoid MCC regulations and sell traditional medicines back into South Africa. Clearly, in such a scenario, South Africa would lose in terms of employment generation. Is this a desirable outcome, one would ask?

6. NECESSARY INSTITUTIONAL ARRANGEMENTS TO PROMOTE GOOD BUSINESS LINKAGES (POLICY IMPLICATIONS)

For the business linkages to be effectively implemented, it is vital that a number of issues are given some serious consideration. These issues revolve around the roles to be assumed by the various members in the marketing system. These are discussed as roles of the linkage promotion agencies, training institutions, pharmaceutical companies, and government.

For an efficient marketing system to be put in place which empowers the gatherers of the traditional medicinal plants, the following institutions are needed for efficiency.

6.1 A unified group of gatherers and traditional healers

The traditional healers and the gatherers in the country need to come together to form a national association to bring together the concerns of the members of the association. Encouragingly, since the time of the field studies, the representatives of the nine provinces in the country met and drew up a declaration to bring together all the regional organizations under one umbrella organization, the South African National Council for Traditional Medical Practitioners. This body should be broad enough to include the various associations of gatherers. This is important because no one group can effectively do everything in this sector. Each group of actors should be represented and a clear understanding of roles agreed on. This is the only way some order could come in this sector where *izinyanga* are turning on each other let alone the gatherers.

The formation of this apex organization should persuade the government to pass the legislation to fully recognize the contribution of traditional practitioners, as enshrined in the National Drug Policy of the Ministry of Health. This common voice is very vital for the government to take on board the valuable contributions from the sector. The government should be advised of the experiences in countries like Kenya where both traditional and modern medicines are considered to be important and continue to exist side by side to make health care available to a majority of people (Kavehed & Odhult, 1997).

In terms of the envisaged marketing system, the gatherers will be targeted as important players in the transfer of technology of growing traditional medicinal plants and herbs. It is hoped that a large number of gatherers and small-scale farmers see growing of the traditional medicinal plants as a viable income generating alternative. This is vital to ensure that the economic benefits spread to many people in the rural communities.

6.2 Land for growing traditional medicines

The underpinning of the business linkages mentioned above lies in the ability of the government to designate some land to the growers of traditional medicinal plants and herbs. The size of the allocated land should ensure that enough raw materials will be provided by involving a larger number of growers other than the traditional healers. This condition is very important for the economic benefits to spread to a wider section of the survivalists in the rural communities.

A submission has been made to government, without going through the structures which the government has created within the MCC to support the traditional medicines sector. The acceptance of these submissions by government will to some extent depend on the extent to which the appropriate directorates are involved. There is a need for assisting the association of traditional healers regarding proper ways of dialoguing with government.

6.3 Roles of different institutions in the transfer of technology in the growing of plants

A great deal of interest currently exists among ethno-botanists in cultivation of medicinal plants. The work of Prof. Van Staden in the Department of Botany at the University of Natal is worth noting. His research efforts are mainly aimed at developing methods of cultivating the medicinal plants and passing on this technology to small-scale farmers. Alongside such academic interests, a number of companies like Pharma Natura and organizations like the National Parks Board are very interested in transferring the growing technology to traditional healers etc. Pharma Natura point out that the growing of the traditional medicinal plants is not as difficult as people make it out to be and the example of the Swiss farmers support this.

6.4 The role of the pharmaceutical companies

As pointed out above, the pharmaceutical companies producing traditional medicine will be expected to provide adequate laboratories for testing the efficacy of medicines and assisting the traditional healers to develop new medicines. In addition to this they should have adequate storage facilities to preserve the harvested traditional medicinal plants. Lastly, their production capacities will have to expand so that the popular medicines required by the traditional healers and the customers are manufactured and put on the market.

For this to take place, a lot of trust has to exist between the companies and the traditional healers for the knowledge of traditional medicines to be provided for product development to take place. This trust will not develop by a mere policy being put in place. It will have to be the result of parties developing friendships and mutual confidence. Without this, suspicions will continue to exist and render any efforts at establishing business linkages worthless as the market for the gatherers would not exist. This linkage is important and should not be confused as an attempt at making traditional healers champions of the business linkages in the traditional medicines sector.

6.5 Roles of the local business support centres

The traditional healers range from being very small business people to very prosperous individuals with sufficient income to own aeroplanes and build airports to match Durban International Airport. Some hand-holding will be called for. Firstly for the small traditional healers, some support in terms of linking them with the pharmaceutical companies will be required. Secondly, business management training will be needed by the traditional healers for them to effectively link with the big buyers as equal partners. Thirdly, assistance in terms of resolving conflicts which might occur in the business linkages with the big buyers will be essential (support of the vulnerable group). Potentially, the local business support centres can provide these services or be in a better position to identify someone to provide the needed service.

6.6 Government policies

Act 101 (1965) has to be amended so that the traditional healers, the *sangomas* and gatherers are recognized as potential contributors in the economic development efforts. The creation of numerous committees by the MCC, such as the National Reference Centre and the

Complementary Medicines Committees, are useful initiatives but if their roles are not properly determined, this could lead to problems in getting things to move to desirable levels. The role of government in this respect is to ensure that policies put in place to regulate the traditional medicines are conducive and provide a level playing field for the full potential of the players in the traditional medicines to be unleashed.

7. CONCLUSION

The study has identified existing and potential business linkages in the traditional medicine sector. However, to make these linkages contribute to employment generation, government should support the entrance of the traditional medicine practitioners as important participants. It will also be important for the government to come up with policies which make it easy for the traditional healers to operate.

The suppliers and buyers in the pharmaceutical industry should stop dealing with each other at arm's length and forge ahead for the development of long-term mutually beneficial relationships based on trust. Without this, the interaction environment will be filled with suspicions and as such information exchange will be constrained. Above all, it will be important for each party to meet the expectations of the other parties.

Lastly, with adequate support from the LBSCs in providing the traditional healers with operational leverage, middlemen being active in providing links in the export and the local market, and the educational institutions and other organizations developing new techniques in growing traditional medicinal plants and transferring these to the traditional healers, gatherers and small-scale farmers, there is the potential of getting more people involved and of more income being made by all the players in this sector. (In Durban alone the gatherers generated as much as R1,8 million as income and had a potential of generating 1000 jobs per year). This sector has the potential and what remains to be done is to bring all the efforts of the researchers and government together for things to move. This seems to be a logical direction for the way ahead.

REFERENCES

- Bbenkele, E. 1997. The cultivation of traditional medicines and the improvement of marketing networks as a recommended strategy to reduce the conflict between users and resource managers: An extension of previous studies. In: Petkov, D., McEwan, T., Zondi.S., & de Waal, D. (eds). Proceedings of the ninth annual conference of the South Africa Institute for Management Scientists held at University of Natal, 2-3 June 1997 Pietermaritzburg, pp. 239-247.
- Bhat, M. 1996. Trade related intellectual property rights to biological resources: Socioeconomic implications for developing countries, *Ecological Economics*, (Amsterdam), 19(3): 205-217.
- Brevoort, P., 1996. The US botanical market: An overview. *Herbal Gram*, No. 36: 49-57.
- Brush, S & Stabinsky, D. 1996. Valuing local knowledge: Indigeneous people and intellectual property rights, Washington D.C, Island Press.
- Calloway, 1870. In *Religious systems of AmaZulu, Pietermaritzburg*. In A dictionary of South African English on historical principles. 1996. New York: Oxford University Press.
- Garden, R.J., 1852). Diary. 1851-53. (Killie Campbell, Africana Library, MS 29081) 21st April.
In: A ictionary of South African English on historical principles. 1996. New York:Oxford University Press.
- Hammond-Tooke, 1962. Bhaca Society, Cape Town,South Africa.
In: A dictionary of South African English on historical principles. 1996. New York: Oxford University Press.
- Kavehed, J. & Odhult, E., 1997. *An ethnobotanical study among the Masai of Loita Hills, Kenya*. Uppsala, Sweden.
- Longmore, L., 1959. *Dispossessed*. London. In: A dictionary of South African English on historical principles.1996. New York: Oxford Press.
- Mander, M.. 1996. The Russell Street and EzimbuziniMuthi Markets - A situation analysis. INR Investigational Report No 143.
- Rasselli, R. & Biorgi, P. de, 1994. Aromatic herbs of the Swiss mountains: Organizational, production and marketing aspects. In *atti Convegno Internazionale: Colvivazione e Miglioramento di piante officinali*, Trento, Italy. 2-3 Giugno.
- Shalala, D., 1996. Medicine use by Pilansburg traditional healers *The Journal of Modern Pharmacy*, Nov/Dec: 20-24.
- Weekly Mail*, 12th May, 1998.

**PROMOTING THE GROWTH OF
MICRO AND SMALL ENTERPRISES
THROUGH BUSINESS LINKAGES
IN THE NORTHERN PROVINCE**

June, 1998

FDK Anim and CL Machethe
University of the North
Department of Agricultural Economics
Sovenga, South Africa

ABSTRACT

The South African (SA) government puts special emphasis on the promotion of Micro and Small Enterprises (MSEs), particularly in the Northern Province, one of the poorest in SA, suffering some of the highest rates of unemployment. MSEs play an important role in poverty alleviation through development of employment and income generation in the non-farm sector.

This paper examines business linkages in the Northern Province of SA. Areas of focus include the distinguishing characteristics of small supplier businesses and the determinants of business linkages, as well as the constraints to establishing linkages and measures to be undertaken to remove these constraints. Establishing and strengthening linkages between small suppliers and large buyers is one way to promote the growth of MSEs. Large buyers can promote small suppliers by providing “buyer mentoring”.

The significance of socio-economic and other differences between buyers and sellers with and without business linkages was tested with a *t*-test. The insight into determining factors of business linkages and the factors limiting or preventing the growth of establishing business linkages were analyzed.

The research found that the linkages between small suppliers and large buyers are few, although interviews revealed that businesses with linkages tend to be more successful. Constraints to linkages identified included limited application of new technologies by small suppliers, lack of incentives promoting business linkages from the government, and poor quality and high prices of products supplied by small suppliers. The paper makes several recommendations to address these constraints including focusing on increasing the amount of support services by organizations such as Agricultural and Rural Development Corporation (ARDC) and Northern Province Development Corporation (NPDC), as well as providing training, skills development and access to new technologies to small suppliers.

Authors:

Francis Anim is a Senior Lecturer in the Department of Agricultural Economics at the University of the North, Sovenga, South Africa.

Charles Machethe [machethec@unin.unorth.ac.za] is Dean of the Department of Agricultural Economics at the University of the North, Sovenga, South Africa.

1. INTRODUCTION

Micro and small enterprises (MSEs) play an important role in development through employment and income generation. Promoting the growth of MSEs in developing countries is an effective way to alleviate poverty. Northern Province is one of the poorest provinces in South Africa and has one of the highest rates of unemployment. Although agriculture plays a crucial role in creating employment and income opportunities, to address the problems of unemployment and poverty adequately requires increased efforts to generate employment and income in the non-farm sector. Hence, the emphasis by the South African government on promoting the growth of MSEs.

One way to promote the growth of MSEs is to establish business linkages between small suppliers (mainly black-owned businesses) and large buyers (mainly white-owned businesses). Where such linkages already exist, efforts should focus on strengthening the linkages. Small suppliers may benefit from linkages in a number of ways. Business linkages can enable small suppliers to obtain loans from financial institutions which would not be possible because of lack of collateral. Small suppliers may gain access to capital provided by large buyers, either by receiving an advance payment for an order or raw materials for processing (Mead, 1994; Machethe et al., 1997). Business linkages also reduce search times for market outlets because the small supplier can target production to an identified market. Large businesses sometimes provide advice to small businesses to overcome the latter's shortcomings in some aspects of the production and distribution system. This is sometimes referred to as buyer mentoring. Business linkages may also entail outsourcing certain activities by large buyers to small suppliers.

Despite the importance of business linkages in promoting the growth of MSEs, empirical research on business linkages in the Northern Province is inadequate. This paper is an attempt to narrow the information gap. The broad objective of this study is to examine business linkages between small suppliers and buyers in the Northern Province. Specific questions addressed in the paper are:

- (a) What are the distinguishing characteristics of small supplier businesses with and without business linkages?
- (b) What are the determinants of business linkages? Knowledge of factors determining business linkages would point to possible measures that may be taken to promote the establishment or strengthening of business linkages.
- (c) Are there any constraints on the establishment or strengthening of business linkages? If such constraints exist, is there any role for development institutions such as the Agricultural and Rural Development Corporation (ARDC) and Northern Province Development Corporation (NPDC) to alleviate the constraints? Identifying possible constraints on the establishment or strengthening of business linkages is an important step in the process of removing such constraints to promote the growth of MSEs through business linkages. Knowledge of these constraints is necessary for policy makers, development institutions or donors to devise interventionist strategies to remove the constraints.

(d) What measures need to be taken to promote business linkages in the Northern Province? While answering (b) and (c) above enables us to understand the likely determinants of and possible constraints on business linkages, answering (d) would point to what policy makers and others need to do to promote business linkages.

2. DATA COLLECTION

Data for this study were obtained from interviews with small suppliers and buyers in the towns of Pietersburg and Potgietersrus, townships of Lebowakgomo, Mahwelereng, Mankweng and Seshego, and rural villages of GaMakanye and Nobody in the Northern Province. All suppliers interviewed are from rural villages or townships and associated with the NPDC. Buyers are located in towns or townships. All the suppliers had received assistance (financial or otherwise) from the NPDC. Quality Chicks, a supplier dealing with the sale of dressed chickens, at Lebowakgomo, was the only supplier associated with the ARDC interviewed. The manager could not be contacted and the information provided by one of the workers was not adequate to be included in the analysis. Buyers and suppliers were selected randomly and the sample included 35 buyers and 49 suppliers. Interviews were also conducted with officials of ARDC and NPDC to get an insight into the business activities of the corporations. In addition, existing documents describing the activities of the corporations were examined.

A list of businesses associated with the NPDC was obtained from the corporation. The small suppliers were sampled from the list. A large number of these small suppliers had access to support services like training, counselling and loans from the NPDC. These suppliers were required to identify a buyer(s) before the support services could be made available. The small suppliers were requested to supply names of buyers they had linkages with and these were included in the sample. A few buyers not necessarily identified by small suppliers were also included in the sample.

The small suppliers included in the sample were selected so as to represent a broad spectrum of business activities (sectors) as indicated in Table 1.

3. BACKGROUND ON THE ARDC and NPDC

The ARDC is a parastatal serving as the development arm of the Department of Agriculture, Land and Environment in the Northern Province. The corporation was established in 1996 when three former homeland corporations were amalgamated. The ARDC's head office is located in Thohoyandou (capital city of the former Venda homeland). The corporation has three regional offices located in Thohoyandou, Lebowakgomo (capital city of the former Lebowa homeland) and Giyani (capital city of the former Gazankulu homeland). Although the corporation itself is young, the three former homeland corporations had been in operation for decades. Thus, there is a wealth of experience within the corporation which can be tapped on to promote the growth of MSEs in the Northern Province.

The mandate of the ARDC is to promote agricultural and rural development in the Northern Province. Thus, the ARDC's mandate extends beyond the agricultural sector. In addition to

managing its own agricultural projects and agribusinesses, the ARDC also manages agricultural projects on behalf of the Northern Province Department of Agriculture, Land and Environment. Services provided by the ARDC include credit, marketing, mechanisation and extension. Although the ARDC does not have a division focussing on MSEs, some of the services it provides are aimed at assisting MSEs (particularly agribusinesses) to expand. In some cases, the corporation participates directly in the processing and marketing of agricultural products. For example, the corporation owns chicken slaughtering and fruit packing facilities. The corporation intends to transfer the ownership of these facilities to black people.

The NPDC is a parastatal serving as the development arm of the Department of Economic Affairs, Trade and Industry in the Northern Province. The NPDC has its headquarters at Lebowakgomo. The formation of the NPDC was the initiative of the Northern Province Government and was established in terms of the Corporation's Act Number 5 of 1994, effective 1 July 1996. The NPDC is an amalgamation of the development corporations which existed within the former homelands of Gazankulu, Lebowa and Venda. Although the objectives of these corporations were similar, various development approaches and governance structures evolved in each of them in terms of the focus that resulted from the strategies that were pursued.

The main objective of the NPDC is to, either directly or indirectly, promote and carry out the development of the Northern Province and its population in the commercial, financial and industrial fields, mining, public transport, tourism, training, housing and community development, and provide for matters incidental thereto. The NPDC is actively involved in promoting the growth of MSEs and has a division responsible for providing services to MSEs. The core activities of the NPDC related to MSEs include the provision of market information, training services, financing, business counselling, technological support, and business planning (NPDC, 1998). Some of these support services are provided directly by the NPDC while others are sub-contracted (e.g. to local business service centres). The aim of local business service centres is to provide non-financial assistance to the business community, particularly the MSE sector.

In addition to providing support services for MSEs, the NPDC also participates directly in the market. For example, the corporation runs a bus company and owns motor garages. The corporation also operates other types of businesses including bakeries and retail shops. Some of the businesses owned by the NPDC have been privatised over the years while others are in the process of being privatised. Ownership of these privatised businesses has been transferred to black people.

4. METHODOLOGY

A *t*-test (with *P*-value) is performed on the means of variables for suppliers with and without business linkages to determine whether there are significant differences between these variables. Discriminant analysis is used to identify factors which determine whether suppliers will have business linkages or not. The results of discriminant analysis should also enable us to identify possible constraints on business linkages.

4.1 *T*-test

A *t*-test is usually used when dealing with small samples, usually fewer than 30 cases. However, according to Behr (1983), it can also be used for large samples with more than 30 cases. Since the sample in this study involves 35 buyers and 49 suppliers, the *t*-test can be considered appropriate.

To test the null hypothesis that variable scores for each group in the sample are the same, the following *t*-statistic was calculated:

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{S_1^2}{N_1} + \frac{S_2^2}{N_2}}}$$

X_1 and X_2 = sample means of suppliers or buyers with and without linkages, respectively;

S_1^2 and S_2^2 = variance of sample means of suppliers or buyers with and without linkages, respectively;

N_1 and N_2 = sample size for suppliers or buyers with and without linkages, respectively.

Based on the sampling distribution of the above statistics, the probability that a difference at least as large as the one observed would occur if the two sample means are equal, was calculated. If the observed significance level is small enough (usually $P < 0,05$, or $P < 0,001$), the null hypothesis is that the sample means are equal is rejected.

4.2 Discriminant analysis

Discriminant analysis is used to predict group membership of small suppliers (i.e. whether they belong to the group with or without business linkages). The independent variables include socio-economic and other characteristics of the small suppliers. Discriminant analysis weighs and combines discriminating variables measuring characteristics on which groups of cases are expected to differ in a linear function that maximizes differences. Information contained in multiple independent variables is summarized in a single score (Norusis, 1990).

To solve for a discriminant function score, the basic formula for the i th function is:

$$D_i = \phi_{i1}V_1 + \phi_{i2}V_2 + \phi_{i3}V_3 + \dots + \phi_{ip}V_p$$

where

D_i = the i th discriminant function,

V_i = predictor variables,

ϕ_i = standardized discriminant function coefficients.

Finding the ϕ_i is basically a problem in canonical correlation, where successive discriminant functions are solved. The ϕ_i are chosen so as to maximize differences between groups relative to differences within groups. Just as in multiple regression, the equation can be formulated on the basis of raw scores as well as standardized scores. A discriminant function score can also be produced by multiplying the raw score on each predictor variable by its associated unstandardized weight, adding the products over all predictor variables, and adding a constant to adjust the means. The score produced in this way is the same D_i as produced in the equation above (Tabachnick and Fidell, 1983).

Since the standardised mean of each of the variables is zero, the mean of each discriminant function, combining data over all cases, will be zero. Furthermore, the standard deviation of D_i is equal to 1. If there are only two groups as in this example, then one discriminant function could be used to classify cases into two groups.

The mean value of D_i can also be calculated for each group. That is, the members of each group considered together will have a mean score on D_i that is the discriminant function. The number of discriminant functions is limited by the number of groups or number of predictor variables -- it is the smaller of either the number of predictor variables.

4.2.1 Discriminant analysis model

Selected socio-economic and other variables described in Table 2 are used in discriminant analysis to categorise suppliers as having or not having business linkages. The discriminant model can be specified as:

$$\begin{aligned} BUY = & \phi_1CHILDREN^* + \phi_2FAMILY^* + \phi_3SECOND^* + \phi_4SOLE^* + \phi_5BPLAN^* + \\ & \phi_6UNION3^* + \phi_1COSATU^* + \phi_3LARGE^* \phi_2OBUYER^* + \phi_3MORE^* + \phi_4FORMAL^* \\ & + \phi_1ADVICE^* + \phi_2COUNSEL^* + \phi_3MANAGERL^* + \phi_4TECHNICL^* + \phi_5FINANCIL^* \\ & + \phi_6EXPECT^* + \phi_1CREDIT^* + \phi_2TIME^* + \phi_3VOLUME^* + \phi_3LIMITED^* + \\ & \phi_4POORPROD^* + \phi_1OTHERS^* + \phi_2LACKOFTP^* + \phi_3LACKGVT^* + \phi_4NOMATCH^* \\ & + \phi_5INTERMID^* + \phi_6DONOTK^* + u \end{aligned}$$

where

BUY = supplies product or service to a buyer (yes=1, no=0);

ϕ = weighting coefficients;

- u = stochastic error term; and
- * = standardized values (coefficients are standardized to adjust for the unequal means and standard deviations of the independent variables).

All other variables in the model are as defined in Table 2.

Rather than using all available variables, only those variables that appeared to be statistically significant in the separate variance analysis of the mean values were chosen as potential discriminating variables (Klecka, 1973). This was done to minimize the influence of irrelevant differences between the two groups. Stepwise discriminant analysis was then used to eliminate the less discriminating variables before performing the final discriminant analysis. Rao's method was used as the stepwise criterion (Norusis, 1990).

The following are expected to affect business linkages and, therefore, appear as explanatory variables in the discriminant model:

- level of education attained by the business operator/manager/owner (SECOND);
- timeliness of delivery to buyers (TIME);
- number of family members in the business (FAMILY);
- sole proprietorship of the business (SOLE);
- drawing up of a business plan (BPLAN);
- whether the business has supplied goods or services to a big buyer (LARGE);
- whether the small supplier previously sold to large buyers (OBUYER);
- whether buyer provides advice (ADVICE);
- business counselling (COUNSEL);
- managerial training (MANAGERL);
- technical training (TECHNICAL); and
- volume of sales from the small business (VOLUME).

Other variables were included in the model as control variables.

5. RESULTS AND DISCUSSION

This section presents and discusses the results of the analysis. First, the results of the *t*-test performed to determine whether there are significant differences in the socio-economic and other characteristics of buyers and sellers with and without business linkages are presented and discussed. Second, the results of discriminant analysis providing an insight into what might determine whether small suppliers have business linkages or not are presented. The results of the discriminant analysis also provide an indication of the factors which might limit the growth or prevent the establishment of business linkages involving small suppliers.

5.1 Differences between small suppliers with and without linkages

The small suppliers interviewed are almost equally divided between those with and those

without business linkages: 24 had linkages while 25 had no linkages. The separate variance estimates of the means of selected variables for the two groups of suppliers are shown in Table 3 below.

Statistically significant differences between the two groups are in the number of children of the business operator, number of family members employed in the business, level of education achieved by the business operator (primary and secondary education). Factors such as formal management training, business experience (i.e. whether the business operator worked for someone else in a similar business), age, gender and marital status do not seem to be important in differentiating those businesses with from those without business linkages.

Small suppliers with business linkages have a larger number of children and family members employed in the business. This could suggest that these businesses are in a more advantageous position in terms of labour required to produce goods and services sold to buyers than small suppliers without linkages. Employment of more family members in the business could also contribute to small businesses with linkages being more profitable than those without linkages as they do not have to pay high wages. Small suppliers with business linkages have a higher level of education than those without linkages. This suggests that education is positively associated with business linkages.

Table 4 shows the differences in the mean values of variables describing the business details of the small suppliers. Major differences between suppliers with and those without business linkages are in the following: sole proprietorship of the business, having drawn up a business plan, recognition of a trade union by the business⁹, and whether the business has supplied products or services to a big business.

There were more entrepreneurs who were sole proprietors in the group with linkages than in the group without linkages. This could mean that linkages are easier to establish in sole proprietorships because of less complex decision-making than in partnerships (i.e. decision-making in partnerships involves higher transaction costs than in sole proprietorships).

The proportion of small suppliers that had drawn up business plans was higher among suppliers with than in those without business linkages. This could suggest that suppliers that drew up business plans were the more successful ones and buyers were interested in establishing linkages with them. Furthermore, selling to other businesses requires some sophistication and the more sophisticated will often have drawn up business plans.

There was a larger proportion of businesses that had a recognition agreement with workers in businesses with linkages than in those without linkages. This could mean that buyers prefer to have linkages with businesses that have a recognition agreement. Perhaps buyers regard recognition with a trade union as an indication of stability in the supply of goods and services

¹ Formal recognition of a trade union by the employer means that the employer considers the union to be the representative of employees that are members of the union. This usually involves both the employer and the trade union to enter into a formal agreement which stipulates inter alia conditions under which a labor strike can be considered legal.

by small businesses.

The results indicate that small businesses with linkages tend to be those that have done business with large businesses before. This suggests that buyers prefer establishing linkages with small suppliers that have had dealings with other buyers. This also implies that once a small supplier starts selling to another business, it becomes easier for the supplier to find an additional buyer. Business linkage experience seems to be an important consideration for buyers in deciding whether to establish linkages with small suppliers.

The majority of small businesses with linkages indicated that buyers provided advice, business counselling, financial training and credit (Table 5). These services were aimed at helping small suppliers to become successful businesses. Although it is not evident from the results presented in Table 5, it was established during interviews that those businesses with linkages tend to be the more successful ones. On the other hand, small suppliers that had linkages (but terminated them) tend to be those that were less successful. This could suggest that buyers prefer to do business with successful small suppliers and are prepared to make them more successful by providing support services because this would also benefit the buyers.

Both small suppliers with and without linkages considered the following factors as important in satisfying buyers: good price, good quality, timeliness of delivery and volume of sales of products (Table 5). However, the proportion of small suppliers that indicated that these factors were important was higher among small suppliers with linkages than in those without linkages.

5.2 Determinants of business linkages

Table 6 presents the results of the discriminant analysis and provides an indication of the factors which might determine business linkages between small suppliers and buyers. Some of the variables were included in the model as control variables and do not necessarily determine business linkages. The results of the analysis indicate that variables which significantly affect business linkages include the number of family members in the business (FAMILY), level of education of the business operator (SECOND), sole proprietorship of the business (SOLE), drawing up of a business plan (BPLAN), whether the business has supplied goods or services to a big buyer (LARGEB), whether the small supplier previously sold to large buyers (OBUYER), whether the buyer provides advice (ADVICE), business counselling (COUNSEL), managerial training (MANAGERL), and technical training (TECHNICL), timeliness of delivery of goods or services (TIME), and volume of sales from the small supplier (VOLUME).

The relatively low Wilk's Lambda (0,39) and high canonical correlation (0,78) suggest that most discriminating information has been extracted by the selected variables (Klecka, 1973). The function classified 89,80% of the overall cases correctly. These results confirm the results obtained in the separate variance analyses.

5.3 Constraints on business linkages

The means of variables representing perceived constraints on the expansion and improvement of linkages are presented in Tables 7 and 8. All suppliers considered limited application of new technology, poor product quality, unreliable delivery of goods or services, and high product prices as important constraints on linkages. The proportion of suppliers who identified the above as important constraints did not differ significantly between those with and those without linkages except for limited application of new technology and poor product quality—the proportion was higher for suppliers with linkages. Among 49 respondents, 88% and 75% of suppliers with linkages considered limited application of new technology and poor product quality as important constraints on the expansion of linkages, respectively. The corresponding proportions for suppliers without linkages are 60% and 30%.

Most suppliers with linkages (67%) considered the matching of requirements of buyers and suppliers as a constraint on the expansion of linkages when considering the issue of intermediaries in linkages. This is an indication that suppliers consider intermediaries as not helpful in solving their problems. Suppliers also consider the issue of intermediaries not selling their services aggressively as one of their major constraints. In the linkages group, 58% compared with 32% in the no linkage group considered this factor as a constraint. It was not surprising that 83% of the linkage group compared with 48% in the no linkage group indicated that they did not know of any intermediary agency.

As regards buyers, it seems that certain factors impede them from establishing linkages with small suppliers (Table 8). The majority of buyers that indicated that they did not have linkages with small suppliers do have linkages with large suppliers. Although the same issues that were identified as important constraints by small suppliers were also identified by buyers, limited application of new technologies by small suppliers was mentioned by most buyers (with and without linkages) as a constraint on business linkages. The proportion of buyers without linkages with small suppliers that considered limited application of new technologies as an impediment to business linkages was 62%. The majority of buyers (89%) with linkages with small suppliers also indicated that limited application of new technologies by small suppliers was an impediment to linkages.

It is worth noting that issues of product quality, price and delivery are important for suppliers with linkages but less important for suppliers without linkages and buyers. This could suggest that these issues become important as suppliers get involved in linkage activities.

Lack of incentives (e.g. tax rebates and subsidies) on the part of the government was mentioned by a little over half the buyers without linkages with small suppliers as an important constraint on linkages; but is viewed as unimportant by most of the buyers with linkages with small suppliers. This could suggest that lack of incentives on the part of government is not the real reason for buyers not to have linkages with small suppliers.

6. CONCLUSIONS AND RECOMMENDATIONS

Although the businesses included in the sample in this study may not be representative of buyers and small suppliers in the Northern Province, it seems reasonable to suggest that linkages between small suppliers and buyers (especially large ones) are few. Large buyers tend to do business with suppliers other than small supplier businesses owned by blacks. A number of constraints on linkages between buyers and small suppliers have been identified by both buyers and suppliers interviewed in this study. These include limited application of new technologies by small suppliers, lack of incentives from government promoting business linkages with small suppliers, poor quality of products from small suppliers, and high prices for products supplied by small suppliers. Therefore, it may be concluded that linkages between small suppliers and buyers have had a limited impact on development in the Northern Province and more efforts need to be directed at promoting such linkages. Promoting the growth of MSEs through business linkages will require that constraints on linkages be removed.

The following recommendations, if implemented, could address some of the constraints on business linkages in the Northern Province:

- 1) **Access to support services.** The majority of small businesses with linkages indicated that they received support services such as business counselling, credit, financial training, managerial training and technical training. These services seem to have contributed to the success of the suppliers and this, in turn, encouraged the establishment of linkages. Therefore, it may be argued that the provision of support services to small suppliers in the Northern Province could contribute indirectly to the establishment and strengthening of linkages by making such suppliers more successful. However, for the support services to have the desired impact on linkages, it is important that these services be targeted to those suppliers that are likely to be successful in using them. Thus, organizations such as the ARDC and NPDC should not only focus on increasing the amount of support services, but should also ensure that the services go to those that are likely to achieve success.
- 2) **Policy initiatives for encouraging business linkages.** Although lack of incentives on the part of government to encourage large buyers to establish linkages with small suppliers was identified as one of the constraints on linkages, we are not convinced that such incentives would promote linkages between large buyers and small suppliers. Government efforts should rather be directed at helping small suppliers to be successful businesses. This could be achieved through the provision of support services such as training.
- 3) **Access to improved technologies.** The use of new technologies is important for small suppliers to deliver products of the right quality to buyers. Since the limited use of improved technologies was considered to be a major constraint on linkages with small suppliers, the ARDC and NPDC could play a much more meaningful role in ensuring that such technologies are available to the small suppliers. This could be achieved by providing support services as indicated above. Delivering products of the right quality to buyers could assist in strengthening existing linkages by raising the demand for

products from small suppliers. Application of improved technologies would also help small suppliers to reduce prices of their products by reducing production costs.

- 4) **Improving the level of education of suppliers.** The findings of the study indicate that operators of small supplier businesses with linkages have a higher level of formal education than those without linkages. Therefore, it would seem that efforts to raise the level of education of operators of supplier businesses would make a positive contribution to the establishment of business linkages. The ARDC, NPDC in conjunction with government and large buyers could make a meaningful contribution in this regard. Through such efforts, owners of supplier businesses would be able to draw business plans which appear to be important in the establishment business linkages.
- 5) **Awareness of buyers' requirements.** Poor quality of products from small suppliers was identified as one of the constraints on business linkages. A possible reason for this could be that small suppliers are not aware of the requirements of buyers regarding the quality of products. Besides improving the quality of the products from small suppliers by ensuring access to improved technologies, the ARDC and NPDC could contribute to improved product quality by bringing together suppliers and buyers. This would ensure dialogue between buyers and small suppliers regarding the expectations of buyer on product quality. The ARDC and NPDC could use their limited resources to provide support services that would assist suppliers who have potential markets but not the skills or abilities to strengthen their ability to meet the demands of those markets. The success of such efforts to meet the demands of large buyers could attract more resources from these buyers to augment those provided by the ARDC and NPDC.

7. SUMMARY

The main objective of the study was to examine business linkages between small suppliers and buyers in the Northern Province. Promoting the growth of micro and small enterprises is an effective way to generate employment and income.

Data for the study were collected from interviews with supplier business entrepreneurs associated with NPDC and buyers not associated with the corporation. Some of the information used in the study was gathered from interviews with officials of the ARDC and NPDC and from existing documents at the two corporations. The sample included 35 buyers and 49 suppliers and represented a broad spectrum of business activities.

The analysis of the data involved the use of a t-test and discriminant analysis. The results of the study indicate that there are few linkages between large buyers and small suppliers. Thus, the extent of linkages can be considered inadequate to promote the growth of micro and small enterprises. A number of constraints are considered to be responsible for the limited success achieved in establishing and strengthening business linkages

To promote the growth of micro and small enterprises through business linkages, it is

recommended that the constraints be removed through (a) targeted access to support services from government, parastatals or private sector; (b) improved small suppliers' access to improved technologies; (c) raising the level of education of small business entrepreneurs; and (d) improved awareness of small suppliers of the requirements of buyers regarding the quality of products.

REFERENCES

- Behr A L (1983). Empirical research methods for the human sciences. Butterworth, Durban.
- Klecka W R (1973). Statistical package for social sciences. Second edition. McGraw-Hill Book Company, New York.
- Machethe C L, Reardon T and Mead D (1997). Promoting farm/non-farm linkages for employment of the poor in South Africa: A research agenda focussed on small-scale farms and agroindustry. *Development Southern Africa* 14(3).
- Mead D (1994). The contribution of small enterprises to employment growth in southern and eastern Africa. *World Development* 22(12).
- Northern Province Development Corporation (NPDC) (1998). Development of a provincial SMME development strategy. Research and Policy Department, Lebowakgomo.
- Norusis M J (1990). Statistical package for social sciences (SPSS), Advanced Statistics User's guide. SPSS Inc. New York.
- Tabachnick B G and Fidell L G (1983). Using multivariate statistics. Harper and Row, New York.

Appendix I

Information on buyers (n = 35)

| Locality | Trading name | Core activity | Employment |
|---------------|----------------------------|---------------------|------------|
| Pietersburg | World Meat Butchery | Meat | 28 |
| Pietersburg | Foschini | Clothing | 6 |
| Pietersburg | Smileys | General Goods | 4 |
| Pietersburg | Pep's Store | General Goods | 6 |
| Pietersburg | Sonpras | General Goods | 5 |
| Pietersburg | Power Sales | General Goods | 4 |
| Pietersburg | Tiptoze | Shoe store | 3 |
| Pietersburg | Happy Homes | Building Materials | 18 |
| Potgietersrus | Ismail Wholesales | General Goods | 88 |
| Potgietersrus | Power Sales | General Goods | 8 |
| Potgietersrus | Amsons | Building Materials | 16 |
| Potgietersrus | Makapane Bottle Store | Liquor | 10 |
| Potgietersrus | Santa Lu Butchery | Meat | 11 |
| Potgietersrus | Lusitance | Fruits & vegetables | 6 |
| Potgietersrus | G.Ps Cafe & Take Away | Food and Drinks | 2 |
| Potgietersrus | Tan Butchery | Meat | 7 |
| Potgietersrus | Pick A Light & Bath Centre | Plumbing materials | 6 |
| Potgietersrus | Score Supermarket | General Goods | 37 |

Information on buyers (continued) (n = 35)

| Locality | Trading name | Core activity | Employment |
|-----------------|-------------------------|----------------------|-------------------|
| Lebowakgomo | Super Meat | Butchery | 6 |
| Lebowakgomo | Pick a Pair | Shoe Store | 2 |
| Lebowakgomo | Just Bread | Baking Bread | 8 |
| Lebowakgomo | Kings Dry Clean | Sewing | 2 |
| Lebowakgomo | Action Plastics | Plastics | 3 |
| Lebowakgomo | Modipadi | Fast Foods | 5 |
| Lebowakgomo | Lebowakgomo Wholesalers | Confectionery | 5 |
| Lebowakgomo | Buscuit King | Baking | 4 |
| Lebowakgomo | Anda Braaikuikers | General Goods | 6 |
| Lebowakgomo | Pep Store | Clothing | 10 |
| Lebowakgomo | King Pie | Baking | 3 |
| Lebowakgomo | Josa Bloemiste | Florist | 3 |
| Lebowakgomo | Katlego Dressmaker | Sewing | 4 |
| Lebowakgomo | Mokopane Tombstone | Tombstones | 4 |
| Nobody | Mathibaskraal Hardware | Hardware | 25 |
| Nobody | Mankweng Ice Cream | Dairy Products | 1 |
| Mankweng | Turfloop Butchery | Butchery | 4 |

Appendix II

Information on suppliers (n = 49)

| Locality | Trading name | Core activity | Employment |
|-------------|----------------------|---------------------|------------|
| Pieterburg | Budget Building | Hardware | 11 |
| Pietersburg | The Boxer | Hardware | 3 |
| Pietersburg | Bonanza | General Goods | 4 |
| Pietersburg | Masakhane | Hardware | 8 |
| Pietersburg | Bargain | General Goods | 8 |
| Pietersburg | Imsons | Hardware | 3 |
| Pietersburg | Limpopo | Hardware | 8 |
| Pietersburg | Bonds | General Goods | 4 |
| Mahwelereng | K. Betty | Hand Crafts | 1 |
| Mahwelereng | Skhasimbe | Steel Works | 1 |
| Mahwelereng | Big Moss | Electrical | 6 |
| Mahwelereng | Velly | Fruits & Vegetables | 2 |
| Mahwelereng | Aphane | Tailoring | 2 |
| Mahwelereng | Noko | Butchery | 3 |
| Mahwelereng | Maringa | Sewing | 1 |
| Mahwelereng | R.T. Welding | Welding | 2 |
| Mahwelereng | Azael | Fruits & Vegetables | 2 |
| Mahwelereng | Kopanang | Bricks Making | 2 |
| Seshego | Rapholo | Sewing | 1 |
| Seshego | Mpho | Sewing | 1 |
| Seshego | Kgobu | Metal Works | 4 |
| Seshego | S & Enterprise | Book Keeping | 3 |
| Seshego | Lebowa | Uphostery | 8 |
| Seshego | Ledwaba | Dress Making | 2 |
| Seshego | N.J. Ngwasheng | Sewing | 1 |
| Seshego | The Sky is the Limit | Sewing | 5 |
| Seshego | R.R. & Daughters | Sewing | 4 |
| Lebowakgomo | Ledwaba | Coffins | 12 |

Information on suppliers (n = 49)

| Locality | Trading name | Core activity | Employment |
|-----------------|----------------------------------|----------------------------|-------------------|
| Lebowakgomo | Lebowa Retreaders | Retreaders | 43 |
| Pietersburg | Lucky Discount | Hardware | 4 |
| Nobody | Mathibaskraal Auto Elec. | Auto Electrician | 5 |
| Nobody | Setswika Glass work | Glazing | 4 |
| Nobody | Sekitla Scrapyard | Rebuilding Cars | 2 |
| Nobody | Mathibaskraal Hardware | Hardware | 25 |
| Nobody | Village Cobbler | Shoe Repairs & Seat Covers | 2 |
| Nobody | D.K's Welding Works | Welding | 2 |
| Nobody | Alpha Furniture Manufacture | Wood work | 4 |
| Nobody | Bahlalerwa Cane | Basket Making | 4 |
| Nobody | Kgomo - a- Ngata | Wood work & Welding | 10 |
| Nobody | T.K. Steel works | Welding | 8 |
| Nobody | Brick Manufacturing | Bricks manufacturing | 6 |
| Nobody | Thobela Hardware | Hardware | 4 |
| Nobody | T.K. Classmaster | Glazing | 1 |
| Nobody | Sophy's Hair Salon | Hair Dressing | 2 |
| Nobody | Ga-Makanye Panelbeaters | Welding and Panel beating | 6 |
| Nobody | M.M Enterprise | Fabrics | 2 |
| Nobody | Mokgobu Supermarket | General goods | 34 |
| Nobody | Mankweng King Pie | Trading/Confectionery | 3 |
| Mankweng | Sovenga Hot Bread and take-aways | Bakery | 10 |

TABLES

Table 1: Business sectors and number of suppliers

| Economic sector | Number of suppliers |
|-----------------|---------------------|
| Manufacturing | 18 |
| Services | 14 |
| Trade | 9 |
| Construction | 8 |
| Total | 49 |

Table 2: Definitions of variables used in the discriminant analysis

| Variable name | Variable description | Variable type | Variable range |
|------------------|--|---------------|---------------------|
| | <i>1. Personal background of the business operator/owner/manager:</i> | | |
| CHILDREN | Number of children | Continuous | 0-14 Children |
| FAMILY | Number of family members in business | Continuous | 0-6 Persons |
| SECOND COSATU | Highest education attained: Secondary education | Dichotomous | 1=Yes; 0= Otherwise |
| | <i>2. Business details:</i> | | |
| SOLE | Legal entity: Sole proprietor | Dichotomous | 1=Yes; 0=Otherwise |
| MORE | Sell to more than 4 buyers | Dochotomous | 1=Yes; 0= Otherwise |
| BPLAN | Ever drawn up a business plan | Dichotomous | 1=Yes; 0=Otherwise |
| UNION | Workers unionised | Dichotomous | 1=Yes; 0=Otherwise |
| COSATU | COSATU affiliated | Dichotomous | 1=Yes; 0= Otherwise |
| LARGEB | Supply product/service to a big company | Dochotomous | 1=Yes; 0=Otherwise |
| OBUYER | Previously sell product/service to other large buyers | Dichotomous | 1=Yes; 0=Otherwise |
| FORMAL | Prefer formal arrangement with big buyers | Dichotomous | 1=Yes; 0= Otherwise |
| ADVICE | Buyer provide advice | Dichotomous | 1=Yes; 0=Otherwise |
| COUNSEL | Buyer provide counselling | Dochotomous | 1=Yes; 0=Otherwise |
| MANAGERL | Buyer provide managerial training | Dichotomous | 1=Yes; 0= Otherwise |
| TECHNICL | Buyer provide technical training | Dichotomous | 1=Yes; 0=Otherwise |
| FINANCIL | Buyer provide financial service | Dichotomous | 1=Yes; 0=Otherwise |
| EXPECT | Any expectations | Dochotomous | 1=Yes; 0= Otherwise |
| CREDIT | Buyer provide credit (e.g. Loans) | Dichotomous | 1=Yes; 0=Otherwise |
| TIME | Timeliness of delivery | Dichotomous | 1=Yes; 0=Otherwise |
| VOLUME | Volume of sales | Dichotomous | 1=Yes; 0= Otherwise |
| | <i>3. On Linkages generally: Impediments to the expansion of linkages:</i> | | |
| LIMITED | Supplier issue: Limited application of new technology | Dochotomous | 1=Yes; 0=Otherwise |
| POORPROD | Poor product quality | Dichotomous | 1=Yes; 0= Otherwise |
| OTHERS | Other factors | Dichotomous | 1=Yes; 0=Otherwise |
| LACKOFTP | Buyer issue: Lack of top mgt commitment and support | Dochotomous | 1=Yes; 0= Otherwise |
| LACKGVT | Lack of government incentives | Dichotomous | 1=Yes; 0=Otherwise |
| NOTMATCH | Intermediary issues: Not matching requirements | Dichotomous | 1=Yes; 0=Otherwise |
| INTERMID | Not selling their services aggressively enough | Dochotomous | 1=Yes; 0= Otherwise |
| DONOTK | Do not know | Dichotomous | 1=Yes; 0=Otherwise |

Table 3: T-test of means of variables: suppliers with linkages and with no linkages with big buyers

(i) Personal background of business operator/owner/manager

| | Mean of responses | Mean of responses | Separate variance estimate | |
|--|-------------------|--------------------|----------------------------|---------|
| Variable* | Linkages (n=24) | No Linkages (n=25) | t-value | P-value |
| Males (%) | 7.9486e+32 | 6.844e+32 | -0,88 | 0,39 |
| Age (years) | | | -1,36 | 0,18 |
| Married (%) | | | 1,27 | 0,21 |
| Number of children (number) | | | -2,47 | 0,19 |
| Number of family members employed in business (number) | | | -2,43 | 0,02 |
| Primary education (%) | | | -2,59 | 0,01 |
| Secondary education (%) | | | -2,05 | 0,05 |
| Tertiary education (%) | | | -0,40 | 0,69 |
| Formal management training (%) | | | 0,19 | 0,85 |
| Employed before starting business (%) | | | -0,90 | 0,38 |
| Worked for someone else in the same business (%) | | | -0,30 | 0,77 |

* Percentages do not add up to 100 because respondents gave more than one answer.

Table 4: T-test of means of variables: suppliers with linkages and with no linkages with big buyers

(ii) Business details

| Variable | Mean of response | Mean of response | Separate variance estimate | |
|---|------------------|--------------------|----------------------------|---------|
| | Linkages (n=24) | No Linkages (n=25) | t-value | P-value |
| Duration of business (years) | - | - | - | - |
| Legal entity: | | | | |
| Sole proprietor (%) | 0,90 | 0,36 | -2,43 | 0,02 |
| Partnership (%) | 0,10 | 0,64 | 1,35 | 0,18 |
| Close corporation (%) | - | - | - | - |
| Gender of owners: | | | | |
| Males only (%) | 0,70 | 0,64 | -0,50 | 0,61 |
| Females only (%) | 0,09 | 0,06 | -1,09 | 0,28 |
| Husband and wife (%) | 0,05 | 0,02 | -1,16 | 0,25 |
| Males and females (%) | 0,16 | 0,28 | -1,27 | 0,21 |
| Number of management staff (number) | 1,46 | 1,44 | -0,07 | 0,94 |
| Number of supervisors (number) | 0,95 | 0,86 | -0,29 | 0,77 |
| Number of workers (%) | 9,92 | 6,36 | -1,50 | 0,14 |
| Number of workers when business started (number) | - | - | - | - |
| Ever drawn up a business plan (%) | 0,63 | 0,24 | -2,89 | 0,00 |
| Negotiated financing facilities at a commercial bank (%) | 0,63 | 0,40 | -1,58 | 0,12 |
| Ever been successful (%) | 0,88 | 0,69 | -1,22 | 0,24 |
| Business registered as: | | | | |
| Provisional taxpayer (%) | - | - | - | - |
| VAT (%) | 0,67 | 0,68 | -1,61 | 0,12 |
| PAYE/SITE (%) | 0,33 | 0,32 | -0,71 | 0,48 |
| JSB levies (%) | - | - | - | - |
| Industrial council (%) | - | - | - | - |
| Workers unionised (%) | - | - | - | - |
| Recognition with a Trade Union (%) | 0,54 | 0,20 | -2,59 | 0,01 |
| COSATU affiliated (%) | 0,16 | 0,13 | -0,34 | 0,73 |
| Supply products or service to big company (%) | 0,50 | 0,20 | -2,17 | 0,03 |
| Previously sold products/services to other large buyers (%) | 0,50 | 0,20 | -2,27 | 0,02 |
| Sell products/services to: | 0,56 | 0,08 | -3,93 | 0,00 |
| One buyer (%) | - | - | - | - |
| 2-3 buyers (%) | 0,25 | 0,14 | 0,44 | 0,66 |
| More than 4 Buyers (%) | 0,75 | 0,86 | -2,93 | 0,00 |
| Prefer formal arrangement with big buyers (%) | 0,96 | 0,53 | -3,46 | 0,00 |
| Prefer informal arrangement with big buyers (%) | - | - | - | - |

* Percentages do not add up to 100 because respondents gave more than one answer.

Table 5: T-test of means of variables: suppliers with linkages and with no linkages with big buyers
(iii) Buyer mentoring

| | Mean of response | Mean of response | Separate variance estimate | |
|---|------------------|--------------------|----------------------------|---------|
| Variable | Linkages (n=24) | No Linkages (n=25) | t-value | P-value |
| Did/does the buyer provide you with: | | | | |
| Advice (%) | 0,96 | 0,16 | -2,12 | 0,04 |
| Counselling (%) | 0,70 | 0,36 | -2,02 | 0,05 |
| Financial training (%) | 0,58 | 0,23 | -2,07 | 0,05 |
| Provide credit (%) | 0,72 | 0,31 | -2,41 | 0,02 |
| Provide loans for repayment for raw materials (%) | 0,25 | 0,31 | 0,35 | 0,73 |
| Any expectations (%) | 0,16 | 0,07 | -0,84 | 0,41 |
| Does buyer provide settling a/c earlier terms (%) | 0,23 | 0,10 | -0,83 | 0,42 |
| Pay on time (%) | 0,43 | 0,50 | 0,40 | 0,69 |
| Factors most important in satisfying big buyer: | | | | |
| Best price (%) | 0,61 | 0,62 | 0,07 | 0,95 |
| Quality (%) | 0,88 | 0,68 | -1,66 | 0,10 |
| Quality (%) | 0,79 | 0,68 | -0,88 | 0,39 |
| Timeliness of delivery (%) | 0,88 | 0,52 | -2,88 | 0,01 |
| Volume of sales (%) | 0,79 | 0,55 | -1,79 | 0,08 |

* Percentages do not add up to 100 because respondents gave more than one answer.

Table 6: Estimated discriminant function: suppliers with linkages and with no linkages with big buyers

| Discriminating | | Group means | | |
|---|--------|---------------------------------|------------------------------------|-----------------------|
| Variable Coefficient | | Linkage (n ₁ =24) | No Linkage (n ₂ =25) | Univariate F-value |
| CHILDREN | 0,14* | 5,67 | 3,68 | 6,227 |
| FAMILY | 0,24* | 2,20 | 1,08 | 5,317 |
| SECOND | 0,27* | 0,79 | 0,52 | 4,165 |
| SOLE | 0,28* | 0,92 | 0,64 | 5,801 |
| BPLAN | 0,39** | 0,63 | 0,24 | 8,376 |
| UNION | 0,30* | 0,54 | 0,20 | 6,746 |
| COSATU | 0,22* | 0,50 | 0,16 | 5,856 |
| LARGE | 0,35** | 0,50 | 0,00 | 11,99 |
| OBUYER | 0,33* | 0,50 | 0,20 | 5,180 |
| MORE | 0,35** | 0,75 | 0,36 | 8,532 |
| FORMAL | 0,55** | 0,96 | 0,16 | 22,48 |
| ADVICE | 0,25** | 0,42 | -0,24 | 8,740 |
| COUNSEL | 0,28** | 0,25 | -0,36 | 8,155 |
| MANAGERL | 0,17** | 0,21 | -0,40 | 7,618 |
| TECHNICL | 0,26* | 0,21 | -0,36 | 6,706 |
| FINANCIL | 0,32* | 0,29 | -0,32 | 7,083 |
| EXPECT | 0,17** | 0,21 | -0,40 | 7,618 |
| CREDIT 0,11 | | 0,04 | -0,32 | 3,361 |
| TIME | 0,25** | 0,88 | 0,52 | 8,181 |
| VOLUME | 0,31* | 0,79 | 0,36 | 6,823 |
| LIMITED | 0,26* | 0,88 | 0,60 | 5,046 |
| POORPROD | 0,25** | 0,75 | 0,36 | 8,532 |
| OTHERS | 0,20* | 0,58 | 0,28 | 4,870 |
| LACKOFTP | 0,27* | 0,63 | 0,28 | 6,423 |
| LACKGVT | 0,22** | 0,67 | 0,28 | 8,295 |
| NOTMATCH | 0,38** | 0,67 | 0,24 | 10,59 |
| INTERMID | 0,27 | 0,58 | 0,32 | 3,540 |
| DONOTK | 0,18** | 0,83 | 0,48 | 7,505 |
| Business with linkage correctly classified | | = 91,70% | | |
| Business with no linkage correctly classified | | = 88,00% | | |
| Overall percent of cases correctly classified | | = 89,80% | | |
| Eigen value | | = 1,58 | | |
| Canonical correlation | | = 0,78 | | |
| Wilk's lambda | | = 0,39 | | |
| Group centroids: | | | | |
| Business with linkage | | = 1,26 | | |
| Business with no linkage | | = -1,20 | | |

** P<0,001 ; * P<0,05

Table 7: T-test of means of variables: suppliers with linkages and with no linkages with big buyers

(iii) On linkages

| | Mean of response | Mean of response | Separate variance estimate | |
|----------|------------------|--------------------|----------------------------|---------|
| Variable | Linkages (n=24) | No Linkages (n=25) | t-value | P-value |

| | | | | |
|---|---|---|---|---|
| <p>Serious impediments to expansion and improvement of linkages with big business:</p> <p>Supplier issues:</p> <p>Limited application of new technology (%)</p> <p>Poor product quality (%)</p> <p>Unreliable delivery (%)</p> <p>High price (%)</p> <p>Others (%)</p> <p>Buyer issues:</p> <p>Lack of top management commitment and support (%)</p> <p>Resistance on the part of corporate's buyers (%)</p> <p>Lack of government incentives (%)</p> <p>Others (%)</p> <p>Intermediary issues:</p> <p>Not matching requirements of buyers and suppliers (%)</p> <p>Inappropriate or unqualified staff (%)</p> <p>Intermediary not selling their services aggressively (%)</p> <p>Don't know of any intermediary (%)</p> <p>Others (%)</p> <p>Training issues:</p> <p>Training courses don't meet suppliers' needs (%)</p> <p>Don't know of any agencies that offer training (%)</p> <p>Others (%)</p> <p>Government issues:</p> <p>Restrictive legislation on small business (%)</p> <p>No incentives to corporates to develop linkages (%)</p> <p>Others (%)</p> <p>Trade Union issues:</p> <p>Block outsourcing, fear of deterioration conditions (%)</p> <p>Block outsourcing, fear of loss of membership (%)</p> <p>Others (%)</p> | <p>0,88</p> <p>0,75</p> <p>0,71</p> <p>0,71</p> <p>0,58</p> <p>0,63</p> <p>-</p> <p>0,67</p> <p>0,63</p> <p>0,67</p> <p>0,50</p> <p>0,58</p> <p>0,83</p> <p>0,83</p> <p>0,67</p> <p>0,58</p> <p>0,67</p> <p>0,67</p> <p>0,54</p> <p>0,67</p> <p>0,79</p> <p>-</p> <p>0,43</p> | <p>0,60</p> <p>0,36</p> <p>0,48</p> <p>0,48</p> <p>0,28</p> <p>0,28</p> <p>-</p> <p>0,28</p> <p>0,44</p> <p>0,24</p> <p>0,28</p> <p>0,32</p> <p>0,48</p> <p>0,64</p> <p>0,64</p> <p>0,48</p> <p>0,56</p> <p>0,68</p> <p>0,44</p> <p>-</p> <p>0,48</p> | <p>-2,26</p> <p>-2,93</p> <p>-1,64</p> <p>-1,64</p> <p>-2,20</p> <p>-2,53</p> <p>-</p> <p>-2,88</p> <p>-1,29</p> <p>-3,25</p> <p>-1,58</p> <p>-1,88</p> <p>-2,76</p> <p>-1,55</p> <p>-0,19</p> <p>-0,71</p> <p>-1,32</p> <p>-1,32</p> <p>0,13</p> <p>0,10</p> <p>-2,66</p> <p>-</p> <p>0,29</p> | <p>0,03</p> <p>0,01</p> <p>0,11</p> <p>0,11</p> <p>0,03</p> <p>0,02</p> <p>-</p> <p>0,01</p> <p>0,20</p> <p>0,00</p> <p>0,12</p> <p>0,07</p> <p>0,01</p> <p>0,13</p> <p>0,85</p> <p>0,48</p> <p>0,19</p> <p>0,19</p> <p>0,90</p> <p>0,92</p> <p>0,01</p> <p>-</p> <p>0,77</p> |
|---|---|---|---|---|

* percentages do not add up to 100 because respondents gave more than one answer.

Table 8: T-test of means of variables: Big buyers with linkages and with no linkages with historically disadvantaged small enterprises

(ii) Impediments to the expansion and improvement of linkages

| | Mean of response | Mean of response | Separate variance estimate |
|--|------------------|------------------|----------------------------|
|--|------------------|------------------|----------------------------|

| Variable* | Linkages (n=9) | No Linkages (n=26) | t- value | P- value |
|---|-------------------|--------------------------|-------------|-------------|
| (i) Supplier issues: | | | | |
| Limited application of new technologies (%) | 0,89 | 0,62 | -1,85 | 0,08 |
| Poor product quality (%) | 0,33 | 0,42 | 0,46 | 0,65 |
| Unreliable delivery (%) | 0,22 | 0,19 | -0,18 | 0,86 |
| High price (%) | 0,44 | 0,42 | -0,11 | 0,92 |
| (ii) Buyer issues: | | | | |
| Lack of top management commitment and support (%) | 0,33 | 0,50 | 0,86 | 0,41 |
| Resistance on the part of the corporate's buyers (%) | 0,44 | 0,42 | -0,11 | 0,92 |
| Lack of government incentives (%) | 0,33 | 0,23 | -0,55 | 0,59 |
| (iii) Intermediary issues: | | | | |
| Not matching requirements of buyers and suppliers properly (%) | 0,44 | 0,31 | -0,68 | 0,50 |
| Inappropriate or unqualified staff (%) | 0,67 | 0,42 | -1,26 | 0,23 |
| Intermediary not selling their services aggressively enough (%) | 0,44 | 0,31 | -0,69 | 0,50 |
| (iv) Training agency issues: | | | | |
| Training courses don't meet suppliers' needs (%) | 0,67 | 0,23 | -2,33 | 0,04 |
| Don't know of any agencies that offer required training (%) | 0,22 | 0,38 | 0,86 | 0,40 |
| (v) Government issues: | | | | |
| Restrictive legislation on small business (%) | 0,44 | 0,46 | 0,08 | 0,93 |
| No incentives given to develop effective linkages (%) | 0,11 | 0,56 | 2,99 | 0,01 |
| (vi) Trade union issues: | | | | |
| Block outsourcing, fear of deteriorating working conditions (%) | - | - | - | - |
| Unions try to block outsourcing, fear of loss of membership (%) | 0,44 | 0,38 | -0,34 | 0,72 |

* Percentages do not add up to 100 because respondents gave more than one answer.

**BUSINESS LINKAGES INVOLVING
SMMEs WITH UMGENI WATER
AND HULETT ALUMINIUM IN KWAZULU-NATAL**
June, 1998

T. McEwan, M. D.C. Mead and N.M. Ndlovu
University of the North
Department of Agricultural Economics
Sovenga, South Africa

ABSTRACT

This study examines characteristics of the business linkages between a sample of small, medium and micro-enterprises (SMMEs) and two large corporate buyers in Durban and Pietermaritzburg, South Africa. Special attention is given to the task environment for SMMEs and to the intermediation of their business linkages with large firms. Data for the study were generated through 31 questionnaire-based interviews with representatives of SMMEs and through similar interviews with representatives of the two corporate buyers. In addition to the basic characteristics of the businesses and their trade with the larger firms, the study sought to address constraints that restrict business linkages and alternative means for intermediating more extensive business linkages between large and SMME firms. The study also examines government interventions aimed at encouraging sustainable growth of SMMEs and, in particular, historically-disadvantaged firms.

Authors

Tom McEwan [mcewan@busad.unp.ac.za] was formerly Principal Lecturer and Deputy Head of the Department of Business Studies, and International Director of the Portsmouth Business School, University of Portsmouth, England. He is currently Professor of Business Administration and Head of the Department of Business Administration, School of Business, at the University of Natal, Pietermaritzburg, South Africa.

Donald Mead [mead@pilot.msu.edu] was formerly Professor of Agricultural Economics, Michigan State University, East Lansing, United States of America. He also has nearly 20 years experience on various Equity and Growth through Economic Research projects in Africa, and visits Southern Africa regularly to keep abreast of new developments.

Nhlanhla Moses Ndlovu is a Research Assistant in the Department of Business Administration, School of Business, University of Natal, Pietermaritzburg, who is registered for a Masters Degree in Small Business Development in KwaZulu-Natal.

1. INTRODUCTION

1.1. Scope and Nature of the Project

The theoretical perspective and implementation of this project are based on two considerations. The first is the basic hypothesis that the behaviour, performance and growth of small, medium and micro enterprises (SMMEs) are influenced by the nature of the business linkage, or dyadic relationship, established between individual 'buyers' and specific 'suppliers'. Once established, this linkage is obviously affected by 'third party' intermediaries which, at the simplest level, lead to the formation of a 'triadic' relationship (Simmel, 1964), and the latter may develop into more complex structures, although consideration of these is outside the scope of this project.

The second consideration consists of a study which analyses and compares the behaviour, performance and growth of a sample of SMMEs, mostly located in the Greater Pietermaritzburg Metropolitan Area (GPMA), but including a small number of the enterprises in the Durban Metropolitan Area. The study focuses initially on the structural characteristics of the SMMEs and entrepreneurs who act as suppliers of different goods and services to two large corporate buyers, both located in Pietermaritzburg but with processing facilities and other financial interests in KwaZulu-Natal and elsewhere in South Africa. Thereafter, attention is focussed on exploring how triadic linkages with different intermediaries have influenced the behaviour, performance and growth of the SMMEs and how these interventions could contribute more to their development in the future.

An intentional omission from the project is a detailed attempt to analyse and compare the personal values and attributes of the SMME entrepreneurs and managers in the sample. This was done for several reasons. The first was that behavioural norms in a business context are considered to be strongly influenced by the prevailing culture of society. Hofstede, (1980), Ronen and Shenkar (1985). The second reason is that much is known about the values and attitudes of the managers of small firms. (Bamberger, 1983, 1986, and the STRATOS Group, 1990), although not in a South African context. However, the latter study of managers of small European businesses comprised some thirty eight pages of 500 fully structured questions, which far exceeds the scope of this smaller survey.

The third reason is that South African society, particularly in KwaZulu-Natal province, is still undergoing rapid change since the Nationalist Government, which supported Apartheid policies, lost power in 1994. In short, it is probably still too early to generalise about the emergent business culture in South Africa with any degree of confidence. However, short open-ended interviews were conducted after respondents had completed a structured questionnaire and their comments and attitudes, which refer mainly to specified topics in the questionnaire, are included later in this report.

1.2. Performance of SMMEs

For reasons given below, the SMMEs in the sample were assumed to be mostly dependent on two large local corporates for either their basic survival, at one extreme, or their continued

performance, which includes growth, profitability, market share and independence, (STRATOS Group, 1990), at the other.

1.3. The SMME Environment

Dill (1958) was probably the first to explore the concept of the ‘task environment,’ which he defined as “that part of the total environment which was potentially relevant to goal setting and goal attainment.” However, the task environment is normally distinguished from the macro-environment, which contains those general conditions of concern to all organizations (Hall, 1972). By making this distinction, it becomes possible to focus on elements of the SMME, as supplier, and the corporate firm, as buyer, with which it already has dyadic relationships or linkages, as well as elements of sectors of the environment which can be considered as potential transaction partners, or intermediaries.

Because of the smallness of some of the enterprises in the sample, and the small number of employees involved, information on the structural characteristics of entrepreneurs was gathered rapidly, and this aspect is summarised first below. The internal characteristics of a firm which include in particular its size, financial capabilities, the technologies it uses, and its legal status (STRATOS Group, 1990) were also studied, and these are summarised immediately afterwards in the report.

However, the survival and growth of SMMEs in South Africa is also influenced by that part of the macro-environment which is legitimately concerned with small and medium-sized enterprises as contributors to the economy at the national, provincial and local levels. It follows that the relationship between a specific ‘supplier’ and individual corporate ‘buyers’ would be influenced by various intermediaries, and the impact of these is also investigated from the standpoint of the different SMME respondents.

1.4. Methodology and Questionnaire

The individual phases of the methodology included the selection and preparation of the survey instrument and, since two interview teams were involved, agreement was also reached on the broad range of topics which should be covered, for example, in the open-ended section of the interview.

The questionnaire, which appears as Appendix B, was not fully completed during every interview, which normally lasted up to an hour and a half. When shorter interviews occurred, this was because various questions were not applicable to respondents from very small business enterprises.

1.5. The Sample

During the four month period ending in March 1998, representatives were interviewed from 31 SMME enterprises engaged in business linkages with two major corporates in the Pietermaritzburg area.

1.5.1. Sample of SMMEs Supplying Umgeni Water

An initial sample of nine SMMEs was chosen by Umgeni Water, not all of whom were willing to be interviewed, so a second list of 23 firms was later provided. All interviews were arranged by the team, subject to the availability of the entrepreneurs and managers. In all, respondents from 19 of these SMMEs were interviewed, although over 80 were contacted by telephone from the original list of over 200 enterprises provided by the company. Many SMMEs were difficult to contact, either because they were later found to have gone out of business, or no longer supplied Umgeni Water because their original list was no longer up to date. It must therefore be noted that the sample of SMMEs should not be regarded as either randomly chosen or as fully representative of the full list of suppliers. Details of the data gathered during the interviews is presented in APPENDIX A, however a summary showing the different categories of enterprises by size and number of buyers as presented in Table 1 below.

1.5.2. Sample of SMMEs Supplying Hulett Aluminium

Twelve firms were interviewed by two different members of the team and summary information about these enterprises appears in Table 2 below. Respondents were chosen by Hulett Aluminium from a list of over 1,000 suppliers, many of whom are larger, white-owned businesses. Some of these are no longer active because of a recent corporate decision to reduce the list to 100 suppliers, comprising one 'main' and one 'reserve' supplier for the most commonly required stock items. Here again, it cannot be assumed that the sample of SMME respondents was either randomly chosen or representative of the total number of enterprises in the original master-list of suppliers.

1.6. Issues Addressed in the Research Project

Because of the non-random nature of the sample, hypothesis-testing was regarded as invalid, and the overall direction of the research project was focussed on discussing the practical implications of the research project with representatives of various national, provincial and local 'stakeholder' institutions in two workshops held at the University of Natal in Pietermaritzburg in 1997 and 1998, when the following issues were addressed :

1.6.1. Are Umgeni Water and Hulett Aluminium engaged in significant numbers of linkages with historically disadvantaged SMMEs?

1.6.2. If so, what activities are supplied through these linkages, in terms of goods and services?

1.6.3. What is the motivation for these linkages?

1.6.4. What constraints, if any, restrict the development of these linkages?

1.6.5. What other institutional arrangements exist which promote economically viable linkages?

1.6.6. How do Umgeni Water and Huletts Aluminium view the development of their SMME linkages programmes?

- 1.6.7.** How do SMME entrepreneurs view their relationship with the buyers?
- 1.6.8.** Can any practical steps be taken to increase the economic activity of these linkages and to increase their contribution to economic efficiency and welfare?

2. THE RESEARCH PROJECT IN CONTEXT

2.1. The Corporate Buyers

The two corporates discussed below were included in the project for two reasons: firstly, they are commonly viewed as leaders in promoting small, historically disadvantaged enterprises through their affirmative procurement policies in the Greater Pietermaritzburg Metropolitan Area. Secondly, each corporate is influenced to a greater or lesser degree by government policy. The influence is incontestable in Umgeni Water's case, because the enterprise is wholly owned by the government through the Ministry of Water Affairs. Government influence is more indirect in the case of Hulett Aluminium, which is a privately owned company; however its financial standing is affected by government policy, because it will increasingly rely on electricity being supplied at discounted rates by the national electricity generating authority as its new processing plant at Pietermaritzburg comes into full production.. This concession is intended to enable the new Hulett plant to compete internationally during its initial operations. It is therefore not unreasonable to argue government has, or may wish to exert at a later stage, considerable leverage over both of these corporate enterprises.

2.1.1. Umgeni Water

Umgeni Water monopolises water treatment, storage, infra-basin transfer and supply, as competition would be impractical, in view of the high transportation costs of a bulk commodity like water from another province. Its area of operations includes the entire coastal and midland regions of KwaZulu-Natal province. This area is dominated by the greater metropolitan areas of Durban and Pietermaritzburg, but also includes small municipalities and townships ranging from Stanger in the North to Mpumalanga in the South. Total Water sales amounted to R315 182 MI bringing in revenue of R393 million (approx \$75 million) in 1997. Over 99 per cent of this service was delivered to the two greater metropolitan areas and coastal and inland municipalities mentioned previously, however sales to rural townships rose from R0.152m to R3.558m between 1996 and 1997 as the customer base increased from 4,000 to over 16,000 consumers. This increase is reflected in the demand for steel meter boxes for rural communities, which is the major source of SMME business linkages promoted by Umgeni Water discussed in this report. A further R500m expenditure on capital developments for improving the water supply to rural communities has been budgeted over the next five years.

2.1.2. Hulett Aluminium

Hulett Aluminium is a subsidiary of the privately-owned Hulett Tongatt group of companies which

specialise mainly in the growing and processing of sugar products in South Africa. The group diversified into aluminium fabrication following the withdrawal of a leading North American company as a form of economic sanction during the Apartheid period. Hulett Aluminium has since commissioned a R2.4b. (\$460m) new semi-fabrication aluminium plant on the outskirts of Pietermaritzburg which is due to commence production in 1999 and a peak capacity of over 50,000 tons per annum is expected to be achieved in 2001/2. Because the new plant will be run along Computer Aided Manufacturing lines, fewer than 1,000 new jobs will be created by this investment.

2.2. The Macro-Environment and Government Intervention

Government is necessarily concerned with society's expectations of business as a contributor to the South African economy at the national, provincial and local level. As such, government intervention normally takes three forms: it gives incentives, either through subsidies, changes in import or export policies, or manipulation of fiscal regulations; it is a customer or promoter, either as a 'buyer' or by encouraging consumers to purchase national rather than imported goods or services; it is a guardian of the market system which best matches the prevailing socio-political aspirations of the electorate, and which is achieved either as a regulator of prices, the formulation and implementation of regulatory standards, or by issuing import or export licenses.

2.2.1. Government Intervention Involving Umgeni Water

The Minister of Water Affairs and Forestry maintains close supervision over Umgeni Water's activities in respect to corporate governance, infrastructure development and the water tariff charged to rural communities. To accelerate transformation, the two year terms of office of all members of all water boards supplied by Umgeni Water were terminated by Government Regulation on 30 April 1997 and new boards have since been appointed.

2.2.2. Government Intervention Involving Hulett Aluminium

Hulett Aluminium is a privately owned company which, nevertheless, has attracted financial support from the Department of Trade and Industry and the Industrial Development Corporation. In addition, it stands to benefit from subsidised electricity costs which should enable the company to compete in the highly competitive global market for fabricated aluminium products.

2.3. Government Intervention at the Provincial and Local Levels

The Zulu people are the largest native population in South Africa; yet, because of political fragmentation, KwaZulu-Natal is the third poorest province, despite the Greater Durban Metropolitan Area contributing the second highest GDP in the country. The 'Building The Economy' section in 'Implementing the RDP in KwaZulu-Natal' (RDP,1995) notes that the province has the largest population (over 8.4 million) and the highest number of minors under the age of 15 years in South Africa.

Only 56 per cent of the labour force are employed in the formal economy, which resulted in the third largest outflow of migrant workers, resulting in 14.7 per cent of families with no source of income due to male absenteeism. This confirms previous studies by Krige et al. (1994), who report

that 57 per cent of all families living in the province have a total income well below the average living wage, and Turp (1994), who notes that KwaZulu-Natal has the third lowest level of GDP per capita in the nation, despite the large contribution of Durban, Richards Bay and Pietermaritzburg.

According to the RDP Report (1995), the ability to address the situation is constrained by a population density 2.7 times that of the rest of South Africa. As a consequence, infant mortality, dependency due to family size, pupil-teacher ratios and non-school attendance are the highest in the country. Conversely, the rates of literacy, personal income, life expectancy and medical officers per 1,000 population are all lower than elsewhere in South Africa. The Human Development Index (which includes life expectancy, income and literacy levels) is 0.58 for KwaZulu-Natal, compared with 0.69 for the rest of South Africa, and approaching 1.0 in Northern Hemisphere countries. The causes are complex and include the persistent lack of regional development during the 35-year Apartheid era, which has resulted in between 20-90 per cent unemployment in some regions during the 1990s, with an overall average of almost 30 per cent (SA Population Survey, 1998).

Provincial government strives to redress historical imbalances through new job-creation initiatives promoted by the KwaZulu-Natal Economic Forum and the KwaZulu-Natal Investment Bank. Intervention is still hindered by the a lack of political stability in the province. Politically-based murders and other violent crime are well above international standards due to a failure of the rural-based IFP opposition and ruling ANC party to reach a political accommodation. In addition, an estimated one-third of South Africa's 2.75 million HIV-Aids cases live in KwaZulu-Natal. (SABC news report on South African International HIV-AIDs Conference, Pretoria, 1998).

2.3.1. Impact on Umgeni Water's Corporate Strategy

One of the main objectives of the change in national policy is to ensure more rapid expansion of the Rural Areas Water and Sanitation Plan which provides water to approximately 800,000 historically disadvantaged people living in rural areas. Umgeni Water claims to have responded to this demand by increasing infra-structural growth by 37 per annually since 1992, and that it will have reduced the water tariff by 21 per cent in real terms over the ten year period ending on 1 January 1999.

2.3.2. Impact on Hulett Aluminium's Corporate Strategy

By way of acknowledging the public sector support referred to above, Hulett Aluminium has expressed public interest in encouraging the 'downstream' developments of SMMEs which will fabricate aluminium-based products (Alutec Conference, Pietermaritzburg, 1997 and Gateway/Hulett Aluminium Windows and Doors Manufacturing Pilot Project, 11 December, 1996), which were intended to help alleviate high unemployment in the Greater Pietermaritzburg Metropolitan Area.

3. PRELIMINARY INTERVIEWS WITH CORPORATE MANAGERS

Three senior managers each from Umgeni Water and Hulett Aluminium were interviewed in an

attempt to identify their approaches and any differences in perspective towards the development of business linkages with black SMME businesses before a sample of these suppliers was interviewed. In the case of Umgeni Water, interviews were held with the commercial manager; the micro business development manager; and one of the company's five senior buyers. The Hulett Aluminium interviews were with the chief executive officer who has overall responsibility for commissioning the new aluminium fabrication plant at Pietermaritzburg, the purchasing manager, and the business development manager. Informal meetings were also held with the commercial manager and the purchasing manager of both corporates before and during the second workshop when preliminary findings were presented. Among the points that emerged from these discussions were the following.

3.1. Umgeni Water

Two broad points issues were discussed during these interviews. All three managers indicated that Umgeni Water recognised an underlying social responsibilities commitment which influenced the company's approach towards sustaining business linkages with SMMEs. An experienced Zulu micro business development manager had also been appointed to facilitate greater understanding of the problems experienced by SMME entrepreneurs and how these might be overcome.

Secondly, it was stressed by two managers that their links with black SMMEs had developed before the African National Congress (ANC) party assumed power in 1994, and were independent of any prompting from or intervention by government officials at the national, provincial or local authority level. The senior buyer supported this point that the policy had previously been developed by another GPMA-based company where she was formerly employed; the Umgeni Water initiative was developed by her with the support of the commercial manager. Business links had been established with over 200 SMMEs during the past five years, although not all of these are currently active; however, the senior buyer intervened in a positive way to identify a further 23 enterprises when difficulties in arranging interviews were reported.

3.2. Hulett Aluminium

Hulett Aluminium stated that their commitment to black SMME development was formally adopted in 1992, and all three managers spoke about various initiatives which the corporate has launched or in which they have participated with other corporates or local intermediaries, which were all aimed at reducing unemployment amongst the historically disadvantaged community.

However, the chief executive officer was unable to state when this policy would be extended to include the additional 'downstream' developments referred to above because too few viable black SMME businesses or viable business opportunities had been identified locally. As a private corporation, they are compelled to operate competitively in a global market. At the same time, they want to encourage the development of historically disadvantaged entrepreneurs, and have contributed financially to various initiatives promoting these specific aims in the Natal Midlands and elsewhere in South Africa, but they could not afford to carry the cost of dealing with undeveloped enterprises if this policy led to delays, poor quality, or other forms of increased costs

which affected their own business.

3.3. Classification of SMME Respondents supplying Umgeni Water

A standard survey instrument was used in each interview, although replies were not recorded for every item either because of uncertainty on the part of the respondent, or else the full interview would have taken more time than the respondent could make available. Details of the data collected during the interviews is presented in Appendix A, and the main findings are summarised below. A number of open-ended questions were also asked about different aspects of the business linkages; these findings are discussed later in this Report.

The supplier enterprises included in the sample can be classified as follows:

**TABLE 1
UMGENI SAMPLE**

| | Small | Medium | Large |
|-------------|--|--|---------------------|
| One buyer | Plumbing (1) Painting contractors (1) Steel & sheet metal (3) | | Security (1) |
| Few buyers | Steel and welding (4) Concrete blocks (1) Electrical repairs (1) | Engineering and sheet metal work(2) Civil engineers (1) | |
| Many buyers | Sheet metal work (1) | Computer software (1) Building construction (1) | Office cleaning (1) |

Of the 19 enterprises in the sample, 12 were classified as in manufacturing, which mainly consisted of SMMEs producing steel ‘meter boxes’ in small quantities for installation in townships, etc. The remaining seven enterprises performed diverse services ranging from industrial painting to marketing and servicing computer software.

3.4. Classification of SMME Respondents Supplying Hulett Aluminium

Unlike the Umgeni Water sample of respondents, the majority of enterprises interviewed among

Hulett suppliers are in the service sector and include one each in office cleaning, catering, painting, smelting (recycling aluminum scrap), computer supply, private transport, electrical repair, plumbing, the grinding of tools, and the stamping aluminum parts. Only two enterprises were engaged in manufacturing activities involving metal fabrication, similar to the majority of respondents supplying Umgeni Water.

4. STRUCTURAL CHARACTERISTICS OF SMME ENTREPRENEURS

4.1. Age

The age-range of the Umgeni sample was from 30-55 years (mean = 48 years), compared with 35-60 years in the Hulett Aluminium (mean = 46 years).

In searching for characteristics by age, there was above average representation in the age group of respondents over 40 years of age which, if not too late for starting a small business, is almost too late to be failing, especially if the entrepreneur has children to support at school and other family commitments.

**TABLE 2
HULETT SAMPLE**

| | Small | Medium | Large |
|-------------|--|-----------------------|-----------------------------|
| One buyer | smelter stamping parts transport plumbing | | |
| Few buyers | painter computer supply electrical repair metal fabrication (1) | metal fabrication (1) | |
| Many buyers | | grinding tools | office cleaning catering |

4.2 Gender

All of the Umgeni respondents were males as was the majority of the Hulett sample, however two females were included in the latter sample; one running her own enterprise, the other in partnership with her husband.

4.3 Marital Status

All of the 19 respondents who answered this question were married .

4.4. Education

Of the 25 respondents who answered this question, one had completed lower primary school education (Standard 3), five higher primary education (Standard 6), six secondary level (Standard 9), one had matriculated (Standard 10), nine had completed some tertiary education or its technical equivalent, and three had completed tertiary education as graduates or diplomates. Compared to the usual patterns for those running SMMEs, these are unusually well educated people and doubts must be expressed about whether some respondents wished to impress rather than provide accurate information.

4.5. Previous Work Experience

23 respondents completed this question and all of these had worked for at least one other employer before starting up their own business. Only 15 respondents provided details on their experience of working for other employers, which ranged from 2 to 27 years (average = 13 years).

4.6. Age of the Enterprise

25 respondents answered this question, and of these seven had been formed since the previous Nationalist Government relinquished power in 1994, nine were over five years old, five were up to ten years, two up to fifteen, and two of the larger SMMEs supplying Hulett Aluminum were over 20 years old.

5. INTERNAL CHARACTERISTICS

5.1. Number of Employees

Of the 21 respondents who answered this question, ten supplying Umgeni Water and two supplying Hulett Aluminium employed five or less workers, including themselves. Three employed between six and ten workers, and four employed between 10 and 30 workers, themselves excluded. Two of .the Hulett respondents were very large, employing 600 and 1400 workers, respectively.

5.2. Number of Managers and Supervisors Employed

Of the 25 respondents who provided information, all those supplying Umgeni Water regarded themselves as 'owners' who had no need to employ any managers. Among the Hulett respondents, two each employed one manager while three employed at least two managers and supervisors.

5.3. Use of New Technology

All respondents possessed telephones and typewriters, and seven of those supplying Umgeni Water also had word processors, faxes and cellular telephones. Otherwise, no new technology (viz. CAD/CAM systems) was used for manufacturing purposes. The acquisition of new technology was a recognised budget item for three of the largest companies supplying Hulett Aluminium.

5.4. Turnover

All respondents were reluctant to provide information about turnover possibly because of a lack of trust in the interviewers, despite the presence of a Zulu research assistant in both interview teams. For example, a respondent who ran a successful office cleaning business employing 90 people stated that his turnover was only R10 000 (US\$ 2,000) per month. When this was queried, he left the room to confer with his accountant before confirming this amount, which was much less than the typical weekly rent for similar large office premises on the second busiest street in Durban.

Two other Umgeni Water respondents stated that their turnover was so small, it could not be estimated, or was unknown until the books were audited every six months. Conversely, three respondents probably exaggerated their success and repeated the amounts in English for the benefit of the second interviewer, despite the interviews being conducted in Zulu. For these reasons, the following summary provided by only 63 per cent of those supplying Umgeni Water should be treated with caution:

| Turnover/ annum(Rands) | US\$ | % Frequency |
|------------------------|----------|-------------|
| Up to R10,000 | \$2,000 | 11 |
| Up to R15000 | <\$3,000 | 6 |
| Up to R30000 | <\$5,000 | 6 |
| Up to R50000 | <10,000 | 6 |
| Up to R100,000 | <20,000 | 6 |
| Up to R200,000 | <40,000 | 11 |
| Up to R400,000 | <80,000 | 11 |
| Up to R1million | <200,000 | 11 |
| Unknown | | 37 |

An average exchange rate of US\$1 = R5 was assumed for the period during late- 1997 to early 1998.

5.5. Legal Status of the Enterprise

Of the 25 respondents who answered this question, 17 were sole proprietorships and six were partnerships; only two were closed partnerships.

5.6. Payment of Provisional Tax

All of the 22 respondents who answered this question were provisional taxpayers.

5.7. Payment of Value Added Tax

Of the 28 respondents who answered this question, 25 paid Value Added Tax and the remaining three reported such low turnovers that VAT payments would have been inapplicable.

5.8. Unemployment Insurance Fund (UIF) Registration

16 of the twenty respondents who replied to this question were UIF-registered, whereas the remaining four were not registered, probably because they employed casual labour only.

5.9. PAYE Registration

23 respondents answered this question. Of these, 18 were Pay-As-You-Earn (PAYE) registered. The remaining five were not PAYE-registered, probably because they employed only casual labour who received 'lump sum' daily payments from which no taxes, etc., were deducted by their employers.

5.10. Provisional Taxpayer Registration

This question was left unanswered by almost half of the sample, however the remaining 16 respondents stated that they were registered as provisional taxpayers.

V.

TASK ENVIRONMENT

The relationship between the SMMEs and the task environment was found to be more directly observable because enterprises in the sample mainly supplied the two stated corporates in the Greater Pietermaritzburg Metropolitan Area, and this aspect is discussed before other relationships with intermediaries in the macro-environment.

6.1. Initial Contact with Buyers

Of the 16 respondents who answered this question, three had previously worked for one of the large corporate buyers, five made contact through the Business Support Centre in Pietermaritzburg, four were referred by the Small Business Development Agency which operates nationally, two made direct contact, and a further two submitted successful tenders for contracts advertised by the company.

6.2. Number of Buyers

24 respondents answered this question, of whom ten sell to only one buyer (Umgeni or Hulett). An additional six currently supply two or three different companies, six supply between five and ten companies, whereas the other respondents worked for the largest SMMEs in the sample which supply over 100 different companies.

6.3. Use of Contracts

Of the 27 respondents who answered this question, 23 received one-off contracts, as works orders, whereas four supplying Hulett Aluminium stated that they normally received verbal orders over the telephone.

6.4. Buyer Mentoring and Advice Service

Of the 24 respondents who provided answers to this question, only two suppliers to Umgeni Water indicated that they had received any help from this large buyer. The remaining 22 indicated that they had received no help from the buyers. It appears that buyer mentoring is not at all common among these enterprises.

6.5. Technical Advice from Buyers

Only three of 22 respondents, all supplying Umgeni Water, stated that they had received technical advice about manufacturing problems. The remaining 19 respondents stated that they had never received or requested technical advice from either corporate buyer.

6.6. Financial Help from the Buyer

One of the 26 respondents supplying Umgeni Water had received financial help as an advance payment within the normal 30 days payment period for a completed order. The remaining respondents had either never received or were unaware that the corporate offered this service in extenuating circumstances. Similarly, none of the eight respondents supplying Hulett Aluminium had ever received any advanced payment from this buyer.

6.7. Problems with Linkages

The questionnaire asked about the most serious problem and second most serious problem with business linkages. Looking at the former most serious problem, 21 respondents provided answers. Eight of these stated that their contracts/orders were too small. A further three referred to the unhelpful attitude of Umgeni Water management after orders had been placed, and three more complained about delays in payment and variable order sizes. The remaining seven respondents stated that no problems existed in their dealings with either corporate.

Among the secondary problems, eight of the 16 respondents who answered this question stated that orders needed to be placed more regularly by both corporates, whereas four claimed that racial

discrimination determined the size and value of orders in a 'pecking order', which led to the largest orders being awarded to white-owned enterprises, followed by Indian, with black-owned enterprises obtaining the smallest and most unpredictable orders from corporates.

A further four respondents claimed that they carried a proportionately greater risk than either Umgeni Water or Hulett Aluminium, who could both afford to reject marginally unsatisfactory orders after delivery, whereas rejections could put them out of business.

6.8. Business Problems

The questionnaire also raised more general enquiries about principal and secondary problems facing each enterprise. Five of the respondents supplying Umgeni Water indicated that their first need was for help in calculating costs correctly, and another four admitted being unable to deal with the threat of competition, especially in producing steel 'meter boxes', however no information was provided by eleven of the other respondents.

In contrast, three of those supplying Hulett Aluminium stated that they needed advice on how to manage growth, and another respondent required advice on controlling wage demands, costing manufactured items, coping with competition, and arranging sound financial loans.

Only five of the respondents listed a second general business problem. Three of these stated that profits were too low, and the remaining two claimed that they were not paid on time by either corporate.

6.9. Business Improvement Factors

Only four respondents answered this question, of whom two indicated that they required more skills and training in the management of a small business, one reported that more, firmer orders from Umgeni Water would improve his business prospects, whereas the other thought that he had to develop greater personal commitment in striving to become more successful.

VI.

CONTRIBUTIONS OF OTHER INSTITUTIONS AND ORGANISATIONS

Various institutions and organisations are in a position to contribute in important ways to the initiation and development of business linkages. Among the institutions and organisations identified are national, provincial and local government (the latter in the form of the Pietermaritzburg Transitional Local Council); the Careers Advice Centre; banks; trade unions; the local Business Support Centre (BSC); the Pietermaritzburg Chamber of Commerce and Industry (PCCI); black business associations such as the Black Business Forum (BBF); professional bodies or associations; and local universities and technikons.

7.1. National, Provincial and Local Government

None of the 23 respondents who answered this question identified actions by government as contributing significantly to the development of SMMEs. In general, respondents viewed government at all levels as being well-intentioned but out of touch with the needs of black entrepreneurs in particular.

7.2. Careers Advice Centre

Three of the respondents supplying Umgeni Water were aware of the Careers Advice Centre, but none had ever made use of the services offered by this organisation.

7.3. Trade Unions

14 of the respondents supplying Umgeni Water reported that they had had no dealings with trade unions, whereas one of the larger 'servicing' enterprises who did have contacts with the unions used the occasion to criticise trade unions for allegedly interfering in his dealings with employees, which had damaged the 'open door' policy that he said had existed prior to unionisation of the workforce.

7.4. Banks

Of the 20 respondents who answered this question, five stated that they have dealings with local branches of national banks, whereas 13 regarded banks as either irrelevant or indifferent to the needs of their businesses. Two more respondents in the 'services' sector had overdrafts of between R200 000 and R250 000, which had been used to start or develop their businesses. One, a building contractor, stated that dealings with a bank were unavoidable because of a requirement that a surety of up to 10 per cent, often worth over R1 million, had to be paid before civil contracts could be awarded.

7.5. Business Support Centre (BSC)

Five of 21 respondents were aware of the various training activities offered by the local Business Support Centre (BSC). These included the three large SMMEs which supplied Hulett Aluminium. Each of these supported the BSC financially or as a member of its Management Committee. Only one respondent had ever sent an employee to the local BSC for training.

Two reasons were given for ignorance about this training service, namely, that it was not perceived to be really relevant to their working lives, and, this aside, courses were provided at times when they could not afford to be away from their businesses. One respondent stated that he had obtained help from the BSC in obtaining the professional assistance of a Quantity Surveyor.

None of the respondents reported any awareness of the BSC's other primary function of linking suppliers with buyers. Aside from the few who were aware of its activities in the area of training, respondents regarded intermediaries like the BSC as peripheral to the growth of SMME linkages.

On the 'buyer' side, both Umgeni Water and Hulett Aluminium are generous in their financial support of the BSC and have been members of its Management Committee since its formation. However, both

reported that they find their own suppliers and pass names on to the BSC for inclusion in the Service Centre's data base of potential suppliers. In a few cases, they might suggest that the BSC offer business training to these suppliers. One Hulett Aluminium manager added that "the BSC concentrates on small retailers, manufacturers of burglar bars and things like that, all micro-enterprises that are too small to be of interest to Hulett Aluminium."

7.6. Chambers of Commerce and Industry (CCI)

Of the 23 respondents who answered this question, only five knew about the role of chambers of commerce. The three largest Hulett Aluminium SMME suppliers were active members of the PCCI in Pietermaritzburg, although none of these respondents saw the PCCI as relevant to the development of business linkages. The two other respondents were well-informed about chambers of commerce (one had attended a meeting but was not interested in further contact), and both thought chambers of commerce were irrelevant to their business activities.

7.7. Black Business Associations

None of the respondents belonged to a black business association, and few of those dealing with Umgeni Water were willing to discuss this topic, but the three who did stated that black business organisations, such as Black Business Forum/Caucus, had different aims which were not seen as important in making SMMEs successful. One of these respondents criticised the retention of business practices which favoured white and Indian South Africans at the expense of emerging black entrepreneurs.

Another respondent in the service sector added that he had personally launched a fast-growing 'independent' employers association among black entrepreneurs in the same line of business, which had since concluded successful agreements with trade unions.

7.8. Professional Bodies and Professional Associations

Only two of 17 respondents who answered this question belonged to any professional association. One of these stated that he had joined the association to enable him to make business contacts through use of a data base, and also to keep abreast with recent developments in his field. The other small supplier is also in the 'services' sector and belongs to a national Electrical Association, which holds seminars and invites companies to give presentations on new developments.

7.9. Universities and Technikons

Two respondents employed as managers with a Durban-based SMME in the 'services' sector had recently completed professional courses at a local university.

Other institutions such as technikons were seen as marginally less peripheral than universities and four respondents possessed certificates and diplomas in craft-related activities such as welding, etc., gained at local technikons. Further education and training was recognised as important by these respondents providing it was work-related and available at suitable times.

8. DISCUSSIONS WITH RESPONDENTS AND CORPORATE MANAGERS

Additional discussions took place with respondents during the interviews as well as with participants who attended two workshops at the University of Natal, Pietermaritzburg, and with managers from the two corporates. The aim of these discussions was to address the issues raised in Section 1.6. and obtain clarification of points raised during the interviews.

8.1. Umgeni Water and Hulett Aluminium Support for SMME Development

Although Umgeni Water and Hulett Aluminium are seen as major driving forces behind the development of historically disadvantaged enterprises in the Natal Midlands area, other corporates are also active in this area, but not to the same extent; and their orders were regarded as neither large nor frequent enough to enable the smaller SMMEs to operate efficiently.

The Umgeni Water managers accepted that their purchasing policy towards most SMMEs manufacturing steel meter boxes was inefficient. This has been known for several years and these entrepreneurs have been told repeatedly that the corporate wanted them to become independent of relying on these unavoidably small orders as soon as possible. The aim was for these SMMEs to diversify into other metal fabricated products, selling other products to different buyers so that they could withdraw from meter box production as soon as possible. It was also apparent from discussions with the Hulett Aluminium management that their approach to downstream SMME linkages has been quite consistent with that of upstream linkages, i.e. it is based on rational principles, and is approached in a very business-like way.

8.2. Goods and Services Supplied Through These Linkages

The majority of respondents selling to Umgeni Water are engaged in manufacturing small orders of steel meter boxes. However those SMMEs supplying services—computer programs, maintenance, plant security, office cleaning, and building contracting services—are more successful; they have more employees, higher turnovers and, with one exception, are no longer dependent on Umgeni Water as their main source of revenue.

The Umgeni Water managers confirmed this observation and stressed the need for smaller SMMEs to change because technology is now available which would allow a more efficient and cheaper automatic metering system to be introduced in the townships, thereby reducing the real cost of supplying water to existing and new townships in line with the Ministry of Water Affairs requirements in ways that do not require continuing use of meter boxes..

In the case of the Hulett Aluminium suppliers, two large SMMEs (viz. in catering and office cleaning) deal with very many buyers; Hulett Aluminium is a minor player in their total business. Both firms are white-owned and managed, but operate with black managers at individual sites. These companies are well managed, profitable, and do not need any help. Business linkages are used to expand their overall operations and, with so many buyers, they are also able to supply a service to many businesses which is working very well. One of these enterprises, engaged in office cleaning, operates through a franchise system, and employs about 600 workers in seven franchises, most of which are in the hands of black entrepreneurs.

It was confirmed during the interview with the Hulett Business Development Manager, who is responsible for developing forward linkages, that the precondition for their support in this area is that the entrepreneur must have a market idea; the identification of a market opportunity by an entrepreneur must be the starting point for Hulett to get involved in the promotion of such linkages.

8.3. Motivation For These Linkages

Corporations engage in business linkages for one or more of three reasons: namely a search for economic efficiency resulting from specialisation, as the corporates seek to concentrate on their core business; avoidance of mandatory legislation related to taxation, labour regulations or safety and health at work; and some form of commitment to social responsibility, perhaps undertaken for public relations purposes or in response to political pressures which would help to reduce unemployment in South Africa. Often, all three of these factors are at work in a given corporation, but in degrees that differ from one to another, and from one linkage contract to another within the same corporation.

With two exceptions, the motivation for Umgeni Water to engage in linkages with the manufacturing SMMEs is based on an expression of social responsibility. However, the small suppliers who participate in these dealings generally lack a sufficient knowledge of basic business practices. As a result, they usually experience a hand-to-mouth existence. That said, it is likely that many of these SMMEs would rapidly go out of business without the ‘paternalistic’ support of Umgeni Water.

The Umgeni Water managers were unable to indicate how long the company will continue to provide this sort of work to historically disadvantaged enterprises, however they employ a Zulu micro business development manager for the sole purpose of liaising with these historically disadvantaged entrepreneurs so that problems relating to the purchase of raw material, manufacturing, delivery and payment problems can be discussed and resolved more quickly. Ways of improving this service through more specialised help from managers would continue to be investigated.

There has been some discussion by Hulett Aluminium managers on the possibility of playing a more active role in developing small historically disadvantaged enterprises. If this occurs, corporate policy would be to interact with each new entrepreneur to “give him or her the artillery to attack the target.” This was found to mean: (i) help with writing a business plan; (ii) providing contacts in the financial community, acting as a catalyst in helping obtain financing; and (iii) providing technical ‘backstopping’, with a team of technical experts to provide advice on any aspect of the product. This last point is viewed as the most important.

8.4. Constraints on the Suppliers’ Side Limiting the Development of Linkages

Three main reasons were reported by respondents as placing constraints on the economic development of business linkages: one-off orders for small quantities of meter boxes received from Umgeni Water; the inability to cost and tender accurately and achieve realistic profit margins from the manufacture of meter boxes; and, finally, insufficient information on other corporates in KwaZulu-Natal and how these could be contacted for additional business. Successful SMMEs, including two manufacturers and four firms producing services, have advanced beyond this stage, through diversification and personal drive; these firms reported no major difficulties in achieving successful business linkages with Umgeni Water and with other corporates in KwaZulu-Natal.

The Umgeni Water managers confirmed that they are unwilling to see any entrepreneur go out of

business, but added that perhaps as few as three SMMEs are equipped to produce the declining number of steel meter boxes required in the future. No one wanted “to pull the plug” on the remaining SMMEs but this looked inevitable unless these entrepreneurs found different work selling to other buyers. By way of preparing entrepreneurs for this change, a policy of encouraging SMMEs to diversify and adopt more business-like methods is being encouraged. Advice and mentorship continue to be available, but this service is rarely taken up by local entrepreneurs. Umgeni Water management is unable to foresee any new initiatives arising which would provide the same potential start for would-be SMME entrepreneurs as generated in the past by the manufacture of steel meter boxes.

Some ambiguity exists over the terms of payment employed and an Umgeni Water manager confirmed that payments were sometimes made in less than 30 days, but added that these were occasionally delayed in cases where SMMEs had not paid their own suppliers for raw materials such as the steel used for making meter boxes. Whether it is the role of the corporate to act in an interventionist, paternalistic manner is a question which will no doubt be raised more often in the New South Africa!

As in the case of Umgeni Water, some of Hulett Aluminium’s suppliers have done very well and require no further assistance. The main problem all face, as with Umgeni Water’s suppliers, is the size and regularity of orders to enable them to improve in their efficiency and profitability as suppliers. Of the ten firms interviewed which face the most serious problems, two (a small painter and a small plumber) have poor management skills, and are in need of help for costing, strategic planning, and several other aspects of doing better in business. All the other firms have adequate but not outstanding management and business skills, although one of them expressed a wish for training to enable him to improve. A common feature of all these firms is the need for more work. In some cases, there has also been a serious problem due to work being unpredictable and erratic so, in addition to wanting more, these firms also fervently wish it to be on a more regular basis.

With minor exceptions, the Hulett Aluminium management confirmed that no advice, training, or other assistance has been given to any of these firms, other than some instruction emphasising their focus on safety, which is of special concern to this corporate. When suppliers were interviewed about help received from Hulett Aluminium (“buyer mentoring”), most said that they did not need such assistance. Instead, what they say they need is more business, and on a more regular basis. From their side, Hulett Aluminium management said that they work with the suppliers to make clear what is wanted. It was apparent from our interviews that, in practice, only limited amounts of assistance are given, or requested, although the latter is probably influenced by doubts about assistance ever being provided.

The payment terms were reported to be acceptable in all cases except one, a painter who was frustrated that a part of the payment (10%) was retained for three months, in case of problems. The difficult is that such problems were often due to other participants in the construction process rather than from painting (viz. if a wall cracks, it is really the fault of the contractor, not the painter, yet he would have to come back and paint it again). This seems to be standard practice in the industry, but also seems most unfair for the small supplier. Furthermore, two of these respondents clearly need improved skills in the area of costing. It would also be desirable to help the painter explore the issue of retention fees, to see if procedures could be modified to make them more attentive of the needs of small suppliers.

8.5. The Future Development of Business Linkages : Buyers’ Perspectives

The three Umgeni Water buyers accepted that the original business linkages programme has not developed as successfully as had first been hoped. If anything, it has ‘marked time’ by focusing on the manufacture of meter boxes by SMMEs, although most of the suppliers are not efficient and have not been helped to move towards increasing efficiency. The aim had been to encourage historically disadvantaged SMMEs to grow and diversify in order eventually to become independent of Umgeni Water, but successful examples are regrettably rare; and Umgeni Water has felt a responsibility to continue the support for SMMEs, even when they do not succeed in becoming efficient.

This explains why difficulties had been experienced in obtaining a representative sample for interviews from the original list of 200 enterprises. Allowing market forces to prevail so that meter box production could be rationalised among a relatively few efficient SMMEs would be one way to proceed; however the managers confirmed that there is no corporate strategy in place which specifies a date when current arrangements for manufacturing steel meter boxes will be permanently altered.

For Hulett Aluminium, like Umgeni Water, the structure of decision-making within the company is important and deserves particular attention. Hulett has eleven buyers, specialising by product group, who are responsible for procurement under the overall supervision of the purchasing manager. In addition, they have a black empowerment committee, headed by the managing director, on which plant managers are represented, which prepares monthly reports tracking monthly purchases from black companies. This committee was formed at the request of the purchasing managers, to provide them with more authority in implementing the policy of the group and to strengthen their activities. Before the formation of the committee, the purchasing managers were reportedly very much on their own in implementing the Black Economic Empowerment (BEE) policy; the committee has strengthened their hand. But there is little evidence to date that very much has changed in terms of transferring more business, in terms of volume or Rands, towards black SMMEs.

8.6. The SMME Entrepreneur’s View Of The Business Linkages Programme

Umgeni Water suppliers asked for more information about the “Approved Supplier” list. In the case of those making meter boxes, those on the list apparently receive larger orders at a minimum tender price of circa R298 per meter box, whereas less fortunate (unlisted) SMMEs receive only R240 or less for smaller orders. The Umgeni Water buyers confirmed that a typical order would be for 50-60 boxes and higher prices are paid to suppliers who have proved themselves to be more reliable. The rationale appears to be that it is not practical to enter into long-term agreements with new suppliers which, it was admitted, makes it difficult for them to plan ahead.

The same situation of unreliable and small orders was reported by Hulett Aluminium suppliers. One supplier had invested R300,000 in equipment to enable him to supply the corporate with recycled scrap; yet, after ten months of operation, he received no further orders for two years without any explanation as to why these had been cut off.

Three Umgeni Water respondents complained that racial discrimination influenced the allocation of Approved Supplier status, with priority being given to white and Indian suppliers. When questioned further, all three admitted that this charge did not apply to meter box orders but applies when larger contracts are placed by Umgeni Water. Two of the complainants are successful entrepreneurs in the service sector, neither of whom rely heavily on Umgeni Water business any longer. Several Hulett suppliers also raised the question of racial discrimination in the placement of orders.

Both sets of buyers rejected this charge and confirmed that orders are placed on the basis of ability to meet the required standards. In general, items are purchased through individual work orders. Sometimes, but not always, these were based on competitive bidding. Where there was competitive bidding, the bids were sometimes, but not always, opened in public, in ways that enabled even losers to learn by comparing their bids with those that won. Several suppliers asked for increased transparency in the process of bidding and selection, which would appear to be a small price for both corporates to pay if it increases their reputation for transparency.

As noted earlier, the Umgeni Policy of consistently paying SMMEs within 30 days was widely appreciated, as was the special concession of paying some struggling respondents after as little as seven days to help relieve their cash flow problems. Several respondents mentioned that payment after 30 days imposed serious hardships on SMME suppliers, who must pay their workers, and sometimes their own suppliers, more frequently. The nub of their argument is that SMME respondents believe they fund the working capital needs of larger buyers to whom they sell, which they regard as inequitable since they are less able to bear the costs.

Several suppliers complained that they find themselves at the mercy of the buyers and as SMMEs have little choice but to take the terms offered, even if they recognize that these are not satisfactory. Only those who sell to several different buyers appear to be able to overcome this problem. Specific examples include two respondents who discovered that SMMEs on the Approved Supplier's List received approximately 27 per cent more than them for manufacturing steel meter boxes. Another respondent stated that he had underquoted for an order and had informed Umgeni Water before completing the agreed quantity of meter boxes, however no increase in the original price was granted.. Finally, one of the respondent was unaware of how to calculate profit accurately and did not realise that he was including an insufficient amount, by a factor of 1:3, until this was pointed out by the interviewer.

9. PRACTICAL RECOMMENDATIONS TO ENHANCE BUSINESS LINKAGES

The following practical recommendations were proposed by respondents and by the interviewers for consideration by the two corporates and different intermediaries:

- 9.1.** Umgeni Water's policy relating to the planned replacement of steel meter boxes should be finalised as soon as possible and announced preferably one year before the proposed change-over so that SMME entrepreneurs have sufficient time to explore alternative business opportunities.
- 9.2.** Umgeni Water should discuss ways of allowing local SMMEs to supply more 'upstream' and 'downstream' goods and services with the Minister of Water Affairs, through its Water Board, for an agreed period, which would enable the corporate to recover any cross-subsidisation and training costs under legislation promulgated since 1994. The rationale for this recommendation appears below.
- 9.3.** Hulett Aluminium should call a meeting of historically disadvantaged SMMEs to explain how they may continue to tender for the supply of different goods and services after the new purchasing policy comes into effect. Ways in which SMMEs could supply up-stream products

should also be indicated by the company.

- 9.4. Hulett Aluminium should also identify ways in which local SMMEs can supply more 'upstream' and 'downstream' goods and services at its new Pietermaritzburg plant under existing 'Tax Holiday' provisions in legislation promulgated since 1994; and also re-examine ways in which the proposed joint Hulett/DTI 'downstreaming' cluster initiative can be implemented. The rationale for this recommendation also appears below.
- 9.5. The Umgeni Water and Hulett Aluminium lists of supplier companies, no longer in use, should be made available to the Business Support Centre or Chamber of Commerce, so that other companies and SMME entrepreneurs could be brought together more easily.
- 9.6. Government agencies should find out more about the needs of the smallest SMMEs (viz. Survivalist enterprises) and do more to help them now.
- 9.7. The Business Support Centre management should be encouraged to undertake an urgent review of its mission, aims and objectives. Its primary activity should be that of focusing on establishing more business linkages between corporate buyers and SMME suppliers, even if this meant undertaking a smaller range of training services which should be provided at more convenient times in future.
- 9.8. The Chamber of Commerce should review its role in encouraging the development of successful SMMEs in the Greater Pietermaritzburg Metropolitan Area. This could be done by linking the activities of its Small Business Development Committee with the Business Support Centre, which is financially supported by companies that are also very active in the Chamber of Commerce.
- 9.9. The Careers Advisory Service does good work for those living in the townships near the Drakensburg mountain range, but more should be done for those who need training here in Pietermaritzburg, where too many have no jobs and nothing to look forward to.
- 9.10. Local universities and technikons should examine how they can help entrepreneurs acquire basic costing and other business management skills, which should be made available to local SMMEs at a reasonable cost, and at times when entrepreneurs can attend, in return for their contribution to what is a worthwhile study of SMME business linkages in KwaZulu-Natal.

10. RATIONALE FOR MAIN RECOMMENDATIONS CONCERNING CORPORATES

10.1. Umgeni Water

A recurring feature of interviews with respondents supplying Umgeni Water is the fact that the capital

to start SMMEs had either been saved from the entrepreneur's own low wages or borrowed from members of their families. Not surprisingly, the majority of these entrepreneurs are seriously under-capitalised and possess inadequate machinery/ technology, although seemingly ample office administration equipment. The majority would also probably be bankrupt, possibly unable to return to their previously-held jobs, without this support from Umgeni Water. The latter's reluctance to turn their backs on these historically disadvantaged entrepreneurs is honourable and genuine; and has to be commended.

What is to be done? Can Government intervene in a forward-looking way that will take account of the huge effort and risk that these entrepreneurs have made to raise private capital with virtually no outside assistance? A possible way forward is probably to re-examine the links between The Ministry of Water Affairs and Umgeni Water in terms of the latter's links with SMMEs.

In Umgeni Water's case, the possibility of 'upstream' developments which would directly involve SMMEs needs to be re-examined by the new Government-appointed Water Boards, even if, at first sight, the investment and specialised knowledge required to store, treat and deliver water, or process and recirculate treated effluent, involves huge financial commitments. However, the proposed new Water Bill promises to involve more private sector companies and the direct involvement of more SMMEs in supplying services to these organisations could still be made a precondition before this outside investment is approved by Water Boards on behalf of the Ministry of Water Affairs.

As for 'downstreaming' activities, Umgeni Water's articles of association appear to prevent it from applying for a 'Tax Holiday', which is open to publicly-quoted corporates like Hulett Tongatt. However provisions exist for training costs approved by the National Training Board to be recovered under the the National Training Strategy Initiative (NTSI). Since loss of employment by survivalist entrepreneurs producing steel meter boxes will mean loss of earnings and a likely increase in the already large number of consumers who do not pay their water tariffs, it would be of financial interest to both Umgeni Water and the Water Board representing the Minister of Water Affairs to explore alternative 'downstreaming' activities which supplement the falling demand for steel meter boxes. Any new 'downstreaming' initiatives will incur higher costs for Umgeni Water, which has to demonstrate to the Water Board that it is increasing supply and reducing the water tariff to the rural communities where outmoded steel meter boxes are being installed.

A proposal worth consideration is that Umgeni Water should ascertain the capital investment of each of its SMME entrepreneurs and seek Water Board approval to write-down these 'costs' against those incurred in increasing the supply and the water tariff to rural communities. This concession would be in return for providing suitable training programmes to entrepreneurs for a specified period of, say, three years, during which time regular new 'downstream' contracts would be carried out by these suppliers, who would be required to diversify into other activities at the end of the 'contract retraining' period.

10.2. Hulett Aluminium

Hulett Aluminium clearly deserves recognition for the fact that the people to whom they out-sourced

are blacks or Indians (except for the two largest suppliers, who were white but who, in turn, are subcontracting to blacks). In general, though, they have found suppliers who meet their needs without requiring any special support, or training. They also outsource other functions such as warehousing, shipping/distribution, but to larger, non-Black Economic Empowerment (BEE) suppliers, because they have found these activities to be too large and complicated for smaller enterprises to manage. Finally, there are other non-core activities, such as transport of produce, rather than of people, that could be outsourced, but Hulett Aluminium find they can provide this service more cheaply themselves. Similarly, there are other peripheral functions such as packaging, which they have chosen to keep in-house since these are seen as crucial to the delivery of top quality products.

Their development plans for SMMEs sound impressive; the problem has been in the implementation, since it appears that many of these ideas have not yet been put into practice. Their experience to date suggests that it is possible to direct a fairly significant share of a company's procurement budget to disadvantaged suppliers. This is currently stated at about 6 per cent of Hulett Aluminium's total operations budget, not counting the new construction project. Their purchasing policy uses fairly strict economic criteria, with relatively little commitment of corporate resources; and this can make a difference when it comes to opening up some important new opportunities for historically disadvantaged enterprises.

It is therefore proposed that Hulett Aluminium should investigate how more of its SMME suppliers can be involved in its 'upstream' activities under the 'Tax Holiday Scheme' set out in the Government's 'Growth, employment and redistribution' (GEAR) strategy (1996), and in the Regional Industrial Location Strategy (1996) provisions. The proposed joint Hulett/DTI 'downsteaming' cluster initiative is aimed at providing employment opportunities for local SMMEs wishing to manufacture door and window frames from aluminium off-cuts. Such an endeavor would require specialised training in aluminium welding available locally (e.g. Gateway Trust). If Hulett Aluminium were to enter into similar 'contracts' with local SMMEs, then recovery of training levies or any cross-subsidisation costs incurred in placing more 'downstream' business with these survivalist entrepreneurs is available under the same legislation. However, special care would be required before starting such an undertaking to ensure that there are reasonably good market prospects for the projects people are being trained to make.

In conclusion, simple 'buyer'/'supplier' linkages are recognised as an efficient way to conduct business activity, however this model excludes power imbalances and other social costs. The case for minimum intervention by Government, through its agencies, is already available under a raft of legislation passed since 1994. What is required is wise, far-seeing involvement in a set of selective 'triadic' linkages involving local SMME entrepreneurs, local corporates and the appropriate Government agency, which will encourage initiatives from which all three parties can emerge as a positive 'Tertius Gaudius' (Simmel, 1964), or "the third who rejoices" from the resulting growth in SMME activity, which is the primary aim of those living in the Greater Pietermaritzburg Metropolitan Area, where unemployment is still unacceptably high.

11. POSTSCRIPT: RECENT INITIATIVES FOLLOWING THE FINAL WORKSHOP

1. Both workshops were regarded by participants as very successful and resulted in lively, sometimes heated, debate about what practical steps should be taken to increase SMME development in the Greater Pietermaritzburg Metropolitan Area.
2. The local chamber of commerce (PCCI) has invited a member of the Department of Business Administration to join its Small Business Committee and advise on ways of providing more information to SMMEs on basic training in essential business practices, with the aim of encouraging more historically disadvantaged entrepreneurs to join this organisation.
3. The Business Support Centre (BSC) is currently discussing a Government-backed research project with the Centre for Entrepreneurial Development and Technology (CEPERTT, promoted jointly by the University of Natal and Technikon Natal) which will investigate training needs and current practice in the Natal Midlands, including Pietermaritzburg. One of the BSC team has also visited Japan on a fact-finding mission into training provision and simple technology transfer practices which could be incorporated in KwaZulu-Natal.
4. The Career Advisory Service Senior Officer recently visited Europe to carry out a comparative study. Funds will also be made available for another joint-research project with CEPERTT in the township area near the Drakensburg mountain range.
5. A post-graduate course in Small Business Development was launched by the Department of Business Administration at Pietermaritzburg in February 1998, and a related 4-week Winter School, open to members of the public, will be offered by the Department in July/August, 1998, but canceled because so few people wished to enrol. Ways of offering courses outside normal working hours will be considered after the new School of Business becomes operational in 1999.

Consideration is also being given to opening a research centre specialising in SMME development and Technology Transfer on the Pietermaritzburg Campus in 1999. The aim will be to complement the CEPERTT Unit activities on the Durban and Pietermaritzburg Campuses, and at Natal Technikon by focusing on studies which facilitate specific initiatives (e.g. Workplace Challenge in the local footwear industry and the proposed Hulett Aluminium/DTI 'downstreaming' project) in the Greater Pietermaritzburg Metropolitan Area.

REFERENCES

Bamberger, I.(1983), Value systems, strategies and the performance of small firms, *European Small Business Journal*, 1, Summer 1983, pp. 25-39.

_____, (1986), Values and strategic behavior, *Management International Review*, No.4, pp.57-69.

Dill, W.R.(1958), Environment as an influence on managerial autonomy, *Administrative Science Quarterly*, 2, pp. 410-411 and 424-425.

Hall, R.H. (1972), *Organisations: structures and process*, New Jersey, USA.

Hofstede, G.(1980), *Culture's consequences : International differences in work-related values*,

Beverly Hills/London.

Ronen, S. and Shenkar, O. (1985), Clustering countries on attitudinal dimensions : A review and synthesis, *Academy of Management Review*, 10, pp.435-454.

Simmel, G. (1964), *The Web of Group-Affiliations*, translated by Reiner Bendix, New York Free Press, New York.

STRATOS Group, (1990), *Strategic Orientations of Small European Businesses*, Avebury, Aldershot, UK, and Brookfield, USA.

Republic of South Africa, (1996), *Growth, employment and redistribution strategy*, *Government Gazette*, Cape Town, South Africa.

Republic of South Africa, (1996), *The Regional Industrial Location Strategy*, Department of Trade and Industry, Pretoria, South Africa.

**LINKAGE PROMOTION IN SOUTH AFRICA:
INSIGHTS FROM RESEARCH CONDUCTED IN DURBAN
AND RICHARDS BAY: AN EXPLORATORY STUDY**

June, 1998

F.O. Skae

Department of Accounting & Finance

Faculty of Economics & Management, University of Natal, Durban

ABSTRACT

This study focuses on small, medium and micro enterprises (SMMEs) in urban centers of KwaZulu-Natal, South Africa who supply goods and services to larger firms. The study examines existing and potential business linkages between SMMEs and corporate firms with particular reference to benefits, constraints, the role and effectiveness of facilitating agencies and other issues that impinge on the business environment faced by SMMEs. The study reports that, from the viewpoint of the SMMEs there are significant benefits to their business linkages with larger firms and over two thirds (69 percent) have enjoyed business growth as a result of those linkages. Buyers (the large firms) were less sanguine about those benefits, except in the area of image enhancement.

Author

F. Owen Skae [skaeo@shepfsz.und.ac.za] is a Senior Lecturer in the Department of Accounting and Finance, Faculty of Economics and Management, at the University of Natal, Durban, South Africa.

This is the second of four different studies of small, medium and micro enterprises (SMMEs), as suppliers of goods and services, and their business linkages with various buying organisations in South Africa. These studies were carried out in the Greater Durban, Pietermaritzburg and Richards Bay Metropolitan Areas between November 1997 and March 1998.

In this study, Owen Skae identifies the existing and potential businesses linkages of 32 SMME suppliers located in the Durban and Richards Bay Metropolitan Areas and their business linkages with 15 other companies, which are large buyers in the same Eastern Seaboard 'corridor'.

These suppliers may be regarded as representative of the wide range of SMME activity in both coastal industrial centres, since no fewer than 26 different manufacturing and service sector enterprises have been included. In-depth interviews were carried out with entrepreneurs and managers using a standard survey instrument leading to a comprehensive analysis of the motivations, aims, strategies, outcomes and difficulties experienced by both suppliers and buyers. More needs to be known about the crucially important task of enabling increasing numbers of historically disadvantaged people to participate in business activity in KwaZulu-Natal, thereby helping to expand the South African economy, but a valuable start has been made in this research project.

This study could not have been carried out without the financial support amounting to over US\$43 200 from the U.S. Agency for International Development, through the EAGER Project. In thanking them for this award, special mention must be made of Professor Donald C Mead of Michigan State University for helping to arrange the award in the United States and also for his energy and wide research experience gained in Africa in ensuring that agreed targets were met by research colleagues on the Durban and Pietermaritzburg Campuses of the University of Natal.

Special thanks are also due to Professor Anthony Lumby, Dean of the Faculty of Economics and Management at Durban, for supporting Owen Skae's impressive study of emerging SMME activity in the KwaZulu-Natal region of the New South Africa.

Professor Tom McEwan
USAID/EAGER PROJECT Co-ordinator
Department of Business Administration
University of Natal
Pietermaritzburg
South Africa

ACKNOWLEDGEMENTS

- Professor Donald C. Mead - Project Leader, for valued inputs, motivation and sources of inspiration.
- Professor Tom McEwan - Project Co-Ordinator, for behind the scenes facilitation.
- Professor Edwin Bbenkele - Researcher, for input to the questionnaire design.
- Mr Justice Mashele - Research Associate, for assistance in data collection and analysis
- Ms Teresa Watts - Secretarial Support

To all the Executives, Managers, Entrepreneurs and Support Agencies who willingly gave of their time and at the end, we had only scratched the surface.

The funding by the U.S. Agency for International Development (USAID) for this research project is gratefully acknowledged.

F.O. Skae
Senior Lecturer
Department of Accounting & Finance
Faculty of Economics & Management
University of Natal
Durban

1. INTRODUCTION

Increasing recognition has been given to the role of business linkages as a means of incorporating what has been commonly referred to as the historically disadvantaged sector of the South African population into the mainstream economy. However, as Rogerson (1995, p75) has noted :

“The important challenge will be to construct an economic environment and a set of support policy structures that might enable South Africa to pursue elements of the ‘high’ rather than the ‘low’ developmental road of small enterprise development.”

The low road refers to seeking competitiveness through low labour costs and a deregulated labour market environment, which in turn would lead to dependence and exploitation. The high road “is based on increased competition, efficiency enhancement and innovation with subcontracting relations ordered by regimes of common interest, mutual obligations and trust.” (Ibid, p67).

In the context of this research study, a business linkage is defined as the pursuit of a mutually beneficial exchange relationship where a large enterprise (buyer) enters into a business transaction with a small enterprise (supplier) for the supply of a product or service. This would encompass sub-contracting, purchasing or procurement initiatives, partnership agreements, joint ventures and technology input. (Robb, NEI, Winter 1993 :7).

The above definition is also consistent with a backward linkage as opposed to a forward linkage where in the latter, rather than purchasing from a small supplier, a large enterprise attempts to supply its products to a small buyer. Whilst this study did not preclude discussion of forward linkages, its major emphasis was on backward linkages.

2. PURPOSE OF THIS RESEARCH

This exploratory study was targeted at buyer and supplier businesses operating in the Durban and Richards Bay areas of KwaZulu-Natal and had three objectives, namely to identify from these enterprises :

- a. what could be learned from their interaction in business linkages (such as the benefits derived and the problems or constraints faced)
- b. the role support agencies have played in facilitating their linkages (such as linkage intermediaries or training organisations)
- c. any factors which should be considered by all stakeholders to facilitate an enabling

environment

Being exploratory, no hypotheses were stated, but the researchers had an underlying theme that recognition be given to the 'quality of the contract'. This essentially encompassed an assessment of the extent to which the linkages could be classified as being on the 'high' road as opposed to the 'low' road as described earlier.

3. METHODOLOGY

No scientific methods of sampling were undertaken. The primary focus was to attempt to interview large buyers who had a track record of establishing linkages. Based on the researcher's own knowledge, the advice of opinion leaders and support agencies; certain large enterprises were identified and interviewed using the buyer questionnaire. In the course of this buyer interview, the relevant small suppliers were identified and subsequently interviewed. Some problems were however encountered, in that certain of the large enterprises were not as active in linkages as originally envisaged. In addition, it was also not possible to contact certain targeted small suppliers for reasons beyond the control of the researcher.

It was also deemed necessary to conduct personal interviews due to the wide range of questions and issues being raised. Two separate support questionnaires to aid the interviewer were designed, one each for the buyer and supplier respectively. These questionnaires were wherever possible faxed to the respondent business in advance of the interview session so that the designated interviewee would have the opportunity to review them. Each interview took on average two hours. The questionnaires are contained in Appendix A.

4. RESPONDENTS PROFILE

4.1. Overall Survey Profile

A total of 47 interviews were conducted of which 15 were with large buyers and 32 small suppliers. Of these, 10 large buyers and 26 small suppliers were actively linking with each other.

4.2. Buyer Profiles

a. Principal Activity

Of the 15 buyers, 4 would be classified as parastatal or public sector and were based in Durban. Of the 11 private sector buyers, 8 were based in Durban and 3 in Richards Bay. Their principal activities are shown overleaf in Table 1, and as can be seen all are relative newcomers to linkage activity.

It should be pointed out that the Diversified company is the holding company of three other companies surveyed. The major emphasis of this particular interview was to obtain insight into

the company’s motivation towards linkages from a group perspective. However, the data from the company’s subsidiaries form the basis of the operational linkage analysis, as no direct linkage activity was undertaken at group level.

In addition, the Bakery and Fast Food franchise, did not fully fit the stated definition of business linkages in the context of this research project. However, some interesting insights arose from the interview and where the researcher has deemed these responses to be appropriate or relevant to the study, they have been included in the analysis.

It is clear from the profile in Table 1, that most buyers surveyed require high degrees of capital and technology investment.

Table 1

| Sector | Activity | Number Interviewed | Employees | Linkages Started |
|---------------|--|---------------------------|---------------------|-------------------------|
| Private | Agriculture | 1 | Not known | Not known |
| Private | Automotive Components | 1 | 3 600 | Not known |
| Private | Bakery & Fast Food Franchise | 1 | 20 + 11 franchisees | Not known |
| Public | Building Materials | 1 | 3 500 | 1996 |
| Private | Cargo Movement | 1 | 5 800 | 1996 |
| Public | | 1 | 670 | 1997 |
| Private | Crude Oil | 1 | 22 000 | 1993 |
| Private | Refining | 1 | 49 000 | 1995 |
| Private | Diversified (Food, Industrial, Property) | 2 | 7 295 + 1 470 | 1997 |
| Public | Electricity Supply | 1 | and 1 250 | 1995 |
| Private | Mining | 1 | 280 | 1998 |
| Public | Motor Manufacturer | 1 | 863 | 1995 |
| | | Total 15 | 60 000 | 1993 |
| | Primary Aluminum Smelter | | | 1994 |
| | Purchasing and Materials Procurement | | | 1996 |
| | Sugar Refining | | | |
| | Telecommunications and IT | | | |

b. Buying and Sourcing Policies and Structure

All companies surveyed have competitive buying policies, with quality, delivery and price issues prevailing. Buyers in most cases had total authority to buy items up to a set value from a supplier who was on an approved vendor or supplier list. In the event that the value exceeds a set limit then a buying committee would be involved in the purchasing decision and the company would in all likelihood tender. The limit varied from company to company, but it did appear that for many purchases from SMMEs, corporate buyers would have total discretion to buy from them as long as they were on the approved list.

In all cases, user influence is high in the buying process particularly when technical issues prevail.

In most companies, buyers tended to be predominantly White, followed by Indian (in two cases this was the reverse), but with Black buyers being the minority in all cases.

Some companies had divisional or regional buying offices, others had a group buying office. Structures tended to be quite consistent. A team of buyers reports to a buying manager who in turn reports directly to a finance manager or a regional or general manager. Amongst the companies surveyed, the finance function tended to predominate in the management of the buying process.

4.3. Supplier Profiles

a. Profile of the Entrepreneurs

A significant portion of the entrepreneurs interviewed were male as shown below in Table 2. Educational background was quite high with 19 of the 32 having received tertiary education of which ten had obtained a diploma and nine a degree. Diplomas included architecture, fashion design, motor mechanic and project management, and degrees included arts, commerce, librarianship, nursing and science.

Formal training in the functions of management was very low as indicated in the table. Nearly half of the entrepreneurs had never worked for someone else prior to starting their own business.

Table 2

| Data Category | Frequencies | | Total |
|------------------------------------|--|--|--------------|
| Biographical | | | |
| Gender | 24 Male (75%) | 8 Female | 32 |
| Age | Mean 38.188 years Minimum 22 years Maximum 73 years | | |
| Married | 22 Yes (69%) | 10 No | 32 |
| Children | Mean number 2.781 | | |
| Educational Background | 13 Secondary Level - 2 passed Std Eight - 11 matriculated | 19 Tertiary Level - 10 obtained Diploma - 9 obtained Degree | 32 |
| Formal Training | | | |
| Marketing | 26 No (81.3%) | 6 Yes | 32 |
| Selling | 30 No (93.8%) | 2 Yes | 32 |
| Production | 30 No (93.8%) | 2 Yes | 32 |
| Finance | 29 No (90.6%) | 3 Yes | 32 |
| Work for Someone Before | 18 Yes (56.3%) | 14 No | 32 |

When asked the circumstances which have led to self-employment, the following responses were recorded :

Table 3

| Circumstances | Frequency |
|---|------------------|
| Take Advantage of Black Empowerment Opportunities | 9 |
| Need for Independence | 8 |
| Improve my life | 7 |
| Saw an unfulfilled need | 2 |
| Encouraged by former employer’s customers | 2 |
| Retrenched | 1 |
| Other | <u>3</u> |
| | Tot 32 |

The above were interpreted by the researcher qualitatively, based on their responses as outlined in the interview. Whilst the classic entrepreneurial responses are quite high, namely need for independence (25%) and improve my life (22%), it appears that business linkages have provided quite significant black empowerment opportunities for most of the entrepreneurs surveyed (28%).

- b. Profile of their Businesses
- i. Principal Activities and Product/Service Offerings

It is clear from Tables 4 and 5 below, that the suppliers are primarily service based in their activities and product/service offerings. Please note that these are presented in alphabetical order and hence the product/service offering does not correlate with the principal activity.

Table 4

| Principal Activity (In alphabetical order) | No. Intervi ewed |
|--|------------------------|
| Bag and Sling Manufacturer | 1 |
| Catering | 2 |
| Construction | 2 |
| Consulting Engineers | 1 |
| Contractors | 3 |
| Dry Cleaning & Laundry | 1 |
| Engineering | 1 |
| Fashion Designer | 1 |
| Gardening & Cleaning Services | 4 |
| Glazed Ceramic Manufacturer | 1 |
| Maintenance and Repairs | 2 |
| Pallet Repair | 1 |
| Printing & Stationery | 2 |
| Rubber Stamp Manufacturer | 1 |
| Sign Writer | 1 |
| Supplier/Distributor | 7 |
| Upholstery | 1 |
| Total | 32 |

Table 5

| Product/Service Supplied (In alphabetical order) | No. Intervie wed |
|--|------------------------|
| Brakes and Clutch (Supply) | 1 |
| Bulk Bags | 2 |
| Cables | 3 |
| Cleaning Services | 1 |
| Cocktail Parties | 1 |
| Construction | 1 |
| Designs and Project Mgt | 2 |
| Engine Spares | 1 |
| Fabrication | 1 |
| Forklift Spares and Service | 1 |
| Garden Services | 1 |
| Garments | 1 |
| Laundry | 1 |
| Lunches | 1 |
| Motor Repairs | 2 |
| Pipe Laying | 2 |
| Printing | 1 |
| Rubber Stamps | 1 |
| Tarpaulins | 1 |
| Telephone Installation | 1 |
| Sign Writing | 1 |
| Steel Pallets | 1 |
| Tiles | 1 |
| Welding | 1 |
| Welding Equipment (Supply) | 1 |
| Wood Pallets | 1 |
| Total | 32 |

ii. Business Data

Some interesting observations arise from Table 6 below. The supplier businesses are relatively young, the average age being 5.438 years, with a significant proportion, namely 11 firms (35%) being less than two years old. As might be expected, if these firms are still in their start up phase management and supervisory numbers would be quite low. Earlier it was noted that functional management skills training is quite low amongst the respondent entrepreneurs. Perhaps this is not surprising as it could be surmised that in the start up phase these businesses have insufficient management and supervisory staff to oversee the business whilst the owner/manager is on a training course.

The average number of workers employed is 14.531. With 18 (56%) of the respondents being close corporations, this is clearly the preferred legal entity. Most of the entrepreneurs (78%) have drawn up a business plan at some time or another, but it is significant that a high proportion operate without any overdraft facility, with 13 (41%) having never negotiated finance facilities with a finance institution.

Business linkages also have the advantage to the requisite authorities of ensuring compliance as the majority are registered for the various businesses taxes as shown above in Table 6. The VAT registration would also confirm that the annual turnover of the respondent businesses is in excess of R150 000.

Trade union activity amongst the respondent suppliers is very low.

iii. Sales Data

As expected, all the SMMEs surveyed confirmed that they sell to large buyers and given the age profile of the businesses surveyed (refer to Table 6) it is not surprising that their products are also relatively new. A total of 19 small suppliers (59%) have been making or selling their product for two years.

Table 6

| Age and Staff | Mean | Minimum | Maximum |
|--|--|----------------|---------------------|
| Business Age | 5.438 years | 11 < Two years | |
| Mgt Staff inc owner/s | 2.219 | 11 One | 3 Five |
| Supervisory staff | 1.156 | 8 Nil | 1 Four |
| Workers | 14.531 | 2 Two | 1 Seventy |
| Legal Entity | 8 Sole Proprietor 1 Partnership 18 Close Corp 5 Pvt Company | | |
| Gender of Owners | 19 Male 3 Female 3 Husband & Wife 4 Multiple Mixed Gender | | |
| Business Plan & Access to Finance | Yes | No | Missing Data |
| Drawn up a Business Plan | 25 | 7 | 0 |
| Negotiated Finance Facilities | 19 | 13 | 0 |
| Registered | Yes | No | Missing Data |
| Business Taxpayer | 23 | 8 | 1 |
| VAT | 26 | 6 | 0 |
| PAYE/SITE | 20 | 12 | 0 |
| UIF | 20 | 12 | 0 |
| JSB Levies | 24 | 8 | 0 |
| Industrial Council | 12 | 20 | 0 |

| | | | |
|--|-----------------|-----------------|--------------------------|
| Entrepreneur Provisional Taxpayer | 23 | 8 | 1 |
| Trade Union Activity Workers Unionised | Yes 2 | No 30 | Missing Data 0 |
| Recognition Agreement | 2 | 30 | 0 |

Table 7

| | | | |
|--|--|---|---|
| Supply Large Buyer | 32 - Yes | 0 - No | |
| How long making/ selling main product | Mean 3.219 years 6 - One Year 13 - Two Years | | |
| Product & Buyer Mix | Product | Buyer | |
| One | 24 | 11 | |
| Two – Three | 4 | 9 | |
| Four + | 4 | 12 | |
| Sales | Mean | Minimum | Maximum |
| Total Monthly | R100 562 | R7 000 | R425 000 |
| Total Yearly Linkage | R1 060 458 | R32 000 | R5 100 000 |
| % of Sales to Corporates | 73.813% | 10% | 100% |
| Category Analysis | Monthly Sales 6 - < R35K 10 - R35K to R100K 7 - R100K to R300K 4 - > R300K 8 - Missing | Yearly Linkage 6 - < R150K 6 - R150K to R500K 6 - R500K to R1000K 8 - > R1 000K 6 - Missing | % Sales to Corps 6 - 10% - 45% 4 - 46% - 65% 6 - 66% - 85% 16 - 86% - 100% |
| Main Sector Linkage | Private 12 | Public 18 | Both 2 |

| | | | |
|--------------------------------------|------------------------------|-------------------|--|
| Preferred Linkage Arrangement | Contractua 1 29 | Loose 3 | |
|--------------------------------------|------------------------------|-------------------|--|

Table 7 above illustrates two important observations in relation to the sales analysis, namely the product base is undiversified and the small buyers are heavily dependent on their large buyers. The large majority of SMMEs surveyed, namely 24 (75%), have a single product mix. Just over a third (11) sell to a single buyer and on average, 73.813% of total sales go to large buyers. Half of the suppliers surveyed (16) indicated that between 86% to 100% of their sales go to large buyers.

It must be stressed that the above financial information was not verified by the researchers, and is based on the figures given verbally by the SMMEs surveyed in the interview.

The slight majority of SMMEs surveyed (56%) linked primarily with public sector buyers, and 2 indicated that they had been involved with both public and private sector contracts to an equal degree.

Virtually all of the small buyers interviewed (91%) stated that they preferred a contractual arrangement with their big buyers.

5. MAIN FINDINGS

5.1. Corporate Perspectives

a. Corporate's Primary Rationale for Entering into Linkage Activities

Table 8

| Rationale | Rank 1 Freq | R 2 | R 3 | Mean* |
|---|----------------------------|----------------|----------------|--------------|
| Support Black enterprise upliftment/empowerment (BE) | 10 | 1 | 2 | 1.385 |
| Search for efficient and/or low-cost suppliers (EFF) | 2 | 5 | 2 | 2.111 |
| Mandated because of Affirmative Action (AA) | 1 | 4 | 2 | 2.143 |
| Outsource peripheral activities and concentrate on core business (PA) | 0 | 3 | 6 | 2.556 |
| Search for new markets for products (NM) | 1 | 0 | 0 | n/a |
| Avoid mandatory rules | 0 | 0 | 1 | 3 |
| Avoid labour problems through sub-contracting | 0 | 0 | 0 | 0 |
| Take advantage of govt incentives | 0 | 0 | 0 | 0 |

* Closer mean is to 1, higher overall ranking obtained

The frequency analysis shows that the most of the large buyers surveyed are undertaking linkage activities to support Black enterprise upliftment. If one considers Table 3, which showed the circumstances leading to self-employment, then it is suggested that these

corporates are to a large extent succeeding in their objectives. It might also be surmised that this objective would take preference over other important motives such as searching for efficient and/or low cost suppliers. Hence in the short-term, large buyers may be prepared to pay a premium for the service or product offerings. If the stated rationale is correct, then it might be suggested that the large buyers are committed to the 'high' road of development, instead of the 'low' road and this also manifests itself in no company indicating an intention to avoid labor problems.

A cross-tabulation analysis was undertaken to determine if there were any differences between public and private sector corporates in terms of their primary rationale and the Pearson chi-square used to determine any significant statistical relationships.

As Table 9 shows below, no significant statistical relationships were found, and hence motives appear to be fairly consistent between private and public sector organizations.

Table 9

| | BE | Frequencies | | | | Cross-Tab Chi-sq (x ²) | p-value |
|------------------------------|--------|-------------|---------|---------|-----|--|---------|
| | | EFF | AA | PA | NM | | |
| Rank 1 - Private | 6 | 2 | 1 | 0 | 1 | 2.24000 | 0.52411 |
| - Public | 4 | 0 | 0 | 0 | 0 | | |
| Rank 2 - Private | 1 | 3 | 1 | 4 | 0 | 5.72361 | .12586 |
| - Public | 0 | 1 | 3 | 0 | 0 | | |
| Rank 3 - Private | 2 | 2 | 1 | 3 | 0 | 2.0463 | .72724 |
| - Public | 0 | 1 | 1 | 2 | 0 | | |
| Chi-square (x ²) | 1.7333 | .80357 | 1.89583 | 2.05714 | n/a | | |
| p-value | .42035 | .66912 | .38755 | .15149 | | | |

b. Type of Linkage Activity

The emphasis is strongly biased towards non-core; service based linkage activities and is likely to remain so for the foreseeable future. All corporates indicated that they draw a distinction between core and non-core activities in their business and with two exceptions amongst those surveyed, would never consider outsourcing core activities.

Most of the corporates interviewed, had a high degree of investment in technology and or capital investment in relation to their core business. Concomitant with this is a high degree of management expertise. This factor probably precludes outsourcing of core business in companies of this type, given the shortage of skills that exist in South Africa. Even for non-core activities one company highlighted the difficulty a SMME would encounter in establishing an operation relevant for their situation. Using the example of injection moulding, which they want to outsource, the capital expenditure for one machine could amount to R1.4 million.

However, the one example which could be argued is an outsourcing of a core activity, is the agricultural company's sale of sugar estates to medium scale farmers. The distinction here appears to relate to the level of technology required by the supplier.

c. Commitment to Linkages

The researchers were of the opinion that a corporate's commitment to linkages would be reflected in five characteristics, namely :

- existence of a written policy on linkages
- designated person appointed in the corporate with responsibility for developing linkages
- a target level of purchases from small suppliers
- incentives given to buyers to acquire from small suppliers
- resources committed by the company for linkage activities

In addition, the corporates were asked whether they had used outside agencies in facilitating linkages and whether or not they had adequate information on small suppliers. The frequency results are shown below in Table 10.

Table 10

| | Frequencies | | | | Total Yes | Cross-tab Chi-square (x ²) | p-value |
|--|-------------|------------|-----------|-----------|--------------|--|---------------------|
| | Pvt Yes | Pub Yes | Pvt No | Pub No | | | |
| Written Policy on Linkages | 4 | 3 | 5 | 1 | 7 | 2.60516 | .27183 ² |
| Designated person responsible for linkages | 7 | 3 | 4 | 1 | 10 | .17045 | .67971 |
| Target Purchases from SMMEs | 1 | 3 | 8 | 1 | 4 | 5.30633 | .02125 ¹ |
| Incentives to Buyers | 0 | 2 | 9 | 2 | 2 | 5.31818 | 0.021101 |
| Outside Agencies Used | 6 | 3 | 3 | 1 | 9 | .09028 | .76382 |
| Access to Adequate Info | 7 | 3 | 2 | 1 | 10 | .01204 | .91264 |

¹ Statistically significant

² Calculated according to 4 private sector companies ‘Drafting.’ Hence, 1 - ‘No’, 4 - ‘Drafting’.

i. Written Policy

Seven companies had a written explicit policy on linkages, but what was encouraging to note was that four private sector corporates are currently drafting a policy. This indicates a growing commitment to the process and they expressed the hope that it would lend focus to senior management and buyers.

ii. Designated Person

Most of the companies surveyed had a designated person, going by various titles. Two of the public sector organisations, included the word Black Empowerment but the most common was SMME Development, Small Business Development Manager or Development Specialist.

The public sector organizations tend to structure these as stand alone functions, which report and have interaction with other departments in the organization. With private sector organizations, the tendency is to incorporate them into the buying department or function. In three cases, two private and one public sector, the designated people were two in number, one black and one white. The white manager had a buying background, the black manager a development background. The intention is that they complement one another.

iii. Target Purchases

It is statistically significant that public sector organizations set target purchases and provide incentives to buyers, whereas this is not the case amongst private sector organizations. When questioned on this, private sector companies felt that it would lead to deviant behavior, and in most cases would not achieve the desired objective. Most of the private sector companies surveyed, measured the buying performance from small suppliers vigorously, but drew the line at setting targets or giving incentives to buyers. The public sector organizations on the other hand felt that unless targets and incentives were given, the buyers would not engage into buying activities to the degree that the organization desired. Incentives included making it part of a Key Performance Area/Indicator (KPA or KPI) which in turn has implications for bonuses and promotion prospects. The researcher finds it difficult to express an opinion as to which approach might be the most desirable and only time will tell as to which one is ultimately more effective.

However, some observations, which show both advantages and disadvantages, if viewed from a public sector perspective, can be drawn :

On the whole, the public sector organizations appeared to have a more extensive database of small suppliers which was more readily accessible than the private sector organizations.

The quantum of contracts tended to be of greater value for public sector than private sector organizations.

Public sector organizations appear to be more willing to make resources available to the organization to develop linkages. The companies interviewed were essentially unwilling to disclose how much money is actually spent and instead, surrogates were mentioned, such as the number of people directly involved in linkage activities.

Fronting (white or Indian businesses 'using' blacks or Indians so as to acquire contracts) appears to be far more prevalent amongst public sector than private sector organizations. Public sector organizations are more prepared to pay premiums or to give preference to organizations that fall within specified categories. One organization interviewed allows a 5% price preference to be given to suppliers if it has a 50% shareholding by 'previously disadvantaged', 10% if a 100% shareholding and a further 2% preference (giving a possible maximum of 12%) if the ownership also includes previously disadvantaged women or disabled persons.

This in no manner suggests that the researcher suspected or is of the opinion, that the public sector organizations interviewed were involved in underhanded dealings. As one organization explained, these front companies will always fit the definition of a 'black owned' business and hence if one applies the criteria as specified, then they conform to the requirements and hence the preference is granted. Private sector companies on the other hand, tend to have more flexibility to determine the definition of this front business and where this occurs, will simply define them as 'white owned'. Private sector companies also give far less recognition to the

payment of premiums. The opinion was expressed that the price preference often equates to the commission paid to the front organization. If this is the case (and a number of survey respondents indicated that the practice is fairly rife), then it must be questioned whether or not the price preferences achieve their stated objective. Another public sector organization surveyed is currently revising their strategy on this, and is implementing a much broader rating approach that will attempt to weed out front companies. Another said that it was applied on a discretionary, exceptional basis criteria and hence was never guaranteed.

iv. Outside Agencies Used and Adequate Access to Information

The most common outside agency used was the Tekwini Business Development Centre (TBDC) based in Durban. Other entities were the Empangeni Business Advice Centre, Richards Bay Business Opportunity Centre, Pietermaritzburg Business Support Centre, the National Small Business Council and the Small Business Development Centre.

Most corporates surveyed were of the opinion that they had adequate access to information on SMMEs.

v. Linkage Commitment Categorization

Each buyer was categorized according to their linkage commitment and their linkage activity as shown below in Table 11.

Table 11

| Category | Commitment | Activity |
|-----------------|-------------------|-----------------|
| High | 6 | 5 |
| Medium | 5 | 3 |
| Low | 2 | 5 |

The commitment category was based on an assessment of their responses to the five characteristics mentioned earlier and a qualitative assessment on the part of the interviewer to the responses by the interviewee.

The activity measure was categorized according to the number of linkages currently active. Low was 0 to 4, Medium was 5 to 10 and High was 10+.

A general factor analysis was undertaken to determine which of the first four characteristics outlined earlier (the fifth characteristic of resources was excluded due to the incomplete responses achieved) had the most significant impact on the commitment and activity.

The results are shown in Table 12 below.

Table 12

| C o m m i t m e n t Characteristic | Commitment | | Activity | |
|---|--------------------|--------------------------|--------------------|--------------------------|
| | F ratio | Signifi cance | F ratio | Signif icance |
| Written policy | .16 | .859 | 2.52 | .196 |
| Designated person | 10.42 | .032 ¹ | 20.18 | .011 ¹ |
| Target Purchases | 1.71 | .261 | 6.86 | .059 |
| Incentives to buyers | .13 | .732 | 4.07 | .114 |
| Model | 2.49 | .198 | 3.80 | .108 |
| r ² | .813 | | .869 | |

¹ Statistically significant

The most significant characteristic is having a designated person and is the best measure for indicating commitment to the establishment of linkages and at driving linkage activity. Whilst not being statistically significant in terms of commitment, establishing target purchases is nearly significant in achieving activity (.0590). The model itself is not statistically significant (.198 and .108 respectively) but the researcher submits that it does provide a basis and a benchmark for organizations to consider when implementing a linkage programme.

These latter findings are perhaps not surprising, in the context of an organization ensuring that

the designated person does achieve the desired results. It also suggests, that there is some merit in considering the establishment of target purchases. However, the appointment and justification of having that designated person is another matter entirely, as was noted by two organizations, neither of which had a designated person. They both stated that developing linkages requires resources, specifically money and time. Buyers in particular, do not have the latter especially in the course of fulfilling their normal duties. One of these organizations had attempted to justify to senior management that a specialist, designated person was required, but the request was turned down as it was felt that such an employee would not 'add value' to the company.

5.2. SMME Perspectives

The following responses form the basis of assessment from the supplier interviews.

a. Assistance by Corporates

Table 13

| | No | Yes |
|--------------------------------------|----|-----|
| Provide Advice and Training | | |
| - Management | 31 | 1 |
| - Technical | 28 | 4 |
| - Financial | 30 | 3 |
| Provide Credit | 28 | 4 |
| Provide Access to Raw Materials | 18 | 14 |
| Provide Accelerated Payment Terms | 7 | 25 |

The most common form of assistance is providing accelerated payment terms, followed by provision of access to raw materials. These combined will in large part go some way to compensating for the lack of finance facilities. However, most corporates noted that after a specified period of time, they would expect their suppliers to be paid according to the company's normal payment terms offered to all suppliers. Buyer mentoring appears to have a low priority amongst large buyers with most suppliers indicating that they had not received any advice or training.

b. Most Important Factors in Satisfying Expectations of Big Buyer

Table 14

| | Mean* |
|----------|-------|
| Quality | 1.531 |
| Price | 2.031 |
| Delivery | 2.125 |
| Volume | 3.094 |

* Closer mean is to 1, higher overall ranking obtained

Most SMMEs surveyed believe quality and price to be the most important factors in satisfying the expectations of big buyers.

c. Performance as a Result of Linkage Activities

The suppliers were asked a number of questions relating to their performance in linkage activities. The responses are noted overleaf in Table 15.

Nearly all the respondents (88%), indicated that their businesses had improved as a result of linkage activities, with half making reference to reaching buyer expectations. The main emphasis here was improvements in quality and delivery, implying increased effectiveness in terms of external requirements. A significant proportion (34%) noted improvements in productivity, such as doing tasks faster, implying increased efficiency in relation to internal requirements.

As far as improving further is concerned, it is particularly interesting to note the main emphasis being placed on volume, which appears to contradict with Table 14. The researcher suggests that the suppliers are of the opinion that they have improved along quality and delivery requirements to the extent that they deserve more business from big buyers. Given the weighting placed on quality and price expectations being fulfilled, (Table 14) it is to be expected that some responses were recorded here, having 4 and 3 respectively but not as high as was anticipated.

Some recognition was given to the improvement of functional skills, but the researcher did expect it to be higher given the low level of formal functional training (Table 2) and apparent lack of extensive buyer mentoring present (Table 13).

Table 15

| Performance Question | Response |
|----------------------------------|---|
| Have you improved ? | 28 Yes 4 No |
| Along what dimensions ? | 16 Buyer Expectations 11 Productivity 5 Not Improved |
| Do you need to improve further ? | 27 Yes 5 No |
| Along what dimensions ? | 9 Volume 4 Quality 3 Price 3 Functional Skills 3 Capital Equipment 2 Delivery 1 Training 2 Other 5 No |

d. Usage of Intermediaries

Table 16

| | Yes | No |
|------------------------------------|------------|-----------|
| Contributed to establishing a link | 7 | 25 |
| Provide satisfactory service | 3 | 4 |
| Participated in a Buyer Fair | 13 | 19 |

The researcher expected intermediary involvement to be higher, but 78% of the respondents indicated that an intermediary had not contributed to the establishment of a linkage, and of the 7 who said yes, the majority (4) were of the opinion, that a satisfactory service had not been provided. These findings tend to suggest one of the following :

The suppliers place far more emphasis on their own efforts than they do on intermediaries efforts on their behalf

The intermediaries did not contribute at all

The intermediaries did not contribute in relation to a particular linkage

A person (such as a designated person in a corporate) contributed more to the establishment of a linkage than an intermediary (Refer to Table 19 below).

It is difficult to determine which factor prevails, and more detailed research is required in this area for answers to these possibilities. The role an intermediary has played, is not always easy to ascertain, particularly if there is a fair amount of 'behind the scenes' work. The researcher suggests that the role of intermediaries is perhaps higher than the suppliers give credit for. The fact that 13 have participated in a buyer fair, which in most cases would be organised by an intermediary organization tends to support this. However, perhaps the finding is symptomatic of a deeper problem, namely the extent of interaction (or lack of) between intermediaries and suppliers. The role of intermediaries as seen by the suppliers and buyers will be discussed later.

e. Dealing with Big Buyers

This aspect of the research attempted to ascertain how big buyers interact with the small suppliers, and how the interaction manifests itself in terms of trust and the feeling the SMME has about the linkage relationship. The relevant section of the questionnaire is 4.9. (Refer to Appendix A, Supplier Questionnaire pages 5 to 6). It is important to note that the research is measuring the perceptions of the SMMEs. The six major aspects were :

If the SMME encounters a problem :

Corporate's Stance - do they feel they can approach the corporate or are they scared to?

Channel of Communication - has the corporate appointed a designated person, or does the SMME have to direct to a particular department. The idea here, is that it is easier to direct it to a designated person

Corporate's Response – how have the Corporate's responded to problems the SMME may have encountered ?

Assuming there is a designated person :

Racial classification – the intention was to determine if race had any bearing on whom the designated person might be.

Authority – what level of authority does the SMME perceive the designated person to have.

Attitude of Corporate Buyers :

How have the Corporate's Buyers treated the SMME. This attempted to establish the extent to which the SMMEs perceive there to be so-called 'buyer resistance' to business linkages.

Visits by Corporate

The more frequently the Corporate sent a person to visit the SMME, the greater the possibility for enhanced communication, buyer mentoring and expression of commitment to the business linkage and the SMME.

Feeling of Trust

To what extent does the SMME believe it has matured in its business dealings with the Corporate.

Feeling about the Linkage

To what extent does the SMME believe the linkage has met the expectations of the supplier and the buyer, or does the SMME perceive itself to have been exploited in the process.

The results are summarized below in Table 17.

Some of the results were encouraging, particularly the corporate's stance, response and mutual feeling of trust. It appears that the big buyers have established open channels of communication, the preferred structure is to have a designated person, and on balance the corporates are sincere in attempting to resolve any problems that arise. In one third of cases (11) the corporates are frequent visitors to the supplier. The majority of designated persons are white and this did not appear to create any obstacles in the minds of the suppliers. It is also significant to note that the majority of suppliers perceive the designated person to have a lot of authority in the corporate. This implies that the corporate should select this person very carefully and careful management of the process by the designated person is required.

However, it is also disturbing to note that there is a fairly significant grouping of SMMEs who consider that buyers have treated them unfairly and that they have been exploited in a linkage relationship. This aspect will be explored further later (Refer Table 24).

Table 17

| Aspect | Number | Response |
|-------------------------------------|---------------|--|
| <u>If a problem is encountered:</u> | | |
| Corporate's Stance | 30 | Approach the Corporate |
| | 2 | Scared to tell the Corporate |
| Channel of Communication | 2462 | Designated Person irrespective of the problem Department or person depending on the problem Take a chance it will resolve itself |
| Corporate's Response | 14 | Corporate is sincere in assisting to resolve it |
| | 11 | Mixed experiences |
| | 5 | Pays lip service to addressing it |
| <u>Designated Person :</u> | | |
| Race | 10 | Black |
| | 13 | White |
| | 8 | Mixed |
| Authority of Designated Person | 23 | Lot |
| | 8 | Little |
| | 1 | Doesn't have the experience |
| Attitude of Corporate's Buyers | 5 | Favourable treatment |
| | 13 | Treat me fairly |
| | 12 | Treat me unfairly |
| | 2 | Unfavourable treatment |
| Visits by Corporate | 11 | Frequently |
| | 6 | Needs basis |
| | 6 | Once-off |
| | 9 | Never |
| Feeling of Trust | 16 | Mutual feeling of trust |
| | 9 | Don't trust me |
| | 6 | I don't trust them |
| Feeling about Linkage | 15 | Met expectations of both parties |
| | 2 | Mine but not theirs |
| | 11 | I have been exploited |

f. Most Support in Developing Linkages

Earlier, the role intermediaries have played in establishing linkages was assessed (refer to Table 16). Table 18 below, considers who the SMMEs felt provided the most support in the establishment of the linkage. A third (11) of the respondents indicated that nobody had helped them, but it is also significant to note that virtually the same number (10) mentioned an individual person in a corporate. This tends to suggest that more weighting is placed upon a designated person than an intermediary in developing linkages.

Four respondents made reference to an external individual, which included a business adviser or a friend. Only three respondents referred to an intermediary, namely the Business Opportunity Centre (BOC) or TBDC as it is now referred to.

Table 18

| Support Factor | Number |
|------------------------------|---------------|
| Nobody | 11 |
| Individual in a Corporate | 10 |
| External Individual | 4 |
| Intermediary | 3 |
| Particular Corporate | 3 |
| Financial Institution | 1 |

g. Quality of Contract Dimensions

Table 19

| | |
|---------------------------|---------------|
| Contract | Number |
| Stability | 9 |
| Usually stable | 6 |
| Intermediate | 8 |
| Highly variable | 9 |
| Missing | |
| Period of Contract | Number |
| Less than 6 months | 3 |
| 6 months to 1 year | 6 |
| More than 1 year | 8 |
| Missing | 15 |
| Value of Contract | Number |
| Less than R100 000 | 5 |
| R100 000 to R300 000 | 5 |
| R300 000+ | 10 |
| Missing | 12 |

Under purposes of research (page 1) it was noted that recognition be given in the research to the 'quality of the contract'. How this manifests itself, the researchers suggest is in factors such as the stability of the contract (relative to other contracts obtained), the period of the contract and the value of the contract. The higher each of these are, the better the quality of contract for the supplier. The SMMEs were asked to indicate these in terms of their most recent contract with their principal buyer. The responses are recorded above in Table 19. A cross-tabulation analysis was then undertaken between the quality of contract factors and the principal buyer's commitment rating (refer to Table 11) of high, medium, low to determine if this had any impact, as well as the buyer's sector classification (private or public) to determine if there were any differences. The results are shown below in Table 20.

Table 20

| Quality Dimensions | Linkage Commitment | | Private/Public Sector | |
|--------------------|------------------------------|---------|------------------------------|---------|
| | Chi-square (x ²) | p-value | Chi-square (x ²) | p-value |
| Contract Stability | 2.56161 | .27781 | 12.01720 | .01722 |
| Period of Contract | .63636 | .72747 | 2.53819 | .63781 |
| Value of Contract | 2.21538 | .33032 | 1.74286 | .78292 |

¹ Statistically significant

There were perhaps too many missing observations to draw any meaningful inferences, but the degree of commitment appears to have no impact on any of the manifestations of the quality dimensions. Perhaps there are too many industry specific factors which come into play and this type of analysis would be better suited to a number of fairly homogenous organizations in a single industry.

In so far as the sector differences were concerned, the contract stability was statistically significant. What was interesting to note here was that the private sector buyers were all intermediate, whereas the public sector were either highly variable or usually stable. This is probably due to the public sector tendering procedures, which for big contracts in particular is always going to provide an uncertain outcome for the entity tendering.

Whilst the value of the contract was not statistically significant, (there was an even spread over the cells) the public sector had seven observations in the highest value as opposed to the private sector's two.

5.3. Common Perspectives

a. Benefits/Disadvantages of Linkages

The following responses as shown overleaf in Table 21 were noted by the SMMEs.

Table 21

| Benefits/Disadvantages | Number | Response |
|--|---------------|-------------------------------|
| Benefited | 22 | Yes |
| | 6 | Marginally |
| | 4 | No |
| Actual Benefits | 13 | Growth |
| (Note : Exceeds 22 as includes marginal benefits) | 4 | Referrals to other corporates |
| | 4 | Cash flow/profit |
| | 3 | Gained business experience |
| Disadvantages | 6 | Yes |
| | 26 | No |
| Actual Disadvantages | 3 | No profit |
| (Note : Exceeds 6 as includes 'minor' disadvantages) | 2 | Competition |
| | 2 | Over-reliance on buyer |
| | 1 | Buyer over-expectation |

The majority (69%) indicated that they had benefitted in their business as a result of linkage activities, with 13 suppliers noting the major benefit to be growth. This included increases in turnover, assets and number of employees. A minority (19%), indicated that there had been some disadvantages, the main problem cited being no profit. Two noted that there had been increases in competition, presumably from other suppliers. Whilst a disadvantage to them, it should be viewed positively as it suggests that other suppliers might view these businesses in a serious fashion.

It is also interesting to note that two SMMEs specifically mentioned an over-reliance on the big buyer. As has been established, this is not a problem associated with these two alone. (Refer to table 7). One public sector buyer interviewed made reference to the comfort zone some of these small suppliers find themselves in. This buyer had relaxed tendering procedures for certain small contracts, which enabled the targeted SMMEs a fair opportunity to tender. Some of these entities have now grown to the extent that they can no longer justifiably continue on the simplified system and should now graduate to the level where they have to tender on an open basis. The buyer places limits on the number of contracts these suppliers are entitled to have, however, they would obviously prefer the status quo to remain.

Critics of business linkages may argue that a false, uncompetitive environment is created, but it is the researcher's belief that as long as proper business principles are applied, and the buyer does not compromise on that, then there is no reason why a number of these businesses should not graduate to the next level and be able to compete on an equal basis.

Whilst most suppliers were fairly unequivocal about the benefits of their linkage activity, the buyers responses were less encouraging as Table 22 below shows.

Table 22

| Benefits/Disadvantages | Number |
|-------------------------------|---------------|
| Benefits | |
| <u>Quantitative</u> | |
| - None | 4 |
| - Improved prices | 3 |
| - Improved delivery | 2 |
| - Improved market share | 2 |
| - Improved quality | 1 |
| <u>Qualitative</u> | |
| - None | 5 |
| - Improved image/standing | 5 |
| - Cut down supplier base | 1 |
| Disadvantages | |
| <u>Quantitative</u> | |
| - Source at price premium | 2 |
| <u>Qualitative</u> | |
| - Tarnished image | 2 |

A significant number stated that there had been no benefit from their business linkage activities to date. The most common benefit given was improved image, either in relation to the standing in the community or to being more politically acceptable. Two noted a disadvantage in terms of sourcing at a price premium and one noted (tarnished image) that their department had received bad press because it was perceived that they were at the forefront of fostering government corruption.

Despite this, reference was made to improved prices, delivery and quality which shows some progress in satisfying the expectations of the big buyer and hence leading to a mutually beneficial relationship. The two responses against improved market share were noted in the

context of forward linkages.

b. Impediments to Expansion and Improvement of Linkages

These are shown overleaf in Table 23. (Please note, the closer the mean is to 1, the greater the impediment is perceived to be).

The contrast between the Corporate's and SMME's perception is quite distinct. In all cases, except for unreliable delivery, the SMMEs had a lower mean score rating than the Corporates for each impediment. The most interesting, is the SMMEs lowest mean score rating given to lack of top management commitment (1.281) hence suggesting that this is the largest perceived impediment to the development of linkages. The corporates had it as one of the highest mean score rating (3.883) consequently they do not see it as a significant impediment. Perhaps, in the context of this research project, the SMMEs are suggesting that this is a general impediment, whereas the corporates surveyed do not see this as a specific impediment in relation to themselves.

Table 23

| | Corp Mean ¹ | Corp Rank ² | SME Mean ¹ | SME Rank ² |
|---|---------------------------|---------------------------|--------------------------|--------------------------|
| Supplier Issues | | | | |
| - Limited Application of Technology | 2.583 | 2 | 2.063 | 2 |
| - Poor product quality | 2.583 | 2 | 2.000 | 1 |
| - Unreliable delivery | 1.667 | 1 | 2.094 | 3 |
| - High price | 2.167 | 4 | 2.125 | 4 |
| Buyer Issues | | | | |
| - Lack of top management commitment | 3.883 | 2 | 1.281 | 1 |
| - Resistance on part of corp's buyers | 3.083 | 1 | 1.406 | 2 |
| - Lack of government incentives | 4.727 | 3 | 1.621 | 3 |
| Intermediary Issues | | | | |
| - Not matching requirements of buyers and suppliers properly | 2.857 | 2 | 1.810 | 2 |
| - Inappropriate or unqualified staff | 3.143 | 3 | 1.947 | 3 |
| - Intermediary not selling their services aggressively enough | 2.333 | 1 | 1.621 | 1 |
| Training Agency Issues | | | | |
| - Training courses don't meet suppliers' needs | 3.667 | n/a | 2.471 | n/a |
| - Don't know of any training courses | 12 | | 15 | |
| Government Issues | | | | |
| - Restrictive legislation | 3.70 | 1 | 2.00 | 2 |
| - No incentives given to corporates | 4.556 | 2 | 1.938 | 1 |

| | | | | |
|---|-------|---|-------|---|
| Trade Union Issues | | | | |
| - Block due to deteriorating working conditions | 3.364 | 2 | 2.667 | 1 |
| - Block due to loss of membership | 3.182 | 1 | 2.958 | 2 |

¹ Closer mean is to 1, the greater it is a perceived impediment

² Ranking within the sub-category

As far as the corporates are concerned, they perceive unreliable deliveries of SMMEs to be the largest impediment to the development of linkages. Given the profile of the corporates surveyed it is not surprising that technology had such a high weighting. Consistent with Table 14, SMMEs rate quality as the largest impediment.

Some of the corporates themselves stated buyer resistance as an impediment to the development of linkages. On the latter, some companies felt that the matter should be put into context. Simply put, buyers are judged on their buying performance. As indicated earlier, user influence tends to be high in the buying decision and buyers are conscious of this. Hence they are nervous to make a buying error, even for low risk purchases, in other words they are unwilling to step out of the ‘comfort zone’ of dealing with tried and tested suppliers. SMMEs are perhaps closer to the mark in suggesting that top management can certainly put policies in place to counter this, even to the extent of creating a culture of tolerance of ‘mistakes’ (within reason).

The corporates tended to be quite neutral about intermediary and training agency issues, but there is strong agreement from both the buyers and suppliers that intermediaries are not selling their services aggressively enough.

Corporates are generally not in favour of government incentives, unlike the SMMEs who feel that incentives should be given to large buyers, presumably to entice them to buy more. Corporates are also of the opinion that there is generally no impediment in terms of legislation.

Trade unions enjoyed a mixed response as far as the corporates were concerned. Some saw them as a major impediment, others as no impediment at all. The distinction appeared to arise when there had been outsourcing to former employees. Where this had not occurred, or where linkages were done in the context of traditional external sourcing arrangements, unions had proved to be no impediment at all.

c. Exploitation

Earlier, it was noted (Table 17) that 11 SMMEs felt they had been exploited in their linkage activity. Some interesting observations arose after this aspect was subjected to more detailed statistical analysis. A number of cross-tabulation analyses were run as shown in Table 24.

Where SMMEs indicated there was a mutual feeling of trust, the feeling was expressed that the linkage contract had met the expectations of both parties. Where however, the SMME expressed the opinion that the corporate did not trust them, or vice-versa, then a feeling of exploitation was expressed.

Table 24

| Feeling About Linkage By | Chi-square | p-value |
|--------------------------------------|--------------|---------------------|
| : | (χ^2) | |
| - Feeling of Trust | 16.75540 | .00216 ¹ |
| - Link with Private or Public Sector | 4.14793 | .38636 |
| - Top Management Commitment | .62960 | .95972 |
| - Buyer's Attitudes | 18.96441 | .00422 ¹ |
| - Buyer Resistance | 4.20964 | .64833 |
| - Designated Person | 2.23442 | .69273 |
| - Corporate Visits to SMME | 11.3169 | .07906 |

¹ Statistically significant

As might be expected, where SMMEs indicated that the corporate buyers had treated them fairly or favorably, a feeling of both parties benefitting was expressed. In contrast, where buyers had treated the SMME unfairly then exploitation was expressed.

Whilst not statistically significant, it appears that the number of corporate visits to the SMME has a fairly substantial bearing on the feeling about the linkage contract. Where visits were frequent, the mutual benefit feeling was high. Where visits were rare or never, the feeling of exploitation was once again raised. In the researcher's opinion, this simply reflects the importance of ongoing communication and the commitment of the large buyer to developing a mutually beneficial long-term commercial relationship.

5.4. Developing an Enabling Environment – Perspectives of SMMEs

The following issues were put forward by SMMEs in relation to each stakeholder to create a more enabling environment to facilitate linkages as shown overleaf in Table 25. The relevant section of the questionnaire is 5.2. (Refer to Appendix A, Supplier Questionnaire page 8). These were open-ended responses which were then collated by the researcher. A significant number of common issues arose out of this analysis.

a. Government

It is interesting that the SMMEs place their emphasis on the government exerting influence onto the corporates. Some suggest that corporates should be forced, others adopt a softer line of incentives or encouragement. Other significant responses were the opening up of tender opportunities and a more coherent Black Empowerment Policy, where some felt the government were dragging their heels on this. Promises had been made, but were yet to be fulfilled.

Some were of the opinion that the government should make finance available, presumably to offset the perceived lack of willingness of the banking sector to making finance available.

b. Corporates

The two major issues were accessibility and mentoring. Most SMMEs related a bad experience of dealing with a corporate at one time or another. As is the case with the corporates surveyed here, large buyers must establish appropriate channels of communication which ease the interaction of small suppliers with themselves. In addition, increased accessibility related to corporates opening themselves up to SMMEs by increasing their volume of purchases and setting aside resources for the establishment of linkages.

A significant number of SMMEs also requested that corporates be more active in developing mechanisms to facilitate buyer mentoring. The recognition is there amongst the suppliers interviewed, that a transfer of skills needs to take place and the corporates are often in the best position to do this as they understand exactly what it is they want the small supplier to do.

c. Intermediaries

Two clear issues arose from the SMMEs. Intermediaries should concentrate on developing linkages and should be more active in visiting SMMEs, particularly if that is the SMMEs that they are trying to serve. A significant portion also felt that the intermediaries were well suited to offer training courses.

d. Training Organization

A number of respondents stated the difficulty they had in having the time to attend training whilst having the demands of running their business.

Table 25

| Stakeholder | Responses |
|-------------------------------|------------------|
| <u>Government</u> | |
| Force Corporates | 65443361 |
| Tender Opportunities | |
| Black Empowerment Policy | |
| Arrange Finance | |
| Give Incentives to Corporates | |
| Encourage Corporates | |
| Other | |
| No opinion | |
| <u>Corporates</u> | |
| Accessibility | 11 |
| Mentor | 10 |
| Top management commitment | 3 |
| Procurement policies | 2 |
| Other | 2 |
| No opinion | 4 |
| <u>Intermediaries</u> | |
| Establish Linkages | 665222126 |
| Visit SMMEs | |
| Training | |
| Visit Corporates | |
| Employ right staff | |
| Lobby on behalf SMMEs | |
| Market oriented | |
| Other | |
| No opinion | |
| <u>Training Organizations</u> | |
| Accessible | 974228 |
| Practical courses | |
| Consult SMMEs | |
| Consult Corporates | |
| Other | |
| No opinion | |

Trade Unions

Soft on SMMEs
Pressure Corporates
Enforce uniformity
Other
No opinion

911318

e. Trade Unions

Due to the low involvement of trade unions in the SMMEs surveyed, the majority had no opinion on this. Those that did have an opinion, however, felt that trade unions should treat them softly and not place unreasonable demands and requirements on them in terms of wages and working conditions.

Whether this is requesting a licence to exploit their workers is a moot question and was difficult to determine. On the positive side it should be noted that a number of entrepreneurs interviewed, took great pride in telling the interviewers about the establishment of their businesses and including their people in its success. In addition, a number of corporates noted that they took an interest in ensuring that their small suppliers were good 'corporate citizens' who paid their taxes, and fair wages to their workers. However, the latter is also a contentious point, as one corporate noted that they took no interest in this at all, as they felt it to be paternalistic and interfering in that entrepreneurs right to manage his/her business as they saw fit.

5.5 Intermediaries and Regional Forums – Corporate Perspectives

The large buyers essentially endorsed the role that intermediaries play in facilitating linkages. However, as has been mentioned earlier a number were of the opinion that the intermediary organizations did not interact enough with the corporates, but tended to be passive. Consequently they did not market themselves enough.

One senior executive interviewed was of the opinion that it was difficult for linkage intermediaries to be self-funding as it renders services for people who cannot really afford to pay. Nevertheless others felt they could sell business services to corporates, such as market research, facilitating buying policies which encourage linkages and training corporate staff. It has also been pointed out that some corporates may be unwilling to set aside resources (such as a designated person) to facilitate linkages in-house, in which case the intermediaries could manage it on their behalf. A number of corporates indicated that they were unwilling to buy a database and sometimes felt the linkage procedure to be cumbersome. Once the linkage has been made, the corporates may prefer to deal with the supplier direct, rather than communicating via the intermediary.

Whilst a few commented on the useful service they had obtained from intermediaries, a number also commented that they had attempted to use the intermediaries but had not received a good service.

It is encouraging to note that a regional initiative is being developed in the Richards Bay/Empangeni area, which will enable the Chief Procurement Officers of all the major corporates to meet once a month, exchange ideas on linkages and network. A similar initiative is already under way in Johannesburg and there is an attempt to establish one in the South of Durban. One hopes that ultimately a national network will be operational. It has been suggested that an intermediary organization take on the role of managing the forum. The intermediary can then charge a management or administration fee, or receive corporate funding for providing a service to the forum members. It could then offer a database service for free, particularly if the corporate forum members provide the computer facilities and focus on the development of linkages to the benefit of forum members.

5.6 Some Overall Observations

A number of companies commented on the paucity of historically disadvantaged SMMEs who had the scale and capacity to enter into linkage arrangements with big companies. One company cited an instance where they had literally scoured the major cities of South Africa for a black-owned component manufacturer and were not able to find a single one of any sophistication whatsoever. If this is a typical situation, then what can be done to develop linkages?

Some observations, which emerged from discussions with all entities interviewed, were as follows: -

“Sweat Equity”

A number of corporates interviewed were of the opinion that to entering into developing effective linkage arrangements takes resources, most particularly time and skill which normal buyers do not necessarily have. It is also likely to be a painful process at times, so the resources must be committed fully to the process.

“The jailer can’t be the advocate of the prisoner”

Consequently, a specific manager, preferably black (although the research findings also suggest that a white manager is not necessarily an obstacle), should be appointed to drive the process in a pro-active, rather than passive manner. Where this has occurred, companies tend to be far more active in developing linkages with historically disadvantaged SMMEs.

“With a Direct Line to the CEO”

One company has established such a reporting structure, whereby the ‘Business Development Specialist’ reports concurrently to the Chief Buyer and CEO. The latter ensures that there is real commitment to the process.

“What gets measured gets done”

Linkage activities should be measured and reported to senior management.

“Everyone should come to the Party”

Many SMMEs interviewed were of the opinion that corporates had sufficient resources to devote serious consideration to developing linkages.

One company interviewed expressed intense frustration at what was perceived to be the unwillingness of financial institutions to provide meaningful finance for SMMEs.

Some SMMEs felt that government was dragging its feet in many areas pertaining to small business development.

“Nobody has the recipe for success just yet”

Regional forums will hopefully enable the networking dynamics for organizations to share experiences

“Its going to take time”

One company felt that apartheid had left such a legacy of economic and skill disempowerment, meaningful linkages will take a long time to develop. This was contrasted with the Far East where there was an infrastructure in place that facilitated the development of linkages.

“SMMEs should feel the heat”

First and foremost, it is a business relationship. Unless it is implemented from this

perspective (as opposed to Corporate Social Investment), SMMEs will never develop into effective businesses.

“Black Business Should Instigate More”

One manager felt that black business groupings should take the initiative in developing mechanisms to facilitate linkages, even if it meant organizing a forum and sitting “eyeball to eyeball with white business” on this.

“Foster a culture of working together”

Transference of skills is a vital component in the development of black business. Encouraging black and white businesspeople to work together will complement opportunities with threats and strengths with weaknesses. Increasing recognition is being given to establishment of joint ventures that are owned 50% each by black and white partners. This ensures that neither party can walk away from each other, nor feel ‘junior’ in the relationship. One public sector buyer interviewed said that they would be pursuing this vigorously with their suppliers.

“We Need a Growing Economy”

Without this, linkage activity is unlikely to get the kick-start it so desperately needs.

One Senior Executive interviewed suggested the following to make the system work better, to enable more linkages to get started or to enable existing ones to improve or expand:

Companies must have clear policies on this

Make resources available

Have a spirit of learning

Handle with kid gloves to facilitate

Have heart without compromising

Provide training

Never be paternalistic

6. CONCLUSION AND RECOMMENDATIONS

It appears from the survey that the linkages surveyed exhibit characteristics of a ‘high road’ rather than a ‘low road’ scenario. The backward linkages have provided significant benefits

amongst the majority of the SMMEs surveyed, many of whom are in the service sector.

Public and private sector organizations can learn from one another. The objective sometimes appears to be the same, the strategy may differ in its approach. It appears that there are advantages and disadvantages in each and perhaps a 'middle road' approach could be adopted. For example, public sector organizations placing less emphasis on preferences and private sector organizations more emphasis on achieving targets.

A designated person in a corporate appears to be the most significant role-player in ensuring commitment to linkages. Top management should support that person's efforts, to the extent of championing their activities in the organization. Corporates must also give increased recognition to buyer mentoring.

Key intermediaries need to assess their role, and this could come primarily from being more active in visiting SMMEs and corporates.

An infrastructure needs to be created to facilitate linkages. All stakeholders have a role to play, it cannot be left to one party alone to achieve. Regional forums will go a long way to contributing to this, but government agencies and financial institutions also need to get involved.

Joint venture businesses can ensure appropriate transference of skills.

Business linkages still provide a valid means for boosting employment. The underlying emphasis should be, that business linkages can add value to an organisation, because it makes economic sense to enter into linkage arrangements. They should therefore be approached with a clear business emphasis. In the researcher's opinion, where these particular linkages were encountered in the research they were also the most successful for all parties concerned.

REFERENCES

Rogerson CM (1995), Looking to the Pacific Rim: Production Subcontracting and Small Scale Industry in South Africa, *International Small Business Journal*, Vol 13, No 3, April-June.

Robb D (1993), Business Linkages through Sub-contracting, *NEI Quarterly Bulletin*, No 12, Spring.

**THE ROLE OF BUSINESS LINKAGES IN
RESTRUCTURING THE FOOTWEAR INDUSTRY
IN THE GREATER PIETERMARITZBURG
METROPOLITAN AREA**

June, 1998

**Barry Strydom
Department of Business Administration
University of Natal, Pietermaritzburg**

Author

Barry Strydom [strydomb@busad.unp.ac.za] is a Senior Tutor in the Department of Business Administration, School of Business, University of Natal, Pietermaritzburg, South Africa. He is currently completing a Masters degree on the Footwear Industry in the Greater Pietermaritzburg Metropolitan Area.

1. INTRODUCTION

A simple review of production and employment levels indicates very clearly that the footwear industry in South Africa is in decline. Conventional wisdom is that this is because of cheap imports, primarily from the Far East flooding the local market. Produced in countries such as India and China, where wage rates are a fraction of those encountered in South Africa, these shoes are substantially cheaper than locally produced shoes.

The large difference in labour costs between South Africa and China, and the related flood of cheap imports, is an undoubted factor in the footwear industry's difficulties, but it is simplistic to believe that this is the only reason. It is indisputable that wage rates in these countries are a fraction of those facing South African manufacturers but labour costs, on average, represent only about 15% of the cost of producing a shoe. The maximum proportion of total costs contributed by labour for any producer was 20 percent whilst raw materials, on the other hand, contribute between 40 and 50 percent of production costs. Consequently it is unrealistic to blame high labour costs exclusively for the high costs of producing shoes in this country. Other factors such as taxes, tariffs, productivity and raw material costs must also be considered as contributing factors in this price discrepancy.

With the changes taking place in South Africa since the 1994 elections, consumer spending patterns have changed. Increasing numbers of black South Africans are having to spend more and more money on expenses such as schools fees, rates, taxes and utility bills. As a result, their disposable income has decreased, forcing them to become more price conscious when buying articles such as shoes. This has affected the shoe industry in Pietermaritzburg, which specialises in high quality leather shoes, in two ways. Firstly, with customers' increased price awareness, there has been a shift in demand from more expensive leather shoes to cheaper synthetics. This has resulted in a decrease in demand for shoes produced in Pietermaritzburg, resulting in manufacturers having to decrease production with resultant job losses. Secondly, shoe manufacturers have seen their profit margins come under pressure, with buyers requiring the producers to maintain or even reduce the prices of their shoes. This has produced a move towards cost reduction in the footwear production process, with manufacturers seeking ways to minimise overheads and other production costs.

Faced with a declining market share, increased competition and the need to reduce production costs, many manufacturers are seeking to respond to these challenges by changing the way in which they do business. As a whole, the industry is experiencing a period of change as many long standing businesses fail and the remaining firms seek to re-structure the industry. An important part of this restructuring process is the question of business linkages, as firms re-examine their relationships with each other and how their production process is structured.

In the course of this study, a total of thirty-three individuals, in both Pietermaritzburg and Durban, were interviewed to explore the question of business linkages in the footwear industry. Eighteen of the persons interviewed were manufacturers, five were specialists in doing lacing or closing work for manufacturers, seven were suppliers of components and raw materials and three interviews were conducted with representatives of the Bargaining Council, the South African Clothing and Textile Worker's Union and the KZN Regional Economic Forum, respectively. The firms interviewed employ some 6 000 workers in total of which about 5 400 are employed directly in the manufacture of footwear. The seventeen manufacturing firms examined produce approximately 50 000 pairs of shoes per day. About 2 500 of the manufacturing workers mentioned above, producing some 30 000 pairs of shoes per day, are located in Lesotho, while the rest are all located in KwaZulu-Natal predominately in the Pietermaritzburg area.

2. PATTERNS OF LINKAGES

A study of the footwear industry in Pietermaritzburg reveals a wide diversity of linkage activities taking place. These activities range from the most basic forms of co-operation and out-sourcing to fully integrated production processes. Some of these patterns of linkages are well established in the industry, having been employed for many years, but recently manufacturers, as a response to their changing environment, have begun to employ new forms of linkages in an effort to improve productivity and reduce costs. To simplify the discussion, linkages will be classified as either horizontal or vertical in nature. Horizontal linkages involve relationships between firms performing part of the production process, whilst vertical linkages describe relationships between footwear manufacturers and suppliers of their raw materials and purchasers of their finished product.

2.1 Horizontal Linkages

The traditional model of shoe manufacture is for the complete production process to be performed in a single process under one roof. Whilst this conventional model of shoe manufacture allows for full control of all steps in the production process, economic and structural factors have contributed to a number of manufacturers employing a variety of horizontal linkages with external parties performing some part of the production process for them

2.1.1 Lacing

It is standing operating practice in the industry to have the hand-lacing of shoes completed outside of the factory. This is an extremely labour intensive activity which can be performed almost anywhere by relatively unskilled individuals. Rather than employ full-time employees to complete this task, with the associated increase in overheads, manufacturers have the lacing

done on a 'casual', piece rate basis. All the manufacturers interviewed have their lacing done in one of the following two ways.

- a) Manufacturers employ the services of an agent or contractor to handle the lacing for them. The contractor collects the day's work from the factory and distributes the work amongst a number of lacers who work from home or at a central location provided by the contractor. The bulk of the lacing work on shoes produced in Pietermaritzburg is handled in this manner.
- b) Manufacturers employ individual lacers who report to the factory each day to return completed work and collect new work for the next day. Less common, this approach is used by smaller manufacturers producing smaller quantities of shoes.

2.1.2 Closing of Uppers

The 'closing' of uppers involves the machine stitching of the leather prior to it's being attached to the sole. Depending on the type of shoe being produced, the amount of work involved in closing can vary considerably. Regardless of the complexity of the individual shoe, however, closing is probably the most difficult and time-consuming element of the production process, requiring the greatest skill levels from the workers. A wide variety of practices are employed by local manufacturers with regard to the closing of uppers, ranging from doing it completely in-house to having it done entirely through out-sourcing. This diversity of approaches makes the closing process particularly interesting in terms of business linkages.

- a) The most widespread practice is for manufacturers to perform the closing function themselves. Closing and finishing are a core part of the process of making a shoe; the quality of the finished product is largely determined by the quality of the closing. As a result, many shoe manufacturers like to have control of the closing process, to be able to personally monitor quality and have direct control of production. Security is an additional reason for manufacturers to perform the closing function themselves. The possibility of competitors copying one's designs is a major concern to producers, so they prefer to keep production in-house, to limit the chance of competitors gaining access to their shoes.

All of the manufacturers interviewed do at least some of their own closing and eight of the seventeen manufacturers do all their closing themselves, unless exceptional circumstance dictate otherwise.

- b) Although these manufacturers prefer to carry out the production process themselves, situations frequently arise where their production capabilities are not sufficient. Situations arise where a manufacturer can not meet the demand for his shoes if a particularly large order has been placed, a rush order is required, or less frequently, in the event of a machine break down. When producers find themselves unable to meet a temporarily large demand for their shoes, it is common

practice for them to employ a specialist CMT (cut-make-trim) operator or even another manufacturer, with excess production capacity, to handle the overflow work.

c) Five of the seventeen manufacturers interviewed employ CMT operators on a regular basis as a normal and integral part of their production process. As opposed to the scenario described above, where the CMT operator is only used to meet short-term production needs, here the CMT operator is used continuously to produce a regular number of pairs of shoes per day instead of the manufacturer producing them himself. The total number of shoes produced in this way is two to three thousand pairs per day out of a total combined output for the five producers of approximately 45 000 pairs per day. This figure is misleading, however, if taken at face value, as one of these companies, producing 30 000 shoes per day, is the largest manufacturer interviewed and almost all of its production actually takes place in Lesotho. If one considers only shoes produced completely in Pietermaritzburg, then out of a combined output of between 12 000 and 13 000 pairs per day, approximately 1 500 pairs are produced using CMT operators on a regular basis for the closing operations.

The advantage of this process to the manufacturer is that it allows him to limit the size of his work force. Secondly, because the CMT operator specialises in closing, as opposed to managing the entire production process, he is able to keep a closer eye on the quality of production. Thirdly, the manufacturer is able to pay the CMT operator per shoe, thereby fixing his per unit cost. Consequently, the manufacturer does not have to concern himself with worker productivity, as it is the CMT operator's problem if his machine operators are under performing. Finally, the manufacturer's overheads are decreased as he can use smaller premises and has to own and maintain less machinery. Some of these manufacturers will regularly employ CMT operators for their more complicated shoes as the CMT operators' workers tend to be more skilled due to their greater specialization.

d) Certain manufacturers have extended the use of CMT operators to establish independent, small operators to do closing work for them. One of the manufacturers interviewed, producing 1 100 pairs of shoes per day, utilises two CMT operators of this type to do the closing work on at least 450 pairs per day.

These operators, normally past or present employees of the manufacturer, acquire their own machinery and employ their own workers to carry out the closing. The manufacturer then provides them with regular work, usually on a daily basis. Typically, these operators, although independent in that they own the equipment, work exclusively for one manufacturer. The same benefits exist for the manufacturer as those described above, but in addition, because of the special relationship which exists between them and the operator, they effectively have full control of the operator's production and because the operator works only for them, they feel that their designs are more secure.

e) A further refinement of this idea is the idea of a 'cottage industry' approach. This technique is being successfully employed by one producer in Pietermaritzburg who has a number of ex-employees who do closing work for him. This manufacturer produces between 1500 to 2

000 pairs per day and almost every shoe goes out to these 'contractors' for some work. The difference between this approach and the previous one is that the company provides the 'contractors' with the machinery necessary to do the closing work for them. The machinery remains the property of the footwear producer, who also services and repairs the equipment. The company does very little closing work itself but instead makes daily deliveries to its 'contractors' who complete the bulk of the closing for the company.

f) A more extreme policy is not to be involved in closing at all but simply to buy completed uppers from overseas, particularly from Indian producers. Currently this option is only being investigated by a few local manufacturers. Two of the manufacturers interviewed, producing about 1, 200 pairs per day between them, indicated that this was an option they were exploring. However, if the local costs of production were to increase or the Rand was to depreciate further, this would become an increasingly attractive, cost-effective alternative.

By importing completed uppers, local manufacturers could slash their workforce and potentially produce completed shoes at a lower price. The logical follow on, then, would be to import completed shoes and eliminate local production entirely. As the differentials between production costs in South Africa and the Far East increase, this will become a more common occurrence. Already a major manufacturer in the Western Cape has stopped producing shoes itself and now only imports finished shoes; at least one producer in Pietermaritzburg indicated that this was an alternative which he was keeping in mind.

In summary, of the firms interviewed producing 50, 000 pairs of shoes per day, practically all of the lacing is out-sourced whilst approximately 10% of the closing work is out-sourced. However, when the two firms interviewed which produce the majority of their shoes in Lesotho are excluded, the percentage of closing work out-sourced rises to almost 23% of total production.

2.2 Backward Linkages

Footwear manufacturer's relationships with their suppliers can be discussed within three broad categories, namely leather, components and in-soles.

2.2.1. Leather

Leather is obviously an extremely important input for the footwear industry in Pietermaritzburg, with its emphasis on medium to high quality leather shoes. Ironically, the majority of the leather used in footwear production is imported, predominately from India. Whilst the manufacturers are generally happy with their overseas suppliers, there are some difficulties. The most obvious problem is the large lead time required when importing as the leather is shipped into this country. Manufacturers generally have to allow six to eight weeks for Indian leather to arrive. A further problem with importing leather is that, if there is a problem with the quality of the shipment, it is extremely difficult to rectify it quickly. In addition, the Indian suppliers insist on substantial letters of credit from

purchasers, which many smaller manufacturers have difficulty obtaining. This problem is mitigated by leather agents who bring the leather into the country and then sell it to local manufacturers. One leather agent actually holds leather in stock in its warehouse for smaller producers who can then draw on the agents' stocks as and when they require the leather. The agent purchases the leather based on the anticipated needs of the manufacturers but manufacturers need only pay for the leather when they take delivery of it. A similar arrangement exists with regard to the supply of inner-sole boards, as discussed below.

While the supply of leather to the industry seems to be satisfactory, it is apparent that the relationship between manufacturers and local leather suppliers is open to improvement. Currently, a local monopoly exists in South Africa, with the few major tanneries all being owned by the same company. Given the depreciation of the Rand, local leather production is geared to foreign buyers, making South African hides prohibitively expensive for local footwear producers. The best hides produced locally are also sold at a premium to the motor industry, to be used in upholstery work on luxury cars. As a result, there is a shortage of good quality local hides available for the footwear industry. This situation is exacerbated by the fact that none of the local tanneries are located in KwaZulu-Natal.

2.2.2. Components

The term components is used to describe a wide range of soles, heels and trim which are mostly made from a PVC compound. The local footwear industry purchases most of its soles from a number of component producers located in Pietermaritzburg and Durban, although soles are also imported from overseas. Generally, shoe manufacturers are quite happy with the relationship which exists between themselves and their component suppliers. Due to the close proximity of the component manufacturers to the footwear manufacturers, delivery times are good and suppliers are able to be flexible in meeting manufacturers' needs for special deliveries.

One producer, who produces between 1, 500 to 2, 000 pairs of shoes per day, has, however, decided to invest in his own injection moulding equipment, which allows him to make his own bottoms, heels and soles. The motivation for this approach is that it eliminates the component supplier's profit margin, thereby reducing costs, and it allows the shoe manufacturer to produce the exact quantities as and when they are required thereby eliminating lead times. However, very few manufacturers are producing sufficient volumes to make this a viable option.

Although not strictly components, moulds and knives are an important input to the production process which are provided by component suppliers. PVC soles and heels are produced by means of injection moulding. The soles of shoes include substantial design elements and are an important factor in determining the success or failure of a particular shoe. The process of laying down moulds is an extremely expensive process, however, costing in the region of R60 000 per set of moulds. A manufacturer has to be extremely confident in a particular style of sole to invest this sort of money in his own moulds. Consequently, many small manufacturers rely heavily on their component suppliers to produce 'open' moulds, which allow them to buy soles without having to invest large sums of money in their own moulds.

The steel knives used to cut the leather and in-soles are a crucial element in the production of shoes, and these knives have to be precisely manufactured to meet design specifications. There are a number of firms which produce knives for the footwear industry and there is a great deal of competition between knife manufacturers. One specialist knife manufacturer in Pietermaritzburg does a large amount of business with one large footwear manufacturer. As part of this close relationship, the knife manufacturer, who uses a computer programme to do his costings, has made his costing programme available to the footwear producer who has installed it on one of his own computers. This allows the footwear manufacturer to factor in the knife costing directly into his design process, thereby allowing him to make better production decisions.

2.2.3. In-soles

In-soles are cut locally from pre-formed boards imported from countries such as Belgium and Germany. Traditionally, in-soles were always produced in-house by manufacturers as part of their standard production process. This practice has, however, gradually fallen away, with the great majority of in-soles being prepared by specialist suppliers. Some of this work is done by component companies, who also supply footwear manufacturers with soles and knives, but a lot of it is done by a company specialising purely in the cutting of in-soles. Approximately 50 percent of the in-soles used in Pietermaritzburg are supplied by a single enterprise specialized in the production of in-soles.

Local manufacturers have followed this route because it is more cost effective. By specialising in only in-soles, the supplier is able to pay closer attention to costs, with the result that better quality in-soles can be produced at the same or even lower cost. In addition, the supplier, because he is doing work for a number of different factories, is able to enjoy economies of scale which individual manufacturers could not achieve. For example, certain equipment used in the production process has an optimal production run of at least 1 000 shoes. Finally, by out-sourcing this work, the shoe manufacturer does not have to invest in the associated machinery, labour and factory floor space.

The supply of in-soles exhibits some of the closest co-operative behaviour to be found in the footwear industry. While most manufacturers place bulk orders with a roughly two week lead-time, some factories, which have special requirements for items such as welled in-soles, have closely incorporated the supplier into their production process. These manufacturers send the supplier actual work tickets on a daily basis, with delivery taking place within four to five days.

The boards used in the cutting process are imported into South Africa by an agent. Orders are placed with this agent six months at a time, but the manufacturers do not have to take the whole order at one time. Rather, the agent imports the boards as and when necessary and holds them in storage in his warehouse in Durban. Manufacturers then simply draw on these supplies as and when their production process requires them.

2.3 Forward Linkages

The shoe manufacturers interviewed generally indicated that they enjoy good relationships with the wholesalers and retail chains who purchase the bulk of the shoes they produce, although certain problem areas were identified. Particularly, manufacturers producing for the large retail chains such as Edgars and Truworths experienced some difficulties. It was felt that a lack of communication led to undesirable situations where retailers made unrealistic demands on the producers in terms of price or delivery times. A few of the larger manufacturers, however, are closely connected to their buyers by means of a computer interface which allows them to monitor the retailer's sales of different styles and sizes of shoes and to prepare their production accordingly. The objective of this closer collaboration is to allow manufacturers to move towards replenishment production rather than retailers placing large, infrequent orders, which often lead to wastages when less shoes are sold than anticipated.

Smaller manufacturers interviewed, expressed general satisfaction with their relationships with the wholesalers and retailers who buy from them, many of whom they have been dealing with for many years. In a couple of cases, an exceptional form of business linkage was observed between manufacturers and these buyers. In particular, one small manufacturer, who produces for a large wholesaler, has established a closely integrated relationship with its client in that the wholesaler pays the factory's lease, purchases the necessary raw materials, knives, lasts, etc. and provides some of the necessary machinery. Operating solely as a production facility allows the factory to make shoes at an extremely competitive price because it has minimal overheads.

3.THE MOTIVATION FOR BUSINESS LINKAGES

A major question which this research sought to address was that of the driving forces behind linkages. A large number of footwear manufacturers interviewed are engaged in some form of horizontal linkage activity. In other industries studied, it could be argued that the development of business linkages can be seen as an expression of social responsibility on the part of large corporations who see linkages as a means of developing and empowering small black businessmen. In the case of the footwear industry this is clearly not the case. Given the difficulties currently being experienced by the footwear industry, shoe manufacturers are in no position to engage in linkages as a form of community service. Any linkage activity which manufacturers are engaged in must be producing economic benefits to make it worth their while. The real question then is to what extent these economic benefits are as a result of greater efficiency and to what extent they arise as manufacturers use linkages as a means to avoid regulations such as prescribed minimum wage rates and taxes.

3.1 Improved Efficiency

The manufacture of shoes is an extremely labour intensive process. Employers indicate that constant supervision of the manufacturing process is required, if quality and production levels are to be maintained. By specialising in one specific component of this process, for example closing, managers are able to exercise greater control over costs. In addition, with

specialisation, businesses (both workers and managers) are able to develop special skills and competencies. Certain types of shoes require more complex work; manufacturers will often use specialist firms to do this work for them as their employees have superior skill levels.

Although, as indicated above, the shoe manufacturing process is labour intensive, this is not because no scope exists for technological enhancement. A number of machines are available which offer alternatives to labour based production techniques or which could improve the productivity of workers. For example, a computerised clicking machine, used to cut the leather, is available which could do the work of a number of workers in a fraction of the time. The cost of such equipment, however, is prohibitive, approximately a million Rand. As a result, this is an option available to only the largest manufacturers. Linkage activity, however, provides scope for such advancements as it may be practical for a single operator, specialising in clicking, to service a large number of different manufacturers. If the clicking work for a number of factories were performed by a single operator, the purchase of such machinery could be viable and economies of scale could be achieved, benefiting a number of producers.

Such benefits are already to be found in the production of in-soles and closing. As described earlier, a specialist supplier of in-soles is able to achieve efficiencies because he is using more effective machinery requiring larger run sizes. Similarly, one specialist CMT operator, who focuses on closing work, attributes his success to investment in technologically advanced sewing machines which make his workers more productive and allow them to perform more difficult tasks.

Out-sourcing can also provide substantial savings to manufacturers in terms of labour costs. The question of labour is particularly relevant to the local footwear industry as it contributes, on average, between 15 to 20 percent of the cost of producing a shoe. All footwear manufacturers are bound by the terms of the Bargaining Council agreement, which lays down minimum rates of pay for different categories of workers together with other levies and contributions per employee. A major complaint of manufacturers is that the rigid pay structure does not encourage greater productivity from workers, as they will receive the same remuneration regardless of their output. In addition, absenteeism is cited as a major problem experienced by employers. By out-sourcing work, manufacturers are effectively relieving themselves of these issues, as they pay the supplier per unit. Effectively, then, out-sourcing allows manufacturers to fix their production costs, leaving problems of work stoppages through equipment failure, absenteeism or inventory shortages to the supplier.

In addition to potential benefits achieved through altering the remuneration structure, out-sourcing also offers manufacturers savings in terms of reduced overheads. If the work were done in-house, it would require increased investment in equipment, with its associated expenses in terms of maintenance and down time, factory space. A substantial proportion of the out-sourcing is carried out by operators working from home. By utilizing these operators, footwear manufacturers can achieve real savings in their production costs. If the work were carried out in-house, the producer would require larger premises to house the necessary

machinery. The use of home based operators, therefore, allows producers to utilize their existing factory space more efficiently and also produces savings in terms of rates and taxes.

A number of manufacturers have also argued that the 'cottage industry' approach of out sourcing with a number of self employed people working from home has a positive social dimension. Much of this work is performed by women who, because they are working from home, are able to spend time with their children whilst still generating income to the household. If this work was done exclusively on the factory floor, these women would be forced to choose between losing this income or leaving their children in someone else's care while they go to work. It is also suggested that this method of production provides work for more people than if it was done formally in the factory, as the work is often shared between family members.

3.2 Avoidance of Regulations

A second potential driving force behind the move to greater linkage activities is the desire or ability of manufacturers to escape certain regulations through out-sourcing. A commonly quoted benefit of out-sourcing work, as opposed to doing it oneself is that by out-sourcing, manufacturers do not have to employ the necessary workers, with all the related Bargaining Council restrictions which govern the employment contract. Many of the small suppliers doing lacing and closing work for the shoe companies are not registered with the Bargaining Council which means that they do not have to pay Council wages or other levies such as the contribution to the Council's Technology Fund. By structuring their production in this manner, then, manufacturers are effectively able to reduce their labour costs. A few of the larger lacing and CMT factories are situated in areas such as Loskop near Estcourt, where the Bargaining Council agreement is not in force. By having closing work done by a CMT operator working from Estcourt, then, the production costs can once again be reduced, not necessarily because the CMT operator is more efficient but simply because his wage levels are lower than those of the manufacturer in Pietermaritzburg.

It is also alleged that many of the small closing and lacing operators do not pay taxes. In addition, there is a savings in terms of rates and utilities, as most of these small operators work from home. It is suggestive that one producer who makes extensive use of the 'cottage industry' for his closing work indicated that if Bargaining Council regulations were relaxed, he would probably prefer to have the work done in his factory, as this would allow him greater control of his production process. The question which is then posed is, to what extent manufacturers are making use of business linkages because they represent cost savings through more efficient production or because they represent cost savings through avoidance of wage and tax regulations.

One way to answer this question is to examine how many CMT operators and lacing agents are registered with the Bargaining Council. Currently all lacing operators are exempt from Bargaining Council regulations. CMT operators are, however, governed by the Bargaining

Council and have to pay prescribed wages. Of the four CMT operators interviewed, three are registered with the Bargaining Council and pay the regulated wages. This would suggest fairly strongly that avoidance is not the only factor supporting the use of out-sourcing. If there is scope for CMT operators paying prescribed wages to operate successfully, then they must be producing real efficiencies. Many of the smaller operators doing closing work from home are, however, not registered with the Bargaining Council and are paying lower wages than those laid down by the Council. It is probably true to say, then, that both elements, improved efficiency and avoidance of regulations, are present and are driving the move towards linkage activities.

It is also important to note that avoidance of regulations and improved efficiency are not necessarily mutually exclusive. Where the rules governing production lead to inefficiencies, then avoiding these regulations could result in greater efficiency. A major complaint of footwear manufacturers is that because wage levels are fixed at a set weekly rate, there is little or no incentive for workers to increase their output. The use of out-sourcing, in order to avoid these fixed weekly rates can be viewed as an attempt to achieve greater efficiency as it effectively results in workers being paid on a piece rate system, which rewards them for increased production. Such a practice does not necessarily mean that workers will receive lower wages; in fact, there is evidence to show that workers can actually increase their take home pay. But this arrangement means that workers have a financial incentive to work faster with fewer mistakes, so that their productivity is increased.

4. DIFFICULTIES OF INCREASED LINKAGE ACTIVITY

The footwear industry in South Africa is extremely competitive. When a manufacturer finds a style or design which proves popular in the marketplace, he will sell a lot of shoes and make a lot of money. However, competitors are very quick to copy successful designs. As a result of this practice of copying, manufacturers guard their designs extremely jealously. This concern regarding the security of one's designs creates an environment of distrust which seriously hampers the development of successful linkages.

Lack of trust presents obstacles on two levels. Firstly, there is the obvious issue of security. By out-sourcing part of their production, manufacturers fear that they would be making themselves vulnerable, as their contractor may also be doing work for a competitor. Whilst competitors can always copy design concepts or new styles from shoes purchased in the marketplace, the competitor's late entry into the market will place him at a disadvantage, as the original producer would have already secured orders with the major buyers. This advantage is largely negated, however, if competitors can gain early access to new designs. Manufacturers fear that by sending their shoes to a third party, competitors might, either deliberately or inadvertently, be given access to the company's shoes or designs, allowing the competitor to copy the manufacturer's styles. As a result, manufacturers prefer to produce their shoes themselves in order to protect their designs. A number of the CMT operators and

lacing agents indicated that manufacturers gave them work on the strict understanding that they would not work for any competing manufacturer.

Secondly, this lack of trust can prove a substantial obstacle to CMT operators in that they rely on manufacturers for work and unless a strong relationship has been developed where the CMT operator knows that he can rely on the shoe manufacturer for work, the life of a CMT operator becomes extremely difficult, never knowing where the work will come from. Many of the shoe manufacturers interviewed indicated that they would not consider doing CMT work as it is too uncertain if one is only being used by producers to handle their overflow production. In the cases of successful CMT operators, it was noticeable that they had all established a special relationship with at least one manufacturer who provided them with a steady supply of work.

A number of manufacturers interviewed indicated that they had considered using some form of CMT work in their production process but had given up on the idea in the face of opposition from the trade unions. Out-sourcing and payment by piece rates are unpopular with the unions as they are seen as ploys by employers to reduce their work force, which is not good for union membership, and to pay employees less. If the industry is to continue moving to more extensive linkage activity, employers and union representatives need to resolve these differences of opinion which are restricting the industry's ability to respond to the challenges facing it.

5. CONCLUSION AND RECOMMENDATIONS

In reviewing the information provided by the footwear manufacturers interviewed, it is evident that while extensive linkage activity takes place within the industry, with the exception of lacing, there is not a standard mode of production. Rather, a number of different patterns of production can be identified, ranging from almost no use of linkages to manufacturers making relatively extensive use of business linkages. It is also apparent that while some linkage activity has been operating for a number of years (one CMT operator interviewed has been performing this service for 28 years), there has been a definite shift in the last few years by many manufacturers to new forms of business linkages. This increased use of out-sourcing can be viewed as a response to shifting consumer preferences and increased competition from cheap imports which have forced local manufacturers to seek cheaper and/or more efficient modes of production.

At this point in time, the attrition in the footwear industry in South Africa has been felt most keenly amongst producers of cheap, mostly synthetic shoes, who have found themselves in direct competition with the Far Eastern imports for the lower end of the market. The few large synthetic producers in Pietermaritzburg have responded to these challenges primarily by relocating their factories to Lesotho, where wage rates of approximately 25 to 30 percent of those in South Africa; these wage differences, coupled with government tax incentives,

allow them to compete with the foreign producers. In Pietermaritzburg, the great majority of manufacturers produce leather shoes for the mid to upper ranges of the market. While a few exceptional businesses have established themselves in niche markets and are making good profits, the majority of producers in Pietermaritzburg have felt the pinch of a declining demand for their shoes. Footwear production in Pietermaritzburg has decreased steadily over the last few years, leading inevitably to a reduction in the number of people employed by the industry. If this trend is to be reversed then changes must occur in the industry.

5.1. Manufacturers

The development of business linkages is clearly one attempt by manufacturers to respond to these challenges by finding more efficient ways of producing their shoes. This trend should be encouraged. For the move to greater specialisation in the production process to produce significant benefits, however, it needs to be more widespread. This would require manufacturers to establish an environment of greater trust. Manufacturers need to be able to send out work without worrying about the safety of their designs. Unfortunately, in the fiercely competitive fight for survival in a doing industry, it is unlikely that such a change in attitudes would occur easily. Nevertheless, the development of production processes integrating a number of specialist manufacturers performing one part of the process remains a positive route for the industry to follow.

Technology exists to produce significant cost savings, but the cost of this technologically superior machinery is prohibitive for all but the largest manufacturers. The development of specialist operators, who by carrying out work for a number of manufacturers could achieve the volumes necessary to make such capital investment worthwhile, would make the entire industry in Pietermaritzburg more efficient. Individual manufacturers could also look to investing money in improved equipment, but there is a certain reluctance from many manufacturers, as this would likely lead to further retrenchments of employees.

Lack of management ability on the factory floor was cited as a major problem by a number of manufacturers. If firms are to move to improved, more sophisticated patterns of production, then these factory-level management skills need to be developed in employees. More emphasis on worker development is an important ingredient in producing a more productive work force.

5.2. The Bargaining Council

Whilst moves to develop more effective business linkages would be a step in the right direction, it is extremely difficult to imagine that by themselves they could make the local footwear industry internationally competitive. Substantial structural difficulties need to be addressed if the local industry is to become more competitive. The footwear industry in South Africa is governed by the terms of its Bargaining Council agreements. Many of these regulations, formulated many years ago under a different political dispensation when the

South African market was closed to foreign producers and footwear production was extremely profitable, are no longer suitable for the current circumstances facing the footwear industry. If the industry is to survive, the parties to the Bargaining Council Agreement should, as a matter of urgency, review the entire agreement from scratch and if necessary redraft it to make it more flexible and relevant to the harsh realities facing the footwear industry today.

The incongruous situation which currently exists with Bargaining Council regulations only applying to certain areas of the country and not to others is extremely unsatisfactory as it places certain manufacturers who are registered with the Bargaining Council at a disadvantage against manufacturers who are not governed by the regulations. This inequality is further exacerbated by the fact that manufacturers operating from Lesotho, for example, are not governed by the Bargaining Council and yet they are able to distribute their shoes freely in South Africa as part of the Southern Africa Development Community. The danger of this situation is that it will force footwear manufacturers to stop producing in South Africa and move their factories to Lesotho, a development which is already very evident.

One of the most important issues facing the industry is the question of productivity. Currently the Bargaining Council Agreement stipulates minimum wage rates for various job classifications, These wage rates are independent of worker output and consequently there is little incentive for workers to produce to their maximum capabilities. The modification of the Bargaining Council Agreement to allow manufacturers to remunerate workers on a piece rate system is an extremely important issue. The experience of a few businesses suggests that such a move would greatly improve productivity levels, as workers would have a financial incentive to increase their output. Indications are that such a system could in fact lead to workers increasing their take home pay by as much as 100 percent.

5.3. Tariffs

Whilst the question of tariff protection is not an easy one to resolve, it is not unreasonable to suggest that serious anomalies exist in South Africa with regard to the tariff structures on imported shoes and raw materials. While struggling to compete with foreign competitors local footwear manufacturers have to pay tariffs in the order of 26 percent on imported components such as PVC compounds and in-soles. Some of these inputs are supplied by local industries which possibly benefit from the protection afforded by these tariffs. Other inputs, however, such as in-sole boards, are not produced in South Africa and yet tariffs are still imposed on these items which only serves to increase the local costs of production, making our shoes less competitive.

5.4. Conclusion

In conclusion, it can be stated that business linkages play an important part of the local footwear industry and that the potential exists for greater productivity and efficiency in the

industry through greater co-operation and division of labour between producers specialising in different parts of the footwear production process. It is, however, extremely difficult for any manufacturer to explore these alternatives in a shrinking market. Faced with decreasing demand for their products, shoe manufacturers do not have the luxury of being able to experiment. As a result, much of the development which has taken place so far has been fragmented, with individual manufacturers exploring different strategies on a small scale. If the shoe industry in Pietermaritzburg is to be saved, significant changes need to occur in the thinking of all role-players. Stakeholders, particularly employers and employees, need to change their attitudes to each other and to the ways in which shoes are produced. This would allow for greater flexibility in the industry, creating opportunities for firms to substantially change their mode of production. Such a paradigm shift is vital if the industry is to restructure itself significantly enough to achieve the improvement in efficiency necessary for the industry to be compete with its international counterparts.

Unless fundamental changes take place, the industry will continue to wither and all role players, including employers, unions and local and national government representatives need to recognise this reality. Unless these parties can agree on a common strategy for the industry, the downward trend will continue until only two or three select firms remain to service special niche markets. Expanding business linkages is one part of the answer but it can only be achieved through greater flexibility and co-operation by all relevant parties.

**SMALL ENTERPRISE GROWTH
THROUGH
BUSINESS LINKAGES
IN SOUTH AFRICA**

June, 1998

Donald C. Mead
Michigan State University
East Lansing, Michigan

ABSTRACT

This paper summarizes the data and findings of five separate studies of business linkages in South Africa. While separate, each of these studies shared a focus on the nature and performance of business linkages between small, medium and micro enterprises (SMMEs) and larger firms, and they thereby permit some pooling of results. Contrary to expectations, it was found that some of the outsourcing business linkages involve core activities of the corporate firm. Where the SMME is able to provide quality goods at competitive prices, firms are willing to contract for such supply. Similarly, the summary points to findings regarding the level of technology employed by SMME firms and their consequent earning potential, noting that these were, in some cases, higher than expected.

The summary draws evidence from the ancillary studies to propose that, of the two primary motivations for business linkages with traditionally disadvantaged SMMEs (i.e., directly commercial versus community service objectives), it is those linkages based on commercial interest that seem to generate the most dynamic and profitable SMME businesses. Based on this finding, the author proposes that linkages should be based on economic and not social objectives, lest the relationship become distracted from sustainable business growth. Other major findings include: access to capital, capacity-building and information is needed for successful linkages; mentoring by larger firms can be useful to SMMEs; and, those who provide support to SMMEs through training or business assistance ignore market conditions at their own (and their clients') peril.

Author

Donald C. Mead [mead@pilot.msu.edu] was formerly Professor of Agricultural Economics, Michigan University, East Lansing, United States of America. He also has nearly 20 years experience on various Equity and Growth through Economic Research projects in Africa, and visits Southern Africa regularly to keep abreast of new developments.

EXECUTIVE SUMMARY

Around the world, modern, forward-looking businesses interact with other enterprises through a complex web of commercial relationships. Many efficient managers find it cost-effective not to try to do everything themselves “in-house.” Instead, they purchase some of the goods and services they require for their production activities from other enterprises that specialize in particular aspects of the production process. These purchases and sales - which we refer to as business linkages - are a pervasive characteristic of efficient and productive economies.

South Africa is expanding the scope of these commercial transactions. Many large corporations are moving towards a lower degree of vertical integration; many are reaching out more beyond their traditional corporate partners, sometimes to smaller suppliers. While there is a long tradition of support for small business in South Africa, much of the energy in the past has been devoted to the promotion of small, white-owned businesses. In recent years, there has been considerable discussion of the ways in which that process can be opened up to newly-established enterprises that had been excluded under the old Apartheid regime.

A research project at the University of Natal and the University of the North, in cooperation with Michigan State University, funded by the US Agency for International Development, has recently examined the nature of these business linkages, the extent to which they currently provide opportunities for improvement for historically disadvantaged small enterprises, and the kinds of steps that can be taken to expand such opportunities in the future. Among the major findings of the study are the following.

There are many business linkages currently in place involving transactions between major corporations and historically disadvantaged small suppliers. Interviews with about 75 large enterprises indicated that virtually all did some purchasing from small, historically disadvantaged suppliers. Most bought from only a few, but some buyers had on-going commercial relationships with twenty or more small, disadvantaged suppliers. Many of these are in the service areas: catering, office cleaning, transport, or construction-related activities. Others were in manufacturing, and in some cases were close to the core activity of the large partner. The clearest example of this was in footwear, where several steps in the production process were routinely handled on an outsourcing basis. Among the service activities, several appeared to be quite efficient, growing rapidly and generating good returns for workers and owners.

Buyers established linkage contracts with three principal motivations: because it is good business to do so; out of a sense of community service; and to shift to a production pattern that escapes payment of taxes, rules and regulations. While the last of these was clearly true in many cases, a number of other suppliers paid all relevant taxes and fees while employing workers that were members of unions and were covered by the standard labor benefits. These were generally the most efficient of the small suppliers, and the ones that were growing the most rapidly.

Some linkage contracts were much more helpful than others to historically disadvantaged small suppliers. The key determining factors were the characteristics of the contract (size, period covered, stability), and the degree to which the contract provided a channel for the supplier to learn how to do things better. Where the motivation for the contract was community service, these factors were much less likely to be present. In such cases, linkages generally resulted in frustrations for the buyer and little developmental impact for the supplier. Where the motivation was commercial, by contrast, the buyer had an incentive to serve as mentor to suppliers, helping them improve their efficiency and productivity. Unfortunately, the interviews uncovered relatively few cases where the buyers played a significant role in mentoring their suppliers.

There is considerable interest on the part of both buyers and suppliers in expanding the involvement of historically disadvantaged small enterprises in business linkages. Several initiatives are currently under way, and others are just starting. To be most effective, institutional support for the promotion of linkages needs to start from several principles:

i) The driving force must be economic, not a paternalistic goal of community service. All linkage promotion activities must have an orientation that starts from markets, working back to suppliers to help them take advantage of these identified market opportunities.

ii) The institutional structure must be cost-effective, taking account of the limited resources available to support this type of activity. Specialization and focus among promotion agencies can be important in helping achieve this objective. Buyer mentoring, a key factor in many successful linkages, also contributes in important ways to the goal of cost-effectiveness.

iii) There are three building blocks for the promotion of linkages: information, capacity-building, and capital. While each may be needed to bring a particular contract to successful fruition, in general, one organization should not attempt to supply all three.

iv) Issues of imbalance of power between buyers and sellers are important and must be addressed in establishing policies or programs for linkage promotion. The paper discusses some approaches to this issue.

Much has already been achieved in the expansion of business linkages involving historically disadvantaged small enterprises in South Africa. The interviews make clear that there is a strong will on all sides to do more. With stronger institutional support, there is much more that can be done.

1. Introduction

Around the world, modern, forward-looking businesses interact with other enterprises through a complex web of commercial relationships. Many efficient managers find that it is cost-effective not to try to do everything themselves, “in-house.” Instead, they purchase some of the goods and services they require for their production activities from other enterprises that specialize in particular aspects of the production process. Many of them also sell their output to other businesses, either for further processing or for marketing and distribution. These purchases and sales - which we refer to as business linkages - are a pervasive characteristic of efficient and productive economies.

The degree to which such arrangements create opportunities for historically disadvantaged small enterprises in South Africa is determined by three inter-related factors:

i) To what extent do large businesses choose to perform these functions themselves, rather than purchasing them from others? In the past, this choice has sometimes been expressed as one of “make or buy;” but, in fact, the options available are considerably more complex, since the decision to buy can be implemented in a variety of different ways.

ii) If a larger partner chooses to buy a good or service from others, with whom do they do business? Do they deal only with companies that are part of their own conglomerate, or do they also have contracts with others, including newer and/or smaller companies? Do they do business only with members of their own ethnic group, or are they ready to undertake commercial transactions with others as well?

iii) What is the nature of the relationship between buyers and suppliers? Is it restricted to an arms-length relationship, or are there other types of interactions, reflecting an attitude of partnership? Are contracts written and implemented in such a way that they are conducive to an improvement in the performance by suppliers?

In South Africa, there is movement on each of these fronts. Many large corporations are moving towards a lower degree of vertical integration; many are reaching out to undertake more commercial transactions with other businesses beyond their traditional corporate partners, sometimes to smaller suppliers. In part, this reflects pressures of competition, as the economy opens up more to the outside world and corporations find they must look for more efficient ways of doing things. In part, it also reflects increasing competence on the part of a variety of new suppliers, and a resulting increase in confidence in the reliability of markets. While there is a long tradition of support for small business in South Africa, much of the energy in the past has been devoted to the promotion of small, white-owned businesses. In recent years, there has been considerable discussion of the ways in which that process can be opened up to newly-established, smaller enterprises that had been excluded under the old Apartheid regime.

A research project at the University of Natal and the University of the North, in cooperation with Michigan State University, funded by the US Agency for International Development, has recently examined the nature of these business linkages, the extent to which they currently provide opportunities for improvement for historically disadvantaged small enterprises, and the kinds of steps that can be taken to expand such opportunities in the future. Five other papers report on particular aspects of those studies (see bibliography). This paper provides an overview of the results of the study. Among the major findings of the study are the following.

2. There are many business linkages currently in place involving transactions between major corporations and historically disadvantaged small suppliers.

Interviews with 75 large enterprises indicated that virtually all did some purchasing from small, historically disadvantaged suppliers. Most bought from only a few, but some buyers had on-going commercial relationships with twenty or more small, disadvantaged suppliers. Many of these relationships are of recent origin, a fact that supports the wide-spread impression that the level of transactions of this type is increasing.

2.1. Sectoral focus of the contracted activity: the research started with the hypothesis that large enterprises would choose to outsource only non-core activities, keeping their core operations in-house. A subsidiary hypothesis was that opportunities for commercial dealings with large corporations were generally limited to service activities; manufacturing processes, by contrast, would all be done in-house by the large corporations.

In fact, this set of hypotheses turned out to need significant qualification. It is true that, in many of the heavy manufacturing activities, the production process itself has been done entirely in-house; outsourcing has been limited to service activities such as catering, office cleaning, transport, or construction-related activities such as maintenance, electricity installation, or painting of offices or sheds. Even for the heavy manufacturing activities, however, the distinction has not always been clear-cut. Hulett Aluminium, for example, hires an outside enterprise to convert scrap into ingots that can be used for further processing, a relatively capital-intensive if technologically unsophisticated process that is close to its core activity of supplying semi-processed aluminium.

Shoe manufacturing presents an interesting case here. The stitching of the top part of the shoe - closing of uppers, as it is called - is a central function in the making of a pair of shoes. It involves work that requires considerable skill, and is very important to the quality of the finished product. Yet a number of the most efficient shoe manufacturers in Pietermaritzburg undertake this task making use of CMT (cut-make-trim) operators, separate enterprises specializing only in the closing of uppers. Several other steps in the process of making shoes are also frequently handled in this way (e.g. stitching and lacing, or the manufacture of inner soles or heels).

In sum, many large businesses choose to handle the core of the manufacturing process themselves,

either to control quality or because it requires substantial skills or high investments of capital which they feel would not be available to small suppliers. Yet where there were smaller enterprises able to provide products or services of the required quality at competitive prices, large enterprises have been prepared to engage subcontractors to supply goods and services that were of central importance to the final product.

There has been some skepticism in discussions of business linkages, reflecting the view that linkage suppliers are constrained only to service activities, where the opportunities for the use of improved technology are severely limited and levels of income are destined to remain low. Our research suggests that this is not correct. Some of the subcontracts we observed went beyond services to the manufacturing process, sometimes including manufacturing activities that are of central importance to the quality and price of the final product sold by the large enterprise. Furthermore, it is a mistake to assume that services are always restricted to activities involving low levels of technology and income. On the contrary, some of the most dynamic companies, including some office cleaning, catering, and construction-related activities, were supplying services in ways that used modern techniques and generated substantial incomes both for owners and workers in the enterprise. Employment in some of these service-based linkage suppliers has been growing very rapidly.

2.2. Motivations for buyers to establish linkages: corporations participate in linkage activities for two basic reasons: because they are **good business**; and out of a sense of responsibility for **community service**. To say that they are good business means that the linkage contracts provide the corporate buyer with needed inputs of the required quantity and quality, at competitive prices, delivered in a timely manner, thereby reducing costs and enabling the corporation to concentrate its capital and management skills on a more limited range of activities (its “core business”). Corporations generally say that both of these motivations play a role; but the relative emphasis given to each differs widely from corporation to corporation, and even from one linkage contract to another in the same corporation.

There is also a third type of motivation, which corporations are less ready to discuss but which their critics emphasize: the desire to **avoid the rules**: to avoid paying taxes, to escape the regulations, or to employ workers in patterns not consistent with union agreements or bargaining council decisions. Our interviews make clear that this factor is indeed an important one, in many of the linkage contracts. But there is also a significant number of small, historically disadvantaged linkage partners who operate fully in compliance with all rules and regulations. Their workers are members of unions and receive all of the standard employment benefits, the enterprise pays all required taxes and has the required permits and licenses. In general, these are the linkage suppliers that are most competently managed, that are growing most rapidly and that are generating the highest returns for both owners and workers in the enterprise. It is not necessary for small suppliers to operate outside the rules for them to be a part of a competitive and efficient supply system.

3. Some linkage arrangements are good for both buyers and suppliers; others are not.

In general, the interviews indicate that activities motivated by community service bring results that are not satisfactory to either the buyer or the supplier. For buyers, the product or service often falls short of their requirements in terms of one or more of the criteria listed above (quantity, quality, price, or timeliness of delivery). For the supplier, the developmental impact of such contracts is generally limited and temporary, often just enough to keep the enterprise in operation but not enough to enable it to prosper. Only when the buyer treats the relationship as a commercial one does the linkage have a significant developmental impact. It is in such cases that the buyer recognizes that it is in his interest (as well as that of the supplier) that the supplier be dealt with on terms that enable the supplier to thrive. This is reflected in the length of the contract, the terms of the contract (in particular, the price and payment terms), and the kinds of interactions and counseling in which the buyer engages to help ensure that the supplier succeeds.

Characteristics of linkages that are good for suppliers: the degree to which the linkage arrangement is an effective development mechanism for suppliers is determined by two sets of factors: the characteristics of the contracts; and the degree to which the linkage provides a mechanism for a transfer of skills or knowledge, or for expanding the capital stock of the supplier.

Looking first at contracts, a major complaint frequently voiced by suppliers was that their linkage contracts were too small, of too short a duration, and too variable and unreliable. Small and short-term contracts may be sufficient to keep suppliers from going out of business, but not enough to help them do well. One of the large buyers indicated that their goal in this area was to ensure the survival of the supplier enterprises. Such an approach led them to take any given set of orders and divide these among all qualified suppliers. The result was that each supplier received just enough orders to keep it from going under, but not enough to enable it to prosper.

A corollary of this community service approach was the intention expressed by the buyer that no small supplier would be excessively dependent on a single buyer, but would sell to a variety of customers. Again, this resulted in a decision to keep the purchases from any one supplier to a modest amount, forcing them to look for other clients. While the idea of providing an incentive for suppliers to search for other markets is laudable, the limited purchases channeled through the linkage contract for any one supplier - clearly reflecting a priority given to community service over commercial considerations - sharply restricted the ability of the supplier to reach a level of efficiency where it could offer a competitive product, either to the partner in the linkage contract or to other customers.

A related problem concerns the variability of the contract. In one case met in the course of the interviews, a supplier had invested Rand 300,000 (about \$60,000) in equipment to supply a major buyer. After about a year of operation, the orders were abruptly suspended, with no explanation given, a suspension which lasted for about 18 months before purchases were suddenly resumed. Such a pattern shows a complete lack of concern for the needs of the supplier. Incidentally, it is

distressing to report that, at the conclusion of those 18 months of “down-time,” when the supplier contacted ten workers who had been laid off when the market disappeared, all ten immediately reported back to work, indicating that they had been unable to find any alternative employment in the meantime.

Larger and longer-term orders enable suppliers to plan, to invest, and to achieve economies of scale that can lead to improved economic efficiency. All of these are in the economic interest of suppliers, but they are also very much in the interest of buyers. When buyers choose to ignore these imperatives, it suggests that they are giving priority to community service objectives in ways that impose economic efficiency costs both on themselves and on their suppliers.

A second key dimension of contracts that are beneficial in terms of their developmental impact for the suppliers is that they provide a mechanism for suppliers to learn. The learning here includes issues of product specification and product design: how must the product be made, if it is to meet the requirements of the market? This might include details of the raw materials, machinery or processing techniques that must be used in making the product. It might include any of a number of management skills (e.g. ability to cost the product, to control inventories, to manage the process of quality control), the absence of any of which could make the product unacceptable to the buyer in terms of the standard requirements of price, quality, quantity and timeliness.

When linkage contracts are working well, they provide a channel for such learning to take place. Often this involves a significant role for the buyer, in a role that is often referred to as “buyer-mentoring,” discussed further below. Alternatively, institutional arrangements might involve outside organizations operating in such a way as to contribute to this learning process, to enable the linkage contracts to flourish.

Our interviews suggest that very little of this learning is taking place in South Africa today. In general, suppliers have been forced to rely on the abilities and skills that they bring to the table from their own experience, or that they are able to seek out and acquire on their own. This set of issues is discussed in more detail below, where we explore alternative approaches to remedying this situation.

4. While much is going on now to promote linkages, there is also interest in doing more and in doing it better.

In the current economic and political climate in South Africa, there is considerable interest in increasing the opportunities for people who were previously excluded to be drawn into the economic mainstream. The expansion of business linkages is an important part of that conversation. This has led to a number of different initiatives for the promotion of business linkages. At a government level, the most important initiatives have focused on the **Local Business Service Centres** (LBSCs). While these centres have a number of responsibilities, one important one

concerns their role in the promotion and support of business linkages. We discuss the operations of the LBSCs in more detail in section 5 below.

The **Business Linkages for Under-utilized Enterprises** (BLUE) project has done very effective work in the promotion of business linkages. Using an approach that involves the avoidance of duplication but the strengthening of existing institutions to enable them to improve their effectiveness, the project has succeeded in generating a substantial expansion in employment and sales through linkage contracts in a number of different provinces of South Africa. Regrettably, the project is due to end in September, 1998.

The **Private Sector Initiative** (PSI) of the Small Business Project is a new undertaking involving several of South Africa's largest corporations, working together to "develop and expand the role of the corporate private sector in generating decentralised growth through collective support for small and medium-sized enterprise development" (from the PSI mission statement). A major focus of their work is in developing more effective patterns of business linkages, and sharing information about the effectiveness of different approaches currently being used.

Several **individual companies** have developed extensive programs for the promotion of small, medium and micro enterprises through business linkages. The best known of these are perhaps Anglo-American and Eskom, who have been involved in this type of program for a number of years; but a number of other corporations have also made major commitments in this area, including several that were included in our study (e.g. Tongaat-Hulett and its subsidiaries, and Umgeni Water).

While much is currently being done to encourage an expansion of business linkages, our interviews make clear that **both buyers and suppliers want to do more**. Several of the large corporations have expressed a clear intention of expanding their purchases from historically disadvantaged suppliers. Correspondingly, many suppliers fervently wish to increase the level of their sales to large buyers. Both sides are looking for more effective institutional arrangements for the promotion and support of such linkages. In the following section, we present suggestions for approaches to encourage such an expansion. These suggestions arise from the interviews with buyers and suppliers in South Africa, as well as from experience with similar projects in other countries of the region.

5. Some principles for the design of institutional arrangements supporting the growth of good business linkages.

5.1. **The driving force must be economic**, for both buyer and supplier. An attitude of charity on the part of the buyer, or of rights to special treatment on the part of the supplier, can quickly divert the endeavor, converting it into a charitable activity that not only distracts people from a principal focus on the promotion of sustainable, market-based linkages, but is also likely to

hinder the spread of the idea that business linkages can be a commercially rewarding way of organizing business behavior.

5.2. Cost-effectiveness is a key part of the equation. Neither the South African government nor international donors nor corporations are ready to provide deep pockets for long-term support for projects to promote linkages. This means that the limited resources that are available must be used carefully and in a focused way. In general, this means avoiding comprehensive, holistic programs in favor of approaches that are targeted and focused, providing only the bare minimum of assistance that is required in support of any one linkage in order to be able to provide help to as many clients as possible.

5.3. There are three building blocks to business linkages: information, capacity building, and capital. All three are required, if a linkage is to succeed, although that does not necessarily mean that one organization or institution needs to provide all three.

Information is needed about potential partners in linkage contracts. Buyers need to know who are potential suppliers, for goods or services they wish to procure. Suppliers need to know who are potential buyers, for goods and services they are ready to offer.

The task of providing this information in a way that meets the needs of both buyers and suppliers, and particularly of doing this in a cost-effective way, has proven to be a formidable challenge. Several internationally-funded projects have been aimed at the establishment of subcontracting exchanges involving the assembly of comprehensive data bases on potential buyers and suppliers. In general, these appear to have been quite expensive and to have had only limited success in contributing to an expansion of linkages. One problem has been that rapid changes in the universe of small enterprises mean that such lists quickly go out of date. If a buyer is provided with a list of ten potential suppliers for a product he wishes to purchase, only to discover that four of these suppliers have gone out of business, three have moved and cannot be located, one has switched to other activities and two have phones that do not work, this means he must invest quite a lot of time for very little benefit. Keeping an up-to-date, comprehensive data base is no small task

Of course, individual corporations keep lists of their own suppliers, with information (either written or in people's minds) about their own experience with each. A sensible approach might be a simple sharing of this information among buyers in a particular locality. In some cases, there may be some reluctance to share such information with potential competitors; but in general, this seems like a useful approach, and several members of the business community have expressed an interest in pursuing it.

The Local Business Service Centres in both Durban and Pietermaritzburg have sought to provide such information, although with only limited success. In Durban, problems appear to have resulted from excessively ambitious goals in this area. Relatively few potential suppliers have been vetted in considerable detail and are then included in their data set, which was presented in an attractive form but then sold at an unacceptably high price. In Pietermaritzburg, the problem appears to have

been that the LBSC staff sought to control the linkage contract by selecting only one potential supplier to suggest to the buyer. This may have reflected an understandable suspicion on the part of the LBSC staff that the large buyers had already made up their minds as to the supplier they would purchase from, and were going through the motions of approaching the LBSC only to show their supposedly good intentions. If such arrangements are to work, however, then inevitably the buyers must make the decision about suppliers, based in the end on their own investigations.

In our view, this key function of information-sharing and match-making can best be performed by an intermediary organization operating largely on an *ad hoc* basis, responding to requests from buyers for a short list of perhaps five potential suppliers. Before supplying such names, the intermediary would need to check to make sure that the enterprise still exists, that its contact numbers are operational, that the enterprise is interested in supplying a particular product or service, and (based on a very brief inquiry) that it has the capacity to supply that product or service, with a record of those to whom they have previously sold, who could be contacted as reference if a new buyer so desires. The more detailed follow-up and the final selection of the enterprise to be given the contract must be solely the buyer's responsibility.

Over time, an intermediary operating in this way would accumulate a list of buyers actively interested in procuring particular products or services. With the buyers' permission, such information could then be shared with other suppliers that approach the intermediary seeking outlets for goods or services that they have to offer.

Capacity-building: Many micro and small enterprises would like to enter into contracts to supply larger businesses; but often their capacity to do so falls short in one or more dimensions. This means that there is undoubtedly a need to provide a mechanism through which suppliers can improve their capacity to perform as reliable partners in linkage contracts.

This capacity-building can be done using any of a variety of different institutional arrangements. It can be done by the buyer; by private sector companies, on a fee-for-service basis; by governmental training or counseling agencies; or by Non-Governmental Organizations (NGOs). Each of these exists, often in profusion, in South Africa.

The most effective forms of capacity-building must start from a need to pay attention to cost-effectiveness, and to ensuring that activities undertaken in this area are done in a context that takes account of the demands and opportunities of the market. These issues are discussed in more detail in the following sections.

Capital: enterprises seeking to expand or to improve their productivity generally require new capital investments, at a rate that often exceeds what can be financed from their own reinvested profits. This means they will often require outside capital, to enable them to take advantage of the market opportunities that linkages present to them.

Linkage relationships help suppliers address these needs in three ways. First, linkage contracts can

reduce the need for working capital, since they can help truncate the design process, reducing search times for markets or for requisite machinery and equipment. Secondly, orders from buyers can strengthen a supplier's application for a loan from a financial institution. Third, the buyer can provide a variety of facilities that help meet the supplier's capital needs: by direct provision of raw materials or intermediate products, by providing advance payment for a portion of the cost of an order, or by guaranteeing a loan application submitted by a supplier to a financial institution. Such arrangements clearly can help the supplier reduce costs and increase his efficiency, which can also be of direct benefit to the buyer.

In general, it is a mistake for linkage promotion agencies to become directly involved in the provision of credit. This is a highly specialized field, which does not match the comparative advantage of most linkage promotion projects' staff. What they can do is to help facilitate access by small suppliers to capital, either from formal financial institutions or through discussions with the buyers, to encourage the larger partner to play a more active role in providing support in this area.

5.4. All activities must start from markets, working back from there to suppliers. We have seen a number of cases in South Africa where this basic idea was ignored, with disappointing results. This has come either because training was too generic (e.g. business management, or book-keeping, in general), or because the training was in areas that are already saturated (e.g. dressmaking). A more effective approach would first explore the market, then provide assistance to enable small enterprises to take advantage of identified market opportunities.

Business linkages provide a particularly appealing way of approaching this question. A key feature of the linkages approach to small enterprise promotion is that it focuses on helping suppliers respond to identified market opportunities. With the limited resources available for capacity-building among small enterprises in all countries of the world, including South Africa, it is particularly desirable to use those limited resources to help small enterprises respond to opportunities known to exist, as represented by buyers ready to purchase specific things from appropriate suppliers.

5.5. Specialization and focus can help achieve a goal of cost-effectiveness. Just as large businesses do best when they decide what is their core business, then focus their energies on doing that as effectively as possible, so intermediaries can make their most effective contribution when they do not seek to do everything for all possible clients, but rather choose a particular focus for their activities, interacting with others with different specializations for other functions. To try to provide all three of the business linkage building blocks for all possible clients often means a lack of focus, with a resulting decrease in quality and increase in cost of services provided.

There is a major danger that such a dispersal of effort will rob the LBSCs of their effectiveness. When they seek to provide training, counseling and advice to address the whole range of problems faced by small enterprises, resource constraints make it virtually impossible for them to give adequate attention to their match-making role, helping buyers identify historically-disadvantaged potential suppliers while providing suggestions to these suppliers about possible clients to whom

they might sell. The LBSCs are in a unique position to be able to perform this match-making, information-exchange function, a function for which there is a great demand on the part of both buyers and suppliers. It would be a great shame if dilution of focus should lead them to miss the opportunity to make a major contribution in this area.

5.6. Buyer mentoring is central to many successful linkages. Buyers are the ones who know best exactly what product specification and what quality they require. They are the only ones who are in a position to know which dimensions of quality can be treated with more relaxed levels of tolerance and which are crucial to the provision of an acceptable final product. Often, they are the ones in a position to say to the supplier, “if your product is to be acceptable to us, it must be made using this specific raw material, and manufactured in this particular way.”

This buyer mentoring will take place only if the buyers come to view their relationship with their suppliers as a partnership. Mentoring requires time, energy and resources on the part of buyers. They will only be ready to invest in such relationships if they believe that the supplier is capable of achieving an efficient and competitive level of production, and if they recognize that success in the linkage contract in terms of improved supplier competence is in their own business interest, since it will result in supplies that are more desirable in terms of price, quality, quantity and timeliness.

Our interviews with suppliers in South Africa show quite an uneven pattern in this regard. The majority of suppliers appear to have been left almost entirely on their own, to do the best they could to meet buyers’ requirements based on pre-existing skills and equipment, combined with whatever capacity-building they could arrange on their own. This was particularly the case where the buyers viewed their involvement in business linkages as a form of community service, with little expectation that the suppliers could in fact become efficient and competitive. In such cases, even where some advice or support was offered to suppliers, it was relatively perfunctory. Most of the small, historically disadvantaged suppliers who benefitted from linkages were strong enough when they start the linkage activity, so they were able to succeed in spite of the limited support that was available to them.

Of course there were exceptions. Some of the large partners visited regularly with their suppliers, seeking to understand their needs and helping them deal with their problems. Interview responses made clear that these were the cases where the linkage contracts were of the greatest benefit to the supplier, providing the smaller firm not only with access to markets but also with assistance in helping the supplier meet the competitive standards required to sell in those markets. In addition to helping the supplier, the result was a much higher level of satisfaction on the side of the buyers.

5.7. Issues of power imbalance are important and must be addressed. When a large buyer makes purchases from a small supplier, the buyer generally has overwhelming power to dictate the terms of the contract. There is a widespread concern in South Africa that this can result in an exploitation of small suppliers by larger partners in linkage contracts. What steps can be taken to mitigate this power imbalance? We would offer three suggestions, and comment on a two other

approaches which are popular among some circles in South Africa but which appear to be more problematic.

Multiple buyers: if a small supplier can sell to several different customers, that can make the supplier somewhat less dependent on the terms offered by any one of them. Of course one should not exaggerate the gains to be derived here, particularly if the number of potential suppliers is large while there are only a few buyers who may well confer with each other; but this flexibility in terms of wider options in selling can be an important step in the direction of addressing this issue.

Education of buyers: forward-looking buyers recognize that it is not in their interest that a supplier be squeezed to the last penny. A supplier who is being marginalized will often offer products that are of marginal quality, with problematic delivery schedules, which can add immeasurably to the headaches of the buyer. Suppliers need to earn a fair return, particularly if they are seeking to improve their efficiency and productivity. There is an educational role to play in ensuring that buyers understand that.

Independent assistance in costing: a major area of weakness among many small suppliers is that they do not know how to determine what would be a fair price for the product or service they are offering. An outside agency, perhaps using accounting students at a university under the supervision of their professors, could offer a useful service here in helping them think through what would be a reasonable price.

Associations of suppliers? It is often argued that the best way to deal with this issue of power imbalance is to group suppliers into some form of association, so they can bargain together with buyers. While this idea is appealing in principle, we have rarely seen it work in practice. It is particularly problematic where the grouping is done at the instigation of outsiders, rather than arising from an effort by the people themselves to address their common problems jointly. Cooperatives and business associations formed in response to pressures from the government have a dismal record in Africa and elsewhere in the third world.

LBSCs or other NGOs as partners to the linkage contract? One idea popular in some circles in South Africa is that, in order to protect small suppliers from exploitation by large buyers, an intermediary organization should be a partner to each linkage contract. In an extreme form of this arrangement, the buyer would enter into a contract with the intermediary organization, which in turn would have a contract with the supplier. Our interviews make clear that such an arrangement is quite unacceptable to buyers. If intermediaries insist on trying to operate in this way, the buyers will simply ignore them, by-passing them to make their own arrangements directly with the suppliers, making it very difficult for the intermediary to play a significant role in the promotion of linkages.

Power imbalances are a serious issue that needs to be monitored. It is important, however, to do this in a way that leaves the core of the linkage as a contract directly between a buyer and a supplier. For all their risks, linkage contracts provide opportunities for previously excluded enterprises to participate in dynamic segments of the economy through access to growing markets and access to

opportunities to learn to do things better. These opportunities constitute the core appeal of business linkages. It is important to address the challenges of power imbalances in ways that do not seriously impair those opportunities.

6. Concluding Comments

South Africa, with its history of apartheid which has so clearly disadvantaged the majority of the population, has left in its wake a mentality that emphasizes the need for special help. This has led to a widespread (although certainly not universal) belief that historically disadvantaged suppliers inevitably produce low quality goods and services; that much needs to be learned by disadvantaged suppliers, to enable them to change that situation; and that the learning process is certain to be very slow. Reflecting a combination of paternalism and guilt on the one side and the demand for special treatment on the other, this mentality runs the risk of getting in the way of defining commercial relationships between business partners in business-like terms. To the extent that an interest in business linkages arises from such a mentality, the result is a presumption that, for the foreseeable future, the promotion of business linkages must be viewed as a form of community service. As suggested above, where this has been the motivation for the establishment of business linkages, the results have been disappointing for all concerned.

There is a small but growing body of literature that emphasizes the importance of trust in economic development. Where such trust exists, the participants see one another as partners. When one component thrives, the others benefit as well; when one participant suffers, all participants are harmed. This reasoning applies at three different levels: between workers and owners in a particular enterprise; in the relationship between different enterprises in commercial transactions; and in the relationship between the private sector and the government.

As it emerges from its apartheid legacy, South Africa appears to have an unusually low level of trust at all three of these levels. Newspapers report that labor unions often view themselves as being engaged in a war with the capitalists. Relationships between employers and employees are often seen as a zero-sum game, where improvements for one can only come at the expense of the welfare of the other. Relationships between buyers and sellers are often thought of in the same terms. In such a situation, there is little incentive for buyers to take account of the needs or interests of suppliers, to help them do better.

If business linkages are to work as an effective development mechanism for small suppliers, then the large participants in linkage contracts must come to approach these relationships as partnerships. This is a perspective that says: "if the small supplier who sells to me does better, that helps me: it provides me with a product or service at a better price, in a more timely and reliable manner, at a quality level that meets my needs. If my supplier fails to meet my requirements in any of those dimensions, it hurts me in my business. If his business fails, that imposes real economic costs on me. It is therefore in my business interest to find out how my suppliers are doing, what problems they face, and to work with the suppliers to help them find ways of addressing those problems."

In order for a corporation to approach linkages in this way, the key decision-makers must believe that such an approach has a reasonable chance of success. If they have this belief, then it becomes worth their while investing their time, energy and resources to making this happen. If on the other hand they believe that, in the great majority of cases, such results are not likely to ensue, then their linkage activities move over into the category of community service, which might also be called paternalistic charity. In such cases, they are ready to tolerate mediocre outcomes for extended periods, with no real efforts to work to change things, since such efforts would be expected to be generally fruitless.

If a corporation recognizes the need for some form of capacity-building to help suppliers move to the stage where they can be efficient and reliable partners, it may choose to address this task in-house: by adding such responsibilities to the job description of existing purchasing agents, or by setting up a special small enterprise support unit. Alternatively, the corporation and its suppliers may turn for help to outsiders, either the business support centers, private firms, or NGOs. In many successful cases, several of these approaches have been combined.

What is most clear is that, when they choose to do none of the above, the linkage is likely to have only very limited developmental impact. Small, historically-disadvantaged suppliers may find out about new markets, but they would receive no help in their efforts to improve their capacity to sell in those markets. From the buyer's perspective, unmentored linkages are unlikely to bring a satisfactory outcome in terms of meeting their business requirements. Charitable linkages for community service may look good in the company's public relations materials and may serve (temporarily!) to allay political pressures; but they will make little real contribution to the development of the disadvantaged. Only a business-like approach to business linkages can deliver the sustained and expanding benefits that South Africa needs today.

Opportunities to sell to large buyers have provided some expanded access to expanding markets for historically disadvantaged small suppliers. In general, supplier enterprises have had to rely on pre-existing experience and skills. With improved institutional arrangements to expand knowledge about such opportunities, and with improved mechanisms for strengthening the capacity of suppliers to perform as partners in linkage contracts, there is great potential to expand this set of opportunities and thereby to reap more of the benefits of sound business linkages. Progress will require more focused and informed efforts on the part of corporations, local business support centers, and training institutions. While much has already been achieved, our interviews make clear that there is a strong will on all sides to do more. With stronger institutional support, much more can be done.

References
(Other Papers Reporting on Research on Linkages in South Africa
under the EAGER Project)

Anim, F. D. K. and C. L. Machethe, "Promoting the Growth of Micro and Small Enterprises through Business Linkages in the Northern Province."

Bbenkele, E. C., "Enhancing Economic Development by Fostering Business Linkages between the Pharmaceutical Companies and the Traditional Medicines Sector."

McEwan, T. with E. C. Bbenkele, M. Ndlovu and D. C. Mead, "A Report on Business Linkages in Kwazulu-Natal Involving SMMEs and Umgeni Water, and also Hulett Aluminium."

Skae, F. O., "Linkage Promotion in South Africa: Insights from Research Conducted in Durban and Richards Bay: an Exploratory Study."

Strydom, Barry, "The Role of Business Linkages in Re-Structuring the Footwear Industry."