

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

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## FOREWORD

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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 Spatial 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 and 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 months, if the South African footwear industry is to survive intact into the 21<sup>st</sup> 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 of 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.

## 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.

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## **FOREWORD**

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.

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## **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**

<b>Sector</b>	<b>Activity</b>	<b>Number Interviewed</b>	<b>Employees</b>	<b>Linkages Started</b>
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
Private	Building Materials	1	3 500	1996
Public	Cargo Movement	1	5 800	1996
Private	Crude Oil Refining	1	670	1997
Private	Diversified (Food, Industrial, Property)	1	22 000	1993
Public	Electricity Supply	1	49 000	1995
Private	Mining	1	2 112	1997
Private	Motor Manufacturer	1	7 295	1995
Private	Primary Aluminum Smelter	2	1 470 and 1 250	1998 1995
Public	Purchasing and Materials Procurement	1	280	1993
Private	Sugar Refining	1	863	1994
Public	Telecommunications and IT	<u>1</u>	60 000	1996
		<b>Total 15</b>		

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**

<b>Data Category</b>	<b>Frequencies</b>		<b>Total</b>
<b>Biographical</b>			
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		
<b>Educational Background</b>	13 Secondary Level - 2 passed Std Eight - 11 matriculated	19 Tertiary Level - 10 obtained Diploma - 9 obtained Degree	32
<b>Formal Training</b>			
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
<b>Work for Someone Before</b>	18 Yes (56.3%)	14 No	32

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

**Table 3**

<b>Circumstances</b>	<b>Frequency</b>
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	3
	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**

<b>Principal Activity (In alphabetical order)</b>	<b>Number Interviewed</b>
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	1
Upholstery	7
	<u>1</u>
	Total 32

**Table 5**

<b>Product/Service Supplied (In alphabetical order)</b>	<b>Number Interviewed</b>
Brakes and Clutch (Supply)	1
Bulk Bags	1
Cables	2
Cleaning Services	3
Cocktail Parties	1
Construction	1
Designs and Project Mgt	1
Engine Spares	2
Fabrication	1
Forklift Spares and Service	1
Garden Services	1
Garments	1
Laundry	1
Lunches	1
Motor Repairs	1
Pipe Laying	2
Printing	2
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**

<b>Age and Staff</b>	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
<b>Legal Entity</b>	8 Sole Proprietor		
	1 Partnership		
	18 Close Corp		
	5 Pvt Company		
<b>Gender of Owners</b>	19 Male		
	3 Female		
	3 Husband & Wife		
	4 Multiple Mixed Gender		
<b>Business Plan &amp; Access to Finance</b>	<b>Yes</b>	<b>No</b>	<b>Missing Data</b>
Drawn up a Business Plan	25	7	0
Negotiated Finance Facilities	19	13	0
<b>Registered</b>	<b>Yes</b>	<b>No</b>	<b>Missing Data</b>
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 Entrepreneur	12	20	0
Provisional Taxpayer	23	8	1
<b>Trade Union Activity</b>	<b>Yes</b>	<b>No</b>	<b>Missing Data</b>
Workers Unionised Recognition Agreement	2	30	0
	2	30	0

**Table 7**

<b>Supply Large Buyer</b>	32 - Yes	0 - No		
<b>How long making/ selling main product</b>	Mean 3.219 years			
	6 - One Year			
	13 - Two Years			
<b>Product &amp; Buyer Mix</b>	<b>Product</b>	<b>Buyer</b>		
One	24	11		
Two – Three	4	9		
Four +	4	12		
<b>Sales</b>	<b>Mean</b>	<b>Minimum</b>	<b>Maximum</b>	
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%	
<b>Category Analysis</b>	<b>Monthly Sales</b>	<b>Yearly Linkage</b>	<b>% Sales to Corps</b>	
	6 - < R35K	6 - < R150K	6 - 10% - 45%	
	10 - R35K to R100K	6 - R150K to R500K	4 - 46% - 65%	
	7 - R100K to R300K	6 - R500K to R1000K	6 - 66% - 85%	
	4 - > R300K	8 - > R1 000K	16 - 86% - 100%	
	8 - Missing	6 - Missing		
<b>Main Sector Linkage</b>	<b>Private</b>	<b>Public</b>	<b>Both</b>	
	12	18	2	
<b>Preferred Linkage Arrangement</b>	<b>Contractual</b>	<b>Loose</b>		
	29	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**

<b>Rationale</b>	<b>Rank 1 Freq</b>	<b>Rank 2 Freq</b>	<b>Rank 3 Freq</b>	<b>Mean*</b>
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**

	Frequencies					Cross-Tab	
	BE	EFF	AA	PA	NM	Chi-square (x <sup>2</sup> )	p-value
Rank 1 - Private	6	2	1	0	1		
- Public	4	0	0	0	0	2.24000	.52411
Rank 2 - Private	1	3	1	4	0		
- Public	0	1	3	0	0	5.72361	.12586
Rank 3 - Private	2	2	1	3	0		
- Public	0	1	1	2	0	2.04630	.72724
Chi-square (x <sup>2</sup> )	1.73333	.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	
	Pvt Yes	Pub Yes	Pvt No	Pub No		Chi-square (x <sup>2</sup> )	p-value
Written Policy on Linkages	4	3	5	1	7	2.60516	.27183 <sup>2</sup>
Designated person responsible for linkages	7	3	4	1	10	.17045	.67971
Target Purchases from SMMEs	1	3	8	1	4	5.30633	.02125 <sup>1</sup>
Incentives to Buyers	0	2	9	2	2	5.31818	.02110 <sup>1</sup>
Outside Agencies Used	6	3	3	1	9	.09028	.76382
Access to Adequate Info	7	3	2	1	10	.01204	.91264

<sup>1</sup> Statistically significant

<sup>2</sup> 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**

<b>Category</b>	<b>Commitment</b>	<b>Activity</b>
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**

<b>C o m m i t m e n t Characteristic</b>	<b>Commitment</b>		<b>Activity</b>	
	<b>F</b>	<b>Significance</b>	<b>F</b>	<b>Significance</b>
Written policy	.16	.859	2.52	.196
Designated person	10.42	.032 <sup>1</sup>	20.18	.011 <sup>1</sup>
Target Purchases	1.71	.261	6.86	.059
Incentives to buyers	.13	.732	4.07	.114
Model	2.49	.198	3.80	.108
r <sup>2</sup>	.813		.869	

<sup>1</sup> 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**

<b>Performance Question</b>	<b>Response</b>
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**

	<b>Yes</b>	<b>No</b>
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**

<b>Aspect</b>	<b>Number</b>	<b>Response</b>
<u>If a problem is encountered:</u>		
Corporate's Stance	30	Approach the Corporate
	2	Scared to tell the Corporate
Channel of Communication	24	Designated Person irrespective of the problem
	6	Department or person depending on the problem
	2	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**

<b>Support Factor</b>	<b>Number</b>
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 Stability	Number
Usually stable	9
Intermediate	6
Highly variable	8
Missing	9
<b>Period of Contract</b>	<b>Number</b>
Less than 6 months	3
6 months to 1 year	6
More than 1 year	8
Missing	15
<b>Value of Contract</b>	<b>Number</b>
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**

<b>Quality Dimensions</b>	<b>Linkage Commitment</b>		<b>Private/Public Sector</b>	
	<u>Chi-square (x<sup>2</sup>)</u>	<u>p-value</u>	<u>Chi-square (x<sup>2</sup>)</u>	<u>p-value</u>
Contract Stability	2.56161	.27781	12.01720	.01722 <sup>1</sup>
Period of Contract	.63636	.72747	2.53819	.63781
Value of Contract	2.21538	.33032	1.74286	.78292

<sup>1</sup> 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**

<b>Benefits/Disadvantages</b>	<b>Number</b>	<b>Response</b>
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**

<b>Benefits/Disadvantages</b>	<b>Number</b>
<b>Benefits</b>	
<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
<b>Disadvantages</b>	
<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 <sup>1</sup>	Corp Rank <sup>2</sup>	SMME Mean <sup>1</sup>	SMME Rank <sup>2</sup>
<b>Supplier Issues</b>				
- 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
<b>Buyer Issues</b>				
- 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
<b>Intermediary Issues</b>				
- 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
<b>Training Agency Issues</b>				
- Training courses don't meet suppliers' needs	3.667	n/a	2.471	n/a
- Don't know of any training courses	12		15	
<b>Government Issues</b>				
- Restrictive legislation	3.70	1	2.00	2
- No incentives given to corporates	4.556	2	1.938	1
<b>Trade Union Issues</b>				
- Block due to deteriorating working conditions	3.364	2	2.667	1
- Block due to loss of membership	3.182	1	2.958	2

<sup>1</sup> Closer mean is to 1, the greater it is a perceived impediment

<sup>2</sup> 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 ( $x^2$ )	p-value
- Feeling of Trust	16.75540	.00216 <sup>1</sup>
- Link with Private or Public Sector	4.14793	.38636
- Top Management Commitment	.62960	.95972
- Buyer's Attitudes	18.96441	.00422 <sup>1</sup>
- Buyer Resistance	4.20964	.64833
- Designated Person	2.23442	.69273
- Corporate Visits to SMME	11.3169	.07906

<sup>1</sup> 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**

<b>Stakeholder</b>	<b>Responses</b>
<u>Government</u>	
Force Corporates	6
Tender Opportunities	5
Black Empowerment Policy	4
Arrange Finance	4
Give Incentives to Corporates	3
Encourage Corporates	3
Other	6
No opinion	1
<u>Corporates</u>	
Accessibility	11
Mentor	10
Top management commitment	3
Procurement policies	2
Other	2
No opinion	4
<u>Intermediaries</u>	
Establish Linkages	6
Visit SMMEs	6
Training	5
Visit Corporates	2
Employ right staff	2
Lobby on behalf SMMEs	2
Market oriented	1
Other	2
No opinion	6

<u>Training Organizations</u>	
Accessible	9
Practical courses	7
Consult SMMEs	4
Consult Corporates	2
Other	2
No opinion	8

<u>Trade Unions</u>	
Soft on SMMEs	9
Pressure Corporates	1
Enforce uniformity	1
Other	3
No opinion	18

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.

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