

https://dspace.org/

Investigating interdependent and conflicting objectives in South African SMME policies: Competitiveness vs. Employment creation

Cass, Robert Stuart

2012-07-06
http://hdl.handle.net/10539/11626

Downloaded from a DSpace repository. https://dspace.org/

INVESTIGATING INTERDEPENDENT AND CONFLICTING OBJECTIVES IN SOUTH AFRICAN SMME POLICIES: COMPETITIVENESS VS. EMPLOYMENT CREATION

Robert Stuart Cass

A research report submitted to the Faculty of Engineering and the Built Environment, University of the Witwatersrand, Johannesburg, in partial fulfilment of the requirements for the degree of Master of Science in Engineering.

Johannesburg, 2012

DECLARATION

I declare that this research report is my own unaided work. It is being submitted to the Degree of Master of Science in Engineering to the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination to any other University.

……

(Signature of Candidate)

…….. day of …….., ……

(day) *(month)* *(year)*

ABSTRACT

Local and international research on small enterprises speaks to the importance of Small, Medium and Micro Enterprises (SMMEs) in contributing to their respective economies and the potential of these enterprises to generate employment. The National Small-Business Strategy, as proposed in the 1995 White Paper on Small Business, was developed to assist the processes of employment creation and economic growth through assisting SMMEs in becoming more competitive in the global marketplace. Debate as to the effectiveness of this strategy and the subsequent development programmes has given rise to claims of conflict between the goals of economic growth and employment creation potential of SMMEs. The purpose of this research is therefore to determine links between employment creation potential and growth potential through increased competitiveness of ten South African SMMEs. Semi-structured interviews were conducted with owner-managers of each of the SMMEs. The interviews focussed on issues of competition in the respective markets, competitive practices, labour issues, technology issues and perspectives on the South African business environment. Additional interviews were conducted with a human development consultant and a politician at municipal level with experience in small enterprise development. The additional interviews covered the same broad topics as the SMME interviews but from perspectives removed from those of the owner-managers. Thematic Content Analysis (TCA) was used to extract themes emerging from the interviews from which links between competitiveness of the SMMEs and employment creation potential could be drawn. Results show that SMMEs aiming to become more competitive will tend to limit their dependence on labour to minimise costs and productivity constraints. Therefore, the policy objectives of economic growth and employment creation through SMMEs are divergent. The research adds to the body of knowledge on South African SMMEs and points to the need for continued research, particularly in developing up to date statistics on the SMME economy.

ACKNOWLEDGEMENTS

I would like to thank the following people for assisting me in completing this project:

- My supervisor Bernadette Sunjka for guidance and support in producing this research report as well as all her assistance over the past 4 years of my academic career.
- Johann Coetzee for a huge amount of support, guidance and assistance and whom without this project never would have been completed.
- My father and sister for support during this project and for never asking too many questions.

This report is dedicated to the memory of my mother Veronica Cass. I will love you forever.

CONTENTS

Declaration i

Abstract ii

Acknowledgements iii

Contents iv

List of Tables viii

List of Figures ix

List of Acronyms x

Chapter 1 – Introduction 1

1.1 Introduction 1

1.2 Background and Contextualisation 2

1.3 Motivation for the Study 4

1.4 Research Question 5

1.5 Research Hypothesis 5

1.6 Objectives 6

1.7 Assumptions and Limitations 7

1.8 The Engineering Approach 8

1.9 Project Layout 9

Chapter 2 – Literature Review 11

2.1 Small Enterprise Development 11

2.1.1 History of Small Enterprise Development 11

2.1.2 White Paper on Small Business 12

2.1.3 Review of the Elements of the National Small-Business Strategy 13

2.1.4 Approach of the National Small-Business Strategy 15

2.1.5 Review of the Approach of the National Small-Business Strategy 18

2.1.6 The National Small Business Amendment Act 19
2.1.7 Current State of SMME Support 20
2.1.8 Vision for Small Business Development 20
2.1.9 Summary 23
2.2 Small, Medium and Micro Enterprises (SMMEs) 26
2.2.1 Definition of SMMEs 26
2.2.2 Characteristics of SMMEs 27
2.2.3 SMMEs: Local vs. Global 31
2.2.4 Contribution to Economy/Country 32
2.2.5 Employment Creation Theories 36
2.2.6 Doubts over Employment Creation Potential of SMMEs 38
2.2.7 SMMEs Competing in a Global Economy 40
2.2.8 SMMEs Employing Technology 43
2.2.9 Summary 45
Chapter 3 – Research Methodology 48
3.1 Introduction 48
3.2 Research Instruments 49
3.3 Research Sample 51
3.4 Research Procedure 52
3.4.1 Interview Guideline 52
3.4.2 Interview Process (Data Collection) 53
3.4.3 Data Analysis (Thematic Content Analysis) 54
3.5 Evaluating the Research Methodology 56
3.6 Ethical considerations 58
Chapter 4 – Analysis and Results 60
4.1 Biographical Data of the Respondents 60

4.2 Thematic Content Analysis (TCA) 62
4.2.1 Competitiveness and Competition 62
4.2.2 Labour 70
4.2.3 Technology 76
4.2.4 Business Environment 78
4.3 Summary of Themes 81
Chapter 5 – Discussion of Research 82
5.1 Discussion of Results 82
5.1.1 Competitiveness and Competition 82
5.1.2 Labour 85
5.1.3 Technology 88
5.1.4 Business Environment 89
5.2 Competitiveness and Employment Creation 91
5.3 Report on the Current State of SMME Development Programmes 93
5.4 Philosophical Response 95
Chapter 6 – Conclusions and Recommendations 97
6.1 Conclusions 97
6.2 Recommendations for Future Work 99
Bibliography 100
Appendix A 107
Appendix A1 - Elements of the National Small-Business Strategy 107
Appendix A2 – Current State of SMME Support 115
Appendix B 122
Appendix B1 – SMME Classification Schedule. 122
Appendix B2 – SMME Sector Statistics 123
Appendix B3 - Distribution of Private Sector Enterprises (Reworked) 126

Appendix C 128
Appendix C1 – Semi-structured Interview Guideline 128
Appendix C2 – Additional Perspective Interview 2 Guideline 131
Appendix C3 – Initial Themes Extracted From the Thematic Content Analysis 132
Appendix C4 - Final Themes Emerging From the Thematic Content Analysis 134
Appendix D – Interview Transcripts 137
Appendix D1 – SMME Interviews 137
SMME 1 137
SMME 2 144
SMME 3 148
SMME 4 149
SMME 5 154
SMME 6 158
SMME 7 162
SMME 8 168
SMME 9 171
SMME 10 175
Appendix D2 – Additional Interviews 179
Additional Interview 1 - Human Development Consultant 179
Additional Interview 2 – Midvaal Municipality Politician 181
Appendix E – Biographical Data of respondent SMMEs 188

LIST OF TABLES

Table 1. SMME Classification Schedule (Extract). 27
Table 2. Literature Concepts Informing the TCA. 55
Table 3. Biographical Data of Surveyed SMMEs. 60
Table 4. Respondent Market Locality. 63
Table 5. Observed Competitive Dimension Rankings 64
Table 6. Summary of TCA Themes. 81
Table 7. SMME Classification Schedule. 122
Table 8. Distribution of Private Sector Enterprises (1997). 124
Table 9. Distribution of Private Sector Enterprises (1995) 125
Table 10. Distribution of Private Sector Enterprises (Reworked) 127

LIST OF FIGURES

Figure 1. Categorisation of SMME Characteristics. 28
Figure 2. Porters Five Forces Model. 41

LIST OF ACRONYMS

BBBEE - Broad Based Black Economic Empowerment or Black Economic Empowerment (BEE)
CDE – Centre for Development and Enterprise
CGIC - Credit Guarantee Insurance Company
CIPRO – Companies and Intellectual Property Registration Office
CNC – Computer Numerical Control
COSATU – Congress of South African Trade Unions
CPPP - Community Public Private Partnership Programme
CSBP - Centre for Small Business Promotion
CSIR - Council for Scientific and Industrial Research
DTI – Department of Trade and Industry
EPWP - Expanded Public Works Programme
FRD - Foundation for Research and Development
GDP – Gross Domestic Product
ISBDS - Integrated Small Business Development Strategy
LSC - Local Service Centre or Local Business Service Centre (LBSC)
NAMAC - National Manufacturing Advisory Centres
NAMTS - National Advanced Manufacturing Technology Strategy
NEF - National Empowerment Fund
NGO – Non-governmental Organisation
NPI - National Productivity Institute
NSBC - National Small Business Council
NSBC - National Small Business Council
OECD - Organisation for Economic Co-operation and Development
RDP – Reconstruction and Development Programme
SARS – South African Revenue Service
SBDC - Small Business Development Corporation
SEDA - Small Enterprise Development Agency
SMME – Small, Medium and/or Micro Enterprise
TAC - Technology Advice Centre

LIST OF ACRONYMS (CONTINUED)

TDM - Tooling and die making

VAT – Value Added Tax

VIP - Voucher Implementation Project

CHAPTER 1 – INTRODUCTION

The following chapter presents the background and motivation for the research as well as the research question, hypothesis and the objectives and constraints. The chapter closes with a description of the layout of the report.

1.1 Introduction

It is widely agreed that small and medium enterprises are vital to the economic development of all countries through their direct contribution to the economy as well as their employment creation potential. Since 2000 the unemployment figures in South Africa have averaged about 26% of the labour force (persons willing and able to work). This has very serious economic and social implications for the country. President Jacob Zuma stated in his 2011 State Of The Nation address that job creation is at the centre of governments economic policies and has also acknowledged the importance of small and medium enterprises in creating employment [RSA (2011a)]. The president further acknowledges that, despite South Africa's industrial development policies – which focus on tradable sectors with high labour absorption and low skill intensity characteristics [RSA (2008)] – and the associated focus on competitiveness, it is also important to keep up with international technology trends to "exploit comparative advantages" [Merten (2011)].

The National Small-Business Strategy, as proposed in the 1995 White Paper on Small Business, was developed to assist the processes of wealth redistribution, employment creation and economic growth as well as to develop relations between small enterprises and assist them in becoming more competitive in the global marketplace. However, the impact of this strategy, and the support programmes instituted as a result, on the development of small business in South Africa is unclear due to a lack of comprehensive data on the sector. Also, the SMME economy has been found to have made only a small contribution with regard to employment creation because most small enterprises do not grow. Furthermore, the support programmes tend to mostly assist medium and small-

sized businesses who tend to follow a pattern of jobless growth rather than assisting micro enterprises and the informal sector [Rogerson (2004)].

There seems to be major incongruities in the South African economic sphere. The unemployment rate is extremely high yet labour laws favour employees' rights over employers, a factor strongly hampering employment creation. Business formations and development of small business is considered key to the economic targets of South Africa yet over-regulation and red tape hamper entrepreneurship. The major decline in many South African industries, most notably textiles, due to cheap imports is acknowledged yet no protection or incentives are offered to local businesses. All development is seemingly lost in a haze of political posturing, administrative bureaucracy and corruption.

The researcher has an invested interest in the small business economy of South Africa, through participation in a family business (itself an SMME). The researcher therefore has obtained experience of the small business economy and has been afforded a certain insight into many of the general characteristics as well as the idiosyncrasies of small businesses in South Africa. Furthermore, the researcher previously completed an undergraduate research project on the applicability of lean manufacturing principles to South African SMMEs, which stimulated further interest in the SMME economy and generated the questions which would inspire this study.

1.2 Background and Contextualisation

Government, through the DTI has recognised the important role SMMEs play in job creation, economic growth and equity in South Africa [RSA (2005)] and has therefore developed several support programmes for SMMEs. These programmes include the Centre for Small Business Promotion (CSBP), National Small Business Council (NSBC), Ntsika Enterprise Promotion Agency and Khula Enterprise Finance [Bulletin Online (2001); Kesper (2002)].

These support programmes, originally proposed by the 1995 White Paper on Small Business as the 'national small-business strategy', were proposed with the

primary objective of “creating an enabling environment for small enterprises”. The more specific objectives of the national small-business strategy are as follows:

- To help facilitate wealth redistribution.
- Employment creation.
- Encourage economic growth
- Develop relations between small enterprises
- Level competitive advantages relating to organisation size

Debate has since arisen as to the validity of these objectives and in particular the objectives of economic growth and employment creation. Dorfling (2001) addresses this issue stating: “With the government perceiving SMMEs as agents to address three key objectives – namely, employment promotion, redistribution, and the improvement in international competitiveness – there is a serious challenge in attempting to balance these needs.” Kesper (2001) reported that much of the growth that takes place in the SMME economy does not directly create employment. In her 2002 PhD, Kesper proposes that two of the goals - employment creation and economic growth through international competitiveness - are conflicting ie. International competitiveness may only be achieved at the expense of employment creation. Furthermore, through empirical research Kesper (2002) observes that South African SMMEs which are able to compete internationally are highly unlikely to create employment for the unskilled majority of workers. Also, Rogerson (2004) notes a recurring theme in identifying reasons for failure in the implementation of SMME policies. This is a lack of clear selection criteria for support programmes as a result of different development objectives (competitiveness, poverty alleviation and black empowerment).

Therefore, a mismatch exists between the model of the SMME used by policy makers in South Africa and the true nature of South African SMMEs, which produces conflict between the intended effect of SMME support policies and the reality of their implementation.

1.3 Motivation for the Study

The importance of SMMEs to the economy of South Africa is not in doubt. Enough research, both local and international, exists to confirm this fact. However, there is still debate as to the extent of this contribution in terms of factors of employment creation, skills development, innovation, competitiveness, and wealth redistribution and BEE in the case of South Africa. Information on the SMME sector in South Africa is particularly poor with very little statistical information available on the sector. Despite a strong trend SMME research since the inception of the 1995 White Paper, many issues around SMME characteristics, and SMME development, in South Africa remain relatively unclear.

Therefore more information on the dynamics of South African SMMEs with regard to competition and employment creation is required. As the body of knowledge on South African SMMEs grows, more specific questions will emerge for research, and development policies may be formulated with a greater understanding of the SMME environment in South Africa. More specifically, this research will add to the debate on social and economic contribution of SMMEs and potential of SMMEs to create employment and help to propel the country economically.

Finally, much of the motivation for this research is personal. As a South African native any development prospects which could contribute to economic and social upliftment of this country hold a personal interest to the researcher. Furthermore, personal involvement and investment on the part of the researcher in a SMME increase this interest and desire for development of the South African small business economy.

1.4 Research Question

The research aimed to answer the question of whether or not the objectives of economic growth and employment creation – as intended by the 1995 White Paper on Small Business - are conflicting or whether it is possible for South African SMMEs to achieve both.

More specifically, the research aimed to determine how South African SMMEs compete, how they may become more competitive (both locally and internationally) and make an increased contribution to economic growth, and whether this will directly or indirectly make a positive or negative contribution to employment creation.

1.5 Research Hypothesis

The research hypothesis is divided into sub-hypotheses:

- The market environment for SMMEs is becoming more competitive, especially with imports from the East (The East will be used as a general term referring to countries including China, Taiwan and South Korea).
- In order to compete in a global marketplace SMMEs have to offer superiority in all competitive dimensions though particular importance should be placed on price.
- The business environment in South Africa is becoming very restrictive, especially for SMMEs.
- As South African labour becomes less productive and more expensive SMMEs will tend towards minimizing labour through less labour intensive practices to improve their competitiveness.

These lead to the main hypothesis:

If South African SMMEs are to compete successfully in a global marketplace, their ability or capacity to create sustainable employment will decrease.

1.6 Objectives

The main objective of this study was to use practical examples to evaluate the theoretical characteristics of SMMEs and thereby analyse concepts relating to competitiveness and employment creation. The results could then be used to establish possible conflicting or interdependent goals and objectives with in South African SMME development policies.

Specific objectives to be met in the course of the research were as follows:

- To understand and analyse the desired outcomes of the 1995 White paper on small business and National Small Business Strategy to establish context for the research.
- To establish the current state of SMME support in South Africa. This is not critical to answering the research question but is important to add to the body of SMME knowledge in South Africa.
- To examine theory on small enterprises, employment creation, competitiveness and application of technology in SMMEs. These topics provided context and a reference for the results of the field research.
- To undertake field research to gather data on perceptions, attitudes and experiences of small business owners relating to competitiveness, employment creation, use of technology and the South African business environment.
- To analyse the data in the context of economic and social development of South Africa and extract themes regarding competitiveness, employment creation and use of technology.
- To use the research data and theory to determine trends and potential of technology usage and the business environment in South Africa to influence competitiveness of SMMEs and the consequences of these for employment creation.

In completing these objectives it was expected that clear and relevant conclusions and recommendations could be made which would add to the body of knowledge on South African SMMEs and identify potential for future research.

1.7 Assumptions and Limitations

The research is exploratory and therefore is not intended to draw definite conclusions. Instead, the hypothesis was tested in a general sense with the aim of recommending further research.

For the purpose of this research project the definition of a SMME was developed based on the definition according to the National Small Business Act (No. 102 - 27 November 1996). The applicability of this research, including the recommendations, is therefore constrained by this definition.

A common theme in much of the research on small enterprises is the lack of reliable statistical data available on the small business economy in South Africa. Data which is available is often older than 10 years which, along with variability in data from different sources, raises doubts as to the accuracy or relevance of the data. The lack of statistical data makes it difficult to contextualise SMMEs within the total economy, establish their contribution or importance or establish a comprehensive demography of the small business economy. This is a problem for researchers and policy makers.

Information on South African SMMEs is fairly limited and also tends to be dated, especially with reference to development programmes and initiatives implemented by government since the publication of the White Paper on Small Business in 1995.

This research is exploratory and therefore it was decided that a small sample of respondents would be used from which more comprehensive data could be drawn rather than a large sample with little data per respondent. Although this approach is more applicable to the objectives of the study it does limit what types of information or conclusions may be drawn (ie. no statistical analysis) and also requires that more caution is exercised with regard to drawing conclusions based on the processed data.

Although an attempt was made to interview owner-managers across the range of enterprise size and industries this was not possible and upon review the

biographical characteristics of interviewees tended towards manufacturing organisations in the small to medium size group.

1.8 The Engineering Approach

Some may question the relevance of this research to the world of engineering with its focus on principles of economics, management and aspects of sociology. The definition of industrial engineering, provided by the South African Institute for Industrial Engineering, is as follows:

"..the field of Industrial Engineering deals with the engineering of industrial or industrious undertakings. Modern Industrial Engineering is concerned with the integration of resources and processes into cohesive strategies, structures and systems for the effective and efficient production of quality goods and services.

It draws upon specialised knowledge and skills in the mathematical, physical, behavioural, economic and management sciences and fuses them with the principles and methods of engineering analyses and design to find optimal and practical solutions, which contribute to the success and prosperity of an industrial undertaking, thereby making a fundamental contribution to the creation of wealth." [SAIIE (2012)]

The relevance of such work to the field of industrial engineering is clear from this definition as it involves developing knowledge on behavioural, economic and management sciences in order to seek answers with regard to issues influencing the success, prosperity and creation of wealth in small businesses and the South African economy.

1.9 Project Layout

This research report is divided into seven chapters and an appendix as follows:

Chapter 1 - Introduction

Chapter 1 presents the background and motivation for the research as well as the research question, hypothesis, objectives and constraints and the relevance of such a project to the field of industrial engineering.

Chapter 2 – Literature Review

The literature review provides a historical overview and introduction to SMME evolution in South Africa. The first section covers the evolution of SMME support in South Africa. This section provides context to the SMME environment in South Africa as well as a current review of SMME support policies which have changed significantly over recent years. The second section provides a review of literature relating to aspects of SMMEs including: characteristics, importance, employment creation potential and issues around competitiveness. Also included are theories on employment creation, competitiveness and use of technology with particular reference to SMMEs.

Chapter 3 – Research Methodology

This chapter covers the methodology of the research beginning with a brief introduction to restate the research questions, followed by a description of the research instruments, sample and research procedure. The chapter ends with a description of ethical considerations to be considered.

Chapter 4 – Analysis and Results

This chapter presents the results of the field research including the biographical data on the respondents and the results by way of thematic content analysis.

Chapter 5 – Discussion

This chapter begins with a discussion of the themes emerging from the thematic content analysis procedure, followed by a discussion of employment creation and

competitiveness, a review of the state of SMME development in South Africa and a philosophical response to the research.

Chapter 6 – Conclusions and Recommendations

This chapter presents the conclusion to the research including the final evaluation of the research objectives which were met, the confirmation of the hypothesis and recommendations for future research questions arising from the research.

Chapter 7 – References

This chapter presents the full list of references used in the research report.

Appendix A

Appendix A gives a summary of the elements of the National Small-Business Strategy and a list of current SMME support programmes available in South Africa.

Appendix B

Appendix B includes the SMME classification schedule as well as several SMME sector statistics for South Africa.

Appendix C

Appendix C gives the guidelines for the interviews which were conducted as well as the initial stages of the Thematic Content Analysis.

Appendix D

Appendix D gives full transcripts from the interviews conducted with SMMEs as well as the alternate interviews.

Appendix E

This appendix gives the full biographical information of each of the respondent SMMEs.

CHAPTER 2 – LITERATURE REVIEW

The literature review provides a historical overview and introduction to SMME evolution in South Africa. The first section covers the evolution of SMME support in South Africa. Sections of this did not directly influence the research question but did provide context for the SMME environment in South Africa as well as a current review of SMME support policies which have changed significantly over recent years. The conflict between employment creation potential and competitiveness of SMMEs is raised in this first section. The second section provides a review of literature directly influencing the research and relating to aspects of SMMEs including: characteristics, importance, employment creation potential and issues around competitiveness. Also included are theories on employment creation, competitiveness and use of technology with particular reference to SMMEs.

2.1 Small Enterprise Development

This section on small enterprise development commences with a history of small enterprise development in South Africa followed by review and analysis of the major developments in small business development policies and programmes in South Africa since 1995.

2.1.1 History of Small Enterprise Development

During apartheid small enterprise development was largely neglected and, in the case of black entrepreneurs, actively discouraged [Berry et al (2002)]. Alec Erwin, minister of Trade and Industry (1996 – 2004) addressed the topic of the neglect of SMME development at the 12th CDE debate[1]. He attributes this underdevelopment to a systematic programme, implemented throughout the 1960s, to reduce the scope for SMME development in South Africa. The dominance of the large conglomerate mining houses and their hold on the

[1] The Centre for Development and Enterprise (CDE) host debates intended to air issues underlying the relevant topic and raise attention to the challenges to be met by the key players and policy makers.

economy, as well as the close association of growing South African banks and large enterprises, was proposed to be the driving force behind this programme. As a result, years of potential SMME development were lost and that sector was left with severe structural constraints. [CDE (1999)] This political disinterest in the SMME economy was reflected in research taking place within various South African institutions (Business schools, university commerce departments etc.). [Berry et al (2002)]

Only in the early 1980s, with the establishment of the Small Business Development Corporation (SBDC) did government begin to take an interest in small enterprises and only by the late 1980s did this interest transform into a racially unbiased initiative to promote small business [Berry et al (2002)]. This led to resurgence in SMME research and literature. However, Bloche & Daze (2000) note that in the early 1990s there was "simply no existing public small, medium- and microenterprise (SMME) support infrastructure for the country" and the first real drive to promote small enterprise came in the form of the 1995 White Paper on Small Business.

2.1.2 White Paper on Small Business

In 1995 the Department of Trade and Industry (DTI) published the White Paper on Small Business which laid out the departments' strategy for small enterprise development named the National Small-Business Strategy. The goals of the National Small-Business Strategy, as proposed in the white paper, are as follows:

"Facilitating greater equalisation of income, wealth and economic opportunities". This relates to black empowerment issues as well as strengthening the labour-absorptive process in micro and survivalist enterprises.

"Creating long-term jobs". This relates to development of SMME operators to decrease mortality rates of SMME upstarts and to boost the capacity of SMMEs to create long-term jobs.

"Stimulating economic growth". This refers to the development of SMMEs, and the SMME environment, to enhance their contribution to overall economic growth.

"Strengthening the cohesion between small enterprises". This refers to development of formal networking between SMMEs within sectors, industries and regions to jointly address developmental obstacles and obtain collective efficiencies

"Level the playing fields between bigger and small business". This refers to the adjustment of the imbalance in favourable market opportunities, regulations and competitive structures between large and small enterprises as well as greater co-operation between the two.

An additional objective is to improve the ability of small business to withstand the demands of modernising local and global economies and globalisation in terms of increasing competition.

2.1.3 Review of the Elements of the National Small-Business Strategy

The 1995 White Paper encompasses all aspects of small enterprise support, both financial and non-financial, which was conceived at the time and notably is not limited to financial support. It does not include specific programmes for small enterprise support but rather details all the forms that support should take. See appendix A1 for a summary of the elements of the National Small Business Strategy.

Rogerson (2004) notes three specific strategic considerations for the White paper, being: Formalising the government's new strategy for developing small business; addressing inequalities in business as a result of apartheid; and establishing a new set of support institutions, on a broad level, to support, coordinate and monitor the development of the small business sector.

Much of the small business strategy addressed in the White Paper is based upon small businesses interaction with other enterprises, small and large, and much of it

refers to the responsibility of private enterprise and NGOs to develop small businesses. Although it is likely to be beneficial to existing private enterprises to develop small business to create a stronger economy and enable greater consumption of their products and services, these benefits are not direct and it is questionable for so much emphasis to be placed on private sector support [Berry et al (2002)].

A strong point of the White Paper is constant provision for empowerment of all previously disadvantaged people within the bounds of economically sustainable activities and enabling emerging enterprises to better compete with established enterprises. Also, emphasis is placed on the need for "fee for service culture" where businesses are expected to pay for services which government provides. This encourages businesses to become self reliant and inspires greater competitiveness.

Rogerson (2004) and Kesper (2002) acknowledge that the White Paper does take into account South African peculiarities in its policies; however Kesper (2002) further notes that these policies still largely rely on international best practice with regards to policy objectives and the design of the support framework. The applicability of international SMME experiences to the South African SMME sector is questionable due to various socio-economic factors. As noted by Kesper (2002), experience of business development policies in many industrialising Asian economies has limited applicability in a South African context as South Africa is unlikely to follow a similar growth trajectory. Similarly, experience of business networking, which features heavily in the White Paper, as achieved in many Western European nations does not account for race-based trust concerns prevalent in South Africa. Kesper (2002) poses four additional criticisms of the White Paper:

- Partly conflicting objectives which are not assigned a hierarchy of importance. Kesper proposes that two of the objectives - employment creation and economic growth through international competitiveness - are conflicting ie. International competitiveness may only be achieved at the expense of employment creation. Furthermore, through empirical research Kesper (2002)

observes that SMMEs which are able to compete internationally are highly unlikely to create employment for the unskilled majority of South African workers.

- No prioritisation of target segments in terms of social groups i.e. affirmative action, or business groups ie. SMME subcategories.
- Based on the development of the SMME economy between the White Paper in 1995 and Kesper's observations in 2002, the development capacity proposed in the White Paper is questionable. Kesper raises doubts as to the ability of existing SMMEs to create employment and of emerging SMMEs to sustain employment. For these reasons it is suggested that the potential contribution of SMMEs to the economy has been overrated.
- Kesper argues that the White Paper promotes SMME development through removing small enterprise constraints rather than promoting conditions under which SMMEs grow. This approach may neglect certain conditions to which SMMEs are well suited, such as opportunities arising from gaps in the market, but may be overlooked due to a lack of management skills. Other similar issues include interpretation of signals of growth in the market or analysis of suitable growth paths.

Following the various elements of the National Small-Business Strategy, as conceived in the White Paper, is the implementation approach for the strategy.

2.1.4 Approach of the National Small-Business Strategy

The initial approach of the National Small-Business Strategy was to establish a four-pronged institutional framework to implement the strategy and drive the development of small enterprises in South Africa. The four institutions making up this initial framework were:

- Centre for Small Business Promotion (CSBP): established to 'co-ordinate, monitor and evaluate the implementation of the strategy' [RSA (1995)].
- National Small Business Council (NSBC): established to "democratise the issue of small business development" [Kesper (2002)] by representing small business in the process of government policy development [Dorfling (2001)].

- Ntsika Enterprise Promotion Agency: established to provide technical (or generally non-financial) support to SMMEs [Ntsika (1999)].
- Khula Enterprise Finance: established to provide financial assistance to SMMEs [Kesper (2002)].

The DTI introduced various additional initiatives aimed at developing the competitiveness of the SMME sector [DTI (2005)]. These initiatives were/are administered by the DTI or one of its associated institutions (most notably the Industrial Development Corporation (IDC)[2]) [Kesper (2002)]. These initiatives include:

- Standard Lease Factory Building Scheme: Intended to make general purpose factory buildings available for SMMEs to lease.
- Small / Medium Manufacturer Development Programme: Consisting of a tax-exempt establishment grant as well as a skills support programme to finance approved training programmes in terms of the 1998 Skills Development Act.
- Small / Medium Enterprise Development Programme: A range of services, most notably a cash grant for new investments or expanding operations, which aims to create wealth, generate employment, develop entrepreneurship and promote empowerment in South Africa [TradeInvest South Africa (2007)].
- Emerging Entrepreneur and Economic Empowerment Schemes: Financing schemes for start-ups and black entrepreneurs intended to create and develop small business and encourage job creation. [ETU (2004)].
- Venture Capital Scheme: Financial backing for ventures with good growth potential intended to promote product innovation [Mbendi (2011)].
- Normal Finance Scheme: Provides low interest funding during for expansion of a business which can show reasonable potential returns [Sekoala (2008)].
- Short-term Export Finance Guarantee Facility: Provides an arrangement with the Credit Guarantee Insurance Company (CGIC) for pre and post-shipping finance guarantees for small businesses. This is intended to promote import and export by small businesses [Sekoala (2008)].

[2] The Industrial Development Corporation (IDC) is a self-financing, national Development Finance Institution which aims to promote economic growth and industrial development in South Africa.

- Export Marketing and Investment Assistance Scheme: Provides financial assistance for small businesses undertaking activities aimed at developing the export market or encouraging direct foreign investment into South Africa [Sekoala (2008)].

Provincial SMME desks were established with the aim of ensuring provincial representation of SMME interests and contributing, within their respective provinces, to implementation of the national SMME strategy. The main task of these provincial desks is to link national programmes (sector specific or general) with regional bodies within their respective provinces to facilitate implementation of the programmes as well as to establish a comprehensive database of SMMEs in their province which may be used as a basis for policy changes [Kesper (2002), Sekoala (2008)].

Finally, the approach by which the White Paper envisions much of the implementation of the National Small-Business Strategy being carried out is the network of Local Business Service Centres (LBSCs). The White Paper envisioned a network of Local Business Service Centres (or Local Service Centres) which was intended to enable small enterprise support, from governmental and non-governmental agencies, to reach all areas of South Africa. These LBSCs, which could be established by any SMME support agency or local business initiative, would need to be accredited with the SBDC to be eligible for government support. This would also allow acceptable standards or service to be maintained. The services provided by these centre's include business information, business management advice, aftercare and networking to other service providers [Bloch & Daze (2000)]. The support offered by LBSCs was envisioned to expand, incorporating services such as, inter alia, training and mentoring, business plan preparation, marketing support and strategic partnership support [RSA (1995)].

Molapo (2007) and Rogerson (2004) note that LBSCs were intended to be the primary vehicle through which non-financial support, from Ntsika, would be provided to SMMEs. The White Paper notes the importance of LBSCs in the following statement:

"Compared to all other policy areas forming part of the national strategy, the establishment, maintenance and gradual expansion of a national grid of LSCs will constitute the most important vehicle for small business support in the near future and it is likely to demand a substantial share of public sector funding for the small business field. It should, in fact, be the one programme that can best help to integrate services available for small enterprises at the local level."

2.1.5 Review of the Approach of the National Small-Business Strategy

Common themes appear in various authors' analyses on SMME development programmes (ie. The approach of the National Small-Business Strategy). These themes include:

Knowledge of Support Programmes

Kesper (2002) observes that awareness of the existence of SMME support initiatives, among new and existing SMMEs, is very low. The same fact is observed by Dorfling (2001) and Berry et al (2002). Berry et al (2002) further note that the inability of support institutions to raise awareness of their existence and purpose is one of the main factors contributing to poor implementation of SMME policy measures. Another contributing factor is the opinion many SMMEs share, noted by Dorfling (2001) and Kesper (2002), that government support initiatives do not favour small business. This is a historical based perception stemming from the lack of small business promotion prior to 1994 [Kesper (2002)] and the dominance of large organisations (particularly mining houses) in the economy [CDE (1999)].

Difficulty in obtaining assistance

Following from the poor awareness of SMME support policies, is the difficulty SMMEs experience in obtaining support. Kesper (2002) notes both the high opportunity costs, associated with owner-managers spending time accessing support, and the cumbersome application processes for accessing support, which are often unclear and plagued with bureaucratic 'red tape'. Dorfling (2001) attributes these problems to ineffective coordination within government

departments, manifested in poor staffing capacity for support institutions and subsequently ineffective budget allocation.

Discontinuity of support programmes

Many institutions established to provide support to SMMEs, since the inception of the National Small-Business Strategy, have been discontinued. Kesper (2002) explains that the novel nature of SMME support in South Africa is responsible for this. Many institutions are experimental and therefore if they are underutilized or lose funding they are often discontinued. A consequence of this, noted by Berry et al (2002) and Kesper (2002), is the changing nature of services provided by the surviving support institutions. Institutions take on roles (services) from discontinued institutions or revise requirements for enterprise eligibility for their services.

Capacity for providing support

Dorfling (2001) notes the lack of capacity in the support institutions and the subsequent limitations in establishing and implementing new, updated policy initiatives. Another factor, in terms of capacity of support institutions, is the geographical spread of support throughout the country. Dorfling (2001), Kesper (2002), Berry et al (2002) and Rogerson (2004) note the incongruity of the geographic spread of SMME support institutions and the geographic spread (or concentration) of SMMEs. Particularly, there seems to be a lack of support to rural areas and smaller business centres and an overconcentration of support in main business centres.

2.1.6 The National Small Business Amendment Act

Following a review by the DTI of small business development policies in South Africa, an amendment to the National Small Business Act was developed [RSA (2003a)]. The introduction of this act was a result of observations of poor operational capacity of the support programmes and institutions making up the National Small Business Strategy [Mazwai (2009)]. This amendment act removed provisions made for the National Small Business Council, which had been

liquidated in 1998, and is therefore no longer in existence. Furthermore, the amendment act presented a reorganisation (through discontinuances and new establishments) of some support institutions. Ntsika Enterprise Promotion Agency was merged with the National Manufacturing Advisory Centres (NAMAC) and the Community Public Private Partnership Programme (CPPP) to form the Small Enterprise Development Agency [SEDA (2006)]. As with Ntsika, SEDA was established to provide non-financial support to SMMEs. A revision was however made by the amendment act to modify the mandate of Ntsika and subsequently SEDA. The National Small Business Act makes provision for Ntsika to provide "other non-financial services" [RSA (1996)] however, the amendment act states that this has resulted in an overlapping in functions of Ntsika and the DTI. The amendment act therefore proposes that this provision is removed to allow Ntsika (and subsequently SEDA) to increase their strategic focus for the benefit of small enterprise development [RSA (2003a)].

2.1.7 Current State of SMME Support

As previously mentioned, many SMME support institutions are largely experimental and subsequently the SMME support environment has changed quite drastically since the inception of the National Small Business Act. A summary of support available to SMMEs in South Africa, as published in the 2010 National Directory of Small Business Support Programmes by the DTI, is provided in Appendix A2.

2.1.8 Vision for Small Business Development

The DTI undertook a process of review, consultation, research and refinement with regards to the existing structure of SMME support in South Africa and subsequently, in 2003, produced the Integrated Small Business Development Strategy (ISBDS). This is the vision the DTI has for SMMEs for the period from 2004 to 2014.

The objectives to be pursued during this period are:

- Increasing SMME contribution to the economy.
- Address the big/small and urban/rural disparities between businesses which restrict entrepreneurship.
- Create sustainable long-term jobs in the SMME sector.
- Ensure an equitable representation of disadvantaged and previously disadvantaged people in the SMME sector.
- Improve competitiveness of SMMEs to improve SMMEs domestic and export markets.
- Improve SMME-government communication.

The strategy which the ISBDS follows has three specific directions:

1. **Promoting Entrepreneurship**.

Government will promote entrepreneurship through development of a policy framework and business environment which is conducive to entrepreneurship. Specific actions to be taken include:

- A national entrepreneurship promotion campaign to bring attention to the value of entrepreneurship to the country and encourage more people to become entrepreneurs.
- Launch a government administered entrepreneurship programme to provide integrated support to entrepreneurs.
- Adopting a national franchising strategy for small business development which will expand franchising opportunities and contribute to job creation and economic empowerment.
- Better access to information and advice for entrepreneurs.
- Providing platforms for entrepreneurs to join business associations for networking purposes.

2. Unlocking potential through better business environments.

A common barrier to growth for small enterprises is the market in which they operate. Many markets are still biased to large enterprises and may unfairly exclude small enterprises. Government aims to improve the business environment for small enterprises in terms of developing small enterprises place in the market as well as addressing the regulatory environment to be more sensitive to small enterprises. This will be achieved through:

- Creating a regulatory environment which is more to sensitive small-business.
- Improving labour relations for small businesses so that legal obligations may be met in a more efficient cost sensitive manner.
- Improve small businesses access to local and international markets.
- Develop more effective incentives for small business support programmes.

3. Promoting more competitive small businesses.

To become more competitive in local and international markets, small businesses not only require development of supply side factors such as infrastructure and access to finance and technology, but also internal factors such as business management and technical skills. These factors make up the competitive capacity of small businesses, which government aims to improve through the following measures:

- Developing technology transfer and incubation support services offered to small enterprises.
- Developing programmes offering access to finance for small enterprises, particularly micro enterprises through the establishment of a fund specifically for micro enterprises (APEX fund) and development of the AltX – the JSE securities exchange listings for small and medium sized enterprises.
- Developing programmes focusing on skills access and development for small enterprises. The focus is to make these services more demand oriented, business oriented, and competitively focussed.

- Promoting research on the small business sector and improving the dissemination of results to affected or interested parties.

The ISBDS recognises that different categories of SMMEs have different characteristics and requirements and identifies three categories which require special support. These are:

- Micro enterprises – Often informal in terms of registration, licenses and premises with only one to two employees and a very limited capital base.
- Small businesses in high growth sectors.
- Black-owned and managed small and medium enterprises.

Special note is made of the fragmented nature of SMME support policy and programmes in the years prior to 2004. The ISBDS promotes coordinated, accountable and well focussed support for small enterprises as key to future development. Achieving these characteristics is envisioned through three initiatives:

- An Interdepartmental Committee on Small Business – ensuring coordination between national and provincial governments in issues regarding small business.
- The National Small Business Advisory Council – bringing attention to important issues regarding small business and commenting on the effectiveness of support programmes.
- The Small Business Development Agency – acting as a delivery mechanism for the complete range of non-financial support services to SMMEs.

[RSA (2003b)]

2.1.9 Summary

SMME development in South Africa is still at a very early stage given the historical neglect of the sector. Recognition of the importance of this sector and active promotion of SMME development only came about with the publication of

the 1995 White Paper on Small Business. The White Paper laid out plans envisioned for SMME development in the form of the National Small-Business Strategy. The goals of this strategy include elements of black empowerment, job creation, economic growth, global competitiveness and business interaction.

The developmental elements making up this National Small-Business Strategy are as follows:

- Creating an enabling legal framework
- Streamlining regulatory conditions
- Access to information and advice
- Access to marketing and procurement
- Access to finance
- The physical infrastructure
- Training in entrepreneurship, skills and management
- Industrial relations and the labour environment
- Access to appropriate technology
- Encouraging joint ventures
- Capacity-building and institutional strengthening
- Differential taxation and other financial incentives

This strategy covered all aspects, financial and non-financial, of small business development conceivable at the time of publication. It has a strong focus on interaction of enterprises and organisations, small and large, public and private. Another strong focus is on empowerment and equity whilst developing an enterprising culture. Some authors have, however, been critical of the vision and goals of the strategy, stating that they present conflicting goals or objectives and have no clear prioritisation or hierarchy of these goals.

The initial approach of the National Small-Business Strategy included the establishment of an institutional framework consisting of the: Centre for Small Business Promotion (CSBP), National Small Business Council (NSBC), Ntsika Enterprise Promotion and Khula Enterprise Finance. Also, a range of additional initiatives, administered by the DTI or IDC, were introduced with the aim of

developing the competitiveness of the SMME sector. Completing the strategy were a network of provincial SMME desks and Local Business Service Centres (LBSCs) linking national and provincial SMME organisations and acting as the implementation instrument of many of the support initiatives.

In various analyses of this approach the following themes hampering SMME development become apparent:

- Knowledge of Support Programmes is very limited.
- SMMEs have difficulty in obtaining assistance.
- Many support programmes have been discontinued.
- The capacity of many institutions for providing support is limited.

Following a review by the DTI of small business development policies in South Africa, an amendment to the National Small Business Act was developed. This amendment called for the formation of SEDA which, in the long-term, is envisioned to become a 'one stop shop' for all SMME support both financial and non-financial. In its initial state however, it will provide a large range of non-financial only support services.

In 2003 the DTI published the Integrated Small Business Development Strategy (ISBDS) which is the vision for SMMEs for the period from 2004 to 2014. The goals of this strategy are specific areas of interest which SMME development programmes have not adequately addressed including: job creation, empowerment, competitiveness, economic contribution communication and interaction with government.

The lack of success of SMME support since publication of the White Paper is evident by the instability of the support environment and the fact that the goals set by the White Paper have not been achieved to a significant extent. It is proposed that the goals of the White Paper, and the subsequent policies, are conflicting and this may a reason for the slow development of the SMME economy. A review of SMME economy is required to inform the research on competitiveness and employment creation in SMMEs which will be able to establish if the goals are conflicting. This review is given in the following section.

2.2 Small, Medium and Micro Enterprises (SMMEs)

With the amount of small-enterprise related research that has taken place over the past 20 years, much has been written about the characteristics of SMMEs and their success factors. This section presents the definition, characteristics and influence of small enterprises as well as aspects of employment creation and competitiveness with specific reference to SMMEs.

2.2.1 Definition of SMMEs

Generally, enterprises may fall into one of three size classifications: small, medium or large enterprises. When specifically referring to smaller enterprises the abbreviation SME is most generally used (meaning small and/or Medium Enterprises). In South Africa the prominence of very small, often survivalist enterprises, has led to a fourth enterprise size classification – micro-enterprises. Therefore, in South Africa, the abbreviation used in describing the small enterprise economy is SMME (Small, Medium and Micro Enterprises).

The characteristics used to define small enterprises vary between countries. In South Africa SMMEs are classified by three characteristics of the enterprise: number of employees, total annual turnover and total gross asset value (excluding fixed property). These size classifications are further defined by the sector in which the enterprise operates to account for the unique nature of each sector. An extract of the classification schedule as defined in the National Small Business Amendment Bill, revised from the National Small Business Act (No. 102 of 1996), is given in Table 1 below. The full schedule is given in Appendix B1.

Table 1. SMME Classification Schedule (Extract).

Sector or subsector in accordance with the Standard Industrial Classification	Size of class	The total full-time equivalent of paid employees	Total turnover	Total gross asset value (fixed property excluded)
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very Small	10	R0.50m	R0.50m
	Micro	5	R0.20m	R0.10m

As shown in Table 1, provision is made by the National Small Business Act for a fourth size category named very small enterprises. This is not a category often used in SMME literature. The Integrated Small Business Development Strategy for South Africa, published by the DTI in 2003 [RSA (2003b)] describes very small enterprises as enterprises between the size class of micro/survivalist and small enterprises. These generally employ less than 10 employees (20 in the mining, electricity, manufacturing and construction sectors and operate in the formal economy.

2.2.2 Characteristics of SMMEs

Before attempting to understand the competitiveness and employment creation characteristics or the use of labour and technology in SMMEs it is important to first understand some general characteristics of SMMEs. This will provide context for the competitiveness and employment creation characteristics and highlight the issues that will shape the research going forward.

Wong & Aspinwall (2004) as well as Supyuenyong, Islam & Kulkarni (2009) list general characteristics of SMMEs which influence knowledge management in an organisation. The pertinence of these characteristics is not, however, limited to the study of knowledge management. Wong & Aspinwall (2004) separate the characteristics into 6 categories including: Ownership and management; Structure; Culture and behaviour; Systems, processes and procedures; Human resources; Customers and markets. Supyuenyong, Islam & Kulkarni (2009) confirm the

relevance of these categories, however, they incorporate the structure category into the ownership and management category.

On a more fundamental level, the characteristics which separate SMMEs from large enterprises may be divided into three categories of distinction, namely: ownership, resources and size. These categories may be subdivided to form the categories proposed by the aforementioned authors, with some overlapping, as shown in figure 1.

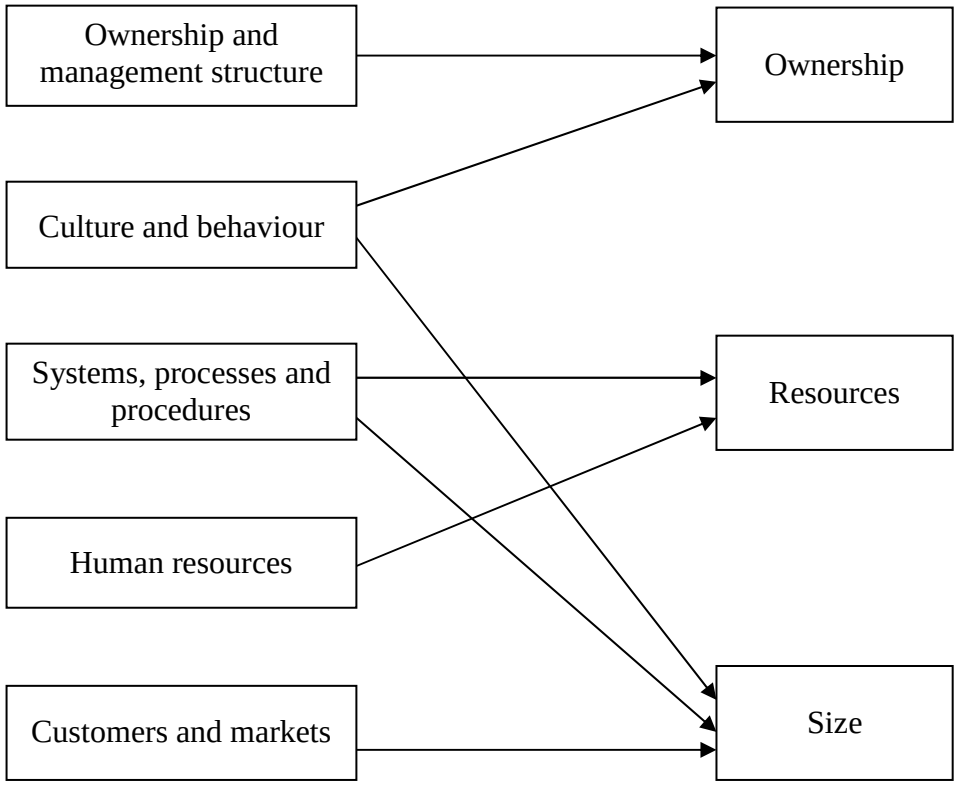


Figure 1. Categorisation of SMME Characteristics.

Using the characteristics model of Wong & Aspinwall (2004) and Supyuenyong, Islam & Kulkarni (2009), and incorporating the characteristics proposed by the OECD (2000) and Kesper (2001), the following general characteristics of SMMEs are proposed:

Ownership and management structure

SMMEs are autonomous, independently owned enterprises not operating within the structure of a large organisation, differentiating them from small business

units. Generally, the owner of the SMME is also the manager responsible for all aspects of the business (owner-manager) [Dzansi (2004); Wong & Aspinwall (2004)]. The organisational hierarchy tends to be simpler, flatter and less complex leading to greater flexibility in work. As a result of this structure the division of responsibilities often becomes vague and there tends to be a lower degree of job specialisation [Wong & Aspinwall (2004); Supyuenyong, Islam & Kulkarni (2009)]. With regard to strategy development and implementation SMME owner-managers tend to focus on core business processes, developing a reactive mindset with a short term 'fire fighting' approach. Owner-managers of small, and particularly micro, enterprises tend to lack business management skills obtained through formal training which explains the lack of strategic development and focus on core processes [Wong & Aspinwall (2004)].

Culture and behaviour

Wong & Aspinwall (2004) describe the unified culture often found in SMMEs which allows for easier implementation of new strategies, processes etc. However, the culture of an SMME is almost a direct reflection of the outlook of the owner manager and this often stands in the way of strategic development. Supyuenyong, Islam & Kulkarni (2009) confirm this and note that the open culture in SMMEs which allows employees to work independently and thus facilitates knowledge creation and informal learning. Antony et al (2005) notes that SMMEs tend to be more people oriented with a culture of learning and change rather than control.

Systems, processes and procedures

SMMEs generally have less complex systems and tend to operate with a more labour oriented approach which allows these systems to be more flexible in adapting to changes. Wong & Aspinwall (2004). Supyuenyong, Islam & Kulkarni (2009) also note that SMMEs tend to focus on operations rather than strategic issues. This lack of strategic focus causes, and is in turn again caused by, the firm operating in the extended 'fire fighting' mode mentioned previously. Achanga et al (2006) refer to the vulnerability of SMMEs caused by the low barrier to entry which exists in the markets they compete in. Furthermore, they discuss the limited

buying power and influence an SMME has relative to its suppliers. This often makes it difficult for many SMMEs to have their specific needs met by suppliers.

Human resources

As previously mentioned, SMMEs tend to have a more labour oriented approach. SMMEs tend, as a result of small operations, to have less definite job descriptions and little job specialisation which in turn develops a more versatile work force. Lack of resources among SMMEs leads to very little human resource development [Supyuenyong, Islam & Kulkarni (2009)]. Education and training programmes are rare occurrences and are usually only undertaken to equip employees with skills specific to some existing operation. According to Abor and Quartey (2010) SMMEs generally have lower capital costs associated with job creation due to their more labour oriented approach. Job creation is, however, not only related to its associated capital costs.

Customers and markets

SMMEs tend to serve a small number of customers within local and regional markets with few cases of exporting to global markets [Dzansi (2004)]. Hence, SMMEs often have close relationships with customers and are in a good position to understand the needs of the customer [Wong & Aspinwall (2004)]. SMMEs also tend to have a small number of product lines and therefore a higher degree of specialisation often serving niche markets. In the case of SMMEs this is not normally a strategic response to the nature of the market but rather the product of a lack of resources which would allow for greater diversity [Kesper (2001) and Supyuenyong, Islam & Kulkarni (2009)].

The characteristics of SMMEs often form the constraints within which the success of an SMME is bound. However, other characteristics may be the competitive advantage which allows an SMME to be successful.

2.2.3 SMMEs: Local vs. Global

Much of the South African SMME development policies and programmes have purportedly been informed by international best practice [RSA (2003b)]. The unique political history of South Africa has had a massive impact of the nature of the South African economy and the state and characteristics of businesses across the spectrum. It is therefore important to consider how South African SMMEs compare with those in other countries.

The legacy of Apartheid, particularly the deprivation of wealth and education to black South Africans, has resulted in the lack of entrepreneurial activities among the majority of the population. A lack of assets makes obtaining finance near impossible and lack of education stunts the entrepreneurial culture and lowers success/survival rates for small businesses [Engineering News (2000)].

Berry et al (2002) describe several characteristics of South African businesses inherited from, or developed as a result of, our political history:

- A “highly dualistic” economy divided by a high productivity modernistic formal business sector and a low productivity informal sector with little interaction between the two. The economic division of these sectors is mirrored by a division on racial lines.
- A prolonged “transition phase” plagued with political instability and high crime levels which impacts negatively on foreign direct investment.
- A shift in industrial policy to liberalisation of trade and finance exposing the South African economy to the global marketplace.
- Continued low levels of education and training among the majority of participants in the economy who were previously suppressed from entrepreneurial activities.

Sanctions imposed during Apartheid effectively isolated South Africa from the global marketplace and, as a result, much of South Africa’s SMME sector is reluctant or unable to access the global marketplace through exporting activity. A major barrier to entry into the export markets for SMMEs is the culture created through this effective protectionism, in that many small businesses have not been

subject to very competitive markets and therefore have become somewhat uncompetitive. Dunne (1999) acknowledges this, as well as the legacy of import-substitution industrialisation and lack of customer focus, in contrast to the culture of flexible, market-oriented production and potential of export-led growth which the global economy is shifting towards.

These factors make up much of the large barrier to the success of SMME development in South Africa. The White Paper on Small Business and subsequent support measures and organisations were intended to address these factors to unlock the perceived growth potential of the SMME economy. Kesper (2002) however argues that the model of the SMME economy used in the formulation of these policies differs from reality. It is argued that SMME performance relies heavily on macro-economic conditions as well as industrial and market structures of which South Africa has not moved out of the Apartheid era focus on 'big business'. The enabling framework described in the White Paper has thus so far not been achieved. While micro and survivalist enterprises, which make up the majority, show no signs of enterprise growth and are hence unlikely to make any contribution to employment growth, medium sized enterprises making up the majority of SMME employment yet remaining in the numerical minority have seemingly adopted a strategy of 'jobless growth'. Furthermore, it is proposed that while the majority of employment creation is likely to come from formation of micro-enterprises, the likelihood of success is low. Since sustainability, in terms of economic growth and employment, is key to SMME development the current state of SMME development in South Africa is concerning.

2.2.4 Contribution to Economy/Country

An assessment of the socio-economic contribution which SMMEs make to South Africa requires numerical data on the SMME economy. However, data on the South African SMME economy is very poor [Toomey (1998) & Falkena et al (2001)], with the most recent comprehensive numerical data being reported by (the now defunct) Ntsika Enterprise Promotion Agency in 1995 and 1997. These statistics are presented in appendix B2.

Falkena et al (2001) make comparisons between the data reported by Ntsika and several alternative sources. This comparison is reproduced in table 2.

Table 2. SMME Sector-Size Statistics.

Different indicators for size of SMME sector							
Source	Survivalist	Micro	Very Small	Small	Medium	Large	Total
Ntsika 1997 totals	184400	466100	180000	58900	11322	6017	906700
Business Partners	2,3 million		600000		35000	Not reported	2,9 million
Management Sciences Group Survey,1999	960740				862580	445880	2,3 million
Escom Survey, 1999	900 000+ 'in-home businesses'; total 3 million if one includes small/emergent/established farmers						N/A
Statistics SA, 2000							1628797

This comparison casts serious doubts over the accuracy of the statistics reported by Ntsika. The number of SMMEs reported by each of the alternative sources is significantly higher than those reported by Ntsika in 1995 and 1997. However, the statistics reported by Ntsika are more comprehensive than any of the alternatives, possibly indicating a more comprehensive statistical survey and analysis. Since the purpose of these statistics is to quantitatively demonstrate the importance of smaller enterprises to South Africa, inflated statistics (whether accurate or not) will only serve to stress the point.

Table 3. SMME Sector Change from 1995 to 1997.

Expansion/Contraction of entire sector and SMME portion of sector from 1995 to 1997						
	Entire Sector			SMME Portion of sector		
Sector	**1995**	**1997**	**% Change**	**1995**	**1997**	**% Change**
Agriculture	92300	98100	6.28	90800	96540	6.32
Mining	3731	4500	20.61	3600	4343	20.64
Manufacturing	113555	106000	-6.65	111950	101040	-9.75
Construction	79974	88500	10.66	79730	88196	10.62
Wholesale trade	15850	20800	31.23	15250	20230	32.66
Retail trade	318883	323300	1.39	318150	322570	1.39
Catering & Accommodation	16450	21900	33.13	16350	15795	-3.39
Transport	50007	58800	17.58	49780	58493	17.50
Finance & Business services	65700	77800	18.42	65350	77401	18.44
Community, social & personal services	80400	107000	33.08	80100	106625	33.11
Total	**836850**	**906700**	**8.35**	**831160**	**900722**	**8.37**

The age of these statistics is also a concern. The unstable or fluctuating nature of the SMME sector, in terms of constant emergence and disappearance of enterprises, raises serious doubts as to the applicability of such old data. Table 3 shows changes in number of enterprises across all sectors between 1995 and 1997. These figures indicate greatly contrasting differences between expansion and contraction across the sectors, from an over 9% contraction in manufacturing to over 33% expansion in community, social and personal services. This raises serious doubts as to the validity of these statistics 14 years later. Interestingly, the percentage change in the SMME portion of each sector closely aligns with the percentage change in the total sector for all sectors except catering and accommodation. Whether or not this trend has continued up until present day is unknown, and seems unlikely over such a long time frame, and stresses the importance of up-to-date statistics.

When comparing the unemployment statistics of 1995 (29.2%) and 1997 (37.6%) with recent data (25% at 4th quarter 2011) one can see that the reported unemployment rate has decreased significantly. Considering the labour absorptive capacity of the SMME sector one may conclude that the SMME sector should

have grown significantly in this time period in order to account for the decrease in the unemployment figures. This is, however, only speculation and further stresses the need for up-to-date SMME data for research and development purposes. Again, since the purpose of these statistics is to quantitatively demonstrate the importance of smaller enterprises to the South African economy, this will not have a negative effect on the research findings but will inform one of the recommendations.

The data from Ntsika statistics, given in appendix B2, has been reworked to show the SMME and large enterprise contributions to the economy. An extract showing the total distribution of SMMEs and large enterprises is given in table 4 with the full table in appendix B3.

Table 4. Distribution of Private Sector Enterprises (Reworked) (Extract)

Estimated distribution of private-sector enterprises, 1997			
Sector	Total SMME	Large	Total
Total	831160	5690	836850
% Enterprises	99.4	0.7	100
% Employment	60.7	39.3	100

From table 4 (and with reference to table 10 in appendix B3) one can see that SMMEs make up the vast majority of the number of enterprises across all sectors. However, the percentage contribution to employment of the SMME portion of the economy varies across sectors and is significantly lower than percentage contribution to enterprise numbers. The percentage contribution to employment of SMMEs is greater than large enterprises in all sectors except mining (at only 5.5%) and manufacturing (at 46%). The small number of people employed by SMMEs in the mining sector is easily explained by the dominance of the large mining houses in South Africa. SMMEs in this sector most probably offer support services to the mines and have significantly lower employee numbers than the large organisations actually engaging in the hugely labour intensive mining activities. Although SMMEs make up 98.6% of the number of enterprises in the manufacturing sector, the contribution to employment is close to 50% each for

SMMEs and large enterprises. This is not unexpected and is most likely as a result of South Africa's past, where cheap labour encouraged large-scale labour-intensive manufacturing activity. In finance and business services sector, although SMMEs make up 99.5% of the number of organisations, they only make up 52.4% of the total employment in the sector. This is most likely a result of this sector being dominated by a small number of large scale banks which make up a significant proportion of the sectors total employment through their expansive operations.

The contribution to employment of SMMEs in the remaining sectors ranges from 64.1% (for retail trade) to 82% (for catering and accommodation). These figures more closely align with the percentage contribution of SMMEs to the number of enterprises in each sector. This discrepancy between percentage contribution to total enterprise numbers and percentage contribution to employment is not unexpected nor is it a reflection of poor labour absorptive capacity in SMMEs. Large enterprises, by definition, will generally employ far greater numbers of people per enterprise (sector specific) than SMMEs. What is clear from these figures is the immense contribution SMMEs make to employment, even though their percentage contribution to employment is lower than their percentage contribution to total enterprise numbers, and thus the importance of SMME development and success to the economy.

2.2.5 Employment Creation Theories

Of the quite large body of research on small, medium and micro enterprises there is a general consensus of the great importance of smaller enterprises to the economic growth and development of both developed and developing economies. In the 1995 White Paper on Small Business government recognised the important role SMMEs are required to play in employment creation, economic growth and equity in South Africa. Furthermore, government acknowledges the potential of SMMEs to absorb labour, penetrate new markets and "expand economies in creative and innovative ways" [RSA (1995)]. Bellema [2010] notes the widespread regard of the SMME sector as the "back-bone, engine-room and

catalyst of economic growth" and acknowledges role it plays in the wealth creation, provision of products and services, employment creation and contribution to GDP of both developed and developing countries. The Organisation for Economic Co-operation and Development [OECD, 2000] describe the critical role that SMMEs play, in terms of economic growth in its member countries, claiming that they are the source of most employment creation. Their statistics (reported in 2000) indicate that (numerically) 95% of enterprises in OECD countries are SMMEs and that they account for 60%-70% of employment in most of those countries.

A fundamental theory, on which the employment creation potential of SMMEs is argued both for and against, is that small enterprises are generally more labour intensive and large enterprises are generally more capital intensive [CDE (1999)]. The capital intensive nature of large enterprises is based on economies of scale and better access to finance coupled with the focus on automating processes to better take advantage of large standardised product lines. The labour intensive nature of smaller enterprises is based on lack of finance opportunities for capital expenditure and therefore a focus on lower technology processes. This often forces small enterprises into niche markets where flexibility is valued above cost. As large organisations continue to follow the trend of focussing on their core-competencies and outsourcing other functions, market opportunities present themselves to smaller enterprises and their importance in the supply chain, and economy as a whole, is increased.

Visagie (1997) grants that, while South African SMMEs are underdeveloped, growth in employment can be generated through appropriate support measures taken by government. However, growth in the number of SMMEs is not a suitable indicator to judge the success of any support interventions as the majority of SMME employment creation is set to come from micro-enterprise formations, normally out of necessity, which lack the ability to expand beyond one-person survivalist operations [Rogerson (2004)].

2.2.6 Doubts over Employment Creation Potential of SMMEs

The employment creation potential of SMMEs has been a matter garnering much attention for many years, most notably since the work of David Birch (between 1979 and 1987) quantified the contribution of SMMEs to overall employment in the USA, and underlined the almost overwhelming significance of this contribution. The validity of these findings became cause for debate as to whether job creation potential was really related to enterprise size. The most notable criticism came from Davis et al (1993) and was based on doubts as to the validity of Birch's methodology and applicability of the data. A comprehensive analysis of small business' employment creation potential was carried out by Neumark et al (2008) using more reliable data and comparing Birch's methodology with a proposed improved methodology. This analysis found that small enterprises do create more employment than large enterprises but not quite to the extent proposed by Birch.

There are also various debates around employment creation with respect to the development of the small business economy. Kesper (2002) acknowledges the differences between conditions of SMMEs in South Africa and those in industrialised countries, specifically with regard to the prevalence of survivalist operations which rarely expand beyond one-person operations, and product specialisation as a result of lack of resources rather than strategic development. This research casts doubt over the labour absorptive capacity of SMMEs as a result of 'Jobless Growth' whereby growth in a firms' turnover, profitability or capacity is not necessarily accompanied by employment growth. This is attributed to perceived inflexibility of the labour market resulting from South Africa's post-Apartheid labour policies rendering labour more costly and less productive.

Berry et al (2002) address the fact that, because small firms are generally more labour intensive than large firms, they are affected more by labour market regulations. South Africa's labour market is characterised by a high variance in skills yet with a large supply of unskilled labour. In an unregulated labour market (or even one less rigorously regulated than South Africa) this would allow enterprises to employ unskilled labour at low cost and thereby establish a

competitive advantage. However, labour regulation undermines the supply-demand relationship of employee skills and wages and is believed to deter many SMMEs from generating employment. Labour regulation is seen to affect SMMEs more than large enterprises.

Davis et al (1993) contradict the proposed employment creation potential of small enterprises, stating that enterprises with at least 500 employees (large enterprises) accounted for more than one-half of jobs created and that the one-year job survival rate at large enterprises is 92% against 81% for small enterprises. This research is however confined to the manufacturing sector, and as was shown previously, in the manufacturing sector large enterprises to tend to contribute more to employment than most other sectors. Again, the research by Neumark et al (2008), which spanned sectors, indicates that small enterprises do create more employment than large enterprises.

Robson (1996) casts yet more doubt over the importance of small enterprises in employment creation. These doubts are based on perceived shortcomings of methodologies often used in calculating employment creation of enterprises according to size as well as perceived blindness to many external factors affecting employment creation for all enterprises. The perceived methodological shortcomings are similar to those of Davis et al (1993) and are based on the view that employment creation through processes of birth, expansion, contraction and death of enterprises should be analysed as a dynamic process rather than the traditional static process views. The dynamic process view would account for employment creation as a function of time to which would be a better indication of real employment created rather than a gross value for a change in number of jobs between time periods. A comprehensive analysis of these views would be important if one was to examine the relationship between employment creation potential and enterprise size in order to establish exactly which size enterprises showed most promise or potential in creating employment. This would be useful for policy makers in identifying the best candidates to assist with the aim of creating employment but is not necessary to consider for the research at hand. The second argument is however far more impactful and of more importance to

consider for this research project. Robson (1996) argues that often small and large enterprises are viewed as independent systems when in fact they are both part of a single complex system in which the performance of either is dependent on many internal and (possibly more importantly) external factors. Development or 'success' of either may often be a result of the other's failure, or vice versa. For example, if a large manufacturing plant were to close down for strategic or financial reasons one would expect to find an upsurge in small business start-ups by those retrenched employees, most likely out of necessity. Conversely, the success of a large enterprise may provide more opportunities for smaller enterprises to provide support services. The relative success or failure of small or large enterprises is certainly not the only external factor but it is an important one which will inform the research going further.

2.2.7 SMMEs Competing in a Global Economy

The nature of competition is one which remains constant – one organisation offering a product or service which is also offered by other organisations, and is chosen (or not) by the customer based on how it compares to the other organisation, according to a given set of criteria. In the modern world however, principles of competition have become much more diverse and complex.

Martin (2004) presents both a micro-economic as well as a macro-economic description of competitiveness. The micro-economic description relates to individual businesses and their ability to compete, grow and be profitable. In this capacity the competitiveness of a business is described as its ability to "consistently and profitably produce products that meet the requirements of an open market in terms of price, quality, etc". A business must meet these conditions of competitiveness relative to its competitors if it is to maintain or gain market share and hence grow in terms of profitability. If a business does not meet these requirements it will lose market share to its competitors and eventually will no longer be a viable concern. The macro-economic description relates to the notion of competitiveness of nations. This is a somewhat controversial topic in which some argue that it is a central goal of economic policy and others argue that

the concept of competitiveness at a macro-economic level is competing does not make sense as nations do not compete for a position in a market as businesses do. For the purposes of this discussion the concept of competitiveness at a macro-economic level is not relevant except to perhaps consider the notion of a nation's competitiveness as a direct function of the businesses in that nation contributing to its economy.

In terms of this micro-economic picture of competitiveness there are several factors, both internal and external, which influence how organisations compete. Internally, there are factors such as size, ownership, resources and the subsequent characteristics of the organisations. Externally there are market conditions, globalisation and country/industry specific legislation. Porters Five Forces analysis gives a generalised framework of the competitive characteristics of a market. These five forces include the external factors: threat of new competitors, threat of substitute products or services and Intensity of competitive rivalry; and the internal forces include: bargaining power of customers and bargaining power of suppliers [Dwyer & Tanner (2009)]. Figure 2 gives a diagrammatic representation of Porters five forces.

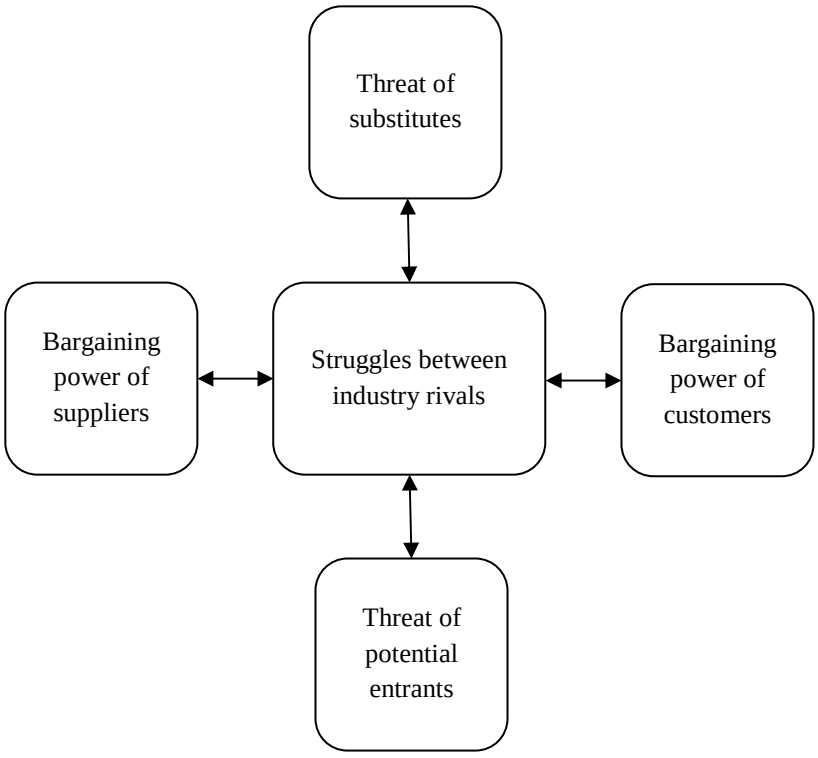


Figure 2. Porters Five Forces Model.

The following list outlines important characteristics of SMMEs which relate to competition in the market. These specific characteristics of SMMEs will be considered to determine if they have any inherent advantages or disadvantages in terms of competing in the market.

- Management is likely to be directly involved with customers and therefore more familiar with their needs and concerns.
- SMMEs tend to be more responsive to market needs and more innovative in their ability to meet customers' demands
- SMMEs tend to be more flexible – allowing for fast introduction of changes.
- SMMEs generally operate at a local level providing goods and services within a relatively small proximity of their location.
- SMMEs tend to have few management levels resulting in less bureaucracy and faster implementation of decisions.
- The size of an SMME has great influence over its ability to gain a position of power in the market relative to its suppliers and customers.
- SMMEs are generally more labour intensive than larger firms. This implies that generally they are not capital intensive, or are less capital intensive than large enterprises. This places SMMEs in a vulnerable position as the barrier to entry in the markets they compete in is generally low.

[Dzansi (2004), Antony et al (2005), Achanga et al (2006)]

Direct involvement of management with their customers as well as their flexibility and innovative responses to market needs are likely to be advantageous for SMMEs in competing against new entrants as well as established rivals within their industry. This focus on the customer is likely to build strong relationships with customers and allow the SMME to establish a firm customer base. This should also be advantageous in mitigating the threat of substitute products as it is likely that new products will be a response to market need which the SMME will be aware of and be able to produce an innovation to fill this need. The generally small proximity in which SMMEs operate is also likely to be advantageous in this regard as proximity to the customer allows for a greater level of service and flexibility.

The few management levels in SMMEs is often an advantage as the person responsible for sales and purchasing often bears more responsibility in the business that the corresponding person in a large enterprise. This means that they will be motivated not by short term savings or sales but rather by long term sustainability. Also, the relationships built with customers and suppliers give SMMEs a certain amount of bargaining ability. However, the size of the enterprise in terms of buying power or dependence on specific customers is still an important factor when considering bargaining power of both suppliers and customers. Small businesses are often not able to command the level of service or terms that they would like from their suppliers and are often forced into providing similar terms to their customers.

The generally less capital intensive practices employed by SMMEs means that often the barrier to entry in their market is low. This makes them more vulnerable to the threat of new entrants, particularly other SMMEs which will target such markets and potentially have the same competitive advantages. Very rarely do SMMEs compete with large enterprises in potentially capital intensive industries. Instead, SMMEs usually find a niche in the market to which they are better suited and able to compete. Often such a niche may be as a supplier of a specialised product or service to a large enterprise. Thus often SMMEs complement large enterprises by finding a place in the larger supply chain rather than competing directly.

Rogerson (2004) argues that the entire current structure of the SMME sector is flawed in that, rather than supporting large enterprises by offering complementing products and services and fitting into the upstream or downstream supply chain as in many developing economies, South African SMMEs are attempting to compete directly with large enterprises, albeit in somewhat different consumer groups.

2.2.8 SMMEs Employing Technology

Faced with increased competition as a result of globalisation, manifested in more competitive, turbulent and demanding markets, SMMEs must operate more efficiently and become more productive if they are to remain competitive.

Accomplishing this will require innovation from SMMEs regarding production practices and usually require technology implementation in the form of advanced manufacturing techniques [Fulton & Hon (2009)]. This applies specifically to manufacturing SMMEs but may be extended to any SMME (service or production) which may improve the efficiency of their operations with greater use of technology.

Government, through the department of science and technology, recognises the role technology plays in improving manufacturing operations, for businesses of all sizes, and the associated benefits. The National Advanced Manufacturing Technology Strategy (NAMTS) was established with the goal of stimulating technological upgrading in industry and to facilitate the flow of technological resources and building of an environment which is conducive to innovation. The resources required for such an environment include skilled manpower, technology infrastructure and funding which form the approach for the support provision of the NAMTS [RSA (2002)].

Further goals of the NAMTS include:

- Ensuring that technology resources are better developed, focused and utilized
- Developing the capacity of the manufacturing sector to master advanced technology to become more innovative, flexible and customer oriented.
- Facilitating the move from raw material-intensive manufactured goods towards progressively more knowledge-intensive goods and services

These goals are to be achieved in line with the acceleration of economic growth, the creation of wealth on a sustainable basis, and the improvement of quality of life of South Africans. The NAMTS does however make provision for these goals to be link competitiveness with important national and social goals such as economic growth, employment creation and equity [RSA (2002)].

According to Dangayach & Deshmukh (2004) greater use technology will improve the competitive position of the business and may allow it to gain a competitive advantage. The benefits associated with employment of advanced production techniques or methods include: reduced unit cost of production,

increased return on equity, inventory or resource savings, increased flexibility and improved quality of production. Despite the obvious benefits Fulton & Hon (2009) describe the reluctance of SMMEs, particularly the smaller enterprises, to adopt new technologies due to the financial investment required as well as a lack of confidence in their ability to acquire and deploy the knowledge required for successful implementation of the technology.

Rogerson (2000) makes particular reference to the dichotomy in South African SMMEs with regard to evolution of business practices. Many South African SMMEs are characterised by expansion through replication of micro-businesses, or 'involution', which results in increasing the number of employees in proportion with the growth of the business. The opposite of this is 'evolutionary' expansion, as a result of growth through process replication or intensification, and through the use of capital, skill and/or technology upgrading.

2.2.9 Summary

In South Africa small enterprises are divided into four categories, as per the National Small Business Amendment Act, namely: medium, small, very small and micro. These divisions are based on the number of employees, turnover and total gross asset value of the enterprise.

The characteristics which separate SMMEs from large enterprises may be divided into three categories of distinction, namely: ownership, resources and size. These categories may be subdivided into the five broad characteristics which define small enterprises:

- ownership and management structure.
- culture and behaviour.
- systems, processes and procedures.
- human resources.
- customers and markets.

SMMEs make up the vast majority of the number of enterprises across all sectors of the economy. However, the percentage contribution to employment of the

SMME portion of the economy varies across sectors and is significantly lower than percentage contribution to enterprise numbers, though still higher than that of large enterprises.

The employment creation potential of SMMEs has been a matter of debate since the work of David Birch (between 1979 and 1987) quantified the contribution of SMMEs to overall employment in the USA, and underlined the almost overwhelming significance of this contribution. The debate centres on the question of whether job creation potential is really related to enterprise size. Though many doubt the proposed potential for massive employment growth in SMMEs, few can doubt the significant contribution these enterprises make to an economy, developed or developing.

South Africa has a unique economy and business environment characterised by

- A “highly dualistic” economy divided by a high productivity modernistic formal business sector and a low productivity informal sector with little interaction between the two.
- A prolonged “transition phase” plagued with political instability and high crime levels which impacts negatively on foreign direct investment.
- A shift in industrial policy to liberalisation of trade and finance exposing the South African economy to the global marketplace.
- Continued low levels of education and training among the majority of participants in the economy who were previously suppressed from entrepreneurial activities.

These factors make up much of the large barrier to the success of SMME development in South Africa. The White Paper on Small Business and subsequent support measures and organisations were intended to address these factors to unlock the perceived growth potential of the SMME economy.

It is argued that small enterprises are generally labour intensive and large enterprises are generally more capital intensive, and therefore SMMEs have greater employment creation potential. However, the generally less capital intensive practices employed by SMMEs means that often the barrier to entry in

their market is low and they may face severe competition, within a global marketplace, and struggle to grow in their markets.

Faced with increased competition SMMEs must operate more efficiently and become more productive if they are to remain competitive and this will require innovative operating practices and may very likely require technology implementation in the form of advanced production techniques. Implementation of technology often requires skilled operators and generally reduces the dependence on labour hence lowering the unit cost of production.

These aspects of competition, use of labour and technology and the South African business environment were used to develop the research instrument used to conduct the field research as described in the research methodology.

CHAPTER 3 – RESEARCH METHODOLOGY

This chapter covers the methodology of the research beginning with a brief introduction to restate the research questions, followed by a description of the research instruments, sample and research procedure. The chapter ends with a description of ethical considerations to be considered.

3.1 Introduction

The research aimed to answer the question of whether or not the objectives of economic growth and employment creation – as intended by the 1995 White Paper on Small Business - are conflicting or whether it is possible for South African SMMEs to achieve both.

More specifically, the research aimed to determine how South African SMMEs compete, how they may become more competitive (both locally and internationally) and make an increased contribution to economic growth, and whether this will directly or indirectly make a positive or negative contribution to employment creation.

The main objective of this study was to use practical examples to evaluate the theoretical characteristics of SMMEs and thereby analyse concepts relating to competitiveness and employment creation. The results would then be used to establish possible conflicting or interdependent goals and objectives with in South African SMME development policies.

Specific objectives to be met in the course of the research were as follows:

- To understand and analyse the desired outcomes of the 1995 White paper on small business and National Small Business Strategy to establish context for the research.
- To establish the current state of SMME support in South Africa. This was not critical to answering the research question but was important to add to the body of SMME knowledge in South Africa.

- To examine theory on small enterprises, employment creation, competitiveness and application of technology in SMMEs. These topics would provide context and a reference for the results of the field research.
- To undertake field research to gather data on perceptions, attitudes and experiences of small business owners relating to competitiveness, employment creation, use of technology and the South African business environment.
- To analyse the data in the context of economic and social development of South Africa and extract themes regarding competitiveness, employment creation and use of technology.
- To use the research data and theory to determine trends and potential of technology usage and the business environment in South Africa to influence competitiveness of SMMEs and the consequences of these for employment creation.

In completing these objectives it was expected that clear and relevant conclusions and recommendations could be made which would add to the body of knowledge on South African SMMEs and identify potential for future research.

3.2 Research Instruments

The research question proposes certain relationships as well as complex dynamics existing in the small business environment which are as yet unclear or subject to debate. To meet the objectives and answer the research question will require exploration of perception and dynamics relating to small business from the view of several role players in the small business environment. An analysis of the perception and dynamics will serve to construct an image of the small business, possibly subject to certain bias, and to draw any causal links to establish possible relationships.

This is qualitative research, involving collection of in-depth data from a relatively small group of respondents. For qualitative research data is collected in non-standardised forms and requires methods of classification and conceptualisation to establish pertinent results. The most common data collection methods for

qualitative research are interviews and observation [Greenstein et al (2004)]. Interviews are appropriate for collecting data on individuals' personal histories, perspectives, and experiences, especially when exploring sensitive topics. Observation is appropriate for collecting data on events or behaviours occurring in their usual contexts [FHI (2005)]. Therefore this research will make use of interviews as the data collection method.

Frankel & Devers (2000), describe three factors which influence the type of interview to be used: purpose of the study, extent of existing knowledge on the subject and resources available. If the study is more exploratory, and if not much is known about the subject, then a more open-ended interview structure such as unstructured or semi-structured is more appropriate. The resources available, especially time, will also influence the amount of structure appropriate for the interview.

Therefore, the interviews will be semi-structured and designed to cover a clear list of topics, yet allowing enough flexibility to obtain the individual opinions and perspectives of each interviewee and allowing this to further inform the structure of the interview. Topics addressed by the interview will be informed by a comprehensive literature review to recognise pertinent issues and structure the interview in such a way that the topics on which the research question is based are covered.

Ratcliff (2004) describes 15 different methods for data analysis of qualitative research, namely: typology, taxonomy, constant comparison/grounded theory, analytic induction, logical analysis/matrix analysis, quasi-statistics, event analysis, metaphorical analysis, domain analysis, hermeneutical analysis, discourse analysis, semiotics, content analysis, heuristic analysis and narrative analysis.

From this it was determined that content analysis is most appropriate for analysing the data. Content analysis is best suited to evaluating speech or text forms of data and extracts common themes and how they relate to each other. Finally, content analysis uses theory to assist in extracting themes. This methodology is most appropriate for this research where attitudes and perspectives of the research

sample are the focus [Ratcliff (2004)]. Anderson (2007) describes thematic content analysis as a descriptive presentation of qualitative data which portrays the thematic content of interview transcripts by identifying common themes in the interview transcripts. After the common themes have been drawn from the data a complete analysis may be made and conclusions drawn to answer the research question.

3.3 Research Sample

The research is largely exploratory, focussing on overarching themes which may be extracted and analysed from the interview data. Guest et al (2006) suggest that a sample size of 6 interviews is sufficient to develop “meaningful themes and useful interpretations” and that a sample of twelve interviews is sufficient for a comprehensive analysis for the semi-structured interview as a research instrument.

It was decided that a cautious number of ten semi-structured interviews with SMMEs would be conducted. This number should be sufficient to draw evidence on common themes with regard to the business environment in general and specific issues regarding labour, technology and competition. It was decided that the sample should contain participants from across the SMME size spectrum and across different industries as far as is possible. Upon reflection the sample is more heavily weighted to production-based SMMEs rather than service-based SMMEs which may bring a bias to the data.

It was predicted, from the researchers past experience with SMME owners that the respondents could possibly be somewhat biased towards the individual situation or individual experiences, good or bad. Therefore, additional perspectives from industry role-players who are likely to hold complementing or contrasting views to those of the SMME owners would bring greater context, perspective and relevance to the results and ultimately would serve to strengthen the findings of the study. It was decided that interviews would be conducted with a human development consultant, with many years experience in assisting both small and large enterprises, and a high level local politician, from the Midvaal

municipality, who has been directly involved with local business development and was able to offer the political perspective on matters to do with the business environment and small business development.

The research question is aimed at growth through increased competitiveness of SMMEs and its relation to employment creation. A dichotomy is presented in the literature between newly formed SMMEs and established SMMEs with regard to expansion and employment growth potential. Therefore it was decided that the SMMEs making up the survey should fit into the category of established SMMEs who are not operating in a survivalist mode. The criteria to judge this is the number of years the business has been operating and the requisite number of years the business must have been operating to qualify for the sample was set at ten years. This may bring a bias to the research toward larger SMMEs and the formal sector but it is considered necessary to answer the research question within the scope of the project.

3.4 Research Procedure

The research procedure section includes a full description of the field research process including development of the interview guideline and procedures of data collection and data analysis.

3.4.1 Interview Guideline

The selected research method was the semi-structured interview, which generally attempts to address a pre-determined set of themes or topics, whilst allowing for the interviewees individual perspectives and experiences to determine the specific content of the interview. A questionnaire was developed to guide the interview process towards specific themes that would be used to answer the research question whilst allowing the interviewee the freedom to steer the specific questions and answers to the context of his or her own experience.

The interview was divided into four sections each generally addressing a separate theme:

- Issues of competition and competitiveness in the industry.
- Issues regarding labour.
- Issues regarding technology.
- General discussion with regard to the business environment in South Africa.

The guideline questionnaire for the semi-structured interviews may be found in appendix C1.

For the interview with the politician the interview guideline was altered to allow for the different situation, and hence perspective, of the interviewee but still including the same general topics in order to be comparable with the main body of results.

The guideline questionnaire for this alternative semi-structured interview may be found in appendix C2.

An informal pilot interview was conducted with a human development consultant to test SMME interview guidelines. The results of this confirmed that the interview guideline covered the topics necessary to draw relevant information from the respondent while allowing the respondents personal opinion and perceptions to be the main focus. Furthermore, it became clear that the responses would vary depending on the type of business and industry of the respondent. This confirmed the use of the semi-structured interview which would allow for divergence from specific questions, reaction to responses, and development of conversations inspired by respondent answers. The interview guideline was not changed but special note was taken of allowing for context of the respondent in conducting the interview.

3.4.2 Interview Process (Data Collection)

Interviews were arranged to be conducted with the owner-manager of each SMME in the sample. All but two of the interviews were conducted face-to-face

with the respondents. Of the two which were not, one was conducted over the phone (SMME 5 as per results section) and one via e-mail (SMME 8 as per results section). These two interviews, while not providing the same volume of raw data, context and additional information as the more interactive face-to-face interviews, were completed to a satisfactory level in order to draw the necessary information for the study. The face-to-face interviews were recorded using a Dictaphone to enable the interviewer to engage with the interviewee in a more conversational manner. The same process was followed for the interviews with the politician and human development consultant.

Each of the interviews was transcribed to provide a physical reference which would be used to perform thematic content analysis. The interviews were not transcribed directly as many of the interviews contained additional information, from tangential discussions, which was deemed irrelevant to the research at hand as well as small errors and idiosyncrasies in speech which would have reduced the legibility of the transcribed interviews. Every effort was made to ensure that the actual wording of the interviewee was not amended and that the context and intended meaning remained intact.

Full interview transcripts of SMMEs are given in appendix D1 and full interview transcripts of the politician and human development consultant are given in appendix D2.

3.4.3 Data Analysis (Thematic Content Analysis)

The thematic content analysis was conducted as per the directions given by Anderson (2007) as follows:

1. All interviews were transcribed into text documents. As previously described the interviews were directly transcribed in the exact language of the interview, making provision only for idiosyncrasies and errors in language which would detract from the legibility of the transcript.
2. Information gathered from the literature review was used to identify important concepts to inform the extraction of themes from the interview data. These

concepts are given in the table below, divided into sections as per the interview questionnaire.

Table 2. Literature Concepts Informing the TCA.

Section	Literature Concepts
Competition	Market characteristics
	Competition in the market
	Competitive dimensions
	Competitive pressures and threats
	Barrier to entry
Labour	Worker Skills
	Nature Of The Work (Labour/Capital Intensive)
	Labour Relations
Technology	Potential For Employing Technology
	Advantages Of Technology
	Technology Replacing Labour
	Recovering Investment
Business Environment	Administration Issues
	Legal Issues
	Social Issues

3. Each interview was analysed and descriptions were highlighted from each relating to the concepts informed by the literature.
4. Each description from each interview was divided into separate units of meaning so that each contained only a single or simple theme. Care was taken to ensure that each unit of meaning was broken down only as far as it could be without losing its meaning and relevance as a single unit. This first extraction of themes produced a total of 21 simple themes from all the transcripts. A list of the first extraction of themes is given in appendix C3.
5. Similar units of meaning were then combined, where appropriate, into more complex themes with the potential to capture content from the interviews in a more relevant and contextual manner. This reduced the total number to 12 complex themes, given in appendix C4.

6. The transcribed interviews were analysed again to add greater detail to themes if appropriate for capturing descriptions arising from the interviews. Quotes were extracted from the interviews which could be used to support the description of each theme.
7. Themes were again analysed to ensure that they were meaningful and appropriate for the research and could be used to present discussion points arising from the interviews with the eventual aim of answering the research question.
8. The interview transcripts were again reviewed to ensure all relevant information had been extracted from the interview transcripts.
9. The 12 final themes were divided according to the categories separating the interview guideline, namely: Competition, Labour, Technology and Business Environment.

The completed thematic content analysis descriptions are given in the results section.

3.5 Evaluating the Research Methodology

Assessing the quality and trustworthiness of research is important for both quantitative and qualitative research. Traditional concepts used to explore rigor of the research methodology for quantitative research are reliability, validity and generalisability however qualitative researchers reject the applicability of these positivist concepts to qualitative research [Finlay (2006)]. The rejections of these concepts, presented by Finlay (2006), are:

- Reliability in the research context is a measure of the consistency of the method of data collection. Qualitative research does not however seek to gain consistent results but rather aims to gather participant responses within a setting and context. Data gathered cannot be exactly replicated and therefore repeatability of the research, informed by reliability, is not a research goal.
- Validity seeks to measure the ‘truth value’ of the research or “the degree to which research truly measures what it was meant to measure”. This assumes

an undisputed and objective reality in which the research is based. Qualitative research involves opinions and experiences of the researcher and research subjects, and is based on interpretation of data, and is therefore never completely objective.

- Generalisability determines whether results obtained from a sample population are applicable to a wider population. Qualitative research investigates individuals, situations and contexts and does not seek to extrapolate results to a wider population but rather to show that results may have meaning beyond the research context.

A different approach is therefore required to assess rigor of qualitative research. Henwood and Pidgeon (1992) define seven attributes characterising good qualitative research. These are defined in the context of the field of psychology but are applicable to other fields making use of qualitative research. These seven attributes are described below, along with the steps taken to provide for these in this research project:

1. "*The importance of fit*" – It is important for the concepts emerging from any theoretical models developed to match (or fit) the field research data. Explicit definitions of concepts making up these models or theories are therefore required to compare with the data. The literature review presented in this research project explicitly describes each element making up the research in terms of context, meaning and purpose.

2. *"Integration of theory"* – The researcher needs to consider the integration and applicability of the units of analysis used in the research beyond the context of the research. The discussion of results section analyses and relates research elements in moving towards a combined theory which may be compared to the research hypothesis.

3. *"Reflexivity"* – The role of the researcher needs to be acknowledged and accounted for in the documentation of the research. The role of the researcher informs all aspects of this research and explicit account of this is contained in

specific sections such as assumptions and limitations, ethical considerations and philosophical response.

4. *"Documentation"* – It is important for the research process to be traceable and therefore a comprehensive account of the research process, including reasons, is required. This research methodology section provides this account.

5. *"Theoretical sampling and negative case analysis"* – It is important to consider all emerging theories or controversial data including those that do not agree with proposed theories and results obtained. Conflicting theories are discussed in the literature review and controversial data and implications thereof are considered.

6. *"Sensitivity to negotiated realities"* – It is important to consider the context of data or possible influencing factors. For example, participants may have many motivating factors which will influence their responses. Also, the perception of the researcher has the potential to influence the data and the results. Therefore it is important to consider any factors influencing the respondent and for the researcher to remain objective during the observation or capturing of the data. To account for this, interviews were directly transcribed and original language of the respondents used to justify themes presented in the TCA. The viewpoint of the researcher is presented in the analysis and discussion sections which follow.

7. *"Transferability"* – Even though qualitative research is based within a specific context it is important to consider the applicability of the research beyond this research context. Consideration of this was made in the discussion of results.

3.6 Ethical considerations

This research relates to topics which are quite contentious and/or sensitive in nature and therefore certain ethical considerations must be made. It was decided that the names of all interviewees as well as the names of the organisations which they represent would be kept confidential to ensure that respondents participate in a more open and comfortable manner.

At the outset of each interview it was explained that all responses were to be kept confidential and that details on the business and the interviewee would not be included in this report. The experience was that all the respondents, upon being ensured of confidentiality, were open with their opinions and forthcoming with information about their business practices and markets. Confidentiality in this case does not detract from the quality of the results obtained from the research.

CHAPTER 4 – ANALYSIS AND RESULTS

This chapter presents the results of the field research beginning with the biographical data on the respondents followed by the results of the thematic content analysis.

4.1 Biographical Data of the Respondents

A summary of the biographical data for each of the ten SMMEs which made up the survey is given in table 3 below. The full biographical data is given in appendix E. Names of the interviewee and organisation have been kept confidential as described in the methodology section.

Table 3. Biographical Data of Surveyed SMMEs.

SMME No.	Dimension	Response
SMME 1	Function	Helicopter chartering business and flight training centre.
	Years Operating	17
	Industry	Transport, Storage and Communications.
	Size Classification	Small.
SMME 2	Function	Machine reconditioning, manufacturing machines and spares, jobbing work
	Years Operating	42
	Industry	Manufacturing
	Size Classification	Small
SMME 3	Function	Design, manufacture and repair of custom machinery and tooling
	Years Operating	26
	Industry	Manufacturing
	Size Classification	Very small
SMME 4	Function	Custom design and manufacture of metal components
	Years Operating	33
	Industry	Manufacturing
	Size Classification	Small

SMME 5	Function	Manufacturer of standard and customised steel items for mining and construction
	Years Operating	55
	Industry	Manufacturing
	Size Classification	Medium
SMME 6	Function	Manufacture and distribution of cap liners and cap lining material
	Years Operating	24
	Industry	Manufacturing
	Size Classification	Medium
SMME 7	Function	Manufacture and supply of stud bolts for the petro chemical industry
	Years Operating	45
	Industry	Manufacturing
	Size Classification	Medium
SMME 8	Function	Manufacture and supply of automotive batteries
	Years Operating	57
	Industry	Manufacturing
	Size Classification	Medium (upper end)
SMME 9	Function	Supply of fasteners and associated items
	Years Operating	42
	Industry	Wholesale Trade, Commercial Agents and Allied Services
	Size Classification	Medium
SMME 10	Function	Selling, repairing and fitting tyres
	Years Operating	48
	Industry	Wholesale Trade, Commercial Agents and Allied Services
	Size Classification	Small

4.2 Thematic Content Analysis (TCA)

This section is divided according to the categories in the interview guideline namely: Competitiveness and Competition, Labour, Technology and Business Environment. Resultant points from the thematic content analysis are presented and followed by themes derived from the analysis.

References to the interview transcripts are included with each comment. The reference format gives the SMME number (1-10) and the line reference. Eg. [2:32] refers to SMME 2, line 32 as marked in the appendix.

4.2.1 Competitiveness and Competition

Of the ten SMMEs which were surveyed five served only the local or provincial market, two served the national market and three the international market. So, seven of the ten do not export their product directly, however two of those SMMEs do not exclusively produce completed products and therefore may form part of a supply chain involved in export activity (See comment 1.1). Also, one of those SMMEs provides a service which is not exportable.

Of the three SMMEs who supply to the international market most of the international trade is on the African continent. The product offered by two of the SMMEs is a specialised product of which they are the sole local supplier. The other SMME supplies products which are unspecialised in a market with a low barrier to entry and subsequently very competitive. Therefore this company is forced to expand its market and does so using its significant buying power to offer competitive prices. It should also be noted that these three SMMEs showed most intent of expanding in the future (as will be addressed later).

Of the 5 SMMEs operating in only a local or provincial market only one (SMME 1) did so as part of its competitive strategy (See comment 1.2). The other SMMEs allowed the SMMEs to develop and become established in local markets without intent to expand beyond this. Of the two SMMEs which operate in a national market neither is currently attempting to expand into the international market. SMME 2 does so because they do not believe that they could expand into the

international market, most likely because they do not have the capacity or the intention of expanding the business on a large scale (See comment 1.3). SMME 8 operates in a very competitive market both locally and internationally. Expanding into the international markets would therefore require upgrading production processes which would improve quality and lower costs so that they could have a greater competitive edge and subsequently an advantage which could be used to access a greater market. These proposed upgrades would allow the SMME to take a greater portion of the local market and therefore it is unclear whether expanding into the international market will be a real consideration in the foreseeable future.

Four[3] of the SMMEs surveyed claimed to focus on a niche market. This was a strategic decision for all of them, to allow them to improve their offering with the narrower focus (See comment 1.2) and allow them to charge a premium on their offering (See comment 1.4)

Table 4 gives the locality of the market which each SMME serves as well as whether it is a niche market or not.

Table 4. Respondent Market Locality.

SMME No.	Market Locality	Niche (Yes/No)
1	Provincial	Yes
2	National	Yes
3	Provincial	Yes
4	Provincial	No
5	Provincial	No
6	International	No
7	International	Yes
8	National	No
9	International	No
10	Provincial	No

Comment 1.1) I4 – Mostly local, because we're doing jobbing...so mostly local. I don't know whether the companies we make for export – they probably do – but we're not directly involved with that. [4:14]

[3] SMMEs 1,2,3 and 7.

Comment 1.2) I1 - And that's been our philosophy up until now, as part of our flexibility and competitive edge is that we have focussed on Gauteng and Joburg only. [1:40]

Comment 1.3) I2 – I concentrate on national. Firstly, because I don't see that I could go into international markets. [2:3]

Comment 1.4) I2 - So we don't go into the mass production market, we're more for the little niche market where the guy only wants small quantities and you can charge a bit of a premium on it. [2:36]

The theme derived from this analysis is therefore:

Theme 1 - Most of the SMMEs surveyed served local markets and commonly served a niche in the market.

Table 5 below gives the rankings of the four competitive dimensions as given by each SMME. The order of the ranking is from most important to least important.

Table 5. Observed Competitive Dimension Rankings

SMME No.	Competitive Dimension Ranking
1	Flexibility, Quality, Service, Price
2	Service, Quality, Price, Flexibility
3	Quality, Flexibility, Service, Price
4	All even
5	Price, Quality, Service, Flexibility
6	All even
7	Price, Service, Quality, Flexibility
8	Price, Service, Quality, Flexibility
9	Service, Price of equal importance
10	Service, Price of equal importance

As can be seen in table 5 of the ten SMMEs which were surveyed three ranked price as the most important competitive dimension over the other three

dimensions. Two ranked price on a par with service as the most important and two ranked all dimensions as important as each other. Therefore only three of the ten SMMEs ranked a dimension other than cost as critically important. All three of the SMMEs which did not rank price as a critically important dimension catered to a niche market as described in the 'Types of Markets Served' section above. SMME 1, as with their strategic decision to focus on a local market, made a strategic decision not to compete on price but rather on flexibility and quality. This position has allowed them to forge a strong position in their niche market and has been successful in allowing them to remain sustainable and profitable. SMME 2 and SMME 3 have seemingly focussed on the dimensions of service and quality respectively as their core competitive dimension and forged a niche which allows them to charge a small premium which makes the business profitable (See comments 2.1 and 2.2).

The SMMEs which ranked price as a critically important competitive dimension either operate in markets where volumes are high and competition is fierce, or sell to large organisations as part of a larger supply chain. In high volume markets with stiff competition price often becomes the main differentiating factor followed closely, or matched, by service. This is evident in six of the seven SMMEs which ranked price as critically important ranking service as equally important or almost as important as price (See comments 2.3 and 2.4).

Comment 2.1) I1 – ...on costing we're not really that competitive, for very deliberate reasons... Being a niche market you can't really afford to not deliver a high quality. [1:15]

Comment 2.2) I2 - ...So we don't go into the mass production market, we're more for the little niche market where the guy only wants small quantities and you can charge a bit of a premium on it. [2:36]

Comment 2.3) I7 – What we find is first and foremost currently is cost, second I think they will look at service and then quality and then maybe flexibility. [7:7]

Comment 2.4) I5 - They all go hand in hand but at the end of the day Cost comes first, then quality, then service and flexibility. [5:10]

The theme derived from this analysis is therefore:

Theme 2 - Price is generally the most important competitive dimension for most SMMEs surveyed.

The markets in which the surveyed SMMEs operate vary significantly, from sole local supplier (SMME 6 and SMME 7) with competition from imports only to highly competitive markets with fierce local and international competition (SMME 8 and SMME 10). Also noted were SMMEs who provide specialised production or services to an established customer base and do not encounter stiff competition (See comment 3.1). All of the SMMEs surveyed have been in business for longer than 15 years and have been able to establish a relatively stable position in their respective markets.

The markets which the SMMEs find themselves in are quite stable with a limited number of established competitors and a high barrier to entry for local competitors which keeps the market stable, except for import threats (to be covered in a forthcoming section). The most notable exceptions, with low barrier to entry, are SMME 9 and SMME 10. Both of these SMMEs noted the threat of new market entrants and both listed price and service as combined most important competitive dimensions - as per previous section (See comments 3.2 and 3.3).

Four[4] of the surveyed SMMEs noted that several competitors disappeared over the past few years since the economic downturn (See comment 3.4). Many factors may affect this such as reduced demand in a period of economic downturn, unsustainable business practices by competitors or reduction in profit margins and/or loss of captive market from competitive pressures, particularly from imports.

Comment 3.1) I3 - ... What I do is special purpose. There are other people doing it but I haven't really ever come across them as a competitor. [3:11]

[4] SMMEs 1, 2, 4 and 9.

Comment 3.2) I9 - ... The difference in a business like this is that the capital investment for a start up is not as high as an engineering business which has a lot of machines. [9:32]

Comment 3.3) I10 - ...it is fierce and the barrier to entry is very low. Anyone with a little bit of experience or training can sell a tyre. [10:22]

Comment 3.4) I2 - The local guys...there used to be about 7 or 8 local guys but obviously they've just fallen by the wayside because it's not economically viable for them. [2:23]

The theme derived from this analysis is therefore:

Theme 3 - Competition is different in each industry but most SMMEs surveyed manage to define themselves in their market and separate themselves from their competitors.

The SMMEs involved in production activities noted the threat of imports from either China or India. These imports, as has generally been the case with imports from the East, are significantly cheaper than locally produced items however are generally not of the same quality and are also subject to lengthy lead times. Four of the SMMEs commented that the quality has improved recently and this has made competing against these imports increasingly difficult. However, service and flexibility of local producers remain superior and in markets where these dimensions are valued the SMMEs are able to compete based on those dimensions (See comments 4.1; 4.2; 4.3 and 4.4).

Comment 4.1) I2 – On cost, and there quality is improving but obviously their volumes are much greater than ours, that's why they can come in on cost. [2:27]

Comment 4.2) I5 -The Chinese stuff is cheap but it doesn't generally offer the quality. The Indian stuff is often high quality and at much better prices than local stuff. The lead time is 4-5 weeks and that's a big problem so you don't have the service and flexibility. [5:32]

Comment 4.3) I7 – What we find currently is that we are competing against China. It's very difficult because on pricing you'll find that in some instances they are about 50% cheaper on price and that makes it very attractive for end users and of course merchants or people that are buying from us. [7:12]

Comment 4.4) I9 – The market is geared a lot on service. The Chinese for example are able to offer wonderful prices to supply in this country but they can't offer the service [we can]. So a large international organisation is going to have to weigh these factors up. [9:42]

The theme derived from this analysis is therefore:

Theme 4 - Competition from the East and particularly China is a great threat to most of the surveyed SMMEs.

Seven[5] of the SMMEs surveyed explicitly referred to aspects of their business practices which they believe have allowed them to be successful in their own right. The two most prominent factors which emerge are fairly conservative business practices and the presence of a family culture.

In terms of conservative business practices five[6] of the SMMEs described their focus on steady sustainable revenue streams rather than highly profitable yet often volatile revenue streams (See comment 5.1). Other practices such as keeping debt to a minimum and planning for period economic downturns also played a big part in ensuring that many of the SMMEs were able to be sustainable over long periods. The success of these practices is evident in the lifespan of each of these SMMEs and the fact that all of them have survived at least one period of economic recession (See comments 5.2 and 5.3).

The other major factor tied to the conservative business practices is the prevalence of a family culture. All but one of the SMMEs surveyed had two family members in the ownership or management structure of the enterprise. This is very often the

[5] SMMEs 1,2,5,6,7,9 and 10.
[6] SMMEs 1,2,4,6 and 7.

catalyst for developing the family culture in an organisation. The family culture is a strong factor influencing labour relations, most often in a positive way, as well as following the sustainable business model which most of the SMMEs subscribed to and which has ensured their continued survival (See comment 5.4 and 5.5).

Comment 5.1) I1 – Yes. A lot of guys obviously go for that because it is sustainable income. There's not magic profit margins in it but, for instance through the recession, the mines never stopped. So thankfully that's just ticked over and kept our business going while a lot of other guys have just gone [bang]... [1:58]

Comment 5.2) I4 - Last year was a bad year, that wasn't a good year but I think that was, in general, for everybody but we've survived it and survived it by keeping debt to a minimum, not letting debt run away from you... [4:51]

Comment 5.3) I10 - ... It's all about sustainability and we've been sustainable. We've come through tough times in the past. It's not going to end, it will always be there. You have your peaks and valleys in the industry. [10:37]

Comment 5.4) I7 - The other thing that is playing a big role is the whole family ideology. On the owners side, the managers and the shareholders, the family ideology is playing a huge role and if you go into the factory you will find that there is always 2 or 3 family members and you will always have an older person and then maybe one or two younger individuals and it is playing a role. [7:76]

Comment 5.5) I10 - So our family culture is very big and that's a huge asset to us. [10:78]

The theme derived from this analysis is therefore:

Theme 5 - Most of the SMMEs surveyed engage in fairly conservative business practices focussing on long term sustainability.

4.2.2 Labour

Seven[7] of the SMME surveyed made use mostly of unskilled labour but several of them have positions for skilled artisans such as millwrights, fitters and turners, boilermakers, toolmakers and specialised technicians. Each of the SMMEs in this position expressed difficulty in finding employees with the necessary skills to fill such positions, lack of resources required to train an employee for such a position, and difficulty in retaining such employees because of the massive demand. Another concern which was expressed was that not only are there a lack of such skilled workers but the ones that do exist belong to an aging generation that is nearing retirement age and that there very few in the younger generations have the same skills (See comments 6.1 and 6.2). The unskilled labour which most of the surveyed SMMEs used was described as easily replaceable with very little training required (See comment 6.3). The continued use of unskilled labour ties in with the old South African business model of profiting off unskilled labour rather than modernising, developing skills and production processes to be more competitive. This is not to say that employers seek to replace employees (See comment 6.4) yet it does not contribute to raising the skills level in the country and to developing the competitiveness of the enterprise.

Comment 6.1) I2 - Most of the guys are feeling the pinch on the more qualified stuff [skilled jobs] because you don't get many guys that want to do it firstly and most of them are fairly old so you can't expect them to perform at 50 at the same speed as you would expect a 25 year old to perform. [2:59]

Comment 6.2) I10 - The problem is wheel alignment technicians, although we train them through our resources, we identify guys with potential and then we will send them on training but it takes time, because you don't get guys off the street that specialise in that. You've got to do it yourself and that takes time and it takes money. The problem is when you get that guy into a position they get head hunted and you lose them. So you've got to pay more. [10:61]

[7] SMMEs 2,4,5,6,7,8 and 9.

Comment 6.3) I5 - It's all unskilled labour so you can replace employees very easily. It's all low key so it's not a problem. [5:51]

Comment 6.4) I2 - On your lower skilled stuff they are fairly replaceable but the problem is having a high staff turnover cost you money because you have to train everybody. [2:62]

The theme derived from this analysis is therefore:

Theme 6 - Much of the work in the surveyed SMMEs is unskilled and is easily replaceable however most do have several positions which require skilled workers who are becoming scarce and are difficult to retain.

This follows on from the previous theme and is based on the described model of employing unskilled labour. Unskilled labour is generally used for one of five operations in a production or service environment, namely: preparation operations, production operations, assembly operations, inspection operations or cleaning operations. These operations are either preformed by hand or using low level production machinery which is designed to be operated by an unskilled labourer.

Based on this, most development with regard to equipment or machinery sticks to this model – using unskilled (cheaper) labour to perform an operation using the appropriate production method. The focus is therefore on upgrading the machinery with the unskilled labourer operates so that productivity increases, and not necessarily to reduce the labour force (See comments 7.1; 7.2 and 7.3). There was one notable exception in SMME 6 who have continually adopted a model of upgrading machinery in order to increase productivity. They have now reached a point where none of the production is done by hand yet each machine still requires an operator for loading and unloading and other such required operations (See comment 7.4).

Comment 7.1) I4 – (To the question: “From what you’ve told me, and from what I’ve seen, the nature of the work seems to be more technology orientated...that you get a machine that can do it a lot cheaper...”) - Exactly, but you still need labour... There’s no way you’re going to get around not using labour. I’ve still got the same number of guys working for me as when I didn’t have all the mechanised [automated] machines so it’s really made no difference to the labour force, the labour force has stayed the same. [4:61]

Comment 7.2) I3 – We aim at special purpose machines, and when we build a machine it is not to get rid of people, it is to improve production and to uplift the people that are doing the job now. In other words give him the tools that he can be more productive and upgrade him. I’ve never built a machine which replaces a person. [3:6]

Comment 7.3) I10 - So, it runs with technology. It makes it quicker. It makes it better. It makes it more sturdy, more durable but it will always be labour intensive. You need someone to do that for you. [10:55]

Comment 7.4) I6 – We are definitely not labour intensive anymore because we have mechanised over the years and we are fully mechanised [none of the work is actually done by hand]. [6:40]

The theme derived from this analysis is therefore:

Theme 7 - The work in most of the surveyed SMMEs is labour intensive, but is used in conjunction with appropriate or complementing technology.

All of the SMMEs surveyed had experienced some labour issue with regard to unions or labour laws. Most commonly these problems involve difficulties in disciplining or dismissing problematic employees or strikes instigated by the respective labour unions often as a sign of solidarity rather than due to problems with that particular business. A common theme which emerges is the perceived inequality between employer and employees rights (See comment 8.1). Several of the SMME surveyed placed this as the lead deterrent to employment in their

business (See comment 8.2) and motivation to keep the employment numbers as small as possible (See comment 8.3). This is not unfounded since SMMEs with the fewest employees seemed to have the least amount of union involvement and the best employer-employee relationships resulting in very few major labour related problems (See comment 8.4).

Five[8] of the surveyed SMMEs claimed to have bad relationships with the respective labour union representing their employees. A common theme was the instigation of strike action by the union, often for benefits which employees already enjoy, against the will of employees of particular businesses, or in solidarity with some other strike action in which that or an allied union is involved. This further strains the relationship between unions and businesses and acts as another major deterrent to employment (See comments 8.5 and 8.6).

Comment 8.1) I5 - As an employer you basically seem to have no rights. When you have a limited staff and when you have one person missing from the chain [through abuse of designated leave] it becomes detrimental to production. [5:92]

Comment 8.2) I6 - With labour... what we would like to see from government is to talk to the unions because no one can talk to the unions...to be more tolerant with us. It makes it very difficult to employ someone. Labour makes it very difficult. Even if you only have a few staff you still have a problem. There should be much better relationships between unions and employers. One thing the unions should stop doing is protecting unproductive labour. [6:100]

Comment 8.3) I1 – As we discussed - over-regulation, a major issue, all facets especially on the labour side, is being over-regulated but in a negative sense and the employer has no rights in South Africa. You try and get rid of anyone and you have no rights. It’s a lengthy cumbersome process of distrust and it’s going nowhere in a rush and it’s very worrying. I’d rather keep the business as small as possible, rather than expand because it will mean more hassles. [1:163]

[8] SMMEs 3,5,6,8 and 9.

Comment 8.4) I4 – We are small, so in that sense we are lucky that we haven't had unions involved and no major labour issues that we've had over the years, in the 30 years that we've been in business. [4:83]

Comment 8.5) I7 - I've been with the company 20 years now and in that time I have witnessed 2 strikes and both of them were organised by COSATU... from outside. It wasn't from inside. [7:80]

Comment 8.6) I8 - Union top brass have personal battles and the shop floor employees are forced to strike for conditions which they already enjoy. [8:69]

The theme derived from this analysis is therefore:

Theme 8 - Complicated labour relations are a common issue among the surveyed SMMEs.

Eight of the ten surveyed SMMEs have increased their workforce as they have grown the business based on metrics such as output and turnover. However, one of these (SMME 5), after increasing the workforce steadily while they grew, reduced it drastically following the economic downturn in 2008 (See comment 9.1). The two SMMEs which have not increased their workforce have purposefully kept their labour force as small as possible (See comment 9.2).

Of the ten SMMEs surveyed, four intended to grow their businesses and expected this to be accompanied by a growth in employment numbers in order to increase production capacity. Three of these four SMMEs agreed that future growth would likely be associated with investments in technology to improve productivity and/or lower input costs but that these would be accompanied by increasing the workforce to handle extra demand (See comment 9.3). The fourth SMME is engaged in more labour intensive work and therefore increased capacity stems almost directly from an increase in the workforce (See comment 9.4).

The other six surveyed SMMEs did not intend to grow their businesses further either because they are content with the size of their business or because they

believed that increasing the size of the business would incur too many additional problems to be viable for them. These SMMEs were interested in investing in technology as a tool to remain at their current level of productivity (or increase) while decreasing their workforce. Much of this is informed by labour issues which have affected the businesses and have encouraged the owner-managers to move away from employment, either by downsizing or through capital investment (See comments 9.5 and 9.6).

Comment 9.1) I5 – (In response to the question "What has the employment growth trend in the company been since 1994?" - It's hard to say. From 1994 to 2008 there was exponential growth. The company grew by 100% but after the crash in 2008 we went back to almost half the staff we had before. [5:54]

Comment 9.2) I4 - ...But employment-wise I've only ever had about 5 employees working...now we've got 6 at the moment. Tried to keep it small. Tried to keep it compact so that you can control it and keep your hands on it. [4:6]

Comment 9.3) I6 – Any labour growth will be linked to requirement. If we get any more contracts we will have to employ more people because we will not be able to meet it with our capacity. We will have to get more machines which means we will have to get more people. [6:66]

Comment 9.4) I9 – It is product for product... we have something like 49 000 different commodities and we service something like 4000 clients... orders vary significantly...for that you need labour. [9:69]

Comment 9.5) I1 - I'd rather keep the business as small as possible, rather than expand because it will mean more hassles. [1:167]

Comment 9.6) I2 –...Especially after the strikes we had earlier in the year a lot of guys cut their work force down and are going more automated. [2:77]

The theme derived from this analysis is therefore:

Theme 9 - Employment numbers tend to increase with business growth. However, several of the SMMEs surveyed are intent on keeping the business small.

4.2.3 Technology

For two of the ten surveyed SMMEs this argument regarding the use of technology is not applicable as, for SMME 1 their business offers a service which will not change based on technological developments, and for SMME 9 their business processes cannot likely be altered drastically using technology. For the other eight surveyed SMMEs the use of technology was widely agreed to be the method by which one may improve productivity and reduce costs (See comment 10.1). The outcomes of whether this may be used to expand market opportunities and possibly grow the business or just become more productive and improve profitability whilst remaining the same size, differs between businesses based on their strategic objectives (See comments 10.2 and 10.3) . In the face of global competition, as described previously, five[9] of the SMMEs believe that improving productivity through increased use of technology is the only way to remain competitive in a global marketplace and in the face of increasing costs across the board (See comment 10.4). Apart from purely decreasing costs eight[10] of the SMMEs claimed that increased investments in technology are desirable for reducing or eliminating the use of labour. This was mostly due to a perceived weakness through being reliant on labour which is often unproductive, problematic and costly (See comment 10.5).

All of these SMMEs believe that they can recover any investments in technology through increased productivity and market opportunities. All of the SMMEs realise that there are limitations to the amount of technology which they will be able to employ and therefore are not aiming at eliminating the workforce but

[9] SMMEs 4,6,7,8 and 10.
[10] SMMEs 2,3,4,5,6,7,8 and 10.

rather becoming more productive using their existing workforce (See comment 10.6).

Comment 10.1) I10 - Talking about productivity, now you can do 4 cars in an hour when in the old days you could only do 2 cars an hour. So you can double your productivity because of technology so that plays a huge role. [10:102]

Comment 10.2) I7 - So, to accommodate the higher demand you have to put in technology that can meet the demand. [7:134]

Comment 10.3) I4 - ...With the advent of laser cutting you can also do 10 off or 50 off so you have a much broader base in the market now for the type of work we're doing... [4:75]

Comment 10.4) I3 – ...People will say I want to automate, and they will automate because that is progress... Sometimes the only way to cover your costs is to upgrade so that you are productive enough. [3:20]

Comment 10.5) I5 - I'd like to invest in machines which would make me more productive with less dependence on labour. It would definitely allow us to lower costs...but it's not so much lowering costs as lowering stress levels. Unfortunately I don't think we could increase our market but I do believe we could recover the cost of better access in our market through lower costs. Just by improving production methods you could double the productivity with the same number of operators. [5:62] [5:73]

Comment 10.6) I2 - So people are trying to work smarter not harder, but you always need someone to do the hard work for you. [2:44]

The theme derived from this analysis is therefore:

Theme 10 - Technology provides the opportunity to be more productive and could expand market opportunities for most of the surveyed SMMEs.

4.2.4 Business Environment

Common challenges experienced by the surveyed SMMEs included:

- Onerous accounting and tax regulations (See comments 11.1 and 11.2).
- Broad Based Black Economic Empowerment (BBBEE) requirements (See comment 11.3).
- Theft and threat of vandalism which require expensive security measures (See comment 11.4).
- Bribery and Corruption (See comment 11.5).

Comment 11.1) I4 – It's difficult to say. All the costs and the red tape, that's what hampers us. We don't have the finances to employ advisors and labour lawyers and people that can advise you what is the right thing to do, we have to do that ourselves. [4:125]

Comment 11.2) I5 - I think there is still great potential for small business. There are a lot of restrictions put into small businesses...a lot of red tape. Labour regulations, tax regulations, there's so much going against small businesses. [5:87]

Comment 11.3) I7 - ...Also, BBBEE has a lot of influence. It's a big cost. It's capital and overheads that you need to outlay. [7:62]

Comment 11.4) I6 - Labour and security are very destructive parts of business because security costs lots of money. A small company like us is spending lots of money on security and that's a big deterrent in a business. [6:97]

Comment 11.5) I7 – The other challenge is bribery and corruption. If it comes down to the situation where you need to get a contract, and you're not prepared to wheel and deal, you're not going to get business, and we've lost out because of that, because we say we don't buy our business. [7:159]

The theme derived from this analysis is therefore:

Theme 11 - Common challenges faced by the surveyed SMMEs in the South African business environment are: over-regulation and red tape, bribery and corruption, crime and BEE.

Six[11] of the surveyed SMMEs commented on the effect of drastic increases in price of many of their inputs and overheads. The official inflation figure in South Africa rose from around 3.5% to 6.1% [Trading Economics (2012)] through 2011 yet this does not reflect the massive price increases which many businesses face. Electricity prices have increased 260% between 2008 and 2011 [Rees M (2011)], fuel prices have risen from around R7.50/l in early 2008 to nearly R10.50 in early 2012 [AA (2008)], and these increases carry with them increases in most material inputs as they affect production and transportation costs. Therefore input costs have increased drastically for many businesses and, because these increases cannot always be transferred into their selling price, it is likely that profits will have decreased.

As these increased costs are worked into increased selling prices, if sales are not affected by the increases and remain constant, the turnover of the business will increase. This may give an artificial figure of growth of the business which will not be reflected in increased profits (See comments 12.1 and 12.2). The other, and possibly worse, effect is that demand for the product or service will decrease as price increases which may lead to downsizing or even closure. SMMEs, because of their size and possible lack of resources, are more susceptible to this kind of threat and often are not able to absorb price increases for a period to maintain selling prices and protect sales. Continued price increases of such inputs could pose serious risk to SMMEs (See comments 12.3 and 12.4).

Comment 12.1) I5 - ...2008 was an artificial year where everything doubled...turnover doubled but only because costs of material doubled...2009 we got back to reality. [5:58]

[11] SMMEs 4,5,6,7,9 and 10.

Comment 12.2) I10 - But also, there are yearly price increases. If there is a 10% price increase then there is going to be a 10% forced growth in turnover caused by increase in tyres. [10:92]

Comment 12.3) I4 – Yes and no, because over the years, especially now in the last 2 years we've noticed that profits are just dropping but that is because of the general market... electricity going up, rates and taxes going up, and all these extra taxes and levies we've been having to pay... just starts over-taking your pricing. Steel pricing has increased, over the past 5 years, about 3 or 4 times a year...it's killing us. [4:115]

Comment 12.4) I9 – Yes, but it's also becoming a problem because the input costs related to that service are becoming huge. I think I am the only bolt and nut company in the country that carries a fleet of 76 vehicles. This was fine when petrol wasn't so expensive and you were making handsome profits but that is not the case anymore. [9:26]

The theme derived from this analysis is therefore:

Theme 12 - Input costs have increased dramatically over the past few years and have caused artificial growth and affected profit margins of the surveyed SMMEs.

4.3 Summary of Themes

Table 6 gives the twelve themes emerging from the thematic content analysis.

Table 6. Summary of TCA Themes.

Theme 1	Most of the SMMEs surveyed serve local markets and commonly serve a niche in the market.
Theme 2	Price is generally the most important competitive dimension for most SMMEs surveyed.
Theme 3	Competition is different in each industry but most SMMEs manage to define themselves in their market and separate themselves from their competitors.
Theme 4	Competition from the East and particularly China is a great threat to most of the surveyed SMMEs.
Theme 5	Most of the SMMEs surveyed engage in fairly conservative business practices focussing on long term sustainability.
Theme 6	Much of the work in the surveyed SMMEs is unskilled and is easily replaceable however most do have several positions which require skilled workers who are becoming scarce and are difficult to retain.
Theme 7	The work in most of the surveyed SMMEs is labour intensive, but is used in conjunction with appropriate or complementing technology.
Theme 8	Complicated labour relations are a common issue among the surveyed SMMEs.
Theme 9	Employment numbers tend to increase with business growth. However, several of the SMMEs surveyed are intent on keeping the business small.
Theme 10	Technology provides the opportunity to be more productive and could expand market opportunities for most of the surveyed SMMEs.
Theme 11	Common challenges faced by the surveyed SMMEs in the South African business environment are: over regulation and red tape, bribery and corruption, crime and BEE.
Theme 12	Input costs have increased dramatically over the past few years and have caused artificial growth and affected profit margins of the surveyed SMMEs.

CHAPTER 5 – DISCUSSION OF RESEARCH

This chapter begins with a discussion of the themes emerging from the thematic content analysis procedure, separated according to the categories from the interview guideline, namely: competitiveness, labour, technology and business environment. Following this is a discussion of employment creation and competitiveness, a review of the state of SMME development in South Africa and a philosophical response to the research.

5.1 Discussion of Results

South Africa finds itself in a fairly positive economic state, especially considering the state of the economies of the USA and Eurozone countries following the global recession of 2008. South Africa has a current account deficit of R114.6 Billion in the third quarter of 2011. This is managed by a net capital account balance of R 30763678 reported in 2010, and which has been maintained in positive territory since 2003. The government debt in South Africa was last reported at 35.7 percent of the country´s GDP, a figure far lower than that of the UK (80%) or USA (93.2%) or similar developing economies to that of South Africa such as Brazil (66.1%). The balance of trade in South Africa frequently fluctuates (5 or 6 times per year) between negative and positive territory. This is due to the fact that South Africa, although the world's major exporter of gold, platinum, coal and diamonds South Africa requires major capital imports such as machinery and equipment, as well as chemicals and petroleum products. (www.tradingeconomics.com)

5.1.1 Competitiveness and Competition

Much of the research on SMMEs suggests that they tend to operate in a local market with few cases of exporting to global markets. This is said to be advantageous to the SMME as they tend to develop close relationships with their customers and are better able to understand the needs of the customers. Serving only a local market is often described as a beneficial consequence of limited reach

of the SMME, who does not have the necessary resources to access the global market, rather than a strategic decision. Another common characteristic of SMMEs portrayed in literature is the tendency to focus on a niche market, not necessarily as a strategic move but rather as a result of a lack of resources which would allow it to diversify.

Although the respondent SMMEs were biased towards manufacturing activities, the range of industries to which they belong or supply is quite large. This allows one to draw conclusions based on the results of the survey. The level of competition in each market was very much unique to that market in terms of number of competitors, location of competitors, market access and barrier to entry for potential new entrants. These factors clearly have an effect on the business strategy of each of the SMMEs. Each of the SMMEs had therefore found a way to define themselves in their market in such a way that they were on par with their competitors in terms of their offering and hence each fighting for a portion of a total market or they were able to find a niche where they could access a small section of the market their competitors were neglecting. Irrespective of their competitive strategy each of the SMMEs had found a strategy which allowed them to compete successfully over a long period of time.

A key factor emerging with respect to competitiveness is the conservative business practices which were shown by all surveyed SMMEs. These had clearly been responsible for their sustainability and survival over a long period of time. The lack of such conservative business practices was highlighted in the additional perspectives section as a key factor leading to failure among new SMMEs. The concepts of constantly investing in the business, minimising debt and keeping tight control over debtors were characteristics highlighted by the SMME owner managers as well as key points from the additional perspectives.

The level of competition in each market and industry depends on various factors, as described in the section on competitiveness in this report. Competition from the East, in particular China and India, has become a major factor affecting a broad spectrum of industries across much of the international business community. The prevalence of skilled and productive labour forces coupled with little labour

regulation or protection has allowed enterprises from many eastern countries to infiltrate the global economy on a mass scale. Many organisations have also outsourced operations or established operations in such countries to take advantage of this cheaper, more productive labour, normally at the expense of closing operations in their country of origin. Products across all industries are produced on a mass scale and supplied all over the world at greatly reduced prices as a result of this ‘cheap’ labour and economies of scale production principles. Whether these practices are acceptable or sustainable in the long term remains to be seen and is beyond the scope of this project. However, the threat of imports from the East is undeniable and has had a profound effect on businesses in South Africa.

Theory suggests that much of the importance of SMMEs is the position they often take up in various supply chains as suppliers to larger enterprises. Larger organisations generally have greater buying power and purchase with price as their most important competitive dimension. Hence price becomes the most important competitive dimension for the seller in such a market. Again service would rank very close in importance to price in such a market as evident by the aforementioned results.

Interestingly, price emerged as the most important competitive dimension among the surveyed SMMEs. There are two ways of viewing this finding which must be considered. Firstly, one may argue that price will always be the most important competitive dimension because it most directly influences the profitability of the customer. Therefore, irrespective of the what the competitive dimensions may be which allow the SMME to enter the specific market or appeal to the customer, price will always emerge as most important since it is the only dimension directly reported in financial figures. Secondly, price will emerge as the most important competitive dimension in a market where customers or consumers value low cost above quality. Therefore, if a producer is supplying a product at a price deemed uncompetitive by the consumer or customer (reflected in sales or lack thereof), even though it is of superior quality to substituted products, he is not addressing the needs of his customer.

The characteristic of SMMEs operating in mostly local markets and hence being able to develop close relationships with customers was shown to be the case in the majority of SMMEs making up the survey. Therefore, if these SMMEs are failing to compete with substituted products such as cheaper yet poor quality imports from the East, they need to develop their relationship with customers based on proximity and use this as a competitive advantage by competing along the other competitive dimensions. This may include finding niche markets for quality products at higher prices or increased service and flexibility, but will depend on each market.

5.1.2 Labour

A problem in South Africa, existing as a result of our political history and having a profound effect both on the public and private sectors of the country, is a massive skills shortage. This is evident at all levels, from practical based skills or artisans to advanced skills requiring tertiary education. Much of the economic activity during the Apartheid era was based on a model of exploiting cheap unskilled labour which was also forced to remain unskilled due to political policies of the time. This old model still remains prevalent in South African business today. This, combined with the continued severe lack of skilled workers and the high unemployment rate in South Africa, has greatly skewed the supply and demand dynamics between employers and employees. Unskilled labour is in massive over-supply yet unskilled employment is continually decreasing due to economic factors such as modernisation of production methods and political factors such as trade unions. Therefore, as the demand tends more towards skilled employment and supply falls further to unskilled labour the mismatch creates a void which results in difficulty in business development and increased unemployment.

The large majority of employment positions in the surveyed SMMEs are for unskilled labour. Again, the bias toward manufacturing activities means that the majority of positions are production based. Most of the production activities are performed by machines, either fairly low-level machines performing single

standard operations, or high-level multi-function machinery, both requiring only loading, unloading and engagement or disengagement by an operator. This range of operations has different dependence on operator productivity. For example some machines require an operator to engage the operation for each item produced and therefore the machine productivity is limited by the operator productivity. Other more advanced or more automated machines may only require loading or unloading of material or components only occasionally and therefore has a productivity which is less reliant on productivity of the operator.

Due to resource limitations experienced by many SMMEs, the capital investment required for sophisticated automated machinery is not available and therefore these businesses tend to adopt a more labour intensive approach as making use of older unsophisticated machinery operated by unskilled labour. This model means that productivity is limited partly by the productivity of the machine but largely by the productivity of the operator. Also, this model means that increasing profitability requires decrease in input costs (most dominantly labour) or increased productivity (limited by labour productivity). Therefore profitability depends on effective utilisation of unskilled labour. The unfortunate effect of this model is that it rarely involves any skills development either in training to be able to operate the necessary machinery or experience leading to acquiring formal skills for the operator. Therefore, employment positions remain unskilled which are easily replaceable and in high demand compared to the supply of unskilled labour. This creates a circular effect whereby resources for capital investment is unavailable and therefore low skill labour intensive practices are employed, which are less productive and incur greater costs towards the product, which makes the product less competitive in the markets, which further reduces resources which may be used to upgrade.

The massive skills shortage in South Africa is a problem which is only becoming worse. The elimination of apprentice programmes has resulted in very few skilled artisans emerging from the younger generations. The older generations which were trained by such programmes are approaching retirement age a perceivably these skills will be in even greater demand and severe short supply. This is likely

to cause major problems in the business environment and may see a forced move towards automation and more sophisticated machinery, possibly accompanied by weakening of the small business environment and fewer employment opportunities for unskilled labour.

Theory suggests that SMMEs tend to be more labour intensive than large businesses. Therefore SMMEs tend to have a higher labour absorptive capacity than large businesses and growth of the business is generally reflected in expansion of the labour force. The general employment growth trend for the surveyed SMMEs tends to follow the growth of the business according to metrics such as output and turnover. This reflects the theory that SMMEs tend to have a higher labour absorptive capacity and hence greatest employment creation potential. The SMMEs which intended to grow further expected employment growth as a result but were focussed on growing as a result of extra capacity from greater productivity levels. This indicates that as these businesses grow the amount of employment they create will increase by a smaller degree of proportionality.

Labour relations in South Africa are governed by several acts, most notably the Basic Conditions of Employment Act and the Labour Relations Act. These acts set out the rights of both employees and employers and are fundamentally aimed at ensuring that labour is not exploited. Trade unions have gained considerable power since South Africa's democratisation and have shifted employment dynamics from the Apartheid-era widespread exploitation of labour. This has, however, created an adverse dynamic between employers and employees which is harmful to development and growth of businesses.

Labour relations in South Africa have become a very contentious issue, and one which is having a major impact in terms of economic as well as social development. Prior to the labour relations act most labour in South Africa was exploited in terms of working conditions and remuneration and was also prevented from developing skills. Since the inception of the labour relations act and the subsequent rise in power of the various labour unions tenuous relationships between employers and employees have become prevalent. Strikes,

which are detrimental to the country, the employers and the employees, are commonplace. Labour disputes over unfair dismissal of problematic employees, and subsequent costly and tedious legal processes, are common stories told by most businesses. Unions are accused of protecting unproductive labour which is inhibiting business development and growth. Again, these issues are debatable and based on the perceptions and motivations of each party. What is clear is the detrimental effect that these tenuous relationships between employers and labour unions/employees are having on development and growth of businesses and the country as a whole. Businesses are becoming more reluctant to create employment positions for fear of more complicated labour relations. In a country where unemployment figures are approaching 40% this situation is appalling. Development of better labour relations, which stimulate greater productivity and encourage employment creation, are possibly the most pressing economic issue and are the responsibility of both employers and unions representing labour.

5.1.3 Technology

The use of technology in a process is usually to accomplish one or more of the following goals: increase efficiency, improve quality or reduce costs. Increasing efficiency allows the process to be completed faster, with less energy and therefore productivity is increased with the final benefit of improving profitability. Improving the quality specifications of the process allows the business to lower its costs and/or expand its market opportunities, all with the final result of becoming more profitable. Reducing costs means reducing inputs required for the process which includes reducing materials used, reducing waste, reducing energy requirements such as electricity or reducing labour input required, all with the final objective of increasing profitability. Labour is generally the most expensive input cost, in part because of many associated costs which it entails, and is generally the cost which is most often aimed at minimizing.

A large part of becoming more productive is lessening the reliance on labour since labour imposes a limitation to productivity. In the modern global marketplace

businesses are exposed to competition on a global scale. These competitors may have access to more sophisticated technology which allows them to produce more efficiently and therefore they can offer lower prices. The principles of economies of scale also have an influence in such situations as these producers can further lower their costs and be more competitive. South African businesses therefore need to find ways to lower their prices to remain competitive in their markets. Unfortunately, labour is now viewed as a high cost with limited productivity and more businesses are tending towards automation.

Businesses that do upgrade their machinery to international standards are often able to expand their market, either locally or even on a global scale in certain circumstances. The expanded market opportunities bring new growth potential. Since this growth potential is subject to expanded market opportunities through greater productivity, it is uncertain what employment growth prospects may be associated with this business growth.

For SMMEs the resources required for investment sophisticated technology are often not available and therefore their current production methods must suffice. Within this there is scope for improved work methods or finding a niche market which can be competed in, with current production methods, possibly focussing on a more complete offering involving the competitive dimensions other than cost.

5.1.4 Business Environment

The most common challenges to SMMEs addressed in literature involve developmental challenges such as: lack of finance available for start-up and expansion, lack of technical knowledge and difficulties with regard to regulatory requirements. Most of these challenges are common to SMMEs through many countries. Many of the points raised by the surveyed SMMEs, with regard to challenges in the business environment in South Africa, were less obvious and also far more unique to the South African situation.

One of the most serious challenges facing SMMEs in South Africa, both evident in the literature and from the interview process, is the external factor of the business environment in which the SMMEs operate. This includes various aspects such as the legal and regulatory environment, social environment and economic environment.

In terms of the regulatory environment, businesses face difficulties navigating the extensive regulatory requirements such as tax returns, VAT payments and extensive accounting requirements. Small businesses find these requirements particularly onerous as they often do not have the knowledge to adequately comply with these requirements themselves and cannot afford the cost of hiring consultants to carry out this work on their behalf.

The literature suggests that much of the real employment created by SMMEs comes from new firm formations, however new firms are one of the most notable victims of the constricting legal and regulatory environment in South Africa. From registering the firm through CIPRO, before one is able to register with the receiver of revenue (SARS), to the lengthy and costly process of obtaining business grants from organisations such as the DTI, the environment is not conducive to supporting new firm formations.

The final regulatory burden placed on businesses is the BEE or BBBEE requirements. These policies have caused much controversy since their inception and their current success or intended positive implications are debatable. Whether or not these policies are having the intended positive influence that they were intended is not going to be considered. However, the cost and burden this is placing on SMMEs is important to recognise. A large part of BEE requirements for larger companies rests on purchasing from BEE accredited suppliers. Therefore, BEE status is often a critical factor in winning tenders or being the supplier of choice to a large organisation. BEE accreditation for small enterprises is largely based on black ownership and management and therefore SMMEs are often forced to create unnecessary management positions and share ownership in order to remain competitive. Again, whether this is good or bad for business and the country is debatable and is not within the scope of this project or even this

argument. The fact is that this policy places a burden on small businesses which acts as a deterrent both to new business formations as well as expansion of existing small businesses.

When considering the social environment in South Africa, many complicated factors must be considered. Due in part to our political history we have a high rate of unemployment, large income discrepancy, high presence of poverty and poor education and skills development systems. The prevalent social issues associated with this are high levels of crimes such as theft and vandalism.

The prevalence of ‘petty’ crimes such as theft and vandalism has become an accepted part of life in South Africa. To deal with these issues privatised security has become a necessary service for all businesses and households and this incurs huge additional costs. These costs are not associated with production and are overheads which need to be recovered through sales. This obviously increases prices and affects competitiveness against local competitors and especially against international competitors who are possibly not burdened with such costs.

Finally, a very concerning development over recent years is the massive inflation of input costs for businesses. The cost increases of fuel and electricity as reported in the results section are becoming more concerning for businesses and will become severe issues if not reversed in the future. Input costs can only be passed on to the customer or consumer for a limiting time before the price outweighs its perceived benefits and the customer or consumer no longer purchases the product or service. The cost of fuel and electricity affects the price of almost every product and service and therefore, if inflation is to remain under control which is required for South Africa’s development, these costs will have to be controlled.

5.2 Competitiveness and Employment Creation

The literature research presents a possible conflict in some of the objectives of the national small business strategy, most notably the objectives of employment creation and economic growth of SMMEs. It is proposed that much of the growth that takes place in the SMME economy does not directly create employment and

that SMMEs which are able to compete internationally are highly unlikely to create employment for the unskilled majority of workers.

The following points in this regard have been observed through this research:

- In the past (and especially prior to the labour relations act) business growth in terms of turnover/profitability was directly associated with employment growth in the SMME.
- SMMEs are experiencing greater competition in their markets, especially from imports and most notably imports from the East. SMMEs which operate within a niche in the market are generally more protected from competition.
- SMMEs that have made capital investments in appropriate technology to upgrade their production systems have become more competitive in their respective markets.
- SMMEs which have the potential and resources to invest in capital equipment tend to follow this trend in order to remain competitive in their market, become more competitive in their market, or enable themselves to access new markets. The competitive advantage that stems from increased capital investments relates to more efficient production including: shorter production time, reduced input costs (material and energy efficiency), and less demand on labour. The aim, however, is not necessarily to eliminate the role of labour in the production process, only to make it more productive. Therefore this does not have the effect of downsizing the labour force but does allow the business to grow without growing the labour force.
- Generally South African labour is becoming more expensive, less productive, and more troublesome through legal and regulatory issues relating to modern labour relations. Therefore, additional motivation exists for making capital investment which lowers the dependence on labour as businesses want to be more productive and avoid costly labour issues.
- There is little desire or motivation among SMME owner-managers to create employment.

Therefore, one may conclude that the potential of the SMMEs surveyed in this project to grow, through become more competitive in their market or expanding

into alternative markets, conflicts with their ability to create employment. This confirms the research hypothesis.

The survey dealt only with established SMMEs, as detailed in the research sample section of the research methodology. This matches the theory of Kesper (2002) with regard to the phenomenon of jobless growth in SMMEs however this may limit the applicability of the results and conclusions to the context of such established SMMEs. As previously described, much of the literature suggests that most employment creation potential of SMMEs comes from establishment and initial growth of new enterprises. For new SMMEs to be established on a scale which will assist the amount of employment creation required in South Africa will take much assistance from government. Much of the motivation for this research is to contribute to the development of SMMEs in South Africa. Therefore, although an analysis on the SMME support environment does not directly influence the research question, it is integral to consider in any analysis of the South African SMME environment or economy.

5.3 Report on the Current State of SMME Development Programmes

As reported in the current state of small enterprise support review, in the literature review section of this report, there are many support services available to small enterprises providing access to finance, technical skills development and advice as well as networking and export development. Assessing the effectiveness of these programmes is beyond the scale of this project, and although such an analysis by was conducted by Rogerson (2004), the SMME support environment has changed drastically in the interim.

Some important points which were noted from the evaluation of the small business support environment are as follows:

- A strong focus still exists towards providing finance for small businesses. Based on the results of this project the provision of finance does not appear to be the major factor contributing to small business success and more focus on

technical assistance is required in conjunction with finance for the support to be effective.

- The small business support environment is unstable. The frequency at which support institutions are established, merged and closed (most often due to financial mismanagement) is unacceptable. This makes it difficult for SMMEs to find appropriate support and also brings much instability to an environment that requires stable and consistent support if it's potential is to be realised.
- These institutions remain more accessible to the small to medium size businesses that generally do not require the support as much as micro- and survivalist enterprises do. Access to this support is difficult for micro- and survivalist enterprises as they have more difficulty discovering these support programmes and lack resources to complete the application process for support. This system is fundamentally flawed and must be re-assessed and modified if it is to provide SMMEs with support in line with the objectives of the White Paper on small business.

If SMMEs are to be developed so that they may make a real contribution in terms of employment creation, economic growth and empowerment, government needs to review and update these development programmes to achieve a specific hierarchy of goals and the implementation of these programmes needs to be properly arranged and monitored. Again, this discussion does not directly influence the research question but is very important, along with various other topics, when considering SMME development in South Africa.

5.4 Philosophical Response

Several interesting concepts emerged in the process of this research which are not within the scope of the research however it is important to consider these topics, even in a speculative manner, to add greater context and meaning to the research. These concepts are a synthesis of opinions of the researcher and the respondents as well as ideas emerging in the course of literature research.

Employment creation is one of the most pressing issues in South Africa and is clearly at the root of many social problems in the country. Since government is responsible for starting most major development initiatives the issue of employment creation becomes politicised. The result of this is that much impetus of employment creation becomes lost in the course of party politics. Employment creation is imperative to South Africa and should be de-politicised if the goals of creating real employment on a large scale is ever to be achieved.

This research shows the limited ability of established SMMEs to create employment. The goal of employment creation must therefore be achieved through new business formations. As shown in this research the business environment in South Africa is very restrictive especially concerning small business start-ups. Therefore, if South Africa is to truly realise the employment creation potential of small enterprises government must reengineer the regulatory environment and support measures to stimulate entrepreneurship and encourage new business formations.

In the process of employment creation, South Africa needs to be careful to ensure that any employment created is meaningful in an economic development sense. Employment which is created must add to the economic development of the country and assist to make South Africa more competitive on a global scale. Creating artificial employment positions which do not contribute to making organisations more competitive and more successful in stimulating the local economy are not sustainable in the long term. There is scope for programmes such as the extended public works programme and similar initiatives as they assist in alleviating poverty in the short term which is vital for South Africa. However,

these programmes are not creating employment and are not assisting South Africans to make a meaningful contribution to the economic development of our country.

All businesses are motivated by the traditional focus on the ‘bottom line’. Businesses need to develop a focus on the triple bottom line of economic success or profitability, social development and environmental consciousness. The social development and environmental consciousness aspects are especially important because, although they are not reflected in current economic success they are the factors which will determine the long term sustainability of the country and the business.

CHAPTER 6 – CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the conclusion to the research including the final evaluation of the research objectives which were met, the confirmation of the hypothesis and recommendations for future research questions arising from the research.

6.1 Conclusions

In 1995 government introduced the White Paper on Small Business with the intention of developing the small business environment in South Africa. The White Paper detailed the formation of the National Small-Business Strategy with a sight to greatly decreasing unemployment figures and promoting economic and social development of the country. The desired outcomes of the White Paper were: to formalise government's strategy for developing small business, address inequalities in business as a result of apartheid, and establish a new set of support institutions, on a broad level, to support, coordinate and monitor the development of the small business sector.

The effectiveness of the subsequent policies and programmes implemented to develop small businesses has been a point of contention among researchers and policy makers. One major critique of the strategy for small business development in South Africa is a perceived conflict between the goals of stimulating economic growth, by developing the competitiveness of small businesses, and creating employment on a large scale as small businesses have the potential to do.

From the research conducted it can be deduced that small businesses do have the potential to create sustainable employment. However, for South African SMMEs to become more competitive in a global marketplace more efficient production systems are required to lower costs and increase output. The factor limiting productivity then becomes labour and labour is becoming increasingly expensive in through increased wages (including deductibles) and complicated and tenuous labour relations. Therefore small businesses aiming to become more competitive will tend to limit their dependence on labour to minimise costs and productivity

constraints. So, the goal of economic growth for SMMEs conflicts with national goal of employment creation through SMMEs. The research hypothesis is therefore confirmed:

As South African SMMEs shift their focus to becoming more competitive in the global marketplace their ability or capacity to create sustainable employment decreases.

The qualitative nature of this study means that data of greater depth was gathered from a small sample of the population. The chosen sample included SMMEs from across industries and size categories but was limited to established businesses – those older than ten years. This is due to the dichotomy of employment growth trends of newly formed and established SMMEs. Since the research question was specifically aimed at analysing links between employment growth and increasing competitiveness the sample needed to consist only of established SMMEs. The research is therefore limited in its applicability to the entire SMME economy.

The strength of this research is that it shows that the greatest potential for creating employment in South Africa comes from the formation of new SMMEs. For this employment to be sustainable requires these SMMEs to succeed over a long term. An influx of newly formed SMMEs which succeed in the long term will develop the economy, stimulate a more competitive environment, and thus achieve the national goals proposed by the White Paper. The focus of small business development in South Africa should therefore be on new business formations and entrepreneurship.

The small business support environment has changed drastically since the publication of the White Paper and the original national small-business strategy. Many support institutions have been established and subsequently merged or closed due to financial mismanagement or perceived lack of impact. The support remain biased toward finance support which is not considered as important (on its own at least) as technical support and training. The support institutions remain more accessible to the small and medium sized businesses that arguably require this support less than the micro- and survivalist enterprises.

This unstable and unfocussed SMME support and development environment is not conducive to encouraging new business formations and developing entrepreneurship. To accomplish this requires a stable support environment offering services which have been developed to encourage potential entrepreneurs to open businesses and enable these businesses to succeed. The review of the current SMME development programmes shows the disarray of the support and development environment which has made it largely ineffective in achieving its goals.

6.2 Recommendations for Future Work

This research has raised specific questions relating to small businesses and the South African business environment. Research on the following topics would be beneficial in gaining a better understanding of the small business environment in South Africa, for researchers and policy makers:

- Perceptions of labour relations in South Africa from the viewpoints of small businesses.
- Small business views on the collective bargaining process.
- How small businesses become successful: analysing small business success stories to determine what is required from newly formed businesses.

The most important recommendation is for more statistical research to take place to develop a more comprehensive and reliable set of statistics on the small business environment in South Africa. This is vital for policy makers and researchers.

BIBLIOGRAPHY

Automobile Association [AA] (2008), *'Fuel Pricing for 2008'*, online article, available at http://www.aa.co.za/content/550/2008-fuel-pricing/, accessed 15 January 2012.

Abor J and Quartey P (2010), *'Issues in SME Development in Ghana and South Africa'*, International Research Journal of Finance and Economics, Issue 39.

Achanga P, Shehab E, Roy R & Nelder G (2006), "*Critical success factors for lean implementation within SMEs*", Journal of Manufacturing Technology Management, Vol. 17, No. 4.

Anderson R (2007), '*Thematic Content Analysis (TCA): Descriptive Presentation of Qualitative Data'*, Private publication.

Antony J, Kumar M & Madu C.N (2005), *'Six sigma in small- and medium-sized UK manufacturing enterprises: Some empirical observations'*, International Journal of Quality & Reliability Management, Vol. 22, No. 8.

Bellema U (2010), *'Local Content Policy and SMEs Sector Promotion: The Nigerian Oil Industry Experience'*, International Journal of Business and Management Vol. 5, No. 5.

Berry A, von Blottnitz M, Cassim R, Kesper A, Rajaratnam B & Ernst van Seventer D (2002), '*The Economics of SMMEs in South Africa'*, Trade and Industrial Policy Strategies [online], available at http://www.tips.org.za/node/204.

Bloch R & Daze S (2000), *'A Review Of The South African Local Business Service Centre Programme: Current Status, Future Prospects'*, Final Report For International Development Research Centre - Regional Office Southern Africa.

Bulletin Online (2001) The Bulletin Online: Free State business website, May 2001: '*SMME sector as key to growth and development*' [online], available at http://www.bulletinonline.co.za/archives/smme/maysmme01.php, accessed 03 August 2010.

Cape Gateway (2004), '*Cape Gateway: Small Business Incentive Schemes'*, online article, available at http://www.capegateway.gov.za/Text/2004/11/incentive_schemes.pdf, accessed 09 April 2011.

Centre for Development and Enterprise [CDE] (1999), *'Encouraging Small Business: Is government doing more harm than good?'*, 12th CDE debate, available online at http://www.cde.org.za/article.php?a_id=54, Accessed 03 August 2011.

Dangayach G & Deshmukh S (2004), '*Advanced manufacturing technology implementation: Evidence from Indian small and medium enterprises (SMEs)*', Journal of Manufacturing Technology Management, Vol. 16, No. 5.

Davis S, Haltiwanger J & Schuh S (1993), *'Small Business and Job Creation: Dissecting the Myth and Reassessing the Facts'*, National Bureau of Economic Research: Working Paper No. 4492.

Dorfling (2001), '*Enhancing Small, Medium and Micro Enterprise Support Provision: The Case of Port Elizabeth, South Africa'*, Thesis (MA), University of the Witwatersrand, Johannesburg.

DTI (2005), *'Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises'* [online], available at www.dti.gov.za/SMME/strategy.pdf, accessed 03 August 2010.

Dunne N (1999), *'The Importance Of Understanding Market Demand: South African Furniture Manufacturers In The Global Economy'*, Research Report, School of Development Studies: University of Natal.

Dwyer F & Tanner J (2009), *'Business Marketing: Connecting Strategy, Relationships, and Learning'*, 4th Edition, McGraw Hill, New York.

Dzansi D.Y (2004), '*Social Responsibilities of SMMEs in Rural Communities*', Thesis, (PhD), University of Pretoria.

Education and Training Unit [ETU] (2004), *'Small Business Development guide'*, available online at http://www.etu.org.za/toolbox/docs/government/sbd.html, Accessed 09 April 2011.

Engineering News (2000), *'Making small business a big issue again'*, online article, available at http://www.engineeringnews.co.za/article/making-small-business-a-big-issue-again-2000-08-11, Accessed 03 October 2011.

Falkena H, Abedian I, Von Blottnitz M, Coovadia C, Davel G, Madungandaba J, Masilela E, Rees S (2001), *'SMEs' Access To Finance In South Africa – A Supply-Side Regulatory Review*', Internal Report: Policy Board for Financial Services And Regulation, Available online at http://www.treasury.gov.za/publications/other/Access%20to%20Finance%20in%20South%20Africa%20-%20A%20Supply-Side%20Regulatory%20Review.pdf.

Family Health International [FHI] (2005), '*Qualitative Research Methods: A Data Collector's Field Guide, Module 1: Qualitative Research Methods Overview*', available online at http://pdf.usaid.gov/pdf_docs/PNADK310.pdf, accessed 19 February 2012.

Finlay, L (2006), ''*Rigour', 'ethical integrity' or 'artistry'? Reflexively reviewing criteria for evaluating qualitative research'*, The British Journal of Occupational Therapy, Vol. 69, No 7.

Frankel R & Devers K (2000), '*Study Design in Qualitative Research—2: Sampling and Data Collection Strategies'*, Education for Health, Vol. 13, No. 2.

Fulton M & Hon H (2009), *'Managing advanced manufacturing technology (AMT) implementation in manufacturing SMEs'*, International Journal of Productivity and Performance Management, Vol. 59, No. 4.

Greenstein R, Roberts B & Sitas A (2004), *'Research Methods Training Manual'*, Private Publication.

Guest G, Bunce A & Johnson L (2006), '*How Many Interviews Are Enough? An Experiment with Data Saturation and Variability',* Field Methods, Vol. 18, No. 1.

Henwood K L and Pigeon N R (1992), '*Qualitative research and psychological theorising*', British Journal of Psychology, 83(1).

Kesper A (2001), '*Failing Or Not Aiming To Grow? Manufacturing SMMEs And Their Contribution To Employment Growth In South Africa'*, Trade and Industrial Policy Strategies [online], available at http://www.tips.org.za/files/412.pdf.

Kesper A (2002), '*Tracing trajectories of successful manufacturing SMMEs in South Africa'***,** Thesis (Ph.D.)--University of the Witwatersrand, Johannesburg.

Martin R (2004), *'A Study on the Factors of Regional Competitiveness'*, The European Commission Directorate-General Regional Policy, available online at http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/3cr/competitiveness.pdf, Accessed 07 October 2011.

Mazwai E.T (2009), *'The Effectiveness of Local Business Service Centres in Small Business Development: A study in Gauteng Province'*, South Africa, Unpublished dissertation, University of Pretoria.

Mbendi (2011), '*Mbendi Information Services: Incentives'*, online article, Available at http://www.mbendi.com/land/af/sa/p0027.htm, Accessed 09 April 2011.

Merten, M (2011), IOL News: *'Zuma Showcases Job Creation'*, online, available at http://www.iol.co.za/news/zuma-showcases-job-creation-1.1155446, accessed 30 November 2011.

Molapo S (2007), *'Financial sector support for small business development'*, Unpublished dissertation, University of Johannesburg.

Neumark D, Wall B & Zhang J (2008), *'Do Small Businesses Create More Jobs? New Evidence for the United States from the National Establishment Time Series'*, Institute for the Study of Labour Discussion Paper No. 3888.

Ntsika (1999), "*State of Small Business in South Africa – 1998 Review*", Ntsika Enterprise Promotion Agency.

Organisation for Economic Co-operation and Development [OECD] (2000), *'Small and Medium-sized Enterprises: Local Strength, Global Reach' Policy Brief*, Available online at http://www.oecd.org/dataoecd/3/30/1918307.pdf, Accessed 3 October 2011.

Ratcliff D (2004), '*15 Methods of Data Analysis in Qualitative Research'*, private publication, available at http://qualitativeresearch.ratcliffs.net/15methods.pdf, Accessed 11 February 2012.

Rees M (2011), 'Moneyweb: *Yikes! More electricity price increases*' online article, available at http://www.moneyweb.co.za/mw/view/mw/en/page295023?oid=534394&sn=2009%20Detail, accessed 15 January 2012.

Republic of South Africa [RSA] (1995), '*National strategy for the development and promotion of small business in South Africa'*, Cape Town: Department of Trade and Industry.

Republic of South Africa [RSA] (1996), '*National Small Business Act (No. 102 Of 1996)'*, Cape Town: Department of Trade and Industry.

Republic of South Africa [RSA] (2002), '*Advanced Manufacturing Technology Strategy*', Cape Town: Department of Science and Technology.

Republic of South Africa [RSA] (2003a), *National Small Business Amendment Act (Act 26 of 2003)*, Cape Town: Department of Trade and Industry.

Republic of South Africa [RSA] (2003b), '*Integrated Small Business Development Strategy in South Africa 2004 – 2014'*, Cape Town: Department of Trade and Industry.

Republic of South Africa [RSA] (2005), *'Department of Trade and Industry: Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises'* [online], available at www.dti.gov.za/SMME/strategy.pdf, accessed 03 August 2010.

Republic of South Africa [RSA] (2008), *'A National Industrial Policy Framework'*, Cape Town: Department of Trade and Industry, available at http://www.sarpn.org/documents/d0002722/index.php.

Republic of South Africa [RSA] (2011a), South African Government information website, available at http://www.info.gov.za/speech/DynamicAction?pageid=461&sid=16154&tid=27985, accessed 30 November 2011.

Robson G (1996), *'Unravelling the Facts about Job Generation'*, Small Business Economics, Issue 8.

Rogerson C.M. (2000), 'Successful SMEs in South Africa: the case of clothing producers in the Witwatersrand', Development Southern Africa Vol 17, No 5.
Rogerson C.M. (2004), *'The impact of the South African government's SMME programmes: a ten-year review (1994–2003)'*, Development Southern Africa 21/5.

Sekoala, M (2008), *'Financial sector support for small business development'*, online article, Available at http://ujdigispace.uj.ac.za:8080/dspace/handle/10210/620, Accessed 09 April 2011.

Small Enterprise Development Agency (SEDA) (2006), '*SEDA Annual Report 2005-2006'*, privately published.

South African Institute for Industrial Engineering [SAIIE] (2012), SAIIE website, online, available at http://www.saiie.co.za/, Accessed 11 February 2012.

Statistics South Africa (2005), *'Manufacturing Industry Survey 2005'*, Statistics South Africa Website, http://www.statssa.gov.za, accessed 02 July 2011.

Supyuenyong V, Islam N & Kulkarni U (2009*), 'Influence of SME characteristics on knowledge management processes: The case study of enterprise resource planning service providers'*, Journal of Enterprise Information Management, Vol. 22, No. 1/2.

Toomey (1998), *'South African Small Business Growth Through Inter-firm Linkages'*, PhD Thesis, Rhodes University, Available online at http://eprints.ru.ac.za/27/1/toomey.PDF.

TradeInvest South Africa (2007), *'The Small and Medium Enterprise Development Programme (SMEDP)'* online article, available at http://www.tradeinvestsa.co.za/incentives/983082.htm, accessed 15 April 2011.

Trading Economics (2012), '*South Africa Inflation Rate'*, online article, available at http://www.tradingeconomics.com/south-africa/inflation-cpi, accessed 15 January 2012.

Visage J.C (1997), *'SMME challenges in reconstructing South Africa'*, Management Decision, Vol. 35, No.9.

Visage J.C (1999), *'The Influence of affirmative action on SMME culture in South Africa'*, Participation & Empowerment: An International Journal, Vol. 7, No. 6.

Wong K & Aspinwall E (2004), *'Characterizing Knowledge Management in the Small Business Environment'*, Journal of Knowledge Management, Vol. 8, No. 3.

APPENDIX A

Appendix A gives a summary of the elements of the National Small-Business Strategy and a list of current SMME support programmes available in South Africa.

Appendix A1 - Elements of the National Small-Business Strategy

The White Paper covers many different aspects of business support which the government envisioned for the development process. These support aspects include not only national government action, but also involvement of the private sector, NGOs and local authorities (government).

The elements of the support framework are as follows:

1. Creating an enabling legal framework

The importance of properly designed enabling acts in economic reconstruction and development was recognised by government, and subsequently several key areas requiring a legal framework were identified:

1.1 A national Small Business Act

Providing a statutory base for agencies created to develop small enterprises as well as to provide a regulatory basis such as definitions of SMME categories, eligibility for state support etc.

1.2 A Transaction and Procurement Act

Encouraging or regulating transaction and procurement between large and small enterprises through procurement rules and incentives, and thus addressing the issue of market access for small enterprises.

1.3 A Small Business Finance Act

Addressing the issue of funding for small enterprises. This includes encouraging increased lending volume from financial institutions, recognising non-

conventional collateral types and facilitation of deposit-taking by lender NGOs, all with the motive of increasing financing for small enterprises.

2. Streamlining regulatory conditions

Inappropriate or unnecessary legislative and regulatory conditions are recognised as obstacles to growth, particularly pronounced in the case of small enterprises. The following measures are recommended in this respect:

2.1 Ensuring regulations are appropriate and developed in consultation with all affected parties while ensuring that national economic growth and job creation, within the framework of the RDP, remains the primary objective.

2.2 Continuous monitoring or periodic review, by the DTI in conjunction with the Competition Board, of existing legislation and regulations. This will aim to improve suitability and ensure relevance of such legislation and regulations to small enterprises. It will also ensure that an environment in which small enterprises are able to compete is maintained.

2.3 Provision of legal assistance, within the boundaries of feasibility, to small enterprises that would otherwise be unable to defend their interests through the relevant legal processes.

2.4 Supporting steps to reform the small claims court with the aim of making the process less burdensome and allowing small enterprise to solve claims issues of higher value through this process.

2.5 Establishing a more user-friendly environment for small enterprises through the simplification and standardisation of relevant documentation such as: business registration and licensing, loan applications, tender documents, export documentation, tax returns and statistical data collection.

3. Access to information and advice

The importance of providing information and advice to the small business sector, particularly micro and survivalist enterprises is recognised and various measures are suggested in this respect:

3.1 Information and advice should be sector orientated, supplied at grassroots level, and developed by all parties involved in small enterprise support (Government, parastatals, private organisations and NGOs).

3.2 Government involvement in the provision of information and advice will be guided by the following principles:

- The DTI will be responsible for the dissemination of information about all aspects of the National Small Business Strategy. It will undertake to produce an Annual Small Business Report or Handbook.
- A country-wide network of Local Service Centres (LSCs) is proposed to facilitate the spread of information and advice at a grassroots level. These LSCs will be expected to provide a range of services of which provision of information and advice is but one.
- Government will not be directly involved in the preparation or dissemination of information and advice. Private institutions and NGOs are expected to undertake the bulk of the information and advice support, which will then be channelled mainly through LSCs.

3.3 A large mentor advisory scheme, either voluntary or funded through parastatals, NGOs or private organisations, is suggested. This is expected to provide effective transfer of experience, especially in cases where passive availability of information may not be effective. Government, however, does not wish to provide substantial financial support to such a scheme.

3.4 The importance of establishing a comprehensive base of statistical information for the SMME sector is recognised. The task of establishing and revising such a knowledge base is seen as the joint responsibility of: The DTI, Central Statistics Services (Stats SA), the SBDC, the Council for Scientific and Industrial Research (CSIR), the private sector and the various organisations operating under the framework of the National Small Business Strategy.

4. Access to marketing and procurement

The growth of small enterprises, especially beyond the level of subsistence is widely considered to be restricted by market constraints and the inability of these

organisations to sell their products and services. The individual entrepreneurs or businesses, local government and business associations as well as the established business community are expected to share the responsibility of improving this situation. Government involvement is proposed in a number of ways:

4.1 Encourage the Competitions Board to ensure more competitive practices with regard to small enterprises and become more accessible to small enterprises.

4.2 Take steps, through incentives and benefits, to encourage the big-business sector to interact with small enterprises on a larger scale.

4.3 Encourage the simplification of the tender process for all public sector and parastatal organisations in order to make it easier for small enterprises to compete.

4.4 Adjust public procurement practices at all levels of government to facilitate a proportion of contracts going to small enterprises, particularly those which are black owned or controlled.

4.5 Give assistance to small enterprises to be able to meet the conditions of government awarded contracts. This relates to the provision of information and advice and will be primarily undertaken by LSCs.

4.6 Develop small enterprise export support programmes to enable small enterprises to better compete in the export market. Some propositions are finance schemes, exhibition facilities; new types of export trading houses, revised export credit guarantee schemes and export marketing assistance scheme and provision of special training.

4.7 Integrate the above steps with regard to marketing and procurement with supply-side efforts relating to training, finance, technological support and sector-support programmes. The intention of this is to ensure the quality of goods and services obtained from small enterprises thus ensuring that support for this sector is sustainable and in line with developing the economy.

4.8 An issue linked to marketing and procurement is the disadvantage small enterprises experience with regard to the economies of scale principle. It is proposed for LSCs to channel approaches such as inter-firm clustering and discouraging supplier networks so that small enterprises may become more competitive as a result of more affordable purchases.

5. Access to finance

Access to finance is widely regarded as one of the most common constraints hampering the growth of small enterprises. Strengthening of the links between small enterprises and various financial institutions is required to ensure that funds are transferred effectively, based on requirements, to this sector. Government and parastatal involvement in this regard is proposed in a number of ways:

5.1 Commercial banks.

Traditionally, the commercial banking system is very hesitant to invest in the more risk prone small enterprise sector. Through the DTI and SBDC, government hopes to inform commercial banks in the long run strategy of the RDP framework and improve accessibility of commercial banking investment to small enterprise, particularly in rural areas and among black entrepreneurs.

5.2 SMME-focused financing institutions

Government opinion is that the majority of development funding for small enterprises should come from the banking and financial services sector, gaps exist in the supply of funds to small enterprises which this sector is not able to fill. Assistance through government/parastatal development organisations is therefore proposed, as an intermediate solution, in the form of:

- Start-up equity for these development agencies.
- Lower-interest loan capital for on-lending provided to these development agencies.
- Ongoing subsidisation and grant finance for support service organisations.

5.3 Micro-enterprise finance

Government will continue support of development agencies providing micro-loans and financial support to micro- and survivalist enterprises within the boundaries of the budget and the objectives of the White Paper. This support is

likely to be channelled through parastatal, provincial and local government level and should focus on capacity building of this small enterprise sector.

5.4 Venture finance

Although the bulk of venture finance activity should come from the private sector government does intend to capitalise some equity funds aimed at disempowered entrepreneurs, most likely through small enterprise focused financing institutions.

5.5 Credit guarantees

An expanded credit guarantee scheme is proposed.

5.6 Deposit-taking by lending NGOs
5.7 Alternative collateral
5.8 Information on access to finance

6. The physical infrastructure

The physical infrastructure refers to industrial premises as well as infrastructure facilities such as supply of basic services, telecommunications, street lighting and parking facilities. The limited budget prevents government from funding such activity but it does intend to monitor needs and gaps in the funding process and encourage cooperation between different levels of government, financiers, parastatals and the private sector to meet these requirements.

7. Training in entrepreneurship, skills and management

Training in various vocational, technical and business skills is seen as a critical success factor for small enterprises. There are many aspects to consider, and challenges to overcome, in this regard. This includes:

- More effective dissemination of training to the various areas and sectors of the country.
- Training needs to be appropriate for the organisation size, sector and education/skill level of the trainees.

- Expansion of business mentorship systems and business internships and traineeships.

8. Industrial relations and the labour environment

Government recognises the challenges faced by small enterprises regarding labour in that remuneration of employees is kept as low as possible in order to compete with large enterprises. Government believes that competitiveness is better achieved through improving the skills of employees and more egalitarian labour relations and therefore proposes that the collective bargaining system is adjusted to account for the needs of small enterprises while protecting employee rights.

9. Access to appropriate technology

Very often small enterprises are restricted access to technology, most commonly due to limited resources. This is the case for enterprises operating in high technology or service industries or low technology, labour intensive industries. Government support is proposed in the form of parastatal organisation such as the CSIR, the Foundation for Research and Development (FRD) and the National Productivity Institute (NPI). Rollout of this support will most likely come from LSCs.

10. Encouraging joint ventures

Opportunities and needs which support services cannot offer may be afforded to small enterprises through joint ventures. Such joint ventures may be with small or large enterprises, foreign or local. LSCs are expected to channel information and facilitate networking to encourage such joint ventures.

11. Capacity-building and institutional strengthening

This refers to the role of business organisations, operating at all levels, in strengthening the small business sector. Government proposes greater involvement of small business in such associations. It is envisioned that associations representing small business may be represented on the NSBC. In

terms of capacity building, it is proposed that business associations may operate as LSCs and also that the DTI, SBDC or provincial SMME desks can use business associations to implement support policies.

12. Differential taxation and other financial incentives

Commonly the only reinvestment for future growth for small enterprises comes from any retained earnings. Many tax concessions or financial incentives have been proposed and considered yet the issue is very complicated for fear of incurring large-scale tax avoidance.

Appendix A2 – Current State of SMME Support

This section gives a list of the current SMME support programmes and institutions available in South Africa. The list was up to date at June 2011.

Key National Small Business Agencies

- Khula Enterprise Finance Limited. A wholesale financial institution aimed at providing finance to SMMEs likely to be excluded by commercial financial institutions. Khula operates at a national level providing funding through a network of, public and private, retail financial intermediaries throughout the country.
- Small Enterprise Development Agency (SEDA). Operating at a national level, through a countrywide network of offices, SEDA provides focused, non-financial support to small business. SEDA has services aimed to assist start-ups and growth of small businesses.
- Tshumisano Trust. The Tshumisano Trust provides technical and financial support, on behalf of the Department of Science and Technology, to technology stations based at universities of technology nationwide. The technology stations then offer technical support, such as technology, services and training solutions, to SMMEs.

Credit Indemnity / Guarantee

These schemes are intended to give access to financial support for small businesses that require capital (for start-up or expansion) but would not ordinarily have sufficient collateral to secure a loan. The credit indemnity schemes currently available are:

- Khula Credit Indemnity Scheme.
- Thembani International Guarantee Fund.

Export Development

These initiatives are aimed at increasing the involvement of SMMEs in the export market through a range of non-financial services such as market intelligence,

training and mentoring, and facilitating participation of SMMEs in international trade shows.

The export development initiatives currently available are:

- The City of Johannesburg's SMME Export Promotion Project.
- Trade Point South Africa programme.

Finance - National

There are several institutions, operating at a national level, which provide financial assistance to SMMEs. This finance may be for a wide range of undertakings requiring capital investment including: Start-up, expansion, franchising, empowerment deals and land reform. These institutions may be private or publicly funded (including parastatals). Financing institutions currently operating at a national level are:

Private - National

- Anglo Zimele Business Development
- Business Partners
- Grofin
- Marang Financial Services
- New Business Finance

Public - National

- Industrial Development Corporation (IDC)
- Khula Enterprise Finance Limited (Khula)
- National Empowerment Fund (NEF)
- South African Micro Finance Apex Fund (Samaf)

Finance - Provincial

In addition to these institutions operating at a national level, there are several financing institutions operating at a provincial level. These are:

- **Gauteng**: Gauteng Enterprise Propeller
- **Mpumalanga**: Mpumalanga Economic Growth Agency
- **Kwazulu-Natal**: Ithala Development Corporation
- **Eastern Cape**: Business Finance Promotion Agency

Eastern Cape Development Corporation

- **Free State**: Free State Development Corporation
- **Limpopo**: Small Enterprise Foundation

DTI Incentives and Grants

The DTI offers various incentives and grants aimed at developing small businesses. The incentives and grants currently on offer to SMMEs are:

- Black Business Supplier Development Programme
- Cooperatives Incentive Scheme
- Export Marketing & Investment Assistance
- Support Programme For Industrial Innovation
- Technology And Human Resources For Industry Programme

Incubation

A range of business incubation environments and associated services are available to SMMEs. These are designed specifically to encourage start-ups and increase survival rates of start-ups. Incubators currently in existence are:

- Black Umbrellas
- Chemin
- Egoli Bio Life Sciences Incubator
- Downstream Aluminium Centre For Technology
- Furntech Advanced Furniture Technologies (Furntech)
- Lepharo (SEDA Ekurhuleni Base Metals Incubator)
- Mpumalanga Stainless Initiative
- Mpumalanga Agri-Skills Incubator
- Nelson Mandela Bay Incubator

- SEDA Agriculture, Mining And Tooling Incubator
- SEDA Automotive Technology Centre
- SEDA Construction Incubator
- SEDA Essential Oils Business Incubator
- SEDA Limpopo Jewellery Incubator
- SEDA Maphura-Makhura Incubator
- SEDA Platinum Incubator
- SEDA Sugar Cane Incubator
- SEDA Technology Programme
- Softstart Business And Technology Incubator
- Soshanguve Manufacturing Technology Demonstration Centre
- Timbali Technology Incubator
- Zenzele Technology Demonstration Centre

Industry-Specific Programmes

Several industry-specific programmes are currently on offer:

- Tourism Enterprise Partnership. It offers non-financial support to small enterprises in the tourism sector aimed at improving sustainability of enterprises in this sector and hence promoting job creation. The types of services offered by this programme include: product development, skills development and marketing support.
- Investing In Culture Programme. It provides access to markets and skills, for individuals or small enterprises involved in crafts, music, design or performing arts. This aims to encourage urban regeneration, rural development, and job creation
- Vukuzakhe Emerging Contractors Development. Aimed at promoting sustainable business development in the emerging contractor sector, technical and training support is offered as well as assistance in accessing finance.

Linkages and Partnerships

Two support programmes exist to develop linkages and partnerships to allow South African small enterprises to access new markets as well as develop partnerships with other firms, small or large, local or international. The linkage and partnership programmes currently available are:

- Business-To-Business Programme, supporting the establishment of partnerships between South African and Danish companies. This is intended to provide access to new technologies for South African companies and access to new markets for Danish companies.
- South African International Business Linkages, aimed at assisting black enterprises in developing mutually beneficial business partnerships and accessing new export markets.

Mentorship

Mentorship programmes harness the business skills, expertise and wisdom of experience professionals to provide non-financial (technical) support to small enterprises. The two mentorship programmes currently available are:

- Business Partners Mentors
- Khula Mentorship Programme

Networking

The (purely) networking support currently available comes in the form of Enablis Entrepreneurial Network. This is an interactive network of entrepreneurs in developing countries who are specially selected and formally accredited and is intended to promote partnerships and linkages.

Other Support Programmes

Several ‘other’ SMME support programmes exist offering a broad range of technical or non-financial support and limited financial support. Currently, these programmes are:

- The Business Place – Technical assistance, training, mentorship and loan facilities.
- Real Enterprise Development Initiative (or Red Door) – Technical assistance, start-up assistance and research facilitation (Western Cape only).
- Smartxchange – Technical and business development advice for small ICT (Information and communication Technologies) companies (Kwazulu-Natal only).
- The Khula Property Portfolio – Provides premises to expanding or start-up SMMEs at highly subsidised rental rates.
- National Technology Transfer Centre - facilitates technology transfer and diffusion to SMMEs
- Technology Advice Centre (TAC) – Provides information on current technology trends and provides information on technological support available to SMMEs.
- Technology Stations Programme - Aimed at strengthening technological innovation and upgrading skills to increase the competitiveness of technology-based SMMEs in the following targeted sectors:
  - Agrifood processing;
  - Electronics;
  - Metal value adding;
  - Chemicals;
  - Metal casting;
  - Composite and moulded plastics;
  - Tooling and die making (TDM).
- Institute For Advanced Tooling – Aimed at developing emerging SMMEs to be internationally competitive in the tool and die making industry through technology transfer initiatives, innovation, applied research and development.
- National Fibre, Textile and Clothing Centre – Assists in the incubation of SMMEs in the fibre technologies sector by providing facilities, advice, equipment and mentoring so as to increase the number of start-ups.

- The Venture Capital Fund – Funds early development phases of technology based SMMEs. The early development phases include: prototyping, product development, marketing and early production.

Training and Technical Assistance

Several programmes exist to exclusively provide training and technical assistance to SMMEs. Programmes currently available are:

- Merseta Voucher Implementation Project (VIP) For SMMEs.
- Expanded Public Works Programme (EPWP) Vuk'uphile Learnership.
- Mining Qualifications Authority's Technical Training Support Initiative.
- Transport Education and Training Authority's SMME support programme.

APPENDIX B

Appendix B includes the SMME classification schedule as well as several SMME sector statistics for South Africa.

Appendix B1 – SMME Classification Schedule.

Table 7 is the classification schedule for SMMEs in South Africa. The table is arranged by sector and classifies SMMEs according to number of employees, turnover and gross asset value.

Table 7. SMME Classification Schedule.

Sector or subsector in accordance with the Standard Industrial Classification	Size of class	The total full-time equivalent of paid employees	Total turnover	Total gross asset value (fixed property excluded)
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very Small	10	R0.50m	R0.50m
	Micro	5	R0.20m	R0.10m
Mining and Quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
	Very Small	20	R4m	R2m
	Micro	5	R0.20m	R0.10m
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5m	R2m
	Micro	5	R0.20m	R0.10m
Electricity, Gas and Water	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5.10m	R1.9m
	Micro	5	R0.20m	R0.10m
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m

Retail and Motor Trade and Repair Services	Medium	200	R39m	R6m
	Small	50	R19m	R3m
	Very Small	20	R4m	R0.6m
	Micro	5	R0.20m	R0.10m
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	R64m	R10m
	Small	50	R32m	R5m
	Very Small	20	R6m	R0.6m
	Micro	5	R0.20m	R0.10m
Catering, Accommodation and other Trade	Medium	200	R13m	R3m
	Small	50	R6m	R1m
	Very Small	20	R5.10m	R1.9m
	Micro	5	R0.20m	R0.10m
Transport, Storage and Communications	Medium	200	R26m	R6m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.60m
	Micro	5	R0.20m	R0.10m
Finance and Business Services	Medium	200	R26m	R5m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Community, Social and Personal Services	Medium	200	R13m	R6m
	Small	50	R6m	R3m
	Very Small	20	R1m	R0.6m
	Micro	5	R0.20m	R0.10m

Appendix B2 – SMME Sector Statistics

Table 8 gives the distribution of private sector enterprises in South Africa. The table is arranged by industry. Since the Ntsika Enterprise Promotion Agency no longer exists, these statistics are taken from reports which cite the original source.

Table 8. Distribution of Private Sector Enterprises (1997).

Estimated distribution of private-sector enterprises (Ntsika 1997)								
Sector	Survivalist	Micro (One employee)	Micro (1-4 employees)	Very Small	Small	Medium	Large	Total
Agriculture	14700	13600	26200	17900	20900	3240	1520	98100
Mining	1100	300	2200	500	131	112	137	4500
Manufacturing	19600	30900	14800	30600	4800	340	1479	106000
Construction	19900	27600	24100	13300	2300	996	320	88500
Wholesale trade	900	3200	3300	8900	3270	660	577	20800
Retail trade	91700	120300	53200	43300	13100	970	744	323300
Catering & Accommodation	2300	3300	5700	660	3450	385	124	21900
Transport	7600	28400	14600	6200	1400	293	303	58800
Finance & Business services	7700	25400	15100	24300	4600	301	425	77800
Community, social & personal services	18900	30300	23600	28400	4900	525	388	107000
Total	**184400**	**283300**	**182800**	**180000**	**58900**	**11322**	**6017**	**906700**

Table 8, taken from Falkena et al (2001), gives a breakdown of the number of businesses in each size category and across sectors, including large enterprises, reported in 1997. As these statistics are not taken from the original it is unclear whether these include informal businesses. However, since a large number of businesses are reported in the survivalist size category, and since very often survivalist enterprises are informal, it can be assumed that these statistics do include informal enterprises. Similarly, table 9 which follows may also be assumed to include informal enterprises.

Table 9. Distribution of Private Sector Enterprises (1995)

Estimated distribution of private-sector enterprises (Ntsika 1995)								
Sector	Survivalist	Micro (One employee)	Micro (1-4 employees)	Very Small	Small	Medium	Large	Total
Agriculture	16000	9500	12400	21000	28300	3600	1400	92300
% Enterprises	17.3	10.3	13.4	22.9	30.7	3.9	1.5	100
% Employment	1.2	0.7	2.2	7.9	45.6	18.6	23.8	100
Mining	650	250	2000	500	100	100	131	3731
% Enterprises	17.4	6.7	53.6	13.4	2.7	2.7	3.5	100
% Employment	0.1	0	0.8	0.8	0.9	2.9	94.4	100
Manufacturing	28000	24300	16600	34000	5200	3850	1605	113555
% Enterprises	24.7	21.4	14.6	29.9	4.6	3.4	1.4	100
% Employment	1.8	1.6	2.1	9.2	9	22.3	54.1	100
Construction	20000	26500	16000	14000	2300	930	244	79974
% Enterprises	25	33.1	20	17.5	2.9	1.2	0.3	100
% Employment	3.9	5.2	11.4	20.7	15.1	16.9	26.8	100
Retail trade	800	2700	1200	100	2700	750	600	15850
% Enterprises	5	17	7.6	44.8	17	4.7	3.8	100
% Employment	0.3	1.1	2.2	18.1	21.5	20.9	35.9	100
Wholesale trade	102000	115000	50800	36900	12500	950	733	318883
% Enterprises	32	36.1	15.9	11.6	3.9	0.3	0.2	100
% Employment	9.1	10.3	17.7	16.5	17.4	5.7	23.3	100
Catering & Accommodation	2000	4800	3500	3000	2700	350	100	16450
% Enterprises	12.2	29.2	21.3	18.2	16.4	2.1	0.6	100
% Employment	1.4	3.5	8.1	12.5	38.9	17.6	18	100
Transport	4000	26000	12000	5800	1700	280	227	50007
% Enterprises	8	52	24	11.6	3.4	0.6	0.5	100
% Employment	1.7	11.2	16.6	16.3	16.6	9.1	28.5	100
Finance & Business services	3400	27000	12400	17600	4600	350	350	65700
% Enterprises	5.2	41.1	18.9	26.8	7	0.5	0.5	100
% Employment	0.6	5.1	7	16.7	18.1	4.9	47.6	100
Community, social & personal services	18100	23200	10300	24600	3500	400	300	80400
% Enterprises	22.5	28.9	12.8	30.6	4.4	0.5	0.4	100
% Employment	4.6	5.9	8.4	38.8	16.3	7.4	18.7	100
Total	194950	259250	137200	164600	63600	11560	5690	836850
% Enterprises	23.3	31	16.4	19.7	7.6	1.4	0.7	100
% Employment	3	3.9	6.8	13.3	19.9	13.8	39.3	100

Table 9, taken from Toomey (1998), gives the breakdown of the number of businesses in each size category and across sectors, reported in 1995, and also includes percentages of enterprises and percentage employment figures for each size class. The reliability of these statistics is however somewhat in doubt.

Appendix B3 - Distribution of Private Sector Enterprises (Reworked)

Table 10 gives a reworked table sowing the distribution of private sector enterprises only between large enterprises and SMMEs as a whole.

Table 10. Distribution of Private Sector Enterprises (Reworked)

Estimated distribution of private-sector enterprises, 1997			
Sector	Total SMME	Large	Total
Agriculture	90800	1400	92300
% Enterprises	98.5	1.5	100
% Employment	76.2	23.8	100
Mining	3600	131	3731
% Enterprises	96.5	3.5	100
% Employment	5.5	94.4	100
Manufacturing	111950	1605	113555
% Enterprises	98.6	1.4	100
% Employment	46	54.1	100
Construction	79730	244	79974
% Enterprises	99.7	0.3	100
% Employment	73.2	26.8	100
Retail trade	8250	600	15850
% Enterprises	96.1	3.8	100
% Employment	64.1	35.9	100
Wholesale trade	318150	733	318883
% Enterprises	99.8	0.2	100
% Employment	76.7	23.3	100
Catering & Accommodation	16350	100	16450
% Enterprises	99.4	0.6	100
% Employment	82	18	100
Transport	49780	227	50007
% Enterprises	99.6	0.5	100
% Employment	71.5	28.5	100
Finance & Business services	65350	350	65700
% Enterprises	99.5	0.5	100
% Employment	52.4	47.6	100
Community, social & personal services	80100	300	80400
% Enterprises	99.7	0.4	100
% Employment	81.4	18.7	100
Total	831160	5690	836850
% Enterprises	99.4	0.7	100
% Employment	60.7	39.3	100

APPENDIX C

Appendix C gives the guidelines for the interviews which were conducted as well as the initial stages of the Thematic Content Analysis.

Appendix C1 – Semi-structured Interview Guideline

The following questionnaire was used as a guideline for the semi-structured interviews conducted with the sample of SMMEs. The guideline is divided into four sections, namely: Competition, Labour, Technology and Business Environment. The guideline begins with the biographical information which was obtained at the beginning of each interview.

Semi-Structured Interview Guideline

Biographical Information

a. Company size as per SMME classification schedule?
b. Years operating?
c. Industry?
d. Main business functions?
e. Biography?

Competition

1. Which markets does the company serve (Provincial, National, International)?
2. What is the relative importance of the following competitive dimensions in your market?

    Cost

    Quality (Superior quality / consistent quality)

    Service (Lead time, stock, breakdown, personal touch)

    Flexibility (Customisation / variety)

3. What effect do these competitive dimensions have on the demand of the product (and market access both local and international)?
4. What is the company's competitive advantage (Is it a product of labour/personnel or technology)?
5. How much competition exists in the market? Is this competition from large or small companies?
6. Is there competition from imported products?
    a. Where do these imports come from?
    b. How do they compare in terms of the competitive dimensions above?

Labour

7. What is the nature of the work (Hand craft/hand-operated low level technology vs. Automated technology)
8. What are the local and international trends with regard to labour usage? (ie. tending toward more labour intensive practices)
9. What are the common labour issues for the company?
10. To what extent do you believe labour is replaceable in the company?
    a. Employee replacing employee (Skill, training, learning etc).
    b. Technology replacing employees.
11. What has the employment growth trend in the company been since 1994?
12. What do you see the employment growth trend being in the future?

Technology

13. What are the local and international trends with regard to technology usage? (ie. tending toward more technology intensive practices).
14. What is the nature of the technology which is, or could possibly be, employed in the company?
    a. Can capital expenditure be recovered in the company's current market?
    b. Would technology allow the company to enter other markets (domestic and international)?
    c. Can capital expenditure be recovered in a larger, possibly global, market?

d. Are there other risks associated with capital expenditure?

15. Is the employed technology locally manufactured or imported?
16. Does/Would technology intensive production lower input costs (considering capital expenditure, labour, material and energy)?

Discussion - Environment for businesses in South Africa

- General comments?
- Small vs. Large companies?
- Pre 1994?
- 1994 – Present?

Appendix C2 – Additional Perspective Interview 2 Guideline

This interview guideline was used during the alternative semi-structured interviews conducted with the human development consultant and the politician. It is divided into three sections, namely: SMME support, Labour and technology.

Alternative Semi-Structured Interview Guideline

SMME Support

Opinion on importance of SMMEs?

- Is the focus on SMMEs justified?
- Is there enough focus on SMMEs?

What support do you think SMMEs require?

- Providing finance vs. providing technical advice and skills?
- Business incubators etc?

What local support is available?

Labour

Opinion on labour laws and effect on business?

What are the options for sustainable employment creation?

Competitiveness

How do we make small businesses more competitive?

- Especially given cheap imports.

Opinion on protection against imports?

Appendix C3 – Initial Themes Extracted From the Thematic Content Analysis

The following 21 themes were the simple themes extracted from the initial stages of the thematic content analysis.

Theme 1: Most of the SMMEs serve local markets and serve a niche market

Theme 2: Cost is not the most important competitive dimension for most SMMEs, service, flexibility and quality are generally more important.

Theme 3: Competition is different in each industry but most SMMEs manage to define themselves and separate themselves from competitors – barrier to entry.

Theme 4: Older SMMEs follow a business model of sustainability.

Theme 5: Skilled workers are becoming scarce and are difficult to retain - apprenticeships.

Theme 6: Loyalty among staff is a big issue.

Theme 7: Over-regulation and red tape in constrictive – bribery and corruption, crime.

Theme 8: Employers don't have rights.

Theme 9: Keeping the business small.

Theme 10: Competition from the East and particularly China is a great threat.

Theme 11: Most SMME work is labour intensive.

Theme 12: Technology provides the opportunity to be more productive and expands market opportunities.

Theme 13: Labour unions cause many unnecessary labour disputes, collective bargaining issues.

Theme 14: Established customer base.

Theme 15: Much of the work in SMMEs is unskilled and is easily replaceable.

Theme 16: Very little of technology employed is locally manufactured.

Theme 17: Overheads have increased drastically and are affecting profits.

Theme 18: It is unlikely that employees can be completely replaced by machines.

Theme 19: Most SMMEs believe that can recover capital outlaid for technology upgrades.

Theme 20: Family culture is often prevalent.

Theme 21: Artificial growth...increase in input costs increases turnover.

Appendix C4 - Final Themes Emerging From the Thematic Content Analysis

The following are the 12 final themes emerging from the thematic content analysis.

Theme 1

Most of the SMMEs surveyed serve local markets and commonly serve a niche in the market.

Theme 2

Cost is not the most important competitive dimension for most SMMEs surveyed - service, flexibility and quality are generally more important.

Theme 3

Competition is different in each industry but most SMMEs manage to define themselves in their market and separate themselves from their competitors.

- Barrier to entry.

Theme 4

Competition from the East and particularly China is a great threat to most of the surveyed SMMEs.

Theme 5

Most of the SMMEs surveyed engage in fairly conservative business practices focussing on long term sustainability.

- Established customer base.
- Family culture is often prevalent.

Theme 6

Much of the work in the surveyed SMMEs is unskilled and is easily replaceable however most do have several positions which require skilled workers who are becoming scarce and are difficult to retain.

Theme 7

The work in most of the surveyed SMMEs is labour intensive, but is used in conjunction with appropriate or complementing technology.

Theme 8

Generally employment numbers have increased with business growth however several of the SMMEs surveyed are intent on keeping the business small.

Theme 9

Technology provides the opportunity to be more productive and expands market opportunities for most of the surveyed SMMEs.

- It is unlikely that employees can be completely replaced by machines.
- Most SMMEs believe that they can recover capital outlaid for technology upgrades.
- Very little of technology employed is locally manufactured.

Theme 10

The most common challenges faced by the surveyed SMMEs in the South African business environment are: over-regulation and red tape, bribery and corruption, crime and BEE.

Theme 11

Complicated labour relations are a common issue among the surveyed SMMEs.

- Labour unions cause many unnecessary labour disputes, collective bargaining issues etc.
- Employers don’t have rights.
- Loyalty among staff is a big issue.

Theme 12

Input costs have increased dramatically over the past few years and have caused artificial growth and affected profit margins of the surveyed SMMEs.

- Increase in input costs increases turnover.

APPENDIX D – INTERVIEW TRANSCRIPTS

Appendix D gives full transcripts from the interviews conducted with SMMEs as well as the alternate interviews. The interview transcripts are given line numbers so specific lines can be referenced in the report when comments are quoted. The format of each interview except the two which were not conducted 'face-to-face' are presented as follows:

- Each 'voice' is labelled.
- RC indicates the researchers 'voice'
- The respondents' voices are labelled I1 – I 10.
- The voices of the respondents of the additional interviews are labelled AI1 and AI2.

Appendix D1 – SMME Interviews

SMME 1

RC – The markets that you serve, are those provincial, national or international?

I1 – It's essentially provincial...Joburg based almost...and it's a very specialised or niche market that we serve...predominantly for the mines. However, we've got 2 distinct legs. One is the flight school, which looks after guys that walk in there and start from scratch and then in 2 years time you're a hero, and the charter which serves various facets about the mine. So it's not only transporting the bullion. There are VIP packs, mine dump inspections, survey, photographs, you name it. So we are highly dependent on the mining sector which is predominantly around Joburg, Rustenburg and slightly lower down to Steelpoort and that section but I'd hazard a guess that in the region of 80% of our business is in that...dependent on the mining industry.

RC – Looking at competitive dimensions in the market. It's a bit different in your business, which is mostly service based rather than production, how would you rank the elements of cost, quality, service and flexibility?

I1 – Strangely enough, on costing we're not really that competitive, for very deliberate reasons. Flexibility however, we are extremely flexible, and that's actually the core of our business – drop of the hat stuff. So if someone were to call me now, we are rigged for a flight tomorrow morning at 7. Whereas most companies need 2, 3, 4 days sort of thing, but because of the fact that we manage variables very well in our business, we are particularly good at that and we are rigged towards that. Quality I'd like to think is very high as well. Being a niche market you can't really afford to not deliver a high quality. We transport R200 million a day in bullion so you can't really afford a mistake. It's going to reflect poorly. Service also ranks very high.

RC – I suppose in your business that ties in with the flexibility?

I1 – Absolutely. What we typically angle our whole approach around is reliability, safety... but very often people lose focus in terms of profit and that's a major thing for us. We are aligned towards profit, hence the fact that our cost isn't particularly competitive. People often tell us that they can get it for cheaper but we don't even really compete. If they are not prepared to pay based on what they can find with our facility and our service we're not going to knock down our prices until we start eventually chipping in for a flight. So costing we definitely aren't competitive. We are more or less what the industry demands but in certain facets we are definitely more expensive.

RC – So, the low cost market, would that be completely different lines to what you do?

I1 – There are operators that go for that. There are very few of them. Most of the guys in Joburg, which is the hub of South African aviation, more often guys go for the African contracts. So they want to get up north into the DRC for survey work or big dollar paying contracts. And that's been our philosophy up until now, as part of our flexibility and competitive edge is that we have focussed on Gauteng and Joburg only. Odd flights to Sun City, to Nelspruit, to Bloemfontein, but our focus is Joburg, so we've been mopping up all the work that the other

guys have left in their wake to get up north at any cost. That's been our philosophy, help at whatever cost and manage the variables at whatever cost.

RC – So there are not a lot of guys doing what you do...there is not much competition?

I1 – No, we've been very lucky in that sense, specifically on the mine bullion transportation side, the mines are very picky as to who they are using so it's not a function of cost for them either. Hence the fact that our model blends in with that. There insurance dictates that they will not transport gold or platinum and more and more diamonds now by road. The save in insurance vs. the cost of using a helicopter, which is inherently more expensive, is substantial. So it makes perfect sense for them to more it by air rather than by road, and facing those additional premiums. So, in terms of our operation now, I'd say we are 3 guys up here that really can compete and we are contractually bound.

RC – and I imagine the barrier to entry is quite high?

I1 – Yes. A lot of guys obviously go for that because it is sustainable income. There's not magic profit margins in it but, for instance through the recession, the mines never stopped. So thankfully that's just ticked over and kept our business going while a lot of other guys have just gone [bang]...relying on the Sun City flight or the lodge flight for the weekend, that's where the big money lies but people just don't do it anymore, it's just way to expensive.

RC – Moving on to labour issues. I imagine the biggest part of your work force is the pilots and I imagine the skill level there is very high. So, it's all about people in your business, you can't really replace that element.

I1 – I suppose with any skill really, but with helicopter pilots particularly. We've got quite a unique model in that sense because we don't hire any pilots. All of them are freelancers. I'd also say about 95% of the guys that fly for us did their licence through us. They might have offices there, wear our kit and have maybe never flown anywhere else but they invoice me at the end of the month. So, the onus is on me to generate work for these guys. That is how we retain loyalty. Plus,

these are guys that have come through the mill and know exactly how we think and operate. Plus, we know the way they work and operate. So, it really has been a good model for us. Our labour force is actually very small. We've got 5 cleaners on the floor and 4 cleaning ladies.

RC – and technicians?

I1 – Nothing. We outsource all our maintenance. It's too specialised. It's all over-regulated in South Africa now...actually like the rest of the world now. It's totally over-regulated.

RC – The competitors in your market, you say they generally employ all their pilots. Do they follow the same model with outsourcing their technicians, or technician work?

I1 – More often than not, yes.

RC – What would be the advantages and disadvantages of having pilots on your payroll [full-time employees]?

I1 – It would actually be very interesting to run the numbers to see how it comes out. Pilots are strange though, they complain when they do fly and they complain when they don't have to fly. I don't want to have to babysit these guys because they are on a fixed salary. On the upside of course you have someone there and ready to fly at the drop of a hat...and he's there for 345 days of the year with 20 days leave, and you can tell him when that is and decide how much you're going to pay him. So, in terms of the costing model, it makes it much easier to know how much you need to cost and budget for. But it's something we've never done and we have built up a good pool of freelancers and they are very good about being reliable and although it occasionally puts a bit of administrative stress on us we have never lost a flight because of it.

RC – In terms of your pool of expertise, you say there are plenty of pilots, and in the market would there be...say if 2 of your pilots had to retire or leave unexpectedly, would you be able to replace them?

I1 – With quite a bit of difficulty, but possible. What's happened worldwide, especially with pilots, as long as there are wars, you find very good pilots eventually coming into the system. The South African – Angolan war was incredible in terms of upping the experience level of pilots very quickly. Now, most of those people are reaching retirement age but the industry never realised that they now needed to train people very quickly so they fill those boots by the time they retire. Our thinking is therefore to train as many people as possible. You get fantastic guys and obviously you get wash outs as well but we train guys in a big way towards working for us, but also for the industry at large.

RC – In terms of your average growth trend, as you've grown in terms of increasing the number of helicopters, have you had to find more freelancers?

I1 – Yes. It's also opened the door to a lot of youngsters as well. We are very lucky that we operate 2 vehicle tracking systems and their operational requirement is to be airborne within 8 minutes of the call. So these guys sleep there, and they are on call 24 hours a day. But, because of the nature of this job, the older dogs don't want to do it, but it creates an opportunity... In South Africa, or anywhere in the world, you don't fall into a nice job with less than 200 hours so you put a lot of money into getting a licence and then there are no opportunities. No one's prepared to take them in and give them a gap to get going, and we do that. And I find that people generally want to move on once they have got to 1000 hours, which is great, because then it makes room for the next guys. So we've got, in that pool, about 10 guys that are on call. They rotate, they sort out their own shifts and it works like a charm.

RC – Now moving on to technology issues. With outsourcing all your technical work, is that sustainable? Would you at some point maybe look at forming your own technical department?

I1 – We actually had our own AMO (aircraft maintenance organisation) when we started off...more out of stupidity than anything else. As I said earlier, it's extremely regulated and more and more and more cumbersome in terms of paperwork and processes and systems but if you run it properly there is actually

quite a bit of money to be made. The downfalls I find is the fact that it's very specialised so the technicians nowadays are actually far more sought after than the pilots and we can't compete with all the offshore work that is available.

RC – So, as their position becomes more commanding, it's surely going to get to the point where people like you will have to start training technicians as well as pilots.

I1 – Yes, and it takes about 5 years to train up a technician. All these guys have been leaving and no one has noticed and now we have been caught. The whole things going to choke and it's not going to be because of lack of pilots, it's going to be because of lack of technicians.

RC – Surely the people you outsource your maintenance work to are experiencing this. Do you know what they are doing?

I1 – Yes. Our major service provider, and we are their biggest client, is National Airways Corporation. We pay a premium for their service and they take care of all the maintenance, training and holding stock.

RC – The over-regulation you spoke about, is that suffocating the market.

I1 – Yes. Absolutely.

RC – And is that something that is prevalent over the whole aircraft industry?

I1 – I'm very much for system, processes, control and order but in the same vein I'm extremely pragmatic and logical. If it's so obvious that you're going to do something and the consequence of it is virtually nil, why not do it? Why fill out 4 forms before you get to that point. I suppose the system has got to look after itself because not everyone is like that but most of these processes are fairly straight forward but are being totally over-regulated in order to make provision for the lowest common denominator. The apprentices just don't last, especially with the pressure, the oversight and the control mechanisms that are constantly in place.

RC – Is there consultation between the people making these rules and regulations with people in the industry, like you?

I1 – The industry is getting more and more involved. I think the CAA has become more aware that they can't only regulate...eventually you detract from logic.

RC – Finally, any comments about your business environment...problems you have and where you see it going?

I1 – As we discussed - over-regulation, a major issue, all facets especially on the labour side, is being over-regulated but in a negative sense and the employer has no rights in South Africa. You try and get rid of anyone and you have no rights. It's a lengthy cumbersome process of distrust and it's going nowhere in a rush and it's very worrying. I'd rather keep the business as small as possible, rather than expand because it will mean more hassles.

SMME 2

RC – The markets that you serve, are they local, provincial, national or international?

I2 – I concentrate on national. Firstly, because I don't see that I could go into international markets. The only international markets we serve are a couple of our neighbouring countries. I don't deal direct with them.

RC – But you go all over South Africa?

I2 – Yes.

RC – In terms of competitive dimensions, how would you rank the factors of cost, quality, service and flexibility?

I2 – It depends which side you look at it. If you look from the buyers side, the buyers look at the cost stuff, they don't look at the long term and say "let me buy this that lasts for 10 years rather than the one that lasts for only 2 years. But for me as a supplier I look at giving the customer a decent product. Cost is important but it's not essential and then the most important is customer service.

RC – What would you say is your specific competitive advantage?

I2 – A fairly good product, and I compete with anybody, even in the world, on that. That and also my flexibility. I can give them what they want. If they want a modification on a thing I can give them that as well.

RC – In your specific market, how much competition is there?

I2 – At the moment locally it's not a lot. We've got 2 or 3 local guys but from international there is quite a bit, especially from the East.

RC – You say that most of the overseas completion comes from the East?

I2 – At the moment...Europe is struggling so they're not doing anything. The local guys...there used to be about 7 or 8 local guys but obviously they've just fallen by the wayside because it's not economically viable for them.

RC – Is it all on cost that the East is so competitive?

I2 – On cost, and there quality is improving but obviously their volumes are much greater than ours, that's why they can come in on cost.

RC – The kind of work that you do, is it mostly labour intensive work, or do you use a lot of machinery/technology?

I2 – If you look at our workshop, we've split it into where I still concentrate on the labour intensive stuff and my son goes more on the CNC side but one has got to balance the other out and you always need normal labour intensive and the jobbing side...the nice thing about the jobbing side or the more automated side is you can drop your costs quite there if you're clued up and a lot of it depends on you as the setter, can you compete with the guys down the road. So we don't go into the mass production market, we're more for the little niche market where the guy only wants small quantities and you can charge a bit of a premium on it.

RC – Locally and internationally, are guys tending towards more towards the more labour intensive approach or the more technology focussed approach?

I2 – They are, especially with the technology, on the electronics side, that's come in now days. The old philosophy where everybody said "oh, CNC is for mass production" is gone by the wayside. The controls that you get now days, you run 3, 4, 5 components at the same time. So people are trying to work smarter not harder, but you always need someone to do the hard work for you.

RC – The labour issues that you've experienced, would you say it's just general South African labour issues...?

I2 – A lot of it goes through from the management side. We've always had an open door policy where I've always told the guys "if you want something come speak to me" and address it like that. When the unions started coming in, probably around '92 they started coming in strong, and then the guys weren't prepared to look the other way. They thought the union was going to be the answer for them, so they weren't prepared to negotiate directly with us. They had to go through the

struggle where they realised the unions weren't the answer for them and now I've got no union members and they just come back to me again.

RC – To what extent are people replaceable in your company? Is it easy to train up someone to replace a current employee and is there potential to replace the labour intensive work with a machine?

I2 – It is there. Most of the guys are feeling the pinch on the more qualified stuff [skilled jobs] because you don't get many guys that want to do it firstly and most of them are fairly old so you can't expect them to perform at 50 at the same speed as you would expect a 25 year old to perform. On your lower skilled stuff they are fairly replaceable but the problem is having a high staff turnover cost you money because you have to train everybody.

RC – Do you do mostly in-house training?

I2 – Yes.

RC – As you've grown, has your labour force increased proportionally?

I2 – Roughly. I've gone up...in '84 we were about 20 guys then we shot up to about 40, and I held 40 for about 8 years and then there was a bit of a knock in the economy where we went down a bit and at the moment we're sitting at about 25 guys. But at the same time, we've split the company up twice already, into smaller little companies, so if I take the total force we're probably still at about 40 but we've split them up into smaller manageable groups.

RC – Is there the potential for using more machinery, more technology, and is it viable?

I2 – If it's managed well it is because the way they make machines nowadays they're more user friendly so the gap is there. Especially after the strikes we had earlier in the year a lot of guys cut their work force down and are going more automated.

RC – Do you think it's something that you can recover the cost of fairly easily? Would it maybe open you up to other markets?

I2 – Well it's always a challenge to look there. Any market, when you buy a machine you always wonder where you're going to find the work. But once you've bought the machine and made the commitment you hunt around and find the work to pay for it.

RC – I'd now like to get your opinion on the business environment in South Africa now, and also over the past 20 years, what you've noticed in the development?

I2 – With the business side, I've had to stop doing the hands on work and start managing a bit so I don't have as much control but being a manager you can't always be on the tools so you're slipping up a bit there. From the work force side, if I look over the past 20 or 25 years the loyalty factor with the workers has definitely fallen away. Why it's fallen away, I wouldn't know. From the economy side we're still going to go. South Africa's not going to pull out, especially on the engineering side, for the next 2 years. There are certain sectors...I mean the mining went right down then they had a bit of a pick up, but it's still not where it used to be... The profit levels aren't there. If I look what we've achieved, we've moved forward a little bit but there are definitely easier ways of making money. My only commitment to that company is that I enjoy that kind of work.

RC – Do you see it picking up? Is it just the low point in a cycle?

I2 – Obviously, it's got to pick up. If the government assists the local businesses by laxing the laws a little bit. The negative thing about laxing the laws is you're going to get people that exploit it. So you as an employer have got to have a fine line where you say I need them [employees] as much as they need me. I can't run that business on my own; my commitments have grown too much. So I need to look after them and also, for me to hire and fire costs me money each time so...

RC – Do you have a high employee turnover?

I2 – Not really. Through getting older and cleverer you realise it actually costs you money.

SMME 3

RC – Do you serve provincial, national or international markets?

I3 – I only cater for the local market.

RC – Out of the four competitive dimensions (cost, quality, service and flexibility) how would you rank them from most important to least important in your market?

I3 – We aim at special purpose machines, and when we build a machine it is not to get rid of people, it is to improve production and to uplift the people that are doing the job now. In other words give him the tools that he can be more productive and upgrade him. I've never built a machine which replaces a person.

RC – What is your competitive advantage?

I3 – I don't have to be competitive. What I do is special purpose. There are other people doing it but I haven't really ever come across them as a competitor. We have now got a niche, which unfortunately dies when I die.

RC – You said you have never built a machine to replace a person. Do people ever come to you and say they would like a machine to be completely automatic? Have you noticed a trend of people wanted to get rid of labour?

I3 – All our machines have to be operated by a person.

RC – Yes, but do you see people wanting to try eliminate the human element as much as possible.

I3 – Let me put it this way. People will say I want to automate, and they will automate because that is progress. Again you go back to the labour question. Are you getting 8 hours a day or 5 hours or 6 hours. If you're in business you need the 8 hours a day. Sometimes the only way to cover your costs is to upgrade so that you are productive enough. I do not believe in replacing a man. There is always something else for him to do. If you are doing this job faster than you are going to need him for another operation. You can upgrade without disposing of people.

SMME 4

RC – Can we start with a brief history of the company?

I4 – We've been running now for 30 years, pretty much doing the same thing we started out doing which is small sheet metal engineering and punch pressings. We started off doing it the old way, which was old press tooling and what have you, and we've now finally mechanised and gone to a CNC punching machine and obviously built up as the years have gone by into what we've got today. But employment-wise I've only ever had about 5 employees working...now we've got 6 at the moment. Tried to keep it small. Tried to keep it compact so that you can control it and keep your hands on it. One you grow bigger it starts to become a bit more difficult to cope with. We've tries doing various other projects down the line but we still always end up going back to what we do best which is the metal pressings and the jobbing work.

RC – What markets do you serve (Provincial, national, international)?

I4 – Mostly local, because we're doing jobbing...so mostly local. I don't know whether the companies we make for export – they probably do – but we're not directly involved with that. We don't do any complete finished product. Everything we do is a component for a project or a component for a product, whatever it might be.

RC – In terms of competitive dimensions – of the factors cost, quality, service and flexibility – what are most important and in what order would you rank those?

I4 – I think they're all as important as each other. Over and above everything else I think your service is more key to your actual product being more superior or... Your service is key. If you're giving your customer good service you don't give him a reason to go shop around to get prices elsewhere...although in saying that prices are still key. If you're charging someone too much for something he is not going to pay for it. Everything is price orientated anyway.

RC – Specifically, your competitive advantage...you said flexibility...is that your main competitive advantage?

I4 – I would say so...just giving the service. Giving the service is what's key. I mean, there are a lot of people out there doing the same thing as what we're doing. Whether we're competitive on pricing, I would say I don't really know because we don't price the same jobs we do at any other place we just price the products we get in to price and that's the way we work. If the price is acceptable then we know we're doing it for the right price. There's a lot of jobs we lose so we know we lose for price. That's been happening a lot lately which shows you that maybe you are a bit expensive or that they're possibly finding alternative ways to manufacture or do the actual job they're doing.

RC – You mentioned that you had a lot of competitors. Is that local people or is that...?

I4 – I would say local as in Joburg. Yes there are a few guys doing the same thing as what we're doing.

RC – And is the competition quite fierce?

I4 – It's difficult to say because we've had established customers. Over the years we've lost a few customers, over the years we've gained a few customers, but what we've got we've always been able to cope with, so we've never really had the 'thing' to go out and look for more work because the customers that we've got are our base and what work we get from them is enough to keep us going so we've never had to advertise. Although we do run a website and we do pick up some work from that as well but over the past few years we've lost a few customers and as I say gained a few in the meantime but we always seem to have a balance to keep going. Last year was a bad year, that wasn't a good year but I think that was, in general, for everybody but we've survived it and survived it by keeping debt to a minimum, not letting debt run away from you, because if you've got more debt you obviously need more money to pay it off and I think that's been one of our saving graces over the years, that we've tried to keep debt to nothing. Not just squandering your money, keeping your money and keeping your business afloat.

RC – From what you've told me, and from what I've seen, the nature of the work seems to be more technology orientated...that you get a machine that can do it a lot cheaper...

I4 – Exactly, but you still need labour... There's no way you're going to get around not using labour. I've still got the same number of guys working for me as when I didn't have all the mechanised [automated] machines so it's really made no difference to the labour force, the labour force has stayed the same.

RC – Have you had to get some training for these guys?

I4 – We have...

RC – Has that changed with the different machines you're using.

I4 – Not really, because it's still the same base. They're based as operators so we haven't had to do any training on them. All the programming on the machine we do ourselves. With a small business that doesn't really affect us too much, as in training and that type of thing.

RC – With the other people in your market (competitors), are they doing the same things...do they have the same kinds of machines?

I4 – I would say in general, the general trend has gone to the type of machine we're using and a lot of laser cutting as well now... With the advent of laser cutting you can also do 10 off or 50 off so you have a much broader base in the market now for the type of work we're doing...the jobbing work, because a guy doesn't have to get tooling made to make 100 000 to warrant the cost of tooling. Now we can just make 5, okay, it might be a little more expensive to cut them out with a laser but it's much more versatile and a much better finished product.

RC – Do you have many labour issues and, if you do, are they general South African labour issues?

I4 – We are small, so in that sense we are lucky that we haven't had unions involved and no major labour issues that we've had over the years, in the 30 years that we've been in business.

RC – Would you put that down to your size?

I4 – I think so.

RC – The people that you have working for you, are the replaceable?

I4 – I would say they are...it's not difficult to do what they're doing but in saying that they've all worked for me...well, the one guy has worked for me for 25 years...the others have worked for me for between 10 and 15 years and I've only got 2 guys now that have started in the last 1 or 2 years.

RC – Do you intend to grow the business in terms of your capacity?

I4 – Difficult to say because you grow year by year anyway but I wouldn't say we would grow because my intention has never been to grow. My intention has been to automate maybe and to specialise and make sure we're giving a good product and productivity goes up automatically when you get specialised machinery. And that's the way we have expanded, although we haven't expanded in size, we have expanded in knowledge and machinery wise.

RC – You are able to produce more with less.

I4 – Exactly. And still keeping the same amount of people employed as well.

RC – With regard to machinery, are you having to upgrade to remain competitive?

I4 – I would say over the years yes, but not instant upgrades.

RC – So you're not having to always keep at the forefront of technology?

I4 – No. Even the CNC machine [we have] now was built in 1990 so it's not as if it is today's model. If I bought today's model it would be no better than the one I've got now...maybe a little faster, maybe a little less expensive to run so the only issues they've changed, machinery wise, over the years are making the machines be able to do the same job more efficiently.

RC – Are the machines you use locally manufactured?

I4 – Some of them are. The bending machines we use are manufactured locally but the more sophisticated machine like the CNC punching machine is manufactured in Japan.

RC – Has it lowered your input costs significantly, using this new technology?

I4 – Yes and no, because over the years, especially now in the last 2 years we've noticed that profits are just dropping but that is because of the general market... electricity going up, rates and taxes going up, and all these extra taxes and levies we've been having to pay... just starts over-taking your pricing. Steel pricing has increased, over the past 5 years, about 3 or 4 times a year...it's killing us.

RC - That covers all the direct questions, now I would like to ask for some general comments. How do you feel about the business environment in South Africa?

I4 – In what sense?

RC – In your experience...if you feel like there is something really hampering small business.

I4 – It's difficult to say. All the costs and the red tape, that's what hampers us. We don't have the finances to employ advisors and labour lawyers and people that can advise you what is the right thing to do, we have to do that ourselves.

RC – Can you elaborate on what the red tape is?

I4 – With SARS for instance, all the paperwork we have to do. Before you would submit a handwritten page to them and they did all the paperwork. We have to do it all ourselves now...fill in forms on-line, pay the money into the bank on-line...and the same with the industrial councils, we have to fill in all those forms on-line now, we do it all ourselves. It takes time.

RC – These are things that have come up more recently so would you say it's getting more difficult?

I4 – Well, progressively over the years it has.

SMME 5

Competition

1. Which markets does the company serve (Provincial, National, International)?

Provincial

2. What is the relative importance of the following competitive dimensions in your market?

    Cost

    Quality (Superior quality / consistent quality)

    Service (Lead time, stock, breakdown, personal touch)

    Flexibility (Customisation / variety)

They all go hand in hand but at the end of the day Cost comes first, then quality, then service and flexibility.

3. What effect do these competitive dimensions have on the demand of the product (and market access both local and international)?

If you have it in stock and people need it then stock holding becomes the most important criteria. Generally people buy on price so if I were to lower the price people would buy my product, if it was available. If 3 people have the stuff in stock the cheapest price will prevail.

4. What is the company's competitive advantage (Is it a product of labour/personnel or technology)?

Service delivery. How soon can you get it.

5. How much competition exists in the market? Is this competition from large or small companies?

There are about 6 major competitors and the competition is fairly stable. It is a pretty basic product and there is not a lot of variation in price between

competitors. Unfortunately we're being affected by the imports. That has affected the market quite considerably. We have a certain market here and there is competition but we're being hit by imports.

6. Is there competition from imported products?
    a. Where do these imports come from?

Mainly China and some quality stuff from India

    b. How do they compare in terms of the competitive dimensions above?

The Chinese stuff is cheap but it doesn't generally offer the quality. The Indian stuff is often high quality and at much better prices than local stuff. The lead time is 4-5 weeks and that's a big problem so you don't have the service and flexibility.

Labour

7. What is the nature of the work (Hand craft/hand-operated low level technology vs. Automated technology)

It is very labour intensive. We use machines but they all have operators and there are a lot of jobs that are done by hand.

8. What are the local and international trends with regard to labour usage? (ie. tending toward more labour intensive practices)

It's all the same as us but they use low quality material and very cheap labour.

9. What are the common labour issues for the company?

Discipline problems involving drinking which lead to many people taking time off. Abuse of sick leave and other leave. Productivity is also an issue. There are low productivity levels from the workers.

10. To what extent do you believe labour is replaceable in the company?
    a. Employee replacing employee (Skill, training, learning etc).
    b. Technology replacing employees.

To a certain extent technology can replace employees but not entirely. You still need a physical input. It's all unskilled labour so you can replace employees very easily. It's all low key so it's not a problem.

11. What has the employment growth trend in the company been since 1994?

It's hard to say. From 1994 to 2008 there was exponential growth. The company grew by 100% but after the crash in 2008 we went back to almost half the staff we had before. Most of the labour growth was artificial. When we cut back the staff we had almost the same productivity as before so the labour was on an absolute go slow beforehand. 2008 was an artificial year where everything doubled...turnover doubled but only because costs of material doubled...2009 we got back to reality.

12. What do you see the employment growth trend being in the future?

I'd like to stick with the number of people I've got and mechanise as much as possible.

Technology

13. What is the nature of the technology which is, or could possibly be, employed in the company?
    a. Can capital expenditure be recovered in the company's current market?
    b. Would technology allow the company to enter other markets (domestic and international)?
    c. Can capital expenditure be recovered in a larger, possibly global, market?
    d. Are there other risks associated with capital expenditure?

I'd like to invest in machines which would make me more productive with less dependence on labour. It would definitely allow us to lower costs...but it's not so much lowering costs as lowering stress levels. Unfortunately I don't think we could increase our market but I do believe we could recover the *cost of better access in our market through lower costs. Just by improving production methods you could double the productivity with the same number of operators.*

14. Does/Would technology intensive production lower input costs (considering capital expenditure, labour, material and energy)?

Yes, it would. Improving productivity would allow us to drop prices.

Discussion - Environment for businesses in South Africa

- General comments?
- Small vs. Large companies?
- Pre 1994?
- 1994 – present?

I think there is still great potential for small business. There are a lot of restrictions put into small businesses...a lot of red tape. Labour regulations, tax regulations, there's so much going against small businesses. As far as I'm concerned small enterprises are the only ones employing people but all of the restrictions, labour restrictions....at the end of the day people just don't want to employ. You certainly don't want to exploit but it's just become ridiculous. As an employer you basically seem to have no rights. When you have a limited staff and when you have one person missing from the chain [through abuse of designated leave] it becomes detrimental to production.

SMME 6

RC - ... So in the South African context, in the position we are in with regard to labour, you can either become more competitive by having a smaller work force which is more controlled or hire more people at the risk of becoming less competitive.

I6 – By just hiring more people you are not going to become more competitive. You need to increase efficiency.

RC – If you take Klip for example. They used to have about 90 employees and now they are as productive, if not more productive with 50 to 60 [employees].

I6 – OK, we had 95 at one stage which was our labour force excluding management staff. Now we've got about a third of that and we are producing about 20 times more than before.

RC – Remember, with Klip, there have been no technological advancements at all. They are doing things exactly the same as they were before. They just found that the more people they took on the less effective those people became. The whole thing is that, in a South African context labour is hugely unproductive so we are going from that...

RC – The markets that you serve, are those provincial, national or international?

I6 – International.

RC - What is the relative importance of the following competitive dimensions in your market (Cost, Quality, Service, Flexibility)?

I6 – If I were to put them into perspective they would all be in line, in our business. You have to comply with all of them and if one of those criteria is out, we are out. If we are out with quality, we will be replaced, with service, we will be replaced, with price, we will be replaced. That's exactly what it is. If we don't comply with all these we will be replaced.

RC – Are there other people in SA that do what you do?

I6 – No, there are not. But our very fierce competitor is imports. That keeps us on our toes.

RC – What can you do that they can't do?

I6 – First of all, we are local and our flexibility is measured not by weeks or days, sometimes by hours, which is very very important because service is hugely important for certain customers. But for other customers, with the imports, we are out.

RC – I suppose if you're prepared to wait for months and order in huge quantities then it's not a problem?

I6 – Yes. That's it.

RC – Moving on to labour issues... The nature of the work that's done her, from what I've seen seems to be mostly machine work but obviously you need operators. Yet, I wouldn't say that it was labour intensive...

I6 – We are definitely not labour intensive anymore because we have mechanised over the years and we are fully mechanised [none of the work is actually done by hand].

RC – Your international competitors, would you say they are more or less mechanised than you?

I6 – I would say in the early days we caught up with them and now I would even say that some parts of production we are almost advanced because we are newer so we are buying newer machines so some of our machines are better. They might not be as multiple [with as much capacity] but the actual equipment is often better than theirs, it's more advanced.

RC – Looking at the people you have working on your machines. Do you need skilled people? Are the workers easily replaceable? Would you be able to put someone else in that job without too much training?

I6 – Yes, with very short amounts of training. Because quality is very important so it doesn't matter on which machines you are, you have to watch for quality. So you can say we can interchange certain operations. There are certain operations which require quite a lot of training. One of them is actually long term training and even slitting [the operation] could be quite a lot of training.

RC – With any labour issues that you do have, are hey general issues common to all SA companies or are there issues specific to your company?

I6 – Luckily we don't have serious issues here and if there is an issue it's instigated from outside. We've never really had any major issues other than union strikes.

RC – Since you started Convertacor, what has your employment growth trend been like? Have you gone towards having more people or fewer people, and in the future what do you see happening?

I6 – Any labour growth will be linked to requirement. If we get any more contracts we will have to employ more people because we will not be able to meet it with our capacity. We will have to get more machines which means we will have to get more people.

RC – And do you see somewhere down the line being more automated so you can start having fewer people?

I6 – If we can get more contracts which we are losing to overseas [companies] we will have to increase capacity. Even with more efficient machines we will not be looking to reduce labour force but rather increasing.

RC – Moving on to technology... You obviously have a very strong focus on the technology that you use. You're having to get better machines all the time to try keep up [with competitors] so this is surely also the case with your competitors otherwise you just can't compete.

I6 – No, you can't compete. And it's not just production machines, even auxiliary equipment we change completely. That brings your cost down which is very important.

RC – And you find it's always viable? With each machine you buy you are always able to get your money back?

I6 – Yes, definitely. There is a definite advantage. Almost immediate.

RC – And all the stuff [machines] you buy are imported?

I6 – Yes, most of it. If it is made here [SA] then it is made under licence from overseas... international companies which are represented in SA.

RC – Any general comments on the business environment in SA?

I6 – We are, since last year, on a massive upgrading streak. In our business you have to always upgrade if you want to stay competitive. We see the business is still there and we are improving production. We can actually grow substantially still. In our industry there is still potential to grow the business but we have to get ready for it that is why we are doing serious upgrades of our major machinery and hopefully within a year it should bring benefits.

RC – Do you find it increasingly difficult to do business in SA?

I6 – Not really. We find that people want to do business with us because we are local providing we comply with the 4 criteria we spoke about before. Labour and security are very destructive parts of business because security costs lots of money. A small company like us is spending lots of money on security and that's a big deterrent in a business. With labour... what we would like to see from government is to talk to the unions because no one can talk to the unions...to be more tolerant with us. It makes it very difficult to employ someone. Labour makes it very difficult. Even if you only have a few staff you still have a problem. There should be much better relationships between unions and employers. One thing the unions should stop doing is protecting unproductive labour.

SMME 7

RC – The markets that you serve, are those provincial, national or international?

I7 – It's mainly South Africa but about 2 years ago we started exporting into Africa. Countries like Ghana, Mauritius, Angola, Madagascar and to Quebec in Canada.

RC – Of the competitive dimensions of cost, quality, service and flexibility what would you say is most important...how would you rank them?

I7 – What we find is first and foremost currently is cost, second I think they will look at service and then quality and then maybe flexibility but I think the experience currently is that people have burnt their fingers on quality...I'll get to that at a later stage in your questions.

RC – And your competitive advantage?

I7 – What we find currently is that we are competing against China. It's very difficult because on pricing you'll find that in some instances they are about 50% cheaper on price and that makes it very attractive for end users and of course merchants or people that are buying from us. Of course when there is a tender document they will definitely try and import from China but that in itself has got a lot of challenges.

RC – Is that the end user importing or the merchants?

I7 – It's the merchants. We have contracts with almost the big 5, it's Sasol, Chevron in Cape Town, Petro SA in Mossel bay and then Engen and CLPP in Durban. So they are the major end users on our products, it's all petrochemical plants. In 2010 we lost out on contracts at Petro SA and CLPP in Durban because of Chinese prices but they have very recently acknowledged to us that they made a big mistake not only on quality but also on service levels. I can also mention, with the whole group of Sasol companies, we supply them for a manufacturing facility, we maintain a 95 to 98% on time delivery so I think on service. This company has built its name on service delivery. Our viewpoint is that price and

cost you can negotiate but quality and service is non-negotiable and I think the 2 plants that have gone the route of supporting an importer that gets his stuff from China, or China via the UK, has burnt his fingers especially on service and availability of material. We as a company have been asked to help out during the recent Shell / BP shut down in August / September because the supplier couldn't live up to the service or the requirement demands.

RC – The nature of the work...you mentioned the thread rolling machines...Has the nature of the work changed over time or is it still operator based?

I7 – It's still very much the same. It's still labour intensive. It's only on the production of the final product that it's being done by machines but after the thread rolling from there it's very labour intensive...saw cutting machines, chamfering machines that have got to be operated by operators. The same with the nut-stud assembly so yes it is very labour intensive. There is however new technology that we've recently implemented. There's 2 new machines that we recently bought that has increased our capacity on production so we are looking into that but at the same time you need to be careful on your labour side because I strongly believe that if you bring in new technology you will have to retrench labourers.

RC – Is that, to a certain extent, an objective? To try and minimize the labour force that you require...

I7 – I think so. In a sense, to be more competitive for the future, we will definitely have to look in to that.

RC – Do you know if your overseas competitors, the Chinese...if they are very well automated?

I7 – I think some of them are very well automated but the majority of them are still very much labour intensive. I think the major difference between South Africa and China is... because we went there and did audits on various of those companies... if you look on the labour side, wages for instance, there is no comparison with South Africa. They work for nothing first of all. Second there are

no labour laws which can be a watchdog on labour. What we've seen there, they're using child labour, so that is a major thing, and the other thing is on health and safety they have no rules, no regulations, no law enforcement. In South Africa you have to be compliant in that regard. We are being audited by all of the big 5 companies that I mentioned, by the government and by the union which the employees belong to. And it's a lot of money. Also, BBBEE has a lot of influence. It's a big cost. It's capital and overheads that you need to outlay. We had to create certain positions in the factory just to be compliant with the petrochemical charter. All of that, at the end of the day, has an influence on the profits that you make, the amount of people you are going to employ. To be competitive and to still be in business I need to look at alternative routes to be competitive and to remain competitive. I think with the markets that fell open, sanctions being lifted after 1994 it's now only becoming a reality for small business in SA to start exporting your products, to globalise, to go into the international markets.

RC – With the labour that you have, do you have a lot of issues?

I7 – No, not really. I don't want to see myself as a dictator or that I have an autocratic management style but you need to be very strict. You need to put down your foot on discipline. We have maybe 3 or 4 maximum discipline issues in a year. The other thing that is playing a big role is the whole family ideology. On the owners side, the managers and the shareholders, the family ideology is playing a huge role and if you go into the factory you will find that there is always 2 or 3 family members and you will always have an older person and then maybe one or two younger individuals and it is playing a role. I've been with the company 20 years now and in that time I have witnessed 2 strikes and both of them were organised by COSATU... from outside. It wasn't from inside. We had a problem about 2 years ago with a shop steward who gave us hell but eventually it went to arbitration and we were able to get rid of him.

RC – So it is common labour issues...common issues among South African companies?

I7 – Yes.

RC – It's becoming a South African culture where there is always trouble, and it discourages people from employing...

I7 – It does. What we've done, last year...with the steel industry your wage increases are normally negotiated at the end of July and then implemented the 1st of August. Last year during March the work force approached me, via the shop steward, saying they are really battling to make ends meet. So I said let's make an agreement but I want the union (NUMSA) involved. So I did my calculations considering all the increased costs and decided there was no way we could give an increase of less than 10% so I said ok I'll grant you a 10% wage increase. But, we knew up front that the wage negotiations were going to be tough so I expected the worst so I said I don't want a strike and that's why involved the union. And I think that granted the increase then, and granted a 10% increase rather than 8 or 9% made the difference so I actually got their loyalty to a large extent. So I think by having a good relationship with your workforce you can gain a lot but unfortunately we are also being pushed down with prices because the end users will always fight for better prices. So in that regard you have always got to be very organised, to be very careful what you do, when you do it but during the strikes my whole work force was here. But I think, with the current labour laws in South Africa, the working relationship between managers and maybe owners of small businesses and the work force is not good. And that's why a lot of companies have a lot of problems.

RC – With the employees in your company, are they replaceable? For instance, if one had to leave would it be easy to replace him or is there a certain skill set that you need?

I7 – Yes. It's actually unskilled labour. There are training programmes for them. We've got quality control, internal processes to train them and we issue certificates to them. On the machines, it's not difficult to operate the sawing machines or chamfering machines. The thread rolling machines maybe need a little bit of training but it's largely unskilled labour.

RC – In terms of the employment growth trend, do you see yourself growing the company and when you do will it be with the aim of not employing more people, or will you just grow organically and just hire people to make up the extra capacity?

I7 – That will be the one route, the other route is to investigate whether a machine cannot replace labour.

RC – We have touched on the international trends with regard to technology usage. You mentioned that China mostly follows a more labour intensive approach however they don't pay their workers as much and are competitive because of it.

Do you think that the technology options you have looked at are viable? Can you recover that capital expenditure?

I7 – Yes, definitely, over a period of time but definitely.

RC – Would that allow you to be more competitive, to the extent where you will be able to enter new markets globally?

I7 – I think so, definitely. It will definitely from a demand or a delivery viewpoint assist us greatly because if a project in South Africa is worth R2 million, in Europe it will be worth R6 million, so your demand is much higher. So, to accommodate the higher demand you have to put in technology that can meet the demand.

RC – The machines that you have here, do you tend to replace them quite often?

I7 – No.

RC – I imagine it's the case where an old machine can do the job just as well. There is no reason to have to upgrade. It's not a high technology kind of environment...?

I7 – Yes, that is right.

RC – That covers all the direct questions. Now I would like to ask you for your opinion on the business environment in South Africa. Whether it's becoming easier to do business and any general comments on the business environment in South Africa.

I7 – Well, first of all, I think to do business in SA is becoming more difficult, definitely. There are more laws that you need to be compliant with. If you take one factor of business in SA, BBBEE, at some point I felt that bigger companies, Sasol and them, there is a tendency with them...they need to be more compliant to the government and they force it upon their suppliers. They use small businesses to fulfil that requirement because they pass that on to the government. I feel that the majority of the requirements of BBBEE is being forced upon small businesses. We've been approached by companies from Europe about joint ventures and when they see the requirement of BEE they say it is economic madness. They don't understand it. It doesn't make business sense to them at all. And then I think the 3rd thing that is a concern is the Chinese market invading into the world markets. I think the Chinese are a real threat, and government needs to wake up on that. The other challenge is bribery and corruption. If it comes down to the situation where you need to get a contract, and you're not prepared to wheel and deal, you're not going to get business, and we've lost out because of that, because we say we don't buy our business.

SMME 8

Competition

1. Which markets does the company serve (Provincial, National, International)?

   Provincial and National

2. What is the relative importance of the following competitive dimensions in your market?

   Cost – *1) Extremely price sensitive*

   Quality (Superior quality / consistent quality) – *3) Consistent quality*

   Service (Lead time, stock, breakdown, personal touch) – *2) Important*

   Flexibility (Customisation / variety) – *4) Not very important*

3. What effect do these competitive dimensions have on the demand of the product (and market access both local and international)? – *Price sensitive*
4. What is the company's competitive advantage (Is it a product of labour/personnel or technology)? **–** *Vertical integration in the manufacturing process*
5. How much competition exists in the market? Is this competition from large or small companies? **-** *Intensive competition from large players to independent importers*
6. Is there competition from imported products? – *Yes.*
   a. Where do these imports come from? **-** *Korea, China, Brazil, America, Germany, Africa.*
   b. How do they compare in terms of the competitive dimensions above? - *Vary from low-priced inferior products which are over-rated in their supposed performance, to expensive quality products.*

Labour

7. What is the nature of the work (Hand craft/hand-operated low level technology vs. Automated technology). – *Labour Intensive*

8. What are the local and international trends with regard to labour usage? (ie. tending toward more labour intensive practices). – *Increased productivity and reduction in labour.*

9. What are the common labour issues for the company? **–** *Collective bargaining issues, strikes in sympathy for other companies.*

10. To what extent do you believe labour is replaceable in the company?
    a. Employee replacing employee (Skill, training, learning etc). – *RPL, Training, is used.*
    b. Technology replacing employees. – *Moral issue, to employ.*

11. What has the employment growth trend in the company been since 1994? – *In 1994 110 employees, currently 357 employees.*

12. What do you see the employment growth trend being in the future? – *Increase.*

Technology

13. What are the local and international trends with regard to technology usage? (ie. tending toward more technology intensive practices). – *Definitely towards automation, cutting out expenses and improving quantity and quality.*

14. What is the nature of the technology which is, or could possibly be, employed in the company? – *Semi-automated production process.*
    a. Can capital expenditure be recovered in the company's current market? **–** *Yes, over time.*
    b. Would technology allow the company to enter other markets (domestic and international)? - *Yes*
    c. Can capital expenditure be recovered in a larger, possibly global, market? **-** *Yes, over time.*
    d. Are there other risks associated with capital expenditure? – *Over capitalisation***.**

15. Is the employed technology locally manufactured or imported? – *Imported***.**

16. Does/Would technology intensive production lower input costs (considering capital expenditure, labour, material and energy)? **–** *Yes.*

Discussion - Environment for businesses in South Africa

- General comments?

The following observations have been noted:

DTI grant application, post 1994, beneficial to our production expansion process.

NCPC National Cleaner Production Centre very good government incentive – post 1994.

Shortage of skilled BEE artisans, such as millwrights.

Disappointing to see BEE promotions / appointments fail in their sales positions due to theft/fraud issues.

Sad to see how holders of affirmative action posts are undermined by their own peers and not supported in the workplace.

A militant Julius Malema mentality still exists very strongly on the shop floor.

Union top brass have personal battles and the shop floor employees are forced to strike for conditions which they already enjoy ie. we don't employ labour brokers, but suffered a three week strike in August for that cause, during wage negotiations.

SMME 9

RC - The research is on SME policies in South Africa. Government began introducing policies in 1994 aimed at developing SMEs. Two of the main objectives of these policies are employment creation and developing South Africa economically by making small enterprises more competitive and thus contributing to the economy in a bigger way.

I9 – Define ‘Small Enterprise’?

RC – There is an industrial classification schedule which defines each size category (small, medium, micro, very small). For the manufacturing sector micro is up to 5 employees, very small is up to 20 , small is up to 50 and medium is up to 200.

RC – So, given that two of the objectives of these policies are employment creation and developing South Africa economically, some people are saying that these objectives are conflicting. Many people believe that if you want to be more competitive you will aim at mechanising and decreasing the work force and growing in terms of turnover.

I9 – It depends on the business. My business labour intensive so if I don’t have enough staff I cannot handle the orders which I get and then my turnover will be affected.

RC – Which markets does the company serve (local, national, international)?

I9 – International. There is no such thing as a local market anymore.

RC - What is the relative importance of the following competitive dimensions in your market (Cost, Quality, Service, Flexibility)?

I9 – There are two factors. Service is paramount and price is of equal importance.

RC – Would you say that service is your real competitive advantage against imported products or foreign competitors?

I9 – Yes, but it's also becoming a problem because the input costs related to that service are becoming huge. I think I am the only bolt and nut company in the country that carries a fleet of 76 vehicles. This was fine when petrol wasn't so expensive and you were making handsome profits but that is not the case anymore.

RC – Do you find a lot of strong competition in your market?

TV – Yes. That is the case in any market. The difference in a business like this is that the capital investment for a start up is not as high as an engineering business which has a lot of machines. If you wanted to start up in opposition to a company like Klip [Engineering] you would have to buy all those machines and at the profit margins would probably not be able to pay off the machines.

RC – Aside from new entrants to the market, what is the competition like from established businesses?

I9 – They're falling by the wayside.

RC – Is the greatest competition from the local market or from foreign companies?

I9 – The market is geared a lot on service. The Chinese for example are able to offer wonderful prices to supply in this country but they can't offer the service [we can]. So a large international organisation is going to have to weigh these factors up.

RC – Your business is buy/sell so is it getting in the product in bulk, breaking it up and selling it on?

I9 – It depends on the business. Our business (the fastener industry) as you get bigger you have choices. You can either buy from a company with their brand name on the bag, take that bag and just sell it on to someone. At some stage the customer is going to find out that the name on the bag is the manufacturer and go directly to them and try cut out the middle man. SO, it's very labour intensive because none of our stuff goes out other than in our own bags. We have to check

it all so it's very labour intensive and there is a huge amount of accuracy in it. We have to be sure before it leaves here that everything is right.

RC – This is obviously the nature of your business. Anyone else who is doing what you are doing is going to have the same problems?

I9 – Exactly the same. I've been in the game for 42 years and nothing has changed.

RC – The labour issues that you have, are they issues common to all SA companies or are there issues specific to your company or industry?

I9 – Exactly the same. It's all the same. It's not the labour you have but what's being put into their head [by a trade union representative]. Everyone I know in business has the same problem.

RC - You were saying that you can't grow without taking on more people, and obviously in your [labour intensive] business that is the case so as you've grown you've had to take on more people to handle that load. Do you foresee this being the case in the future?

I9 – It is product for product. If you could channel as business to only selling one product with handsome profits then yes you could grow almost double the size and not have to employ more people. But in my game, we have something like 49 000 different commodities and we service something like 4000 clients... orders vary significantly...for that you need labour.

RC – I'd like to get your opinion on the environment for business in SA, and specifically for small businesses. Also, have you noticed any difference in the small business environment since 1994 (the beginning of SME development policies in SA)?

I9 – If I have a small business after, not before 1994, that comes to me, it is all today based on BEE. They may have this huge turnover but we won't sell to them. Everything in our book is covered by credit guarantee so our book has to be

confirmed by credit guarantee. Government departments and black owned small enterprises today, it’s almost impossible to get covered on them.

SMME 10

RC – The market that each unit serves, would be only local?

I10 – Yes, it's local and yes, the competition is quite severe. Especially over the last 18 months, we haven't experienced that...it's been fierce. So, we focus locally, and obviously you get certain areas where the competition is greater than others. For example Vereeniging, where we operate amongst 17 other competitors, and that is just one town. So you can imagine the competition. The reason for that is the barrier to entry in the tyre industry is very low. You get people on the side of the road selling tyres.

RC – Really? I would have thought you were separated from those guys? It must be quite a capital investment to try and open up a...

I10 – Yes. We are separated, definitely, and that's a specific market. It's the low income market and it's just to get you to the next position. There's no service there. You can just see what they've got on the side of the road compared to what we have you can't compare the two. But still, it's a market, and it takes some of your profit away, it takes some of your market away, the pie just becomes smaller for all of us. So that's a certain market and any guy can buy a balancing machine, a low-level lifter and a wheel alignment machine, rent a building on a corner and operate from there. Yes, that's where the expertise, the buying power, the corporate governance, marketing...that's where that comes in. If you don't buy right, you can't sell right. If you don't buy right, you won't have a marketing fund etc. And that at the end of the day is what will set you apart from your competitor but it is fierce and the barrier to entry is very low. Anyone with a little bit of experience or training can sell a tyre.

RC – So then looking at your competitive dimensions, how would you rank the factors of cost, quality, service and flexibility?

I10 – 1 is position, where you are located, that's very important. 2 is buying power. 3 is...we actually had a survey the other day asking people what they want from a tyre supplier and the number one thing was advice, professional advice,

and location. In other words, can I get to that tyre shop as quick as possible. Convenient. It's all about convenience.

RC – What would you say your competitive advantage is?

I10 – Every year we do a SWOT analysis to see what our strengths are. 1 would be our years in the industry, experience only comes with time. The 2nd thing is our buying power. Our buying power enables us to be competitive in the market, whether it's passenger or truck. Yes, our margins have been under a lot of pressure over the last 18 months but at least we could sell whereas someone down the line won't be in that position. It's all about sustainability and we've been sustainable. We've come through tough times in the past. It's not going to end, it will always be there. You have your peaks and valleys in the industry.

RC – Then, moving on to labour. Obviously the nature of work has changes...with the new balancing machines so would you say you are tending towards a more automated approach? Obviously, it will never get to a fully automated approach, you will always need people to do the work, but is it becoming less labour intensive?

I10 – No, it will always be labour intensive. The technology, as you've just mentioned, becomes better and better. But what happens with that is just that the turning table of the stripping machine will go faster, instead of slower in the past. That specific motor in there will be a better motor, a more durable motor, instead of the old ones that we had. Changes that will be to make sure, seeing as the market has moved towards high performance vehicles...17, 18, 19 inch wheels instead of the 13, 14 inch wheels of the past so you get mag wheels. Now, scratching of the mags is costing us a lot of money because it happens. Now, with the new technology, it helps you to prevent that. So the whole design of it is better and because the wheels are so much bigger the size of the turning table increases and the capability of that also increases. So, it runs with technology. It makes it quicker. It makes it better. It makes it more sturdy, more durable but it will always be labour intensive. You need someone to do that for you.

RC – Then that raises the question: the skills required to operate the machines...?

I10 – Yes, now, the problem we have... in the old days you would have apprenticeships where you would train and groom the guys for 10 to 15 years for a senior position. But they've done away with that. The problem is wheel alignment technicians, although we train them through our resources, we identify guys with potential and then we will send them on training but it takes time, because you don't get guys off the street that specialise in that. You've got to do it yourself and hat takes time and it takes money. The problem is when you get that guy into a position they get head hunted and you lose them. So you've got to pay more. They're very scarce at the moment, those type of wheel alignment technicians. On the fitter side, that's easy, you can get someone from the street and you can train them just by in house training. It's a huge problem so we hang on to the guys we have.

RC – Then looking at labour issues, do you experience the common South African labour issues?

I10 – Well yes...they belong to their union, and it's driven on the national side down to strikes but we try to be different when it comes to that. As I said, we are a family business, so we look after them. We have a guy who looks after the psychological side of it. If there is a problem he will come sit down with them, spend some time with them and see if we can resolve that. When comes to lending money...we can do that. So our family culture is very big and that's a huge asset to us.

RC – Is there a limit to how much each branch can grow before you need to look at opening another branch in that area?

I10 – Yes. Space determines that. You can have 5 low levels in a certain area, as you can see, I can't have 10. I can only have 5 so I need to be more productive. So I can have 5 low level lifter, 5 fitters, maybe 7 fitters because there might be a puncture coming in. If there's 5 cars on the life then they can manage that. So, you are limited to that. You only have the low level lifters and the wheel alignment machines and that's it, you can't grow bigger than that. Then it just comes in terms of productivity, where your service is so good that people can wait

outside and just get you more productive in the working hours you have got. Then you would say, in this area I'm saturated, I've reached a ceiling here, and then you move on to the next area. And remember growth comes from selling more units, and that is how we measure it. But also, there are yearly price increases. If there is a 10% price increase then there is going to be a 10% forced growth in turnover caused by increase in tyres.

RC – You were saying, with all the technology upgrades to accommodate all the different tyres and different wheels that they use...how often does the technology get updated and is it sustainable to keep upgrading?

I10 – We have to that. It's very important. Your wheel alignment machines you need to upgrade every 3 years. That's important. They keep coming out with new machines that make it easier. The roll outs, in the old days it used to take you anything between 30 and 45 minutes. These days you can do wheel alignment within 15 minutes. Talking about productivity, now you can do 4 cars in an hour when in the old days you could only do 2 cars an hour. So you can double your productivity because of technology so that plays a huge role. The machines cost a lot more now but it's important. It's important to be a market leader and to offer that.

RC – The technology that you use, is it produced locally?

I10 – No, it's imported from America and Germany.

RC – Is there any local stuff?

I10 – No.

RC – As a final point, can I get any general comments of your opinion on doing business in South Africa?

I10 – I've been in the industry 18 years. I've always been positive. It's going well. We're making money. Yes, it's not easy, but who says it's got to be easy? Business is not easy.

Appendix D2 – Additional Interviews

Additional Interview 1 - Human Development Consultant

AI 1 – The essence of my product is to influence decision makers at enterprise level to think differently about typical things like job opportunity, job creation.

Most people will be employ me, not for job creation, but for savings...more effectiveness, more procedural efficacy, how to reduce costs, to bring in austerity mindedness, more return or per capita contribution, optimising human talent, increasing the bottom line of the organisation and I have to say that most organisations have a tentative, if not plastic, morality about all of these things. People will only do the things that you are researching if they can afford it and if it's publicised.

RC - Do you think that the lack of social conscience in enterprise is actually a sustainability issue?

AI 1 – Yes. Most organisations have a very effective and impressive social conscience statement in terms of their moral intent, like reading the vision and mission statement...it's not true in every place. In SA with an unemployment factor of whatever it is...it's not 15 or 20 or 22 percent. It's probably nudging 30-40, nobody will ever give the exact figure, and certainly not national statistics, because it's an indictment against the government. There is a difference between sustaining what you have, or compromising what you have by expanding artificially to do the thing that's morally right, creating more jobs, then collapsing the nucleus of your business. That's why many people will say 'let me just remain with the core and I'll give you 200 000 000 and go build the school or do whatever and those people can employ some people as gardeners or whatever but let me not compromise what I'm busy with. And the majority of the organisations I've worked with and am working with right now would sooner do that

RC – From what I can tell in the research I've done is that, prior to 1994 there was no organised development of small enterprises...everything was focussed toward big businesses yet small business seemed to be at its strongest. Obviously there

was the factor of labour...where you could exploit very low paid labour but it's just interesting that there seemed to be more of an entrepreneurial spirit...maybe that's just been offset by the difficulty in doing business now.

AI 1 – That's the point. There's no question about so called industrial freedom in SA. If you want to start a business all the systems are there for you. From the industrial development corporation for mega companies right down to the smallest. Banks are so inclined even to help those small people and they have a commitment to the government that they will help small people and particularly the unbanked...to help them with money and advances etc to establish themselves because if we don't establish very small business, literally the spaza shop, the economy...we won't make it. But it's not effective yet and it has to be stimulated to a large extent by the very same people who 20 years ago oppressed it. Societal reform and economic rearrangement I think is a vital aspect and that is that the have-not are now the haves. The very people who are given jobs need to be taught that their job is to create more jobs. It's not a superstructure that we must continue to create jobs but if you are helped to create something out of your own intelligence, you need to help create jobs.

We have to re-engineer the mind, the system, the application, business, industry, the whole thing, in keeping with Africa. This is 3rd world. If we think otherwise we're dead. We can build an atomic energy corporation and 10 more Sasols, that's simple. We've got the template, we can do it again. But to create jobs and to put people in homes and to restore dignity etc is a very very complex process...

...I believe that we need to develop a system of a tax rebate of some sort to stimulate job creation and that companies are incentivised to do so but also rewarded when it happens. So it's not just the entrepreneur or the employer but it's the elaborative initiative between that employer, who is willing and so inclined to do it, and a government initiative.

We have to create jobs at the enterprise level and not just look at government to create jobs or new projects. The Gautrain and the soccer world cup stimulated this economy enormously and then one morning these jobs were done.

Additional Interview 2 – Midvaal Municipality Politician

RC – I'd first like to get your opinion on small enterprises in this country...across the range – small, micro and medium enterprises?

AI 2 – There's a lot of research...and if you're talking around employment, small and medium enterprises are critical because that, or the theory goes, that is where the most employment will take place. That has the potential for the most employment in the next 5 to 10 years. If you look specifically at a small town like Meyerton it's hugely important because that's the kind of businesses that keep the economy going locally. It's not Samancor and it's not Vaal Potteries. It's the people who have invested here and who live here and operate here and have an interest in the area. They contribute far more to the economy than the big guys do.

RC – Then also the theory on that is that it's small start-ups...because small enterprises don't tend to grow sufficiently to provide sustainable employment.

AI 2 – I think that, unfortunately, there are a lot of people in South Africa who have no option but to start up their own business. People are all being told by government 'wonderful, go start the businesses' but once they start they realise that it's not that easy. For example, just look at accounting reporting requirements. No matter how small you are, there's a huge amount of red tape involved. You've got to submit financial statements, you've got to have an accounting officer, under a certain level you don't have to be registered for skills development levies but you still need to submit UIF returns... The VAT threshold has not been increased, in my opinion, as it should have been because that entire process of VAT is a lot of paperwork for a small business and if you get it wrong you're in major trouble with the receiver. There's a lot of small businesses, particularly manufacturing businesses, that would read about the DTI grants and you'll get these consultants that will come and do the grants and the applications for you but people are not being told up front just how long it will take for you to get the grant. Sometimes it takes very long and so it cripples your cash flow and secondly the admin involved in actually accessing that grant. You've got to pay a consultant to go do this all for you and they charge a fortune. In South Africa the

literature is there and initially the support is there. ‘Go start your business’. But when you really get down to it there is just too much red tape for the small guys. Cost of compliance is just way too much. Simple example – to get a business rezoning in your average municipality costs a lot of money, takes a long time, it’s frustrating...it’s far more hassle than it should be. Just to get a company registered in South Africa, through CIPRO...what a mission. And until it’s registered officially, you can’t get your stuff done with the receiver. So, yes, the support might be there but because of bureaucracy and systems in place like CIPRO it’s actually not very business friendly.

RC – So what kind of support do you think SMME really require? The main argument in literature is whether they need finance or technical support...

AI 2 – I don’t think that finance is the biggest problem. There’s enough ways to get start-up finance if you really want to and you’ve got a good idea. That’s not so much the hassle, it is almost managerial training that needs to... Before you open a business that person needs to fully understand what they are committing themselves to as, for example, a director of a company. What are your responsibilities. People just don’t understand, for example, in the first year they have income coming in to their business and they pocket that, buy cars, buy houses etc as opposed to investing in their business and there’s a number of companies in the Midvaal who got funding from the IDC that collapsed within the first 2 years because people didn’t understand that they needed to reinvest in their company constantly for it to grow. So the funding must be subject to intensive management training. Those people need to be screened better.

RC – There are a lot of arguments in the literature about them pushing the financing, the institutions that provide the financing and say that’s the answer when it’s the technical ones that are really going to make the difference.

AI 2 – There’s a lot of pressure on banks to provide loans for small businesses and that’s fine but it’s very irresponsible to give somebody 3,4,500 000 rand and there’s not enough control. There aren’t enough conditions attached.

RC – A big issue that comes to mind is the focus on health and safety, which has only fairly recently become a big issue in SA whereas in the rest of the world...without that, you just wouldn't be allowed to operate. Here everyone sees it as this major hampering issue. We haven't got to the point where we realise that there are certain fundamental things you have to do in running a business. But then again we don't really have the skills that the rest of the world has...the business management skills to compensate for that...

AI 2 – Exactly. Also...controversial opinion...our business system, or the way we approach labour and business models has always been, or was rooted in, the establishment of the mines. The only way he mines could ever be successful was to have a constant supply of cheap labour. Cheap labour that just doesn't really care too much about safety, in those days. And that was the attitude, they're just numbers, push them into a dormitory and get them to work and pay them the minimum and a large chunk of our economy is unfortunately still based on that system.

RC – Talking about labour, specifically labour laws and the power of the unions. What is your opinion on the effect that they have on business?

AI 2 – Your average small business man would see the union as a stifling factor to their business and just there to interfere and make life difficult. I can only speak from my opinion here at Midvaal... if you can accept, as a manager, that the union is there to fight for the rights of the employees, you need to accept it. Because if they didn't to that, they wouldn't exist. And then if you can start seeing them not as a problem, but as part of the solution, they will understand that. If I have a problem here with labour, the first thing I do is phone up the shop stewards and I get them round the table and say to them 'this is my problem, how are we going to solve this' and make them part of the solution. Bring them in to the management of the labour. But old school SA, and people that have been running businesses for 30 years see the union as a tremendous threat and they can be if you ignore them, if you treat them with animosity, if you don't have respect for their role. We must understand that pre-labour relation act labour was abused in this country so you can now understand that there is a backlash and huge protectionism around

that. There's a reason there are labour unions in SA. Make them part of the solution. What I do have a problem with, and this is because business allowed it, is collection wage bargaining stories. For example, in the metals industry, they agree to wages on a national level. So the small businesses probably feel very disempowered because these percentages are agreed to nationally. But that's something I think that the businesses agreed to at some stage. And effectively that bargaining process is being governed and dictated to by big business. So maybe the problem is not so much labour but the bigger businesses who are not fighting enough for the smaller guys. Obviously the union is going to fight for the maximum percentage. That's their job. It's the representatives, and most of those are big business guys, who are agreeing to those things.

RC – Do you think that there is a possibility of having big business and small business unions?

AI 2 – Yes. They must investigate that. How do they break away from this huge collective bargaining... Perhaps you could look at a salary bill within a company and say under a certain amount you negotiate your salary on a local level, within certain legal parameters. Whether or not the unions would allow that I don't know but again I don't think it's unreasonable. If you had to explain how the wage increases had negatively affected particularly small businesses...you know unions are not dumb. Show them the facts and figures and be open and honest without ulterior motives, they are going to understand they are losing members within small businesses. They want to overcome that. The other problem is, when you are negotiating on wages, unions push for the maximum and employers are also not fully genuine on the whole thing. They will go for the absolute minimum and try and hide profits and manipulate financial information. They you will have an agreement on a 6 or 7% increase yet the MD is getting a performance bonus of 3 or 4 or 5 million rand. You can understand the labour union is angry because a few days ago you told them you don't have money to give them more. So I can understand why unions don't trust employers and I can also understand why employers don't trust unions but that's more of a historical thing. We need to get over that now.

RC – There are a lot of theories thrown around about creating sustainable employment in South Africa. Realistically, what do you think the options are, through government involvement and through private involvement.

AI 2 – Well it's not through government involvement. There are 2 initiatives, the expanded public works programme and then the community works programme. All you are doing there is employing a whole lot of people on a 2 week rotational basis and you're paying them R70 a day. It's not even a job. That's not creating employment. Yes, that's alleviating poverty. Yes, there is a place for that in SA. In communities where there is nothing, where they have no money and no employment then fine, do that, and get the community to build their own road and plant their own trees and keep it clean and so on. But that's not going to create a job. The only way you're going to create jobs in SA is through business and the only way you're going to get that right is through more foreign investment. There just isn't enough capital in this country or there isn't enough willingness by people who have capital in this country to invest more. Why it is that foreign companies are not investing as much as we'd like them to I don't know. If you take pre-recessions...I mean the marketing is there. SA markets itself really well internationally. All the grants are there. The tax rates pretty good compared to Europe or America's tax rate. Possibly there is still this perceived risk of investing.

RC – Moving on to issues of being competitive. This big question is how do we compete, as SA, against imports? What about protecting local producers?

AI 2 – They have exactly the same debate currently in America. I think unemployment there is around 10% at the moment which is a huge problem for that economy, and they started realising that the unemployment is structural. The manufacturing industry has slowly moved out of America over the years and the motorcar industry is collapsing and those kinds of things. So you have two choices: either you are going to provide that protection and bring some things back and Obama did try do that with trying to save the motor car industry but that protection, whether it is by way of subsidies or reduced tariffs or reduced taxes or higher import duties on imported goods and so on, somebody has got to pay for it

and ultimately it's a tax and the consumer pays for it. When you're importing goods remember you can't go and limit a whole lot of things because we desperately need capital imports, most of heavy machinery and so on is imported still in this country unfortunately.

RC – But you could do it in the way that you would tax things that can be produced here and not things that can't?

AI 2 – But is that really a saving to the consumer, or are retailers not then just pushing up those prices?

RC – I think there needs to be a trade off between the cost and lead time of something local versus the cost and lead time of something imported?

AI 2 – And ultimately who will pay for that extra cost, the consumer?

RC – Initially yes, the consumer will have to pay more, but I think that eventually it will stabilise and local producers will have to lower their prices and become more competitive. That's the idea, that they will have to become more efficient. It's not that our consumers will be paying more, they will be paying in line with what they should be paying, but it will be for a quality product rather than a cheap, sub standard product.

AI 2 – Yes, but that decision is being taken by the consumer. Take the metal industry for example. Generally there is a perception that if you buy a lathe or guillotine or whatever it is in SA, from a reputable company versus buying some cheap import from China the SA product is better quality. But if the consumer wants to buy the cheaper one there is nothing you can do to stop that. Then maybe it is time for SA to adjust its standards and adjust its way of doing business, change the products. All you do when you bring in protectionism is you're ignoring the fact that your consumer is telling you that something is wrong with your product or your price and the longer you do that the more uncompetitive you become...

...One of the ways to grow the economy is to export more. We need to export more. Now, for example our wine industry, we could be exporting far more but

because the European Union has got such strict rules and high import duties and all of that on SA wine we're struggling to sell wine there. So, on the one hand protectionism would assist local businesses but it's also going to create a problem on the other side because you can't expect China to be particularly happy with us when we put tariffs up on their imports. We can't go back to them and say 'Oh please help us find a market for our exports'. They're going to say no. I don't have the answer but my immediate thoughts are when in doubt the market must decide and if you can't produce something productively or cheaply in SA then either you must figure out why you can't do it or must accept that you can't do it and then do something else. So in America that's part of the debate. Saying don't bother with manufacturing in this country, go with innovation and I.T. and build further on that.

Maybe SA manufacturing shouldn't try to be cheaper. If it's going to market itself in terms of quality there are numerous economies in the world, Germany for example where you know you are going to pay more for a German product...appliances, motor cars etc... but people still pay that. People are prepared to pay more because it's branded and marketed as being a superior product and it is generally correct that it is a superior product. So, if we are saying that SA manufacturing is good then we shouldn't try to be cheaper, we should just rebrand SA so that we are known as a quality goods country.

APPENDIX E – BIOGRAPHICAL DATA OF RESPONDENT SMMES

This appendix gives the full biographical information of each of the respondent SMMEs.

SMME 1

- Function: Helicopter chartering business and flight training centre.
- Years Operating: 17.
- Industry: Transport, Storage and Communications.
- Size Classification: Small.
- Biography: A family owned business providing a wide array of charter services as well as training services. They control a fleet of 25 aircraft for chartering, hire-and-fly and training purposes.

SMME 2

- Function: Machine reconditioning, manufacturing machines and spares, jobbing work.
- Years Operating: 42.
- Industry: Manufacturing.
- Size Classification: Small.
- Biography: Second generation family owned business which began with reconditioning and selling second hand machines. The business then expanded into building machines such as guillotines, rollers and various pressing and bending machines. Finally, with the addition of CNC machines, the business further expanded into jobbing work.

SMME 3

- Function: Design, manufacture and repair of custom machinery and tooling.
- Years Operating: 26.
- Industry: Manufacturing.
- Size Classification: Very small.
- Biography: The business started out selling machines and components, then shifted focus to repair of machines and finally expanded into development of machines and machine tools. The business focuses on design and manufacture of mechanical elements and sub-contracts electrical and computer installation functions.

SMME 4

- Function: Custom design and manufacture of metal components.
- Years Operating: 33.
- Industry: Manufacturing.
- Size Classification: Small.
- Biography: A family owned business specialising in custom design and manufacture of various metal (steel, stainless steel or aluminium) components using presses, punches, guillotines, spot welding and similar operations. The business began with manually operated machinery and has since changed to CNC bending and punching machines and a CNC lazer cutting machine. All design and manufacture is done in-house and each component is fully customised.

SMME 5

- Function: Manufacturer of standard and customised steel items for mining and construction.
- Years Operating: 55.
- Industry: Manufacturing.
- Size Classification: Medium.
- Biography: A family owned business which started as a small machine shop primarily focusing on machining of foundry castings. The business has since transformed to producing heavy duty temporary mine supports, scaffolding equipment as well as customised steel items for construction projects.

SMME 6

- Function: Manufacture and distribution of cap liners and cap lining material.
- Years Operating: 26.
- Industry: Manufacturing.
- Size Classification: Medium.
- Biography: Family owned business operating as a producer, supplier and inserter of cap liners and cap lining material for use in a wide variety of commercial and consumer products.

SMME 7

- Function: Manufacture and supply of stud bolts for the petro chemical industry.
- Years Operating: 45.
- Industry: Manufacturing.
- Size Classification: Medium.
- Biography: A second generation family owned business which started out as a general engineering and machine shop and has since specialised to manufacture of stud bolts for the petro chemical industry which involves special specifications of material.

SMME 8

- Function: Manufacture and supply of automotive batteries.
- Years Operating: 57.
- Industry: Manufacturing.
- Size Classification: Medium (upper end)
- Biography: Third generation family owned business manufacturing batteries for various applications such as cars, caravans and boats. The business has developed over a long period of time and controls all aspects of the manufacturing process from recycling to distribution.

SMME 9

- Function: Supply of fasteners and associated items.
- Years Operating: 42.
- Industry: Wholesale Trade, Commercial Agents and Allied Services.
- Size Classification: Medium.
- Biography: A family owned business specialising in supplying a wide variety of fasteners and associated tools and equipment for various commercial applications. The business does not manufacture its products but rather engages in sourcing, warehousing and distribution activities.

SMME 10

- Function: Selling, repairing and fitting tyres.
- Years Operating: 48.
- Industry: Wholesale Trade, Commercial Agents and Allied Services.
- Size Classification: Small.

Biography: A third generation family owned tyre fitment service business. It is now part of a chain of fitment centres in order to take advantage of collective buying power yet each store operates independently. Its services include selling tyres, repairing tyres, retreading, wheel balancing and alignment as well as all accompanying services.