



MCom

**Integrating SMEs into value chains:
an accelerated growth plan for South Africa**

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ABSTRACT

South Africa is listed among the world's top ten countries with the highest unemployment levels (World Bank, 2018). The National Development Plan (2013) envisioned that by 2030, 90% of new jobs in the country will be created by small and growing enterprises. Worryingly however, South Africa lags in meeting its target for job creation as set out in the National Development Plan despite some effort made by the government to promote and grow small businesses. Globally small and medium enterprises have been acknowledged for their key role in driving economic growth, job creation and poverty alleviation. Despite this important role, South Africa still has one of the highest small and medium enterprise (SME) failure rates in the world (Global Entrepreneurship Monitor, 2014). To circumvent this challenge, the South African government established development strategies including the notable Broad-Based Black Economic Empowerment (BBBEE) to drive the growth and expansion of small and medium enterprises (SMEs). BBBEE is intended to drive enterprise and supplier development (ESD) and improve the development and long-term growth of SMEs. Notably, large private corporations in South Africa have made significant investments in ESD; however many SMEs fail to survive past three years. This study therefore investigates the extent to which integration into a large corporate value chain promotes the sustainability of a SME. The study also examines the impediments that inhibit the growth of SMEs that are integrated in large corporate value chains. The research was conducted using an explanatory qualitative methodology. Five SME owners and six large corporate managers were interviewed to assess their perspectives and opinions on the SME-Corporate relationship. The research results concluded that corporate initiatives on ESD are of a significant benefit to SME growth, however challenges such as negative corporate perception and access to external funding remain a hindrance to SME growth. The study proposed recommendations to improve the successful integration of SMEs into corporate value chains.

Keywords: Broad-Based Black Economic Empowerment, Small and Medium Enterprise, Value Chain

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LIST OF ABBREVIATIONS

BBBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
BRICS	Brazil, Russia, India, China and South Africa
DTI	Department of Trade and Industry
EC	European Commission
ESD	Enterprise and Supplier Development
EU	European Union
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GVC	Global Value Chain
ILO	International Labour Organisation
NDP	National Development Plan
NIE	New Institutional Economics theory
OECD	Organisation for Economic Co-operation and Development
QLFS	Quarterly Labour Force Survey
SCM	Supply Chain Management
SEDA	Small Enterprise Development Agency
SME	Small and Medium Enterprise
SMEs	Small and Medium Enterprises
SMMEs	Small, Medium and Micro Enterprises
StatsSA	Statistics South Africa
UNIDO	United Nations Industrial Development Organization

CHAPTER 1

INTRODUCTION

1.1 Introduction and background of study

Globally, studies have acknowledged SMEs to be the biggest driver of economic growth and job creation (Wang, 2016; Anggadwita & Mustafid, 2014). SMEs play a key role in national economies across the world. The Organisation for Economic Co-operation and Development (OECD) estimated that small and medium enterprises account for 90% of firms and employ 63% of the workforce worldwide. Within the OECD area, SMEs account for 99% of all firms and employ about 70% of the workforce (OECD, 2017).

The South African government has recognised the growing importance that SMEs play in economic development and has introduced initiatives that aim to promote the growth of SMEs. According to the Department of Trade and Industry (DTI, 2013), small, medium and micro enterprises (SMMEs) in South Africa contribute 52 to 57 % of GDP and employ about 60% of the workforce. The country's National Development Plan (NDP) envisions that by 2030, 90% of new jobs will be created by small and expanding firms.

According to the International Labour Organisation (ILO, 2018), South Africa's unemployment rate ranks the highest among the BRICS countries, making it the only BRICS country with an unemployment rate above 15% as at end of 2018. The World Bank listed South Africa among the world's top ten countries with the highest unemployment levels. Figure 1 below exhibits South Africa's concerning high unemployment status according to the World Development Indicators and World Bank (2018).

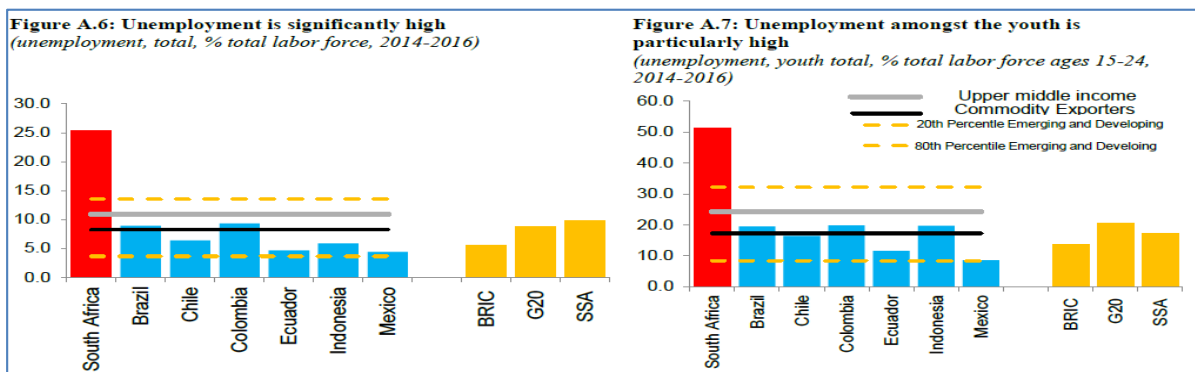


Figure 1 Unemployment Status

By international standards, South Africa's labour participation is low as over a third of South Africans are unemployed, including those that have given up looking for work. The country's state of high unemployment, particularly youth unemployment, remains the biggest threat to social stability (Manuel, 2011). South Africa's challenge of high unemployment is a result of a combination of low GDP growth and an insufficient skilled workforce (World Bank, 2018).

Based on the Quarterly Labour Force Survey (QLFS) from Statistics South Africa (StatsSA), the unemployment rate in South Africa was reported at 27.1% in the fourth quarter of 2018 compared to 26.7% over the same period in 2017. During the fourth quarter of 2018, the working age population (15 -64 years) increased by 0.4% and the number of employed persons increased by 2.2%, compared to the previous year (StatsSA, Q4:2018).

Despite the high unemployment rates in the country, SMMEs in South Africa have been instrumental in providing employment. SMME employment has grown strongly and the SMME sector has provided employment to 10 million people in South Africa, which makes up 61% of all jobs in the country (SEDA, 2019). Table 1 below indicates employment provided by SMMEs in South Africa, further highlighting the importance of SMMEs to the creation of jobs and employment in the country.

Table 1 Employment provided by SMMEs

	2017Q3		2018Q2		2018Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Formal sector	5 755 761	63.0%	5 638 368	58.8%	6 068 027	60.3%	429 660	7.6%	312 267	5.4%
Informal sector	788 579	8.6%	918 496	9.6%	974 087	9.7%	55 591	6.1%	185 508	23.5%
Agriculture	345 430	3.8%	596 016	6.2%	468 622	4.7%	-127 394	-21.4%	123 193	35.7%
Private households	0	0.0%	0	0.0%	0	0.0%	0	n/a	0	n/a
Provided to others	6 889 769	75.4%	7 152 880	74.6%	7 510 737	74.6%	357 857	5.0%	620 967	9.0%
% Female*		36.9%		37.9%		37.9%		0% pts		1.0%
Employer	795 428	8.7%	831 832	8.7%	887 297	8.8%	55 465	6.7%	91 869	11.5%
Own account worker	1 455 858	15.9%	1 608 927	16.8%	1 669 594	16.6%	60 666	3.8%	213 736	14.7%
Total	9 141 056	100.0%	9 593 640	100.0%	10 067 628	100.0%	473 988	4.9%	926 572	10.1%

Source: QLFS of Stats SA ** of all people working for private enterprises, of which 81% worked for SMMEs over the last 5 years*

According to the SEDA (2019) report, the number of SMMEs in the country grew by 13.6% from 2017Q3 to 2018Q3; however, the financial performance of SMMEs over the same period worsened. The SME sector experienced an 8.6% contraction in turnover and a 25% decline in profit levels from 2017Q3 to 2018Q3. On the other hand, large firms in South Africa achieved a turnover growth of 6.3% over the same period.

The turnover performance hints at how small enterprises experience the business world differently to larger firms. The declining SMME financials suggest that the SME sector remains under serious financial pressure. Literature provides a plethora of SME challenges across the world. Wang's (2016) study surveyed SMEs from 119 developing countries for the period 2006 to 2014 on their perceived obstacles. The results revealed five top challenges: access to finance, electricity, political instability, competition and tax. Figure 2 below presents the overall barriers to growth perceived by SMEs in percent of the total number of firms.

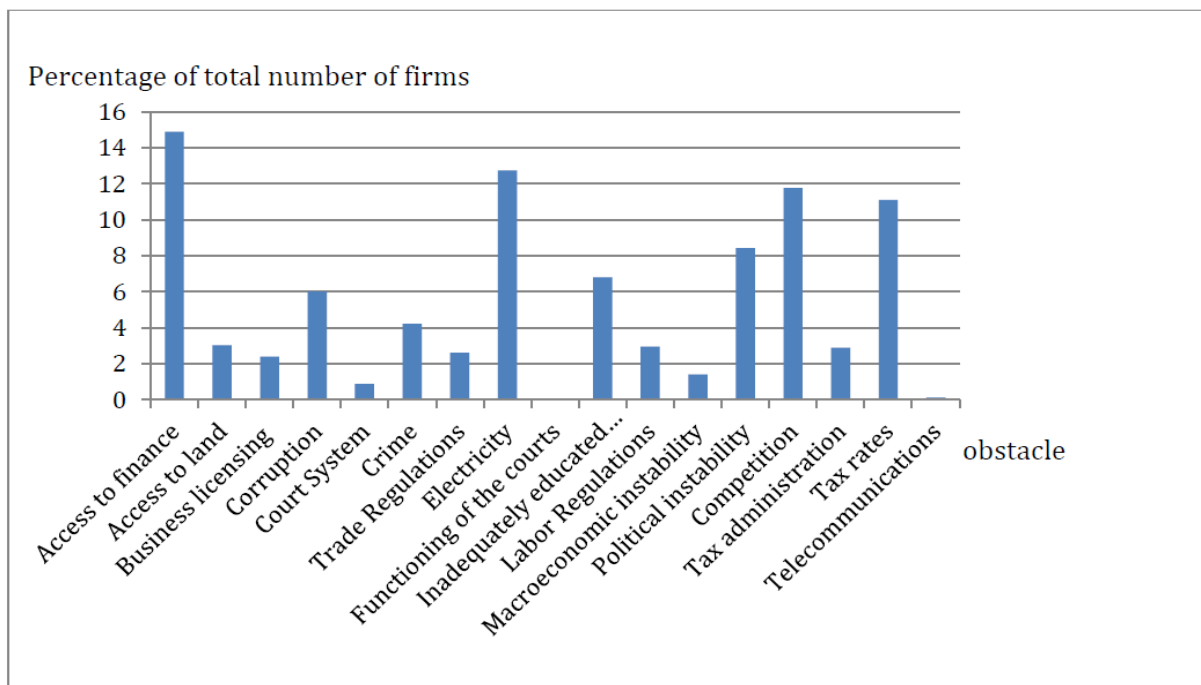


Figure 2 Barriers to growth as perceived by SMEs

As indicated earlier, South Africa has one of the highest SME failure rates in the world. According to Von Broembsen, Wood and Herrington (2005), the probability of a new SME in South Africa surviving past 42 months is less likely than any other Global Entrepreneurship Monitor (GEM) sampled country. In an attempt to curb SME barriers and to support the SME sector, the South African government has provided a more conducive environment for SMEs. This is illustrated in the promotion of Black Economic Empowerment (BEE), improved opportunities to start-up businesses, SME inclusion in industrial policies, amended tender processes that favour SMEs and encouragement to large private firms to use SMEs as their suppliers and distributors (Jeppesen, 2005).

Although SMEs have become increasingly visible in their competitiveness, very little research has been conducted to assess how SMEs have developed on the back of large private corporations in South Africa.

1.2 Problem definition

South Africa has not been able to generate jobs quickly enough to meet the needs of job-seekers. For instance, the country lags in meeting its NDP job creation target of 11 million jobs between 2010 and 2030 (World Bank, 2018: 39). Despite the critical role that SMEs play in job creation and as promoters of economic prosperity, a SEDA (2019) report, indicates that more SMMEs fail during their third year in operation, marking this as the watershed year.

This study, therefore, analyses and evaluates the achievements and growth of SMEs that have been integrated into large private-firm value chains. Some of the procurement issues faced by SMMEs are recorded in a 2012 survey conducted on behalf of SEDA. The study highlights several challenges for SMEs working with large corporates, the top five issues being: late payment, red tape, cash flow issues, market penetration difficulties and lack of capacity and resources.

On the other side of the survey, large corporates also indicated their procurement challenges when working with SMEs. Top of the list being: cash flow problems, unsustainability of SMEs, quality problems, business certification issues, low expertise and limited national footprint. The most significant problem was found to be cash flow issues, which affects the SMEs ability to deliver products and services.

There is a dearth of evidence in literature that shows how SMEs have been successfully leveraged by large firms operating in South Africa. This study investigates the impact of integrating SMEs into large firm value chains, through deliberate opening up of procurement opportunities. It is important to address the procurement challenges and perceptions faced by SMEs and private large firms to maximise the prospects of survival for supported SMEs and to maximise value for participating large enterprises.

The findings of this research may generate valuable insights that will serve to inform the type of assistance that is most relevant to SMEs, and also to large enterprises that use the government's BBBEE as a criterion to engage in supplier development programmes. The research may, therefore, be of interest to SMEs, large private firms, policy makers and SME financiers.

1.3 Research questions and objectives

A large amount of research has focused on the overall factors and challenges affecting SME performance; however, limited research has been conducted on how large private firms can successfully leverage SMEs in South Africa.

This study, therefore, seeks to answer the following primary research question:

To what extent does SME integration into a large corporate value chain promote the growth of the SME?

The primary research question is divided into the following secondary questions:

- What are the internal and external factors that influence the survival prospects of a SME integrated into a large corporate value chain?
- What are the biggest challenges encountered by SMEs working with large private firms?
- How can SMEs work with large private enterprises in a fairly competitive and sustainable manner?

The study aimed to examine how large private companies, in South Africa, work with SMEs to support localisation and improve supplier chain diversity in a manner that delivers mutual prosperity for the large firm, SME and society at large. This study critically evaluates the impact of integrating SMEs into corporate value chains as a stimulant for accelerating economic growth in South Africa. Therefore, the study sought to achieve the following research objectives:

- To identify and examine the factors that influence a positive SME-large firm business relationship
- To examine the challenges faced by SMEs working with large corporations.
- To understand the role of corporate value chains in promoting the competitiveness and sustainability of the SME.

1.4 Justification of study

SMMEs are known to play an important role in developed and developing economies and are regarded as vital to a country's economic prosperity (Brink, Cant & Ligthelm, 2003). Notwithstanding the positive role and recognition SMEs have gained over the years, many SMEs

in South Africa still face a myriad of challenges, such as access to new markets and networks, cash flow problems, limited management skills and low production capacity. These SME challenges remain pervasive despite the great deal of literature conducted on the topic. Given the positive socio-economic outcomes of successful SMEs, this study will help solve part of the SME puzzle through the investigation of the impact of integrating SMEs in large corporate value chains.

This research hopes to contribute to the existing literature on the factors that prevent growth of SMEs in South Africa and SME development in the country. This study will help expand research on private sector procurement as a stimulant for economic growth. It is envisaged that the findings of this study will be significant in addressing the main challenges for SMEs working with large corporates, address the procurement perceptions and challenges experienced by large corporates, and gain from international experiences in supplier diversity.

Lastly, the findings of this study aim to provide valuable information to SME owners and managers and large firms that support supplier chain diversity about the opportunities that exist in working with one another. The results of this study will help policy makers at the South African Department of Trade and Industry with specific recommendations for the types of improvements sought by SMEs and large firms that will strengthen the current procurement framework and mitigate the existing challenges.

1.5 Conclusion

South Africa urgently needs to grow its economy and create jobs for millions of its unemployed job seekers. Promoting and developing SMEs is, therefore, instrumental for job creation and driving economic growth. This chapter introduced the background and context of the study with a brief overview of SMEs from a global and national viewpoint. This chapter provided the statement of the research problem clearly outlining some of the knowledge gaps particularly around understanding the procurement challenges and perceptions faced by SMEs and large corporates. Additionally, this chapter presented the research questions and research objectives highlighting the goals of this study in relation to the gaps in existing knowledge. The next chapter presents the literature review for the study.

1.6 Organisation of study

The dissertation is organised into five chapters as follows:

Chapter 1: This chapter includes the introduction and background of the study and discusses the problem statement including research objectives and questions

Chapter 2: This chapter focuses on the Literature Review, examines the existing literature on the topic and identifies where the study fits into the gaps in current literature.

Chapter 3: This chapter outlines the research methodology and research strategies employed to collect data for the study.

Chapter 4: This chapter presents the analysis of the data collected and provides a discussion of the survey results obtained.

Chapter 5: This chapter outlines the conclusions and recommendations of the study.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The previous chapter presented the introduction and background of the study. This chapter discusses the theoretical and empirical evidence on the topic of the study. Key definitions of terms and the theories upon which the study is based are discussed. This chapter develops a conceptual framework which outlines the key concepts of this study. The role of SMEs in the economy is reviewed as this provides an appreciation of the topic under study. This chapter also explores the challenges faced by SMEs and how government has used BBBEE to promote small enterprises. Additionally, this chapter looks at the importance of value chain analysis as this provides an understanding and basis for making appropriate recommendations.

2.2 Definition of SMEs

Globally, there is a lack of a uniform definition for SMEs, so there is no single acceptable definition. The debate concerning the definition of small businesses has been advanced by several major sources. The Bolton Committee Report (1971) is one of the most widely quoted sources for SME definitions (Tonge, 2001). The Report (1971) formulated an 'economic' and 'statistical' definition for small firms. The economic definition regarded firms as small, if they met the following three criteria:

- They had a relatively small share of the market place
- They were managed by owners or part owners in a personalised way and not in a formalised management structure
- They were independent and did not form part of a larger enterprise.

The statistical definition for small firms proposed the following three criteria:

- The current size of the small firm sector and its contribution to gross domestic product (GDP), employment and exports and innovation
- The extent to which the small firm sector has changed its economic contribution over time
- The ability to apply a cross-country comparison of the contribution of small firms' economic contribution.

The Bolton Committee applied different definitions for small firms in different sectors, indicating that the size of the firm varied depending on the sector of the firm (Tonge, 2001). Although widely accepted, the Bolton Report has been criticised on its inconsistencies of defining enterprise characteristics based on number of employees and those based on managerial approach (Abor & Quartey, 2010). Despite the criticism, the Bolton Report has been regarded as the primary reference for a qualitative definition of SMEs in literature (Berisha & Pula, 2015).

The definition of SMEs in Europe is set out in a recommendation made by the European Commission (EC), which is the executive branch of the European Union (EU). The EC is responsible for proposing legislation, implementing decisions, upholding the EU treaties and managing the day-to-day business of the EU (European Union, 2015). SMEs in the EU are classified as follows:

- Micro enterprise – a firm with 0 to 9 employees
- Small enterprise – a firm with 10 to 50 employees
- Medium enterprise – a firm with up to 250 employees.

Although the EU definition makes a distinction of the different firm sizes, it cannot however be applied across countries due to operational nuances (Abor & Quartey, 2010).

Similarly, the United Nations Industrial Development Organization (UNIDO, 2005) defines SMEs based on the number of employees, but also provides different classifications which are categorised differently per country, depending on whether a country is industrialised or developing. This study focuses on South Africa and thus the researcher considers UNIDO's classifications for developing countries which are as follows:

- Micro enterprise – less than 10 employees;
- Small enterprise – 10 to 49 employees
- Medium enterprise – 50 to 249 employees
- Large enterprise – 250 or more employees.

In South Africa, SMEs are defined using two proxies, that is, total full time equivalent of paid employees and total annual turnover. The South African SME definition was last updated in March

2019 in the National Small Business Act, 1996 (ActNo. 102 of 1996). The revised definition reads as follows: “a ‘small business’ means a separate and distinct business entity, including cooperative enterprises, managed by one owner or more, predominantly carried on in any sector or subsector of the economy mentioned in column 1 of the Schedule and classified as a micro, a small or a medium enterprise by satisfying the criteria mentioned in columns 3 and 4 of the Schedule” (Department of Small Business Development, 2019).

In the first proxy (total full time equivalent of paid employees), the National Small Business Act of 1996 provides various classifications of small businesses. These are summarised as follows:

- Micro enterprise: may have 0 to 10 employees
- Small enterprise: may have 11 to 50 employees
- Medium enterprise: may have 51 to 250 employees.

The second proxy (total annual turnover) differs by sectors or sub-sectors and the detailed classification is included in Annexure 1 of this study.

It is clear that to some extent, SME definitions reflect the different geographic and economic conditions, and therefore vary across countries and industries. Gibson and Van der Vaart (2008) note that literature is still far from an international consensus on what constitutes a SME due to statistical arbitrariness. This study applies the South African definition and uses the relevant enterprise classifications provided in the National Small Business Act.

2.3 Theoretical framework

The study notes four scientific disciplines that contribute to the development of the value chain theory. The theories are differentiated by their unique perspective on inter-company relationships, and are: Global Value Chain, Supply Chain Management, Social Network, and New Institutional Economics.

2.3.1 Global Value Chain Theory

The Global Value Chain theory (GVC) originates from the commodity chain approach and investigates the relationship between multi-national companies, also referred to as “lead firms”, and other international participants in value chains (Neilson, Pritchard & Yeung, 2014; Trienekens, 2011). Power relationships and information asymmetry are key concepts in GVC analysis. Gereffi and Kaplinsky (2001) made an important contribution to this theoretical stream by observing value

chains as repositories of rent. The authors state that rent arises from unequal access to resources, including knowledge and skill.

Nadvi (2004) extended the GVC analysis by adding a poverty lens to the theory. Nadvi (2004) investigated the impact of engagement of local actors in GVC on employment and income. His findings revealed that employment and income are positively affected by inclusion of companies in global value chains, particularly where multi-national companies are involved.

The first conceptual framework of the GVC explored the role of the state in shaping the international political economy. However, the theorising of the role of the state has been somewhat lacking in the GVC literature. The state's action and inaction are often a key aspect of the GVC research narrative but is rarely placed at the forefront (Neilson et al., 2014).

The accelerated globalisation in the 1990s and 2000s was reflected in the GVC research into international subcontracting networks in sectors such as clothing and footwear, electronics, consumer goods, automobile assembly and agri-food systems (Neilson et al., 2014). The GVC theory guides the analysis that evaluates how SMEs are affected by power and information asymmetry factors when working with multi-national or large local corporates. This theory also sheds some light on the relationship between SME integration in value chains and SME employment and income levels.

2.3.2 Supply Chain Management Theory

The supply chain management (SCM) theory originated from logistics literature and investigates the management of operations in value chains (Trienekens, 2011). The review of literature on SCM reveals that the field has overlapping terminology drawn from multiple disciplines. Croom, Romano and Giannakis (2000) found 11 different subject literatures that have contributed to the SCM field. SCM is described as a form of influencing behaviour in particular directions and in particular ways (Squire, Storey, Emberson, Godsell & Harrison, 2006). According to Trienekens (2011), SCM is customer-orientated and includes the study of management and control of the flow of products and services. SCM and value chain approaches focus on primary processes in and across vertically related companies.

Emberson and Harrison (2006) suggest that supply chain strategies embrace logistics, operations management, purchasing and supply management, industrial relationship marketing and service management. The authors identified key concepts of SCM as follows: core competencies, supplier segmentation, strategic purchasing, supplier integration, avoidance of opportunistic behaviour, supplier development, strategic alliances and the sharing of risks and rewards. The SCM theory guides the evaluation of supply chain components and efficiencies of company processes. The rationale behind this is to gain an understanding of how companies optimise inventories across their supply and distribution chains.

2.3.3 Social Network Theory

The social network theory considers the inter-relationships between economic and social interactions in production networks. This theory views companies as organisations that are embedded in complex horizontal and vertical relationships with each other (Trienekens, 2011). According to Uzzi (1997), the network theory states that inter-company relationships are shaped by economic considerations as well as trust, reputation and power. In addition, these considerations have a critical impact on the structure and duration of inter-company relationships. According to Humphrey and Schmitz (2002), network relations encourage knowledge transfer between network partners. Their assertions are supported by the social capital theory, a branch of social network theory, which states that network relations may enhance a company's social capital by facilitating easier access to information, technical know-how and financial support resulting in reduced transaction costs and improved access to markets (Trienekens, 2011). The social network theory and its related branch, social capital theory, are relevant theories used to understand how different businesses within a value chain influence one another.

2.3.4 New Institutional Economics Theory

New institutional economics (NIE) focuses on the governance or organisation between companies. This theory investigates the rationale for governance choices in company organisational relationships (Trienekens, 2011). NIE suggests that companies select a governance structure that minimises their transaction costs, although this is coupled with opportunistic behaviours from partners. To manage the opportunistic behaviour, value chain participants make use of joint investments, monitoring systems and contracts. The agency theory is a branch of NIE and helps define governance solutions that range between transferring risk to the principal or to the agent.

Ruben, van Boekel, van Tilburg and Trienekens (2007) state that the NIE theory has been used to determine the best agreements in environments with opportunistic behaviours from actors. In large-scale economies, the network of interdependence broadens, resulting in considerable scope for all sorts of opportunistic behaviours that increase the costs of transacting. Notably SMEs face a considerable amount of information asymmetries against larger companies (Gereffi & Kaplinsky, 2001). Accordingly, the NIE theory addresses how SMEs adapt to working with larger businesses in a fairly competitive and sustainable manner.

2.4 Conceptual framework

As Robson (2011) points out, a conceptual framework is the system of concepts, assumptions, expectations, beliefs and theories that support and informs research and the relationships among them. Figure 3 below is the proposed conceptual model for this study.

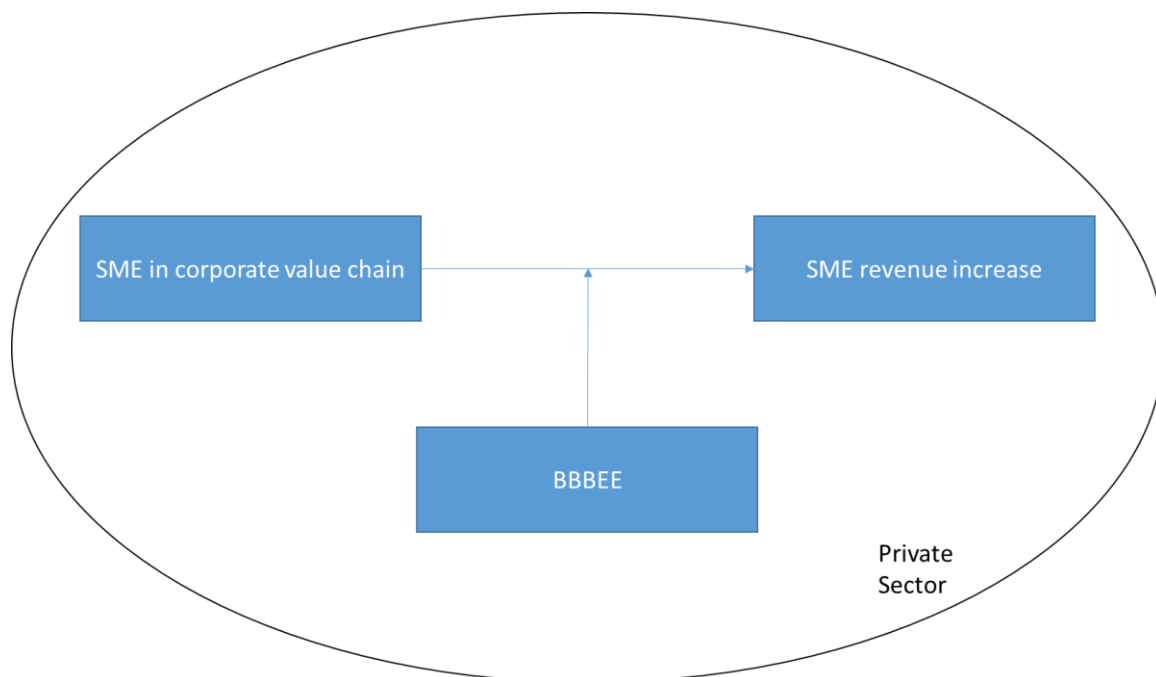


Figure 3 Author's own conceptual model

The proposed conceptual model identifies the key constructs of this study. SME integration into corporate value chains is regarded as the independent variable that will be used to test and measure SME growth, specifically revenue which is the dependent variable. The study considers BBBEE as the moderating variable which affects the strength of the relationship between the independent and dependent variables.

2.5 Empirical literature

2.5.1 Role of SMEs in economy

Globally, SMEs are acknowledged as drivers of socio-economic development and have been identified to have an important role on GDP growth, new job creation and reduction of poverty (Abor & Quartey, 2010; Karadag, 2016; OECD, 2014). SMEs are considered to be the stepping stone to industrialisation for developed and developing economies (Muriithi, 2017).

In the United States, SMEs account for 52% of the private workforce and contribute 51% to GDP (Moore, Palich, Petty & Longenecker, 2012). In Europe, SMEs are considered to be the backbone of the economy (Muller, Gagliardi, Caliandro, Bohn & Klitou, 2014). In the United Kingdom, SMEs account for 62% of total employment and 25% to GDP, while in Germany SMEs contribute 60% of total employment. In France and Italy, SMEs account for 63% and 79% of total employment, respectively (Burns, 2001; Day 2004). In Japan, SMEs account for over 99% of all companies and employ 70% of all employees (Meti, 2013). These geographic SME statistics highlight how countries at different stages of development have recognised the importance of SMEs for job creation and national economic growth.

Likewise, SMEs are at the heart of developing economies and have an important role to play. According to data from the Chinese National Bureau (2015), SMEs in China represented 97.9% of all registered companies in the country and contributed nearly 58% of the country's GDP. In Africa, SMEs are estimated to make about 90% of businesses, with SMEs forming about 92% in Ghana and 91% in South Africa, with an estimated contribution to employment of 80% and 61%, respectively (Abor & Quartey, 2010). SMEs typically use labour-intensive production methods and are, therefore, labour-absorptive (Arinaitwe, 2006). This enables marginalised groups in developing economies to enter into productive economic activities (Kelley, Brush, Greene, Herrington, Ali & Kew, 2015). Importantly also, SMEs are better able to address the location aspect of unemployment as they create employment in both rural and urban areas (Fida, 2008). They are thus able to accelerate the achievement of wide socio-economic goals such as reducing unemployment, inequality and poverty levels (Cook & Nixson, 2000).

Berry, Blotnitz, Cassim, Kesper, Rajaratnam and Seventer (2002) and Vermeulen (2011) concur with the World Bank and summarise the contribution of SMEs as follows: SMEs are the engine for economic growth, are essential for competitive and efficient markets, and are critical for

poverty reduction. Numerous studies assert that SMEs foster innovation and provide a multitude of benefits to the economies in which they operate (Advani, 1997; Schmitz, 1998; Edmiston, 2007; Fida, 2008; Kongolo, 2010; Quartey, Turkson, Abor & Iddrisu, 2017).

2.5.2 Overview of SME landscape in South Africa

Entrepreneurship has been regarded as a driver of new business and economic growth in South Africa. In 1996, the South African government introduced the National Small Business Act, and created the Ministry of Small Business in 2014, as a way to address the country's development goals. The President's 2019 State of the Nation Address expressed intentions to improve South Africa's economy and society by prioritising the revamp in the country's economic transformation and job creation. This includes addressing the lengthy regulatory processes that inhibit local businesses and to roll out incubation centres that will help support youth start-ups.

South Africa's economy re-entered a technical recession during the first half of 2018 (SEDA, 2018: Q3). The country also suffered disruptions in electricity supply, causing operational and financial difficulties for businesses. Additionally, the economy suffered low levels of business confidence as the RMB/BER business confidence index declined to 31 points in 2018Q4. Business confidence levels vary between 0 and 100, where 0 indicates an extreme lack of confidence, 50 neutrality and 100 extreme confidence (BER, 2018: Q4).

According to Maas, Nieman and Nieuwenhuizen (2014), the economic conditions in South Africa may force people to choose entrepreneurship as a career path in order to survive. Despite the previously recorded decline in the number of SMMEs and SMME employment during the first quarter of 2018, the report shows that SMMEs expanded by 13% during the year to the third quarter of 2018. SEDA has linked this growth to employee retrenchments and employees starting their side-line businesses. The increase in the number of SMMEs is linked to the positive increase in employment of 10% over the year to 2018Q3. Total SMME employment grew to 10.1 million accounting for 65% of total employment in the economy. Female SMMEs remained stable at 38% and the majority of the growth in SMMEs occurred in Gauteng (SEDA, 2018).

The education levels of SMME owners in South Africa has on average improved as the number of small business owners with a tertiary qualification increased over the year to 23% in 2018Q3. Financially, the SME sector remains under pressure, with SME turnover contracting 9% and profit levels declining by 25% from 2017Q3 to 2018Q3 (SEDA, 2018: Q3). As more people choose

entrepreneurship as a career path, it will be increasingly important for the country to create a thriving entrepreneurial environment.

2.5.3 Challenges faced by SMEs

Studies have analysed SME challenges using different approaches. Gree and Thurnik (2003) grouped SME challenges into internal and external factors. The internal factors are mostly firm-specific and within the control of the small firm while the external factors are systematic variables that largely cannot be controlled by small businesses. Both internal and external factors may influence the continued and successful existence of a business. Olawale and Garwe (2010) identified the internal and external business factors that impact the growth of small businesses. The authors identified the internal factors to be: access to internal finance, such as owners' equity or collateral, management skills and experience, the location of the firm and its geographic proximity to key buyers or suppliers, and the firm's investment in technology, including computer hardware and software. The authors identified the external factors to be: the economic variables including the policies of government, crime and corruption, suitably skilled and motivated labour, and infrastructure and regulations.

Firm factors are directly linked to the business and are unique to the individual business. Additional studies have analysed SME obstacles in relation to the firm age and size, and ranked firm growth paths into incremental, rapid and episodic growth (Brush, Ceru & Blackburn, 2009).

The top challenges faced by SME managers in developing countries are:

Limited access to finance – The financing gap is a problem throughout the developing world; Onubedu and Yusuf (2018) found that lack of access to finance negatively impacts total productivity of firms in Africa. According to Lutz and Lutz (2017), women-owned SMEs in Sub-Saharan Africa tend to experience greater challenges in accessing finance. Since women tend to be less educated, they face greater financial constraints' whereas studies of other regions do not necessarily exhibit financial biases against women-owned SMEs. Studies indicate that SMEs experience financial constraints due to high interest rates, inability to meet requirements for collateral, and insufficient financial records (Olawale & Garwe, 2010; Wang, 2016; Akinyemi & Adejumo, 2017).

Technology and innovation – SMEs that lack innovation are at risk of becoming uncompetitive. Cirera and Maloney (2017) state that developing countries typically have much lower levels of

investments directed for innovation relative to high-income countries. Studies in South Africa suggest that appropriate technology remains a challenge (Donga, Ngirande & Shumba, 2016), and that there is a lack of innovation and effective business resource centres that can transfer technology to SMEs (Anderson, 2017).

Competition – Strong competition in the market may pose a high barrier for the growth of SMEs. This is due to SMEs facing tough competition from large established businesses and difficulties in growing adequate market share (Donga et al., 2016). SMEs face challenges penetrating and surviving in corporate and international markets, as they find it difficult to develop products or services that can compete in international markets (Kuzmisin & Kuzmisinova, 2016; Neupert, Baughn & Dao, 2006).

Human capital – Good functioning businesses require skilled employees and managers, particularly financial management skills (Olafsen & Cook, 2016). The scarcity of skills and knowledge can pose a significant obstacle on SME growth.

Regulatory environment – High regulations, including business licences and high tax rates, can be onerous and constrain firm growth (Ndiaye, Razak, Nagayey & Ng, 2018). A strong regulatory framework is associated with a low administrative burden, low taxes on new and small businesses, flexible labour markets, effective property rights and a strong mechanism that enforces contracts (Amentie, Negash & Kumera, 2016).

Infrastructure – The status of roads, telecommunications, transport and electricity supply can pose a significant obstacle to the growth of SMEs (Amentie, Negash & Kumera, 2016). The infrastructure challenges include key barriers such as high rents on premises, and unreliable and overpriced utilities. De Lima, Revoltella, Rodriguez and Schweiger (2016) posit that an irregular supply of electricity accounts for low productivity levels and significant losses for many firms.

Political factors – Political instability and corruption are a major concern for SME managers and can have a detrimental effect on the productivity and growth of SMEs (De Lima et al., 2016). According to Wang (2016), SMEs have fewer concerns about political issues compared to large private firms. However, an unfavourable political environment, including inefficient political institutions such as the public administration systems, can hinder SME performance.

The majority of the research findings suggest that access to finance is the biggest obstacle that SMEs face (Bracker, Keats & Pearson, 1988; Gree & Thurnik, 2003; Abor, 2011; GEM, 2014; World Bank Enterprise Survey, 2015; Wang, 2016; Kumar, 2017). However, an analysis of existing literature reveals how obstacles to growth for SMEs are driven by a variety of factors that vary from country to country, depending on the specific conditions of a specific market (Wang, 2016).

2.5.4 Promoting SME growth through BBBEE

Since the dawn of democracy in South Africa, the democratic government has established development planning strategies geared towards a transformed economy. A host of legislation supporting the transformation agenda has followed, most notably the Broad-Based Black Economic Empowerment (BBBEE) Act 53 of 2003. The South African Department of Trade and Industry (DTI) was tasked to oversee the implementation of black economic empowerment (BEE), and thus created a B-BBEE unit to regulate compliance and administer BEE scorecards (Krüger, 2011). BBBEE, as defined in the BBBEE Act, means “the economic empowerment of all black people including women, workers, the youth, people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies”. According to the definition, “black people” refers to Africans, Coloureds and Indians.

The BBBEE policy is regulated by the power of the market and does not impose legal obligations for firms to comply. It is based on the rationale that a company places itself in a better position to benefit from economic opportunities flowing from the value chain if it contributes to the imperatives of the BBBEE scorecard (Pooe, 2013). In South Africa, government is the biggest single buyer of goods and services, and therefore a firm’s BEE status is an important factor on the firm’s ability to successfully tender for government and its public entities. Private sector firms have increasing incentives to use suppliers that have satisfactory BBBEE ratings so as to improve their own BBBEE ratings. Consequently, BBBEE ratings are an important factor for firms operating in South Africa as they create strong value chain incentives that attract additional access to economic activities (DTI, 2007; Werksmans, 2018). Since the dawn of BBBEE, corporate South Africa has gradually changed its procurement practices to include BEE suppliers that can participate in their value chains.

As reflected in Table 2 below, the BBBEE element most critical to the growth of SMEs and economic growth is the “New Enterprise and Supplier Development”. This element bears the

highest weighting points, signalling the importance of growing SMEs through preferential procurement, supplier development and enterprise development.

Table 2 BBEE weighting

BBEE Element	Maximum Number of Weighting Points Available
Ownership	25
Management Control	15 plus 4 bonus points
Skills Development	20 plus 5 bonus points
New Enterprise and Supplier Development	40 plus 4 bonus points
Socio-Economic Development	5
TOTAL	118

Source: Werksmans Attorneys (2018: 13)

Mbeki (2009: 61) argued that BEE creates a small class of unproductive but wealthy black crony capitalists and stifles the emergence of black entrepreneurship. Other critics include Kovacevic (2007) and Hamann, Khagram and Rohan (2008), who criticised the lack of success made by BEE in rectifying the legacies of apartheid. The authors posit that little success has been achieved from BEE in increasing employment or promoting economic growth, as many of the challenges in the country have remained or even worsened in terms of poverty, unemployment, housing and basic services, inequality, and HIV/AIDS rate.

Notwithstanding the criticisms directed at BEE and the implementation flaws of the B-BBEE policy, little research has actually been conducted to evaluate the effects of “New Enterprise and Supplier Development” on the growth and success rates of SMEs. This study focuses on this particular BBEE element and will evaluate outcomes of the efforts made by private sector firms which have embraced supplier diversity and opened up procurement opportunities to SMEs.

2.5.5 Value chains

Porter (1985) coined the “value chain” concept as a basic framework for developing a corporate strategy that promotes a firm’s competitiveness by directing attention to the entire system of activities involved in producing and consuming a good. Porter (1985) introduced the generic value chain model that encompasses a sequence of activities found in many firms. Porter’s value chain model highlights primary and support activities, as shown in Figure 4 below:

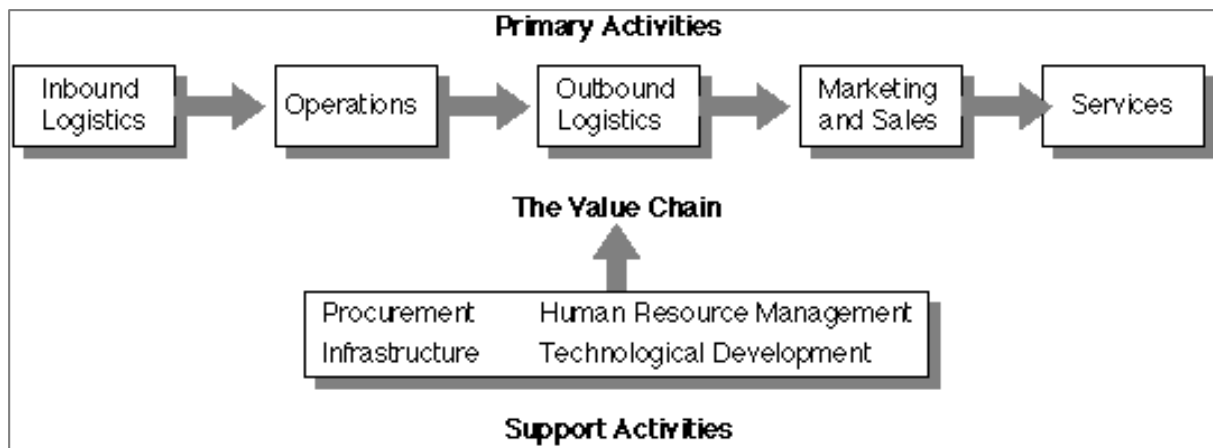


Figure 4 Porter's Value Chain

Porter (1985) argued that firms gain competitive advantage by redefining their traditional activities. Large private firms engage in a multitude of activities in the process of converting inputs to outputs. Accordingly, a firm's value chain activities have an impact on company costs and affect a firm's profit. Therefore, when a large firm adopts the value chain perspective, it is able to collectively organise its optimal functions and improve its competitiveness (Dollar, Inomata, Degain, Bo, Wang, Ahmad & Heuser, 2017).

According to Kaplinsky and Morris (2000), the value chain encompasses the entire range of a firm's activities that is required to bring a product or service from its inception to its subsequent disposal. The value chain approach is, therefore, concerned with market linkages and the establishment of an efficient business operating environment (Willemse, 2018). This highlights the opportunity for SMEs to participate in large corporate value chains, to integrate into higher valued markets which then increases their competitiveness (Pooe, 2013).

Globalisation, as well as fast-growing middle- and high-income classes, has created many opportunities for developing-country SMEs to operate in local and international markets. According to Trienekens (2011), global value chains are characterised by the rise in international trade due to decreasing tariffs and export subsidies over the past decades. There is considerable overlap on the value chain concepts and the term global value chain (GVC) which refers to the geographic deployment of production and services into areas that have the most effective economic conditions and business environment (OECD & World Bank, 2017).

The global value chain model is supported by the notion of systematic competitiveness (Kaplinsky & Morris, 2000). This can be traced back to Ricardo's theory of comparative advantage, which asserts that countries should focus on producing or specialising in goods or services that require the least effort compared to other countries (David, 1817). The urge for large private firms and multinationals to reduce production costs, reduce business risk and maintain competitiveness therefore presents SMEs with a massive opportunity to enter new markets (OECD, 2008; Kuzmisiin & Kuzmisiinova, 2016). Companies have the ability to choose which activities they will undertake in-house, and which ones to outsource, and SMEs are increasingly getting involved in local and or global value chains (Kuzmisiin & Kuzmisiinova, 2016).

2.5.6 Why Value Chain analysis is important for SMEs

The South African Supplier Diversity Council reports (2013) that many large companies hold negative procurement perceptions about working with SMMEs, and they regard SMMEs as risky unreliable suppliers, difficult to find and not having the capacity and capability to meet their supply requirements. Notwithstanding the noted challenges and perceptions, integrating SMEs into value chains is critical for South Africa to become a more productive, competitive, job creating economy (World Bank, 2018).

Different authors have cited several reasons supporting the importance of value chain analysis. Lu, Feng, Trienekens and Omta (2008) found that firms with closer relationships with other economic actors in the value chain tend to be more successful. The authors assert that as the firms cooperate with one another, the total amount of rewards and resources available to them expand. Mesquita and Lazzarrini (2008) also found that SMEs that have strong network ties are able to exploit complementary competencies, technologies and inputs to build an improved responsiveness to global demands and achieve greater export levels.

Gereffi (1999) made a distinction between two types of value chains: *buyer-driven* and *producer-driven* chains. He asserted buyer-driven chains are characterised by labour-intensive industries and consist of retailers, marketers and manufacturers that play a pivotal role in setting up decentralised production networks in a number of exporting countries. Gereffi (1999) further argued that buyer-driven chains are highly relevant in developing countries. On the contrary, producer-driven chains are characterised by foreign direct investment and key producers in the

chain-of command critical technologies. These chains usually consist of transnational manufacturers that have a central role in coordinating production networks (Gereffi, 1999).

There is a wide spectrum of motivations that drive corporates to support SME development through value chain integration. Most SME engagement initiatives with large corporations fall in the middle spectrum between purely commercial and purely philanthropic. As the SME-Corporate partnership matures and the SME capabilities expand, there are greater rewards for the corporation such as reduced costs, improved quality of supply and a more diverse local economy (UNIDO, 2004).

Kaplinsky and Morris (2000) posit that the key strength to value chain analysis is that it highlights the systematic interconnectedness of individual enterprises and links in the chain and shows how producers are connected to regional and global markets. The authors add that SMEs can be connected horizontally with other firms producing similar products or services, or vertically with firms producing dissimilar products and services.

2.5.7 Governance in value chains

Trienekens (2011) asserts that most relationships in the value chain are long-term, and are largely based on trust and commitment, albeit larger firms often have formal contracts that specify quality, payment and delivery conditions. Governance in value chains ensures that linkage interactions between value chain firms are organised rather than being simply random; value chains have key actors who take responsibility for the inter-firm division of labour and for the capacities of particular participants (Kaplinsky & Morris, 2000). Therefore, power asymmetry is important in value chain governance.

Business relationships are supported by written or oral agreements among the value chain participants. Trienekens (2011) notes the distinction between the classical version of a comprehensive contract, where everything is covered for the duration of the contract and the relational version, which is subject to continuous re-negotiations and embedded in the social system of relationships. Trienekens (2011) further states that the latter agreement is more common in developing countries due to weakly developed institutional structures, so interpersonal relationships and trust play an important role.

2.6 Summary and Conclusion

This chapter explored the various definitions for SMEs and the role they have played in the economy. Theoretical underpinnings that form the basis of the study were considered and a conceptual framework was developed. The literature shows that SMEs are globally acknowledged as drivers of socio-economic development and have been confirmed to play an important role in GDP growth, new job creation and reduction of poverty. Notwithstanding the evidence of the role of SMEs, a review of the South African SME landscape reveals that SMEs still face a multitude of challenges that impinge on their growth and development. This chapter also reviewed BBBEE and discussed how the government has used this legislation to create incentives for private sector firms to integrate SMEs into their supplier chains. The next chapter presents the methodological approach adopted for the study.

CHAPTER 3

METHODOLOGY

3.1 Introduction

The previous chapter presented the literature review for this study. This chapter provides a detailed outline of the research methodology employed in this research. The next subsections include the research design and research strategy employed, the population of the study and sampling technique applied. This chapter also provides the methods of data collection and data analysis used in this research. Furthermore, this chapter considers the research reliability and validity, the ethical considerations and limitations of this present study.

3.2. Research design and strategy

Creswell (2009) defined research design as the plan and procedure for research that includes detailed methods of data collection and analysis. The nature of the research problem or issue being addressed and audience for the study will often determine the selection of a research design. Similarly, according to Bell and Bryman (2007), a research design is a framework through which a researcher demonstrates how data was collected and analysed.

Yin (2003) broadly defines the three types of research designs: firstly, the exploratory research, which is often the first phase of a larger study and used to provide preliminary understanding on a new topic. Secondly, the descriptive research, which is often used to describe the nature of the relationship between two concepts. Thirdly, the explanatory research which aims to explain observed behaviours and identify causal factors of the target phenomenon.

The study aimed to examine how large private companies, in South Africa, work with SMEs in a manner that delivers mutual prosperity for the large firm and SME. This study evaluated the extent of growth on SMEs integrated into large private company value chains. The study, therefore, adopted an explanatory qualitative research in order to understand the experiences of the research participants. In addition to helping to understand the experiences of the research participants, an explanatory study has the purpose of explaining why events occur, and building, elaborate, extend or test a theory (Neuman, 2014). A qualitative research implores an inductive style and focuses on the meaning of a phenomenon from the views of participants (Creswell, 2007).

As shown in the literature review section of this study, barriers to SME growth are well documented; however, SME success levels remain low despite government and private sector efforts to grow small businesses. This study therefore builds on existing literature to identify the reasons that limit the successful integration of SMEs into large corporate value chains.

Due to limited time, this study used a cross-sectional case study strategy in which the researcher collected detailed information from SMEs and large firms at a single point in time. Stake (1994) asserted that case studies are a research strategy used to extensively explore an event, activity, process or one or more individuals for one or across multiple periods of time. Saunders, Lewis and Thornhill (2012) posit that a case study research strategy is mostly used where the motive and objective of the study are to gain a comprehensive understanding of the research context, achieved through an in-depth analysis of a phenomena under study.

Preference to use case studies as the research strategy for this research is based on the strengths identified by Neuman (2014), namely:

Conceptual validity – case studies help to identify the concepts or variables that are of great interest to the study

Heuristic impact – case studies provide further learning or problem solving and help to construct new theories

Casual mechanisms identification – case studies have the ability to capture the details of social processes that affect one another

Ability to capture complexity – case studies are able to effectively portray highly complex situations and processes

Calibration – case studies are able to adjust measures of abstract concepts to concrete lived experiences

Holistic elaboration – case studies allow the incorporation of multiple perspectives or viewpoints and so elaborate on an entire situation or process.

3.3 Population of study

Saunders et al. (2012) define population as the total group of people from whom information is needed. The authors state that a population includes all individuals, objects and events that meet the sample criteria for inclusion in a study.

The population of this study are all the large private firms and SMEs that are involved in enterprise and supplier development (ESD) programmes which are facilitated or managed by Absa Group Limited. According to an ESD Manager at Absa Group Limited, at present the population currently stands at 27 large corporations and 192 SMEs across the country.

3.4 Sampling procedures

According to Neuman (2014), a sample is a small set of cases a researcher selects from a large pool to generalise about the population. Neuman (2014) adds that in a qualitative study, sampling helps to deepen understanding of complex situations, events or relationships. Keyton (2001) asserts that representativeness should be the main aim in selecting a sample from a population. In qualitative studies, purposeful sampling is used so that only individuals that have experience in the central phenomenon are selected. The researcher purposefully selected participants that would best help unpack the research problem and the research questions.

The researcher selected a representative sample of five SMEs and six large firms to take part in this study. The sample represents the different economic sectors of the country. Additionally, convenience sampling was applied using the following three criteria: Time availability, affordability, and sector representation. According to Lavrakas and Battaglia (2008), convenience sampling is a form of non-probability sampling which enables researchers to select people who are convenient sources of data.

3.5 Data collection methods and instruments

Primary data were collected for this study. According to Saunders et al., (2012), primary data is new and collected for a specific purpose and secondary data is data that has been collected for other purposes.

Creswell (2009) identified four main types of data collection procedures used for qualitative research, namely: Observations, interviews, documents and audio-visual materials. Documents are a useful data collection method as they enable the researcher to access information that has been thoughtfully compiled at convenient times and saves the researcher time and costs. The limitation of using this approach may arise if the information is protected and not available for public access or the documents may be incomplete or lacking in authenticity.

The researcher collected primary data through face-to-face and telephonic interviews with the participants. The researcher used a semi-structured questionnaire that was designed to address the gap in knowledge on the assessment of SMEs that have been integrated into large private firm value chains. The interview questions were standardised, and all interviewees were asked the same set of questions. The semi-structured questionnaire included closed-ended questions as these are relatively simpler to administer, easier to analyse, and their format is familiar to most respondents. The questionnaire also included open-ended questions to obtain a comprehensive understanding of the respondent's experiences and perceptions.

Face-to-face interviews have the advantage of creating a stronger rapport with respondents and allow the researcher to see non-verbal communication (Aurini, Heath & Hwells, 2016). Another advantage is that interviews allow participants to provide important historical information where applicable (Creswell, 2009). The challenges with face-to-face interviews are costs, time, convenience and the interviewer effect. Creswell (2009) states that interviews provide information filtered through the views of the interviewee and may include bias responses due to the interviewer's presence.

The population for this study is geographically dispersed across the country and therefore face-to-face interviews were not possible with all participants. Where face-to-face interviews could not be achieved due to geographic location of participants or accessibility challenges, the researcher conducted telephonic interviews instead.

3.6 Data analysis

Data analysis involves collecting data and developing an analysis from the information supplied by participants (Creswell, 2009). This process entails a detailed description of the individuals followed by an analysis of the data for themes or perceptions. The researcher followed the sequential data analysis steps provided by Creswell for qualitative research.

Step 1: The researcher organised and prepared the data for analysis. This step involved transcribing interviews, scanning relevant material and arranging the data by source.

Step 2: The researcher read the data collected and obtained a general sense of what participants had said to get an overall impression of the credibility of the documents collected.

Step 3: The researcher began a detailed analysis using a coding process and created a list of all the topics. Coding involves organising the material into segments, clustering similar topics and

labelling the categories. The researcher began a preliminary analysis and recoded data where necessary.

Step 4: The researcher used the coding process to generate descriptions of the setting or people as well as the categories or themes for analysis. Codes were generated for the descriptions and arranged in alphabetic order.

Step 5: The researcher conveyed a detailed discussion of the themes and their interconnectedness and conveyed descriptive information about each participant to uncover the findings of the analysis.

Step 6: In this final step, the researcher interpreted the data and derived meaning from the comparison of the findings with information taken from literature or theories.

Although variations within these steps occurred, the steps guided the researcher in following a systematic process of analysing data. The researcher made use of an electronic spreadsheet, Microsoft Excel, to organise data and tabulate the different categories.

3.7 Validity and reliability

Gibbs (2018) explained that qualitative validity means that the researcher checks for accuracy of the findings by using certain procedures and qualitative reliability indicates that the researcher's approach is consistent across different researchers and different projects. As Yin (2003) suggests, the researcher documented the process of interviewing as much as possible. To enhance the reliability of the study, the researcher checked transcripts for any obvious mistakes made during transcription. The researcher also continually checked that the codes maintain their correct definitions by writing notes about the codes and their definitions.

To enhance the accuracy of the findings, the researcher incorporated the process of triangulation. According to Neuman (2014), triangulation is the process of taking observations from multiple viewpoints to improve accuracy. Neuman (2014) posits the most common types of triangulation are: Triangulation of measure, triangulation of observers, triangulation of theory and triangulation of method. The researcher used triangulation of measure: this approach considered multiple measures of the same phenomena from the viewpoint of the SMEs, large firms and the secondary data obtained. This strategy examined evidence from the different sources and used it to build a coherent justification for the themes.

3.8 Limitations of study

The research may limit the generalisability of the research findings due to the sample not truly representing the country's population of SMEs that are integrated in large private corporate value chains. The selection of SMEs and large firms in this research was restricted to only those entities that are involved in an ESD programme which is facilitated or managed by Absa Group Limited. This approach helped the researcher access, analyse and interpret information quicker and within the prescribed completion date of the research.

Looking at SME development through the lens of SMEs integrated into large private corporate-value chains is merely one aspect of the spectrum of SME development. This research did not cover all the initiatives taken by South African large corporates to develop and support SME development, for example SME development, through corporate social responsibility initiatives.

3.9 Ethical considerations

Welman, Kruger and Mitchell, (2005) assert that the principles underlying research ethics are universal and include concern for issues such as honesty and respect for the rights of individuals. Given the sensitivity of some of the information that was collected from participants, the researcher observed and considered respondent's rights to privacy and the rights to confidentiality. The researcher requested informed consent and safeguarded the identification of the individuals, SMEs and corporate entities concerned.

3.10 Conclusion

This chapter provided the methodology employed in this research project. The study uses an explanatory qualitative research design and applies a cross-sectional case study strategy. This chapter also described the population and sampling procedures, and the methods of collecting data through interviews, and the data analysis method has been explained. Lastly, the validity and reliability of the findings the limitations of the study were considered, and the need for ethical consideration was explained. The next chapter presents the analysis and discussion of findings for the study.

CHAPTER 4

DISCUSSION OF FINDINGS

4.1 Introduction

This chapter discusses the findings from the primary research that were gathered from SMEs and large corporations. The main aim of this study was to investigate the extent to which integration into a large corporate value chain promotes the sustainability of a SME. To answer the research objectives, the following three research questions were developed:

- What are the internal and external factors that influence the survival prospects of a SME integrated into a large corporate value chain?
- What are the biggest challenges encountered by SMEs working with large private firms?
- How can SMEs work with large private enterprises in a fairly competitive and sustainable manner?

To respond to the above questions, data was collected from five SME owners and six corporate managers through semi-structured interviews. A thematic analysis was used to analyse the findings, and the results are presented in line with the main research questions. The reported results are of a qualitative nature and are paralleled to literature.

4.2 Profile of respondents

All the businesses in this study were recognised as either a SME or a large private corporation that is involved in an Enterprise and Supplier Development (ESD) programme. A total of five SMEs and five large corporations were targeted to take part in the study. A total of five SMEs and six corporate respondents took part in the study, bringing the response rate to 110%. Table 3 below presents a summary profile of the respondents.

Table 3 Summary profile of respondents

Respondent	Position of Respondent	Age of Business	Business Sector
SME 1	Owner	4 years	Business services (Consulting)
SME 2	Owner	4 years	Engineering
SME 3	Owner	4 years	Information Technology
SME 4	Owner	10 years	Agriculture
SME 5	Senior Manager	57 years	Manufacturing
Corporate 1	Senior Manager	28 years	Finance (Banking)
Corporate 2	Senior Manager	19 years	Manufacturing
Corporate 3	Senior Manager	108 years	Oil and Gas
Corporate 4	Senior Manager	52 years	Wholesale and Retail
Corporate 5	Director	102 years	Mining
Corporate 6	Senior Manager	83 years	Manufacturing

As shown in Table 3, the respondents in this study operate in different economic sectors in the country. The large corporations represented the following industries: Mining, wholesale and retail, manufacturing, oil and gas and the financial services. The SMEs represented the following industries: Agriculture, information technology, engineering services, consulting in business services, and manufacturing.

Of the six corporate respondents, five were at senior management level and one was at director level. All of the large corporations in the study have been in business for over 10 years. All five of the SME respondents were at owner or senior management level. Two SMEs have been operational for 10 and more years, and three SMEs have been operational for under five years.

4.3 Internal factors and corporate value chain integration

The respondents were requested to identify the internal factors that they believed to influence the survival prospects of SMEs integrated into a large corporate value chain. These are the factors that the SME firm can control. The following main factors were identified: Agility of the SME, location of the SME, business skills, and access to internal finance.

4.3.1 Agility of SME

Christopher (2000) defined agility as the ability of an organisation to respond rapidly to changes in business demand. The author identified flexibility as a key characteristic of agile organisations and asserts that agility is most needed in less predictable environments where the requirement for variety is high. Some of the corporate respondents favoured SMEs for being agile and for their willingness to go the extra mile to deliver on expectations. One corporate participant said:

“Because of the fact that they (SMEs) really want to be part of the value chain, they fight really hard to give the best of what their asked of, even though they are developing. And if you look at the mine level there’s a lot of breakdowns that happen on mine equipment at odd hours. So they are able to fulfil and do a lot of some of the urgent things that are coming in”. Corporate 5

SME owners also noted their ability to remain agile and deliver no matter what it takes, as stated by one of the SMEs below:

“As an organisation we need to deliver, deliver, and deliver. Sometimes we work till 3:00, 4:00 AM because we’ve committed to a deadline”. SME 1

A lack of workforce agility is reported to be one of the reasons that some enterprises fail to keep up to market changes (Alavi, 2016). The observed agility of the SMEs in this study aligns to the three dimensions of workforce agility reported by Sherehiy and Karwowski (2014), namely: Pro-activeness, adaptability and resilience.

4.3.2 Location of SME

Some corporate respondents believed that SME location and geographic proximity to their corporate operations enhanced the SME prospects for attracting new business. However, this did not seem to be the case for all corporate respondents as some saw an opportunity to partner with small township businesses located further away from their corporate operations. Some of the responses are listed below.

“Location of SMEs gives them an edge. They are operationally the closest to our businesses because that’s their home. So that is the first edge I believe they have”.
Corporate 5

“We have led collaborative partnerships to help small, independent township spaza shops revitalise and regenerate their stores and turn them into thriving neighbourhood convenience stores ... We are helping neighbourhood customers to access the goods they need close to home, which reduces the need to travel for their shopping”. Corporate 4

The location of a SME as noted above can add to its advantage. Fida (2008) posits that SMEs are better able to address the location aspect of unemployment as they can create employment in both rural and urban areas. SMMEs operating within their surrounding homes in township areas can thus grow their turnover and foster the acceleration of job creation near their homes.

4.3.3 Business skills

The general consensus gathered from the respondents showed that SME business skills are an important factor for the survival prospects and growth of SMEs in value chains as shown below.

“If the SME is not performing and providing a service to the standard required and intervention and support from the corporate is not improving the situation, then the corporate is left with a difficult decision to manage the situation”. Corporate 3

“We have a very strong financial person who knows the financials and who's very tough in terms of how the business expenditures work”. SME 1

Business and management skills are critical and are reported to have been related to the survival and sustainable development of SMEs (Tong, Zhao & Wang, 2019).

4.3.4 Access to internal finance

Many of the respondents believed that SMEs require access to finance, internally through owners' equity or from family and friends, in order to start and grow their businesses. One SME owner mentioned that they have used only owners' equity to fund the business as all business funds have come from the two-business partner's own savings and investments. Ates, Garengo, Cocca and Bititci (2013) and Olawale and Garwe (2010) posit that access to internal finance is an important factor and that SMEs without internal finance may struggle to survive and grow.

4.4 External factors and corporate value chain integration

The respondents were requested to identify the external factors that they believed to influence the survival prospects of SMEs integrated into a large corporate value chain. These are the factors that are largely out of the control of the SME firm but have an impact on the growth of the SME. This study separated the external factors from the value chain challenges and the latter is discussed in the subsequent sub-heading. The main external factors identified by the respondents were as

follows: Taxation, BEE legislation, social licence to operate and compliance with industry-specific regulations.

4.4.1 Taxation

The general consensus gathered from the SME respondents showed that taxation is an external factor that can inhibit the growth of SMEs in South Africa. One SME owner strongly believed that taxation is a burden, more particularly for SMEs who operate in the services industry as shown below.

“Tax is the biggest thing that we fight about as small businesses. I still think that the notion and laws of tax have not been revised to understand development... I think in the service business, the problem is that we work hourly based and delivery based. So you sometimes have to ramp up the money so that you can make a good margin, but you only have 24 hours ... Whatever money you make, you’ve got to make sure that you make more to be able to service your tax”. SME 1

The findings indicate that some SME owners do not think that they are taxed fairly by the government. The SME feedback on taxation is consistent with literature that states that most SME owners have a negative perception towards taxes as they believe government does not use taxes for their intended purpose (Ameyaw, Korang, Twum & Asante, 2016).

4.4.2 BEE legislation

Some SME owners believed that if it were not for the BEE legislation, they would not have received business from the large corporations. However, some of the corporate respondents stated that their enterprise development initiatives have not been driven by compliance with BEE, but were motivated by a long corporate history of developing smaller businesses and bringing historically disadvantaged people into their value chain.

One of the objectives of BBBEE is to encourage large private organisations to support small enterprises by investing a percentage of the corporate’s net profit after tax to qualifying black-owned small enterprises (Pike, Puchert & Chinyamurindi, 2018). Therefore, the BEE legislation could affirm the SME beliefs that suggest that corporate initiatives are motivated by BEE.

4.4.3 Compliance to regulations and obtaining social license to operate

One corporate participant highlighted that the SMEs working with corporations in the mining sector have stringent safety and compliance requirements to adhere to. The safety regulations come at an additional cost to small businesses and impacts their pricing. This poses a negative external factor that can impact the survival prospect of the SME. Another corporate respondent stated that securing a social licence to operate was an external driving factor to integrating SMEs into its value chain. The social licence referred to the continued acceptance of the corporation's practices by its stakeholders, employees and the general public.

4.4.4 Crime and corruption

The general consensus gathered from respondents showed that crime and corruption was not an issue of concern for them. One of the SME owners even argued that some behaviours are regarded as corruption are, however, found in every industry. Broadly, the external factors highlighted by the respondents in the study, such as the legal and regulatory factors, have been consistent with reports made by Olawale and Garwe (2010), Wang (2016), Akinyemi and Adejumo (2017), and Bouazza, Ardjouman and Abada (2015).

4.5 Main challenges encountered by SMEs working with large private firms

The respondents were requested to identify the main challenges that they believe inhibit their successful integration into a corporate value chain. The respondents identified the following main challenges: Negative perceptions, corporate abuse of power, existing strong relationships, high competition, limited capacity and resources, cash flow issues, and access to funding.

4.5.1 Negative perceptions

The majority of the participants held similar opinions about how large corporations hold negative perceptions about SMEs in general. SMEs and corporate respondents expressed how much of a challenge this has been and some of the responses are shown below.

“SME’s, particularly black SMEs struggle to achieve significant growth due to perceived lack of capacity and delivery capability”. SME 3

“There's a notion that black organisations or black businesses don't deliver. It's a strong perception that says black business don't deliver. And when it is a white company not delivering, they say they are incompetent. But when it's a black business, it's incompetence plus the fact that, oh yes, we expected that”. SME 1

“Our end-users either have a pre-conception that SMMEs can't deliver. So from our end we need to change that and we need executive buy-in for the top down approach of the change. Corporations have perceptions of business and that SMMEs are looking for handouts”. Corporate 5

The findings indicated a strong notion that SME owners believe that they are judged negatively by large corporates. Most corporate respondents in the study acknowledged these negative perceptions held against SMEs and have linked the behaviour to internal stakeholder misalignment. The negative perception has stalled the pace of SME integration into the corporate value chains. This observation is in line with what Chattopadhyay, Glick and Huber (2001) found in their study on organisational actions. The authors stated that when managers seek to minimise negative threats they tend to rely on existing routines and practices.

4.5.2 Corporate abuse of power

Most SMEs in the study expressed that they did not experience any corporate abuse of power. However, one SME owner believed that employees of large corporations show an abuse of power and dominance particularly when working with smaller firms. The SME sentiment is captured below.

“Large corporates need to eliminate what I call corporate arrogance toward SME's. Often employees of Corporates treat SMEs badly due to them been perceived as being small”.
SME 3

The divided opinions regarding large corporations abusing their power indicate that this could be driven by the nature of the relationship between the SME owner and corporate professionals.

4.5.3 Existing strong relationships

The respondents indicated that large corporations often have established long-term relationships with their suppliers and distributors which may slow down the pace of new SME integration into the corporate value chains. Some respondents had the following to say about existing relationships:

“There are other people that have got strong relationships externally. We wouldn't have had some of our business if ever there wasn't that government push for legislation”. SME 1

“When we look at integrating SMMEs, our end-users either have stronger relations with OEMs (Original Equipment Manufacturers) or have a pre-conception that SMMEs can't deliver”. Corporate 5

“Existing relationships with suppliers are difficult to compete with”. SME 3

Most SMEs in the study believed that existing relationships are a barrier to getting more business from large private corporations. According to Mundim, Alessandro and Stochetti (2000), long-term collaborations between business partners are built on trust. It is, therefore, not unusual for newer small businesses to face challenges as they try to compete against existing business relationships.

4.5.4 High competition

The respondents linked the issue of high competition to varying reasons. Some believed that this was caused by the corporate's existing relationships which are difficult to compete with. Others believed that the size of their business, level of skill and knowledge made it difficult to compete with other bigger businesses in the value chain. Some of the responses are shown below.

“Competitive pricing is the number one reason where SMMEs are failing at the moment. When they purchase they don't get the bulk discounting that other suppliers get. So all of those things do impact their pricing”. Corporate 5

“The main challenge we face is competitiveness in the corporate value chain”. SME 2

“You can't be complacent and think that you're the one. We got kicked out of one of the clients badly because we weren't ready in size and also in responding to the business demand and when we went and pitched for business, we were out of depth”. SME 1

SME 1 further added that despite the high level of competition, they would rather walk away from a deal if they are told to price it down as indicated below.

“If they want a price down, we walk away. And we've learned the hard way because we used to agree to everything, and now you get to a stage where we not going to do that again. It helps you to decide which businesses you take, which businesses you don't take”.
SME 1

The high level of competition resonated with most SME owners. This is no surprise and is in line with findings of several studies. Kuzmisiin and Kuzmisiinova (2016) and Neupert, Baughn and Dao (2006) state that SMEs face challenges penetrating and surviving in corporate and international markets as they find it difficult to develop products or services that can compete in these markets.

4.5.5 SMEs lack capacity and resources

Limited SME capacity and resources was a major challenge that many respondents raised. Most SMEs showed frustration about how corporates view them and their limited resources, as shown in the descriptions below.

“The thinking of a SME differs drastically from corporate but they are judged the same”.
SME 5

“Corporates must keep to the mandate and treat a SME as a SME”. SME 2

SME 1 said they had lost business because they lacked capacity to meet the business request.

“Because we weren't ready in size and also in responding to the business demand, when we went and pitched for business, we were out of depth. It was a capacity constraint as well as knowledge and skill”. SME 1

Interestingly, however, some of the corporate respondents stated that they should be doing more to capacitate SMEs instead of focusing on the SME capacity constraints. A few responses are listed below.

“We focus on capacitating them (SMEs) and giving them the resources that they need. So for example, you'll find that the SME is not very good at analysing their numbers in terms of stock on hand. So then we will appoint a data analyst internally for free to help them figure that out. We focus on mentoring SMEs and providing them with the appropriate skills they need to ensure they have the capacity to supply into a big retailer”. Corporate 4

“If we have a deliberate plan which we understand the SMMEs that are available and what our spend is, and we match them. This (capacity and resources) shouldn't be an issue. But if we willy nilly just say okay SMMEs produce yellow equipment then obviously it will be a SMME capacity issue”. Corporate 5

The findings showed that most corporates are well aware of the capacity constraints and lack of track record SMEs in their value chain have. However, it was also clear that the corporate respondents are beginning to explore how they can play a role in improving the capacity issues faced by SMEs in their value chain.

The SME capacity constraints and lack of track record shown in this study are consistent with a study by Hove (2016) which asserted that SMEs in African countries face a myriad of challenges, especially a lack of resources and skills.

4.5.6 Cash flow issues

According to most respondents, SME cash flow issues is a challenge. Some of the cash flow issues were attributed to SMEs receiving late payments for business rendered. SME cash flow issues were also related to a lack of business skills. Some of the responses are included below.

“We also need to be very careful on how the market perceives cash flow issues because sometimes it's not really about a lack of finance, its actually that the business is not running properly and therefore they can't get the finance. So it's a lack of skill”. Corporate 5

“SMME’s are not paid in time which impacts negatively on their cashflow”. Corporate 1

The experience of one SME that had a late payment from a government client is described below.

“The only late payment we’ve received was eight months late from a government client. With government it's expected to complete the work but go back and forth. If it's a big ticket item, you literally out of business. And it's ironic because they are the custodians of the BEE and black business development”. SME 1

SMEs are vulnerable to cash flow challenges as they often operate with inadequate cash reserves (Uwonda & Okello, 2015). Most of the SME respondents did not have issues with late payments from the large private corporations. One respondent attributed this to the early-payment BEE points corporations receive when they pay their suppliers within shorter periods.

4.5.7 Access to funding

Based on the feedback from the participants, it was clear to see that SMEs in corporate value chains still face many funding challenges. The challenges discussed include insufficient security or collateral, lengthy and burdensome application and approval process for funding and onerous terms and conditions that come with the funding. Some of the funding experiences are depicted below.

“We found it challenging trying to borrow a relatively small amount of money”. SME 5
“A lot of SMEs don't have assets. We don't have assets. I can't put cash only or cash reserves in the bank as collateral”. SME 1

Respondents also shared about the amount of time it takes to extend or receive funding and the onerous application and approval process.

“RFP (Request for Proposal) processes often eliminate SME’s due to often onerous and unnecessary requirements. Without an accountant preparing required financial documents it can be quite difficult to get funding”. SME 3

“The most important assessment is to determine if the future cash flow expected by the SME is sufficient to finance loan repayments (loan affordability). Thereafter it becomes a

case of reviewing monthly cash flows and addressing the challenging situation if projected cash flows don't materialise". Corporate 3

SME feedback varied when it came to accessing funding from a corporation. Some SME participants received grants to purchase business equipment, other SMEs received loans at favourable interest rates, and one SME was not able to get funding from the corporate. Despite the varying experiences and opinions on access to funding, the findings showed significant efforts made by the corporations to fund SMEs in their value chains. Figure 5 below depicts how much the corporations reserved for SMME funding and spend in 2019.

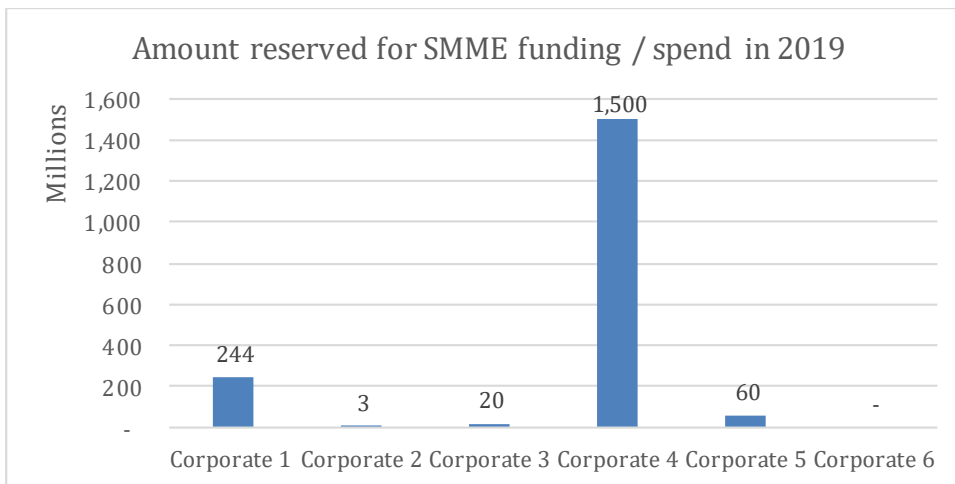


Figure 5: 2019 Amounts reserved for SMME funding or spend by corporations

Figure 6 below shows how much the corporations have dispersed and spent on SMMEs over the past three years.

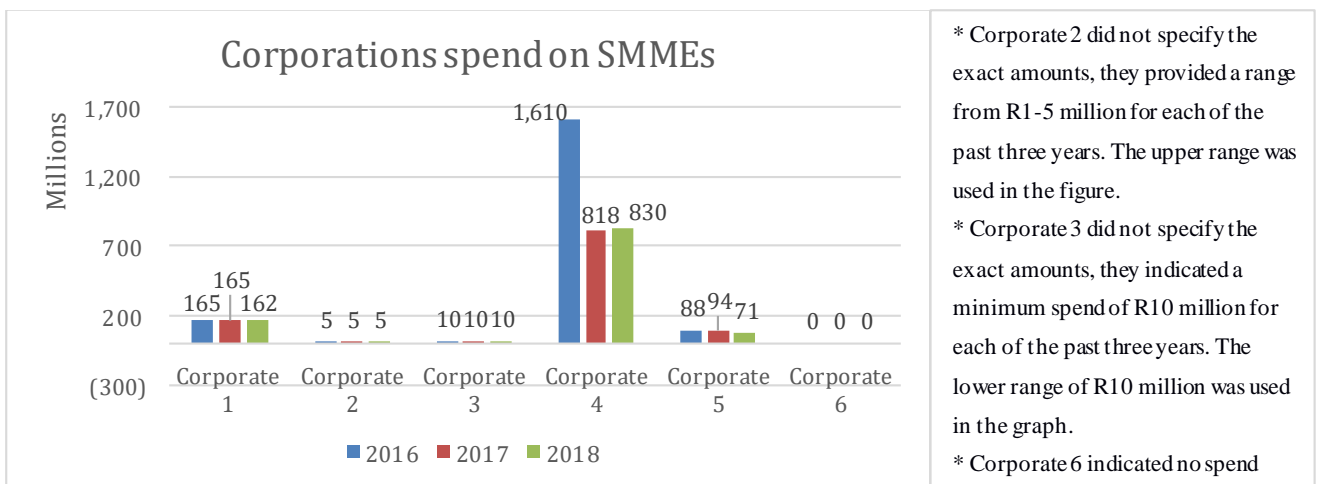


Figure 6: Corporate funding and spend on SMMEs over past three years

Both Figures 5 and 6 indicate that most of the corporations in this study have made significant strides in enterprise and supplier development. The SMEs acknowledged this effort as indicated in the descriptions below.

“They've (Corporate) given me grants, they've also gone as far as saying they'll train my people for us to become a certified training partner. They've given us cash to buy laptops, brand new laptops, a server, software. We've received grants of R700,000 to R1,000,000, in terms of support over the years”. SME 1

“We believe that the corporation that lent us our funding have gone to great lengths to assist us and ensure we make a success of our venture”. SME 5

The large corporations have made an effort to mitigate some of the SME funding challenges through initiatives such as grants, loans, mentorship, business development support and by referring SMEs in their value chains to external third-party funders such as development banks.

The access to funding challenges experienced by SMEs in this study are consistent with several studies conducted by Onubedu and Yusuf (2018), Olawale and Garwe (2010), Wang (2016), and Akinyemi and Adejumo (2017).

4.6 How do large private corporations promote SME sustainability?

The study participants were requested to indicate how significant they believed value chain integration has been to their businesses. The SME responses varied slightly: three SME owners believed that integration into a corporate value chain has been of significant benefit, one SME stated that there was some benefit, although not significant, and one SME was indifferent. The corporate responses also varied slightly, four corporate managers stated that integrating SMEs into their value chain has been of significant benefit to the corporate and two corporate respondents believed that it was of some benefit, although not significant. A few of the corporate descriptions are mentioned below.

“The advantage of integrating SMEs into the value chain is creating sustainable local community development”. Corporate 6

“We are in the process of launching a Procurement Extranet, where SMMEs will be able to interact with our various Commodity Specialists. Most importantly, SMMEs will be able to ask questions around business opportunities”. Corporate 1

“We’re working to build a sustainable future. 98% of our fresh produce is procured from South African suppliers. There’s a big focus on enterprise development. I’m now leading the whole discussion around localisation and making sure that we support local in every form and way”. Corporate 4

“Growing small businesses create jobs which improves the economy generally”. Corporate 2

To further understand the role of corporate value chains and how they can promote SME competitiveness and sustainability, most respondents believed that there is a multitude of opportunities that can be maximised for the long-term growth of SMEs in corporate value chains, as shown below.

“Having an ESD program is an excellent opportunity to promote your brand especially if you can share successes, i.e. cases where SME’s were able to grow their business as a result of the support provided by the Corporates ESD funding program”. Corporate 3

“We continuously add new suppliers from our supplier development and business incubator initiatives”. Corporate 4

“They (corporations) can also look within their value chain and say, I’ve got a generic company that makes about a hundred million from me. Can I not ask them to buy services from a SME?”. SME 1

Most of the corporate respondents acknowledged that they need to do more to address inequality in their procurement practices in order to grow and develop smaller businesses. There was also a general sense that corporates are open to strengthening their ESD propositions, as shown in the descriptions below.

“SMEs need to be provided with a portal within our web page to be able to access business opportunities. Be able to interact with business units in pursuit of future business pipeline opportunities”. Corporate 1

“So for us, you know inequality in procurement exists. Majority of the businesses in the chain are strategic suppliers, how do we unpack that? That is what I’m fighting for”. Corporate 5

“So a lot of the work is around our suppliers working with our supply chain and making sure that they're sustainable. And we look at how we work with our bigger vendors, what are we doing to capacitate local businesses”. Corporate 4

“Corporates can have a more structured ESD programme with support structures and buy-in from all key internal stakeholders”. Corporate 6

In addition to the efforts made by large private corporations to integrate SMEs into their supplier and distributor networks, it was further highlighted that SMEs must expand their sources of revenue and not solely depend on one corporate.

“It’s important that the SMEs extend the business to other customers apart from the corporate that is providing ESD funding. This way they become independent and able to grow their business to become sustainable for the long run”. Corporate 3

“SMEs have one to two revenue streams, which are not enough to service the loan repayments”. Corporate 1

The consensus gathered from the participants indicates that most of the SME owners and corporate managers are already considering ways to improve the SME-Corporate relationship and to identify ways of work that promote SME sustainability. According to a study by Ardichvili, Cardozo and Ray (2003), opportunity identification was considered to be one of the most important abilities of successful businesses. Kuzmisiin and Kuzmisiinova (2016) found that SMEs that have successfully integrated in one or more value chains have been able to gain stability or expand their business. It is, therefore, evident from the findings that SMEs will need to continuously seek value chain

opportunities that will expand their revenue streams. Similarly, large corporations will need to show more commitment to working with SMEs and to manage buy-in and support from all key internal stakeholders.

4.7 Conclusion

This chapter presented the findings of the primary data collected from the study participants. The findings were grouped and analysed in five main sections. The first section provided a brief profile of the SME and corporate businesses in this study. The second and third sections outlined the internal and external factors that influence the survival prospects of SMEs in corporate value chains. The fourth section discussed the main challenges encountered by SMEs working with large corporations and the fifth section discussed how large corporations can promote the competitiveness and sustainability of SMEs. The next chapter presents a summary of the study, the conclusions and the recommendations of the findings.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This final chapter presents the summary and conclusions as well as the research limitations of the study. Recommendations and avenues for future research are also provided based on the results found.

5.2. Summary and conclusions

This study aimed to examine the integration of SMEs into corporate value chains as a stimulant for accelerating economic growth in South Africa. This is important to address the country's state of high unemployment. It is also important to understand and address the procurement challenges and perceptions faced by SMEs and large private firms working with one another. An improved understanding of the procurement challenges will mitigate the risk of SME failure and increase the likelihood of SME competitiveness and sustainability.

The study is summarised in line with the three research questions posed in Chapter 1:

1. What are the internal and external factors that influence the survival prospects of a SME integrated into a large corporate value chain?
2. What are the biggest challenges encountered by SMEs working with large private firms?
3. How can SMEs work with large private enterprises in a fairly competitive and sustainable manner?

5.2.1 What are the internal and external factors that influence the survival prospects of a SME integrated into a large corporate value chain?

The main internal factors that influence the survival prospects of SMEs working with large corporates were identified in the literature to be access to internal finance, management skills, location of the firm and investment in technology. The findings from the analysis concurred with the literature. but it was also revealed in the findings that SME agility was a key internal factor that differentiates a SME in a corporate value chain.

The main external factors that influence the survival prospects of SMEs working with large corporates were identified in the literature to be crime and corruption, skilled labour, policies and regulations of government and infrastructure. The findings from the analysis were aligned to literature. The findings highlighted factors such as taxation, BEE legislation and compliance to industry regulations. The findings were inconsistent to literature on crime and corruption as the research participants did not regard this as a relevant external factor to their businesses.

5.2.2 What are the biggest challenges encountered by SMEs working with large private firms?

The findings from literature highlighted the following challenges that impact SMEs working with large corporations: Late payment, red tape, cash flow issues, market penetration difficulties and lack of capacity and resources. The findings from the analysis were very consistent with literature with the exception of late payment. SMEs in the study expressed satisfaction to working with large private corporates as they paid them on time. This was related to the early payment BEE points corporations qualify for when they pay their suppliers within a shorter period.

5.2.3 How can SMEs work with large private enterprises in a fairly competitive and sustainable manner?

The findings revealed that research participants believed that, in general, the SME-Corporate business relationship has been of significant benefit to their respective businesses. In order to improve SME competitiveness and SME long-term growth, the findings from the analysis revealed that SMEs will need to continuously seek opportunities that will expand their revenue streams. The findings also found that large corporations will need to show more commitment to working with SMEs and address any internal negative perceptions about working with SMEs. The study concludes that the successful integration of SMEs into corporate value chains is largely dependent on the ability of businesses to identify opportunities of collaboration. The study also concludes that a corporation's willingness to integrate and capacitate local SMEs will increase the likelihood of SME success.

5.3. Recommendations of the findings

To improve the growth and development of SMEs integrated into large corporate value chains, the corporations need a formalised change management programme with all key internal stakeholders. The change management programme must address internal misalignment issues on enterprise and supplier development and unpack all the SME procurement perceptions held by the firm. This

will ensure that corporate commitment and buy-in to work with SMEs is shown from the executive level down to line management level.

In order to improve the pace of integration for local SMEs, large corporations must build and develop a structured ESD programme tailored to their business. This programme should be clear around the corporation's policy on supplier diversity targets, preferential procurement targets and SMME lending targets. This will create awareness and compel all business units within a corporate to meet the targets set aside for them.

To address the challenge of SMEs not getting enough business and relying on one or two revenue streams, corporations can make it easier for SMEs to engage with them to understand possible future business opportunities. Corporations can do this by using a procurement extranet where SMEs are able to enquire on business pipeline. Also, corporations have existing relationships with large vendors in their value chain, so they can introduce their vendors to new SMEs who are looking for business opportunities. This will improve SME networking and exposure and increase their ability to meet and service new clients.

The South African government should intensify SME training and up-skilling programmes with a focus on equipping entrepreneurs with business and financial management skills. Also, the government and its associated agencies need to play an exemplary role as custodians of the BEE policy and pay SMEs timeously to mitigate the number of SMMEs that fail due to cash flow issues resulting from late payments.

SME financiers should make their application requirements and approval processes less burdensome on SMEs. Financiers should also partner with the government and large private corporations to find amicable solutions that will offer SMEs a more lenient lending criteria, reduced interest rates on loans and lower collateral requirements.

5.4. Avenues for future research

This study was an explanatory qualitative research that examined how SME integration into large private corporate value chains promotes the likelihood of SME success. It will be important for future studies to conduct a quantitative cross-sectional analysis of this impact.

Additionally, future research can be conducted to address the knowledge gap on the transformation and supplier diversity targets of large private corporations operating in South Africa.

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Annexure 1: The National Small Enterprise Act thresholds for defining SMEs

SCHEDULE 1

The new National Small Enterprise Act thresholds for defining enterprise size classes by sector, using two proxies

Column 1	Column 2	Column 3	Column 4
Sectors or sub-sectors in accordance with the Standard Industrial Classification	Size or class of enterprise	Total full-time equivalent of paid employees	Total annual turnover
Agriculture	Medium	51 - 250	≤ 35,0 million
	Small	11- 50	≤ 17,0 million
	Micro	0 - 10	≤ 7,0 million
Mining and Quarrying	Medium	51 - 250	≤ 210,0 million
	Small	11- 50	≤ 50,0 million
	Micro	0 - 10	≤ 15,0 million
Manufacturing	Medium	51 - 250	≤ 170,0 million
	Small	11- 50	≤ 50,0 million
	Micro	0 - 10	≤ 10,0 million
Electricity, Gas and Water	Medium	51 - 250	≤ 180,0 million
	Small	11- 50	≤ 60,0 million
	Micro	0- 10	≤ 10,0 million
Construction	Medium	51 - 250	≤ 170,0 million
	Small	11- 50	≤ 75,0 million
	Micro	0- 10	≤ 10,0 million
Retail, motor trade and repair services.	Medium	51 - 250	≤ 80,0 million
	Small	11- 50	≤ 25,0 million
	Micro	0 - 10	≤ 7,5 million
Wholesale	Medium	51 - 250	≤ 220,0 million
	Small	11- 50	≤ 80,0 million
	Micro	0 - 10	≤ 20,0 million
Catering, Accommodation and other Trade	Medium	51 - 250	≤ 40,0 million
	Small	11- 50	≤ 15,0 million
	Micro	0 - 10	≤ 5,0 million
Transport, Storage and Communications	Medium	51 - 250	≤ 140,0 million
	Small	11- 50	≤ 45,0 million
	Micro	0 - 10	≤ 7,5 million
Finance and Business Services	Medium	51 - 250	≤ 85,0 million
	Small	11- 50	≤ 35,0 million
	Micro	0- 10	≤ 7,5 million
Community, Social and Personal Services	Medium	51 - 250	≤ 70,0 million
	Small	11- 50	≤ 22,0 million
	Micro	0 - 10	≤ 5,0 million

Signature Removed

Lindwe D Zulù, MP
Minister of Small Business Development

Date: 27/02/2019

2

Initial

Appendix A: Small Medium Enterprise (SME) Questionnaire

Section A: Profile of Business

1. Position of respondent (mark with x)

Owner / Director / Partner	
Senior manager	
Junior manager or other employee	
Other (specify):	

2. Education level of respondent (mark with x)

Below Matric	
Matric	
Diploma or Degree	
Postgraduate	
Other (specify):	

3. Legal status of enterprise (mark with x)

Type	Response	Type	Response
Sole Proprietorship		Private company (Pty Ltd)	
Partnership		Other (specify):	
Close corporation (CC)			

4. Age of business (mark with x)

< 1 year	
1-5 years	
6-10 years	
> 10 years	

5. Type of SME business in relation to ESD program (mark with x)

Distributor	
Manufacturer	
Service provider	
Supplier of goods	

6. SME Industry (mark with x)

Agriculture		Manufacturing	
Communication, Media & Information Technology		Mining	
Construction		Travel & Accommodation	
Electricity, Gas & Water		Wholesale and Retail	
Finance & Business services		Other (specify):	

7. Number of Employees (mark with x)

	2016	2017	2018
1 – 5 employees			
6 – 10 employees			
11 – 15 employees			
16 – 20 employees			
21 – 30 employees			

31 – 50 employees			
>50			

Section B: Value chain integration

8. What are the main advantages of being integrated into a corporate value chain?
9. What are the main challenges faced when integrated into a corporate value chain?

Section C: Access to finance

10. What was your annual business income / revenue in 2016, 2017 and 2018?
11. Has the business tried to obtain funding in the past 36 months?
12. What was the funding required for?
13. What was the funding outcome?
14. What are the challenges SMEs face when seeking funding?

Section D: SME Growth

15. Has value chain integration to a large corporate been beneficial to your business?
16. What are the INTERNAL factors that influence the survival prospects of your business?
17. What are the EXTERNAL factors that influence the survival prospects of your business?
18. Are there any other general comments on how large corporates can work with SMEs to promote SME sustainability?

Appendix B: Large Corporate Questionnaire

Section A: Profile of Business

1. Position of respondent (mark with x)

Director	
Senior manager	
Junior manager or other employee	
Other (specify):	

2. Type of business (mark with x)

Type	Response
Private company (Pty Ltd)	
Public company (Ltd)	
Other (specify):	

3. Age of business (mark with x)

< 1 year	
1-5 years	
6-10 years	
> 10 years	

4. Corporate industry (mark with x)

Agriculture		Manufacturing	
Communication, Media & Information Technology		Mining	
Construction		Travel & Accommodation	
Electricity, Gas & Water		Wholesale and Retail	
Finance & Business services		Other (specify):	

Section B: Value chain integration

5. What are the main advantages of integrating SMEs into your corporate value chain?
6. What are the main challenges in integrating SMEs into your corporate value chain?

Section C: Access to finance

7. Has the company provided funding to SMEs in the past 36 months?
8. What was the funding required for?
9. How much have you reserved for SME funding in 2019?
10. How much have you dispersed to SMEs in the past three years?
11. What are the challenges you face when extending finance to SMEs?

Section D: SME Growth

12. How beneficial has integrating SMEs into your corporate value chain been to your business?
13. In your opinion, what are the likely INTERNAL factors that influence the survival prospects of SMEs in your value chain?
14. In your opinion, what are the likely EXTERNAL factors that influence the survival prospects of SMEs in your value chain?
15. Any other general comments on how SMEs can work with large corporates to promote SME sustainability?

Appendix C: Informed Consent Form



INFORMED CONSENT FORM

TITLE OF RESEARCH: INTEGRATING SMES INTO VALUE CHAINS: AN ACCELERATED GROWTH PLAN FOR SOUTH AFRICA

I am Zimi Gongxeka, a Masters of Commerce student at UCT's Graduate School of Business. Thank you for participating in this interview. This study is being conducted as part of my postgraduate minor dissertation.

The aim of the research is to understand how SMEs can work with large corporates in a manner that promotes the growth of the SME. You were selected as a possible participant in this study because your business has been recognised as either a SME or a large corporate that is involved in an Enterprise and Supplier Development (ESD) programme.

All information given is kept confidential and you will not be requested to supply any identifiable information, ensuring anonymity of your responses. Your participation in this research is voluntary. You can choose to withdraw from the research at any time. You are free to not respond to any question you do not wish to answer.

The questionnaire will take approximately 45 minutes to complete.

This research has been approved by the Commerce Faculty Ethics in Research Committee. Should you have any questions regarding the research, please feel free to contact the researcher at 0616978460 or zimi.gongxeka@absa.africa

Participants Name

Participants Signature
