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Small, Medium And Micro
Enterprise Promotion In The
Western Cape Clothing
Industry: The Way Forward For
SMME'S Promotion in South
Africa.

By

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ABSTRACT

The object of this dissertation is to describe the extent to which the government has assisted small, medium and micro enterprises (SMME's) in the Western Cape clothing industry. The ultimate aim is to propose a way forward in the light of what the government has done so far in terms of SMME's promotion since 1994 and the recent economic and social developments in South Africa and abroad.

The study is targeted at SMME's that are owned by previously disadvantaged communities in the Western Cape metropolitan area. It does not focus on well-established SMME's. The government's SMME's promotion strategy emphasises the need to economically empower previously disadvantaged communities through measures such as SMME's promotion in those communities. It is for this reason that I chose to research this category of SMME's.

The observation of this dissertation is that the government has been successful in coming up with the strategy for SMME's promotion and setting up structures for implementation in order to overcome barriers to the growth of SMME's in South Africa. However, there is still work to be done towards the success of these SMME's with primary responsibility falling on local business service centres as grassroots organisations. The dissertation

concludes that for SMME's promotion to be a reality, it should be noted that firstly, SMME's promotion couldn't be isolated from the macroeconomic policies and events in the country and other parts of the world. Secondly, SMME's promotion in the clothing industry has its particular needs but SMME's promotion at a national level cannot be separated by sectors and industry when they operate under one economy and continue to face the same problems. Thirdly, SMME's promotion cannot be isolated from the historical context and national boundaries within which it operates. Finally, there is need to continue the strategy of SMME's promotion in the Western Cape clothing industry with particular attention paid to obstacles and opportunities in the global economy.

ABBREVIATIONS

ABSA	Amalgamated Banks of Southern Africa
BIFSA	Building Industries Federation South Africa
CLOTEX	Western Cape Clothing and Textile Service Centre
CSBP	Centre for Small Business Promotion
DBSA	Development Bank of South Africa
DTI	Department of Trade and Industry
EDGE	Enterprise Development for Growth and Equity
FEBDEV	Foundation for Economic and Business Development
FNB	First National Bank
IDC	Industrial Development Bank
KHULA	Khula Enterprise Promotion Agency
LBSC'S	Local Business Service Centres
NAFCOC	National African Federation Chamber of Commerce
NEPA	Ntsika Enterprise Promotions Agency
SADC	Southern African Development Cooperation

SMME's	Small, medium and micro enterprises
WECBOF	Western Cape Business Opportunities Forum
WESGRO	Western Cape Investment Promotion Agency
WTO	World Trade Organisation

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INTRODUCTION

South Africa is in the process of overhauling its social, political and especially economic institutions. Central to this process is a strategy for economic growth and restructuring. Small, medium and micro enterprises (SMME's) development and promotion is part of the broader strategy because they are believed to absorb unemployment and to have the potential for economic growth.

The focus of this research is on SMME's promotion in the Western Cape clothing industry as envisaged by the general objectives of the provincial and national government strategy for SMME promotion. The Western Cape Economic Policy sets out nine objectives for its SMME's promotion strategy. These are:

1. To create an enabling environment for small enterprises.
2. To facilitate greater equalisation of income, wealth and earning opportunities.
3. To address the legacy of apartheid-based disempowerment of black business.
4. To support the advancement of women in all business sectors.
5. To create long term jobs.
6. To stimulate sector focused economic growth.

7. To strengthen networking and co-operation between bigger and small business as well as between rural and urban business.
8. To level the playing fields between bigger and small business as well as between rural and urban business.
9. To prepare small business to comply with the challenges of an internationally competitive economy.

This research focuses only on objectives one and seven. It seeks to investigate the extent to which the strategy is so far creating an enabling environment for SMME's and how it is creating and strengthening networks and co-operation between small and big business in the Western Cape clothing industry. The aim is to try and analyse and propose plausible ways of a dynamic SMME's promotion and development in the Western Cape clothing industry. The proposal is based on what has been done (in SMME's promotion in the clothing industry) and what the results are both at SMME's level and macro economic level. This research should be seen as a rudimentary evaluation and a starting ground for a broader evaluation of the strategy as it progresses in the process of economic restructuring.

I chose these objectives because I believe they are crucial for the success of emerging entrepreneurs from previously disadvantaged communities. When there is a favourable framework for SMME's to operate and networks to support them, then it is plausible to argue that SMME's will face lesser

obstacles as they progress than they would in the absence of support structures. In fact a favourable business environment and beneficial networking will allow emerging enterprises to confront problems rather than being defeated by problems. This research does not focus on well-established enterprises. It goes along with the government strategy of targeting emerging enterprises from previously disadvantaged background.

Now I need to make it clear what is meant by an enabling environment and by strengthening networks and co-operation. An enabling environment means creating a favourable context within which SMME's can flourish and minimising obstacles towards their smooth running. There are four aspects, which I think are crucial for an enabling environment and will be dealt with later. The first one is the socio-economic conditions within which SMME's are operating. The second aspect is the market structure of the clothing industry. This refers to the level of concentration, competition and the market behaviour of entrepreneurs in the clothing industry, both in South Africa and abroad. The third one is government policy on SMME's promotion and development. This refers to government's approach and strategy for the clothing industry and how that enables SMME's promotion. This includes the institutional and regulatory framework for promoting SMME's. The final aspect is the extent to which local business service centres are helping SMME's towards successful business ventures. The Western Cape

Clothing and Textile Service Centre (CLOTEX) is the service centre studied for this part of the research.

By networks and co-operation I refer to any existing nexus between clothing SMME's and other organisations and firms. The purpose of networking should be the advancement of SMME's. This part of the research seeks particularly to see the extent to which Clotex creates and promotes such networking. There are other elaborate forms of networking that are mentioned in chapter two when discussing Economic Sociology. However, these networks are too elaborate for the kind of enterprises that this research is focusing on but are useful when I propose the way forward. The enterprises that this research focuses on are emergent and owned by previously disadvantaged communities.

The focus of the research is on the aforementioned objective, but I need to spell out four confining premises underlying the whole research. Three of these are adapted from McCarthy (1994:4-6) and have implications for this research and the final one is a consolidation of the government's principles on SMME's promotion in general. The first premise is that South Africa is characterised by a relatively high-tech sophisticated modern sector but also with a very substantial peripheral sector. This research is not based on sophisticated SMME's, but focuses on emerging SMME's owned by

previously disadvantaged communities and groups. The second premise is that at a macroeconomic level the function of SMME's is to absorb unemployment and raise productivity levels. The implication for this research is that this is the ultimate aim of promoting emerging SMME's and it encompasses all other nine objectives of SMME's promotion in the Western Cape. Even though this is beyond the scope of the research, it however makes this research a rudimentary work toward analysing the SMME's promotion as it unfolds and matures. The third premise is that a successful strategy depends on the logical and coherent sectoral development strategy, which is sensitive to the context of a country. By using the principles of Economic Sociology as part of our analytical tools this research tries to relate issues to the South African context. The final premise is that SMME's promotion should not assist enterprises beyond their potential long-term viability. This research recognises that SMME's promotion should slowly cease to deal with the problems it faces as economic conditions improve for the whole country. However, it also recognises that it will be difficult to determine the period of terminating the support and this will also depends on the entire success of our economic policy to alleviate poverty and unemployment. The point is that SMME's promotion should not be endless.

It should be noted that the above premises are not theoretical assumptions or analytical tools underpinning this research. They are simply statements that reflect the guiding principles for concluding remarks and proposals for the way forward towards a viable SMME's development and promotion in the Western Cape clothing industry.

There is a fairly reasonable amount of research on SMME's in general and on sectors specific SMME's including the clothing industry. This implies that I have to justify and differentiate my research from others. There are several reasons for pursuing this research. Firstly the research is looking at what the government has done so far to promote SMME's in general and in the clothing industry in particular. This will serve as a rudimentary work toward full-scale evaluation of the government strategy as further unfolds and develop. Secondly, the research is sector specific but does claim general conclusions for SMME's especially when they operate under one economy. Even though SMME's share some characteristics they experience differences within their sectors and industries. It is often fashionable to research SMME's in one sector and generalise for other sectors. This research tries to show that a sector specific approach is not entirely helpful when SMME's continue to experience similar problems. Thirdly, the research focuses on the Western Cape province rather than the country as a whole. The reason is to give a limited but yet detailed understanding of SMME's promotion. Moreover, the clothing industry is one of the dominant industries in the

Western Cape and important to support as part of the provincial economic growth strategy. Finally, the research is largely based on the principles of Economic Sociology, which is explained with other theoretical frameworks in the next chapter. The benefit of this approach is to come up with critically formulated ideas in trying to propose a resolution on the best possible way forward towards SMME's promotion in the Western Cape clothing industry.

METHODOLOGY

This research is largely descriptive and to a lesser extent evaluative. It describes the extent to which the national and Western Cape provincial government are supporting SMME's in the Western Cape clothing industry. It is evaluative in as far as it tries to propose the best way forward given the present situation and level of support given to the SMME's in the Western Cape clothing industry so far. The descriptive part focuses on almost every endeavour that the government has made to support SMME's in general and on what the Western Cape provincial government is doing to promote SMME's in the clothing industry. The evaluative part critically focuses on those aspects that create an enabling environment for SMME's and create and strengthen networks for SMME's in the Western Cape clothing industry.

Data collection was in two parts. The first part focuses on collecting data on the national government strategy of SMME's promotion. Data was collected from various materials from government agencies and small business publications. Informal and unstructured interviews were conducted with some officials involved in SMME's promotion in the Western Cape. The second part of data collection was from the Western Cape Clothing & Textile Service Centre (Clotex) and some of the SMME's it services. Clotex provided some materials on its profile and operation and a list of some SMME's owners that I interviewed to determine the extent to which the SMME's promotion strategy is helping them. Some of the enterprises were taken from a list of Clotex members who were willing to participate in the research. Others were randomly asked at the Small Business Hive in Philippi to participate in the research. The total number of respondents was twenty-one (21). Because of problems with scheduling time for interviews some entrepreneurs administered questionnaires that I posted to them and queries were made telephonically. The rest, I was able to interview. The interview schedule is attached to appendix A.

THE STRUCTURE OF THE RESEARCH

Chapter one defines small, medium and micro enterprises and discusses their role in the South African economy. Chapter two discusses the theoretical

framework underlying this research in trying to propose a way forward in the SMME's promotion in the Western Cape clothing industry. This theoretical framework focuses on Economic Sociology, Porter's National Competitive Advantage model, and Industrial Districts Cluster Model. Chapter three describes the findings on national strategy for the promotion of small, medium and micro enterprises. Chapter four describes what the provincial government has been doing for the promotion of small, medium and micro enterprises (SMME's) in the Western Cape clothing industry. Part of this chapter is on the activities of the Western Cape Clothing and Textile Service Centre (Clotex). Chapter five outlines the finding from the study of the clothing SMME's some of which are using Clotex as their local business service centre. Chapter six proposes some recommendations drawing on the findings on the national and provincial SMME's promotion strategy, and the findings from the interviews as a way forward towards SMME's promotion in Western Cape clothing industry. Chapter Seven concludes the research by summarising the dissertation.

CHAPTER ONE

SMME'S DEFINITION AND ROLE

INTRODUCTION

The study of small, medium and micro enterprises (SMME's) in the economic development process in South Africa arose in the 1970's. The rise and role of SMME's across the world and the problems they encountered stimulated research and policy formulation on SMME's promotion. There are three main foci of research in SMME's studies. "Some projects aim to promote new business starts by addressing the constraints that make it difficult for the people to establish new enterprises. Other projects provide assistance aimed at countering the forces that causes existing enterprise to fail, while still others seek to help existing business to improve their performance and expand", (Mead and Liedholm, 1998: 61). The focus of this study cuts across the three aspects because the government strategy broadly encompasses all of them.

All these foci are a response to the rise and role of small, medium and micro enterprises in South Africa, but before one can venture into any of the above aspects of research, it is conceptually and practically necessary to define SMME's and discuss their role. The purpose of this chapter is on the definition and role of SMME's.

It is important to define and articulate the role of small, medium and micro enterprises. There are several reasons for that. Firstly one must clearly define the subject of research to avoid conceptual ambiguity. Secondly, it is convenient for policy intervention when identifying the object of focus. Finally by describing the role of small businesses, I am also indicating the relevance of SMME's for research purposes.

An important note needs to be made regarding the use of the terms 'small business and SMME's. In some literature small business is used interchangeably with the acronym SMME's. Small business is often used both as a singular case referring to a business entity and also as a collective noun for small, medium and micro enterprises (SMME's). When this happens, two problems arise. The first one is that it is often difficult to grasp when the author is referring to either term. Secondly this blurs any substantial or fundamental difference among small, medium and micro enterprises. Consequently, these terms end up with numerical distinctions such employment size and total assets. Moreover, the terms small, medium

and micro are implicitly equated with grammatical connotations of small = weak, medium = resilient and micro = powerless. I am not suggesting that these connotations and distinctions are incorrect. I think the definition of SMME's is at an impasse. Academic literature does not make effort to conceptually and substantively distinguish small from medium and both from micro.

In this research report I use small business strictly as a category of SMME's (not a collective term for SMME's) of SMME's. I use SMME's as an acronym for small, medium and micro enterprises. I am not coining any definitions but rather making a point for clarity of the study and further research. The definition of SMME's for this study is the same as that of the government as provided by the Small Business Enabling Act of 1996. The terms, firm, business and enterprise will be used interchangeably to refer to a profit making entity. I am aware that in economic theory, these terms have specific meanings. However, that will have no impact on my research. They all are regarded as profit making economic activities. The research is focusing on the promotion of small, medium and micro *economic activities* and not on their technical-legal aspects.

The structure of this chapter is as follows: I first look at the general definition of small, medium and micro enterprises. Secondly, I assess these

definitions. Thirdly, I focus on the official definition of SMME's in South Africa. Finally, I discuss the role of SMME's in South Africa.

DEFINITION OF SMME's

According to Chesterman (1977), the definition of SMME's can be categorised into three aspects. These are organisational, quantitative and competitive strength. Organisational definitions refer to an enterprise's type of ownership and management, and the structure of the labour process. Quantitative definition refers to the number of employees, annual output and the value of assets in an enterprise. Competitive strength refers to the market power and share of an enterprise. Below I define small, medium and micro enterprises using Chesterman's categorisation.

Small Business

Common to small businesses (though not always) is that they are organisationally owned and managed by one person. It is a kind of informal face-to-face management with employees. Family ownership dominates some small businesses. Quantitatively, the number of employees is usually less than fifty. In terms of the market power, small businesses are not influential. They are dominated by large businesses and follow market signals such as

price quantity and quality. Small businesses operate in regional markets only. This also puts them at a competitive disadvantage against big businesses. Some small firms are contracted by big ones to produce intermediate goods.

Eisen (1981:9) points out some characteristics of small businesses along the lines of Chesterman. He provides the following defining characteristics of small businesses:

- Small businesses are privately establishments.
- They have fewer than fifty shareholders and don't invite the general public to buy shares.
- They are confined in regional markets.
- There are less bureaucratic structures.
- They are concentrated in industries like catering, hairdressing and manufacturing subcontracting.

Medium Enterprises

Organisationally, medium enterprises are owner managed. There is no separation of ownership and management. In rare circumstances the owner

might have someone who manages the business. This usually happens when the owner has more than one business or the business has organisational requirements that need an attention of more than one person. Usually it is the next-of-kin that is appointed to run a business in the absence of the owners. This happens in small businesses too. However, the reasons are not organisational but rather day-to-day commitments especially of augmenting income and operations of the existing business.

Quantitatively, medium enterprises employ between fifty and hundred people. The annual turnover and asset value is less than R15m. Their market share is slightly better than that of small and micro enterprises. Although they have a competitive advantage over small and micro businesses, they are still dominated by big business.

Micro Enterprises

Micro enterprises are owner managed. They employ a maximum number of five people. They are labour intensive and employ simple technology. There is little organisational requirement. They are concentrated in sectors that require little venture capital. The annual turnover is less than a quarter of R1m. There is no distinction between business assets and household ones.

In terms of competitive strength, micro enterprises have no impact on market signals. They have no market power or any recognisable share. They are peripheral and unregistered to run as businesses.

An assessment of SMME's definitions

There are several points that need to be made to indicate some problems in defining SMME's. Firstly, as noted by Chesterman (1977), definitions based on quantitative criteria are transient and change due to macro-economic shifts (e.g. unemployment, inflation) and labour relations. Secondly, Eisen (1981:10) points out to practical problems with these definitions. SMME's definitions that are based on employment, assets, and turnover may overlap with big businesses. Legal definitions such as partnership, unlimited Liability Company or limited Liability Company can be small or big, private or public. Thirdly, there is lack of presenting diversity within each category. For example small businesses are commonly referred to as lacking technological sophistication. On the contrary, there are small firms in the high-tech electronic and microchip production.

Eisen(1981) suggests that there is no universally accepted definition of small, medium and micro businesses. SMME's definition should be seen as functional. This means it can vary according to the aim of the research or an intervention planned for a particular industry.

An almost similar view as that of Eisen is that “the definition of small business or small scale depends on the reasons for interest in Small Scale Enterprises (SSE’s) or small business. Definitions of small enterprises vary. ‘Small’ is relative and what is ‘small’ in one economic setting may not be so in another. Definitions may differ according to the purposes of the definer, and may be based on criteria relating to employment; credit access; capital; nationality; and technology”, (Bunn, 1992:15).

I agree with Eisen’s and Bunn’s views. SMME’s have organisational, quantitative and competitive aspects that characterise their definition. However, researchers focus on at least one of these aspects in defining SMME’s and the choice depends on the objectives of the researcher. For example in her study of the structure of the clothing industry in South Africa, (Altman (1989)) defines small and medium sized enterprises according to employment size. Small business comprises fifty to hundred employees and medium sized comprises a hundred to two hundred employees. Moreover, from her research it was clear that she was looking at well established rather than emerging SMME’s. This adds another point, that a focus on either well-established or emerging enterprises may influence one’s defining characteristics of SMME’s.

Another interesting point to support Eisen(1981) and Bunn (1992) is how differently Industrial Councils, employer associations and trade unions in South Africa classified clothing SMME's in terms of employment size. From a research conducted by du Toit et al (1995) the following table indicates the differences that were found:

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TABLE 1.1: Differences in the conceptualisation of firm sizes by employers, industrial councils and trade unions.

INDUSTRIAL COUNCILS	Small	Medium	Large
Western Cape	< 30	< 151	151+
Port Elizabeth	< 6	< 500	501+
Transvaal	< 11	< 51	51+
EMPLOYER ASSOCIATIONS			
Garment Manufacturers		< 201	201+
Eastern Province Clothing	< 51	< 250	250+
Natal Clothing	< 51	< 201	201+
Transvaal Clothing	< 50	< 150	150+
TRADE UNIONS			
SACTWU (Western Cape)	< 7	< 150	150+
SACTWU (Eastern Cape)	< 50	< 150	150+
SACTWU (Natal)	< 50	< 200	< 200+
SACTWU (Transvaal)	< 6	< 150	150+

(Source, du Toit et al, 1995:15)

From the above table one notices that even though one aspect of SMME's definition is used, there are also differences within one aspect and within an industry in which the different parties involved. Industrial councils define small as less than 50 compared to employer associations and trade unions. Employer associations define medium as less than 250 but trade unions and industrial councils define medium as less than 150. Trade unions define large as anything more than 150 whereas employer associations define large size as more than 250. There is also a regional difference within each category. What seems to be the reason is the contact and experiences of the parties with SMME's. Employer organisation tend have a greater limit that unions and industrial councils. It could be employer association usually work with well-established and sophisticated SMME's. Industrial councils have a greater limit compared to trade unions and this could mean that SMME's that are registered with the councils are better established than the unregistered ones.

For this research, I use the classification provided in the Clotex database because I am focusing on the Western Cape's provincial government strategy of SMME's promotion with particular attention to the clothing industry.

OFFICIAL DEFINITION OF SMME's IN SOUTH AFRICA

In the statutes of South Africa SMME's are defined according to three criteria. That is the number of employees, the annual turnover and the net

fixed assets. The Department of Trade and Industry defines small, medium, micro, very small and survivalist enterprises.

Small enterprises constitute a bulk of established businesses. Employment ranges between five and hundred employees. The enterprise is usually owner managed. It is likely to operate from business or industrial premises. It is likely to be tax-registered and meet other registration requirements. Classification in terms of assets is difficult because of a wide range of sectors as shown in the following table.

Medium enterprises also constitute a category that is difficult to differentiate from small enterprises. They are also owner-managed. Community control or shareholding could be a feature. Maximum employment is two hundred people. Maximum capital assets (excluding property) are about R10m.

Micro enterprises are very small businesses. They are strictly owner-managed. Employees are often family members. They lack 'formality' in terms of business registration, premises, operating permits. They have limited capital base and rudimentary technical or business skills among its operators.

Survivalist enterprises are activities by people who are unable to find jobs or get into the economic sector of their choice. Income generated by the person(s) usually falls short of minimum income standards. There is little capital invested and no skill training. There is little and limited opportunity for mobility to viable business. Poverty and the attempt to survive are the main characteristics of this category of enterprises, (Department of Trade and Industry, 1994:8).

Very small enterprises employ less than ten paid employees, except for the mining, electricity, manufacturing and construction sectors where it is twenty employees. The enterprises operate on the formal market and have access to modern technology. The lower limit is the self-employed with no employees, such as artisans and professionals. The threshold between micro on the lower hand and small enterprises on the higher hand can be somewhat fluid.

The classification of SMME's is tabulated below.

Column 1	Column 2	Column 3	Column 4	Column 5
Sectors or sub sectors in accordance with the Standard Industrial Classification	Size or class	Total equivalent of paid employees Less than	Total annual turnover Less than	Total gross asset value (fixed property excluded) Less than
Agriculture	Medium	100	R4.00m	R4.00m
	Small	50	R2.00m	R2.00m
	Very Small	10	R0.40m	R0.40m
	Micro	5	R0.15m	R0.10m
Mining & Quarrying	Medium	200	R30.00m	R18.00m
	Small	50	R7.50m	R4.500m
	Very Small	20	R3.00m	R1.80m
	Micro	5	R0.15m	R0.10m
Manufacturing	Medium	200	R40.00m	R15.00m
	Small	50	R40.00m	R3.75m
	Very Small	20	R4.00m	R1.50m
	Micro	5	R0.50m	R0.10m
Electricity, Gas and Water	Medium	200	R40.00m	R15.00m
	Small	50	R10.00m	R3.75m
	Very Small	20	R4.00m	R1.50m
	Micro	5	R0.150m	R0.10m
Construction	Medium	200	R20.00m	R4.00m
	Small	50	R5.00m	R1.00m
	Very Small	20	R2.00m	R0.4m
	Micro	5	R0.15m	R0.10m
Retail and Motor Trade and Repair Services	Medium	100	R30.00m	R5.00m
	Small	50	R15.00m	R2.00m
	Very Small	10	R3.00m	R0.50m
	Micro	5	R0.15m	R0.10m
Wholesale Trade, Commercial Agents and Allied Services	Medium	100	R50.00m	R8.00m
	Small	50	R25.00m	R4.00m
	Very Small	10	R5.00m	R0.50m

	Micro	5	R0.15m	R0.10m
Catering	Medium	100	R10.00m	R2.00m
Accommodation and other trade	Small	50	R5.00m	R1.00m
	Very Small	10	R1.00m	R0.20m
	Micro	5	R0.15m	R0.10m
Transport, Storage and Communications	Medium	100	R20.00m	R5.00m
	Small	50	R10.00m	R2.00m
	Very Small	10	R2.00m	R0.50m
	Micro	5	R0.15m	R0.10m
Finance and Business Services	Medium	100	R20.00m	R40.00m
	Small	50	R10.00m	R2.00m
	Very Small	10	R2.00m	R0.40m
	Micro	5	R0.15m	R0.10m
Community, Social and Personal Services	Medium	100	R10.00m	R5.00m
	Small	50	R5.00m	R2.00m
	Very Small	10	R1.00m	R0.50m
	Micro	5	R0.15m	R0.10m

(Source: Small Business Act of 1996)

The above table indicates certain patterns that are noteworthy in defining and classifying SMME's in South Africa. Sectors and sub sectors are specified and grouped according to similarities or connections in their activities or functions. For example electricity, gas and water are basic sources of energy. Mining and quarrying are extractive economic activities. Retail and motor trade and repair services are in pipeline of the motor industry. Wholesale trade, commercial agents and allied services are intermediaries between manufacturers, retailers and customers. Catering and accommodation is the services rendered hotels, motels, and townhouses. Transport, storage and

communications refer to national and international freights and trade. Finance and business services include banks, brokers, loan providers and other financial consultants. Community, social and personal services include NGO's, grassroots projects and community initiatives.

The table categorises four class sizes namely medium, small, very small and micro. Mining, manufacturing and electricity share the same size in their sectors. The rest of the eight sectors share the same size. In all sectors micro enterprises have less than five paid employees.

With the estimation of the annual turnover the average for medium sized enterprises is R24m with agriculture the lowest (R4m) and wholesales the highest (R50m). Small enterprises show a high variation in the estimated annual turnover across sectors. The average is R17m but the range is R38m. The very small category has a fairly constant turnover ranging between R0.4m to R5m with an average of R2m. The estimated annual turnover for micro enterprises is the same for all sectors (R0.15m).

The official category of total gross assets excludes fixed property such as buildings. Again the estimated value of assets for micro enterprises is the same at R0.10m. the very small enterprises also show a fair consistency across sectors with the range of R1.4m and an average of R0.8m. Small

enterprises show a fairly consistent estimated annual turnover across sectors. This also applies to the medium sized enterprises except for mining, manufacturing and electricity.

In general the table show that agriculture has the lowest share in all classes except the micro ones. It also indicates the largest share of the wholesale trade in the estimated annual turnover and gross assets excluding fixed property.

THE RATIONALE BEHIND THE OFFICIAL SMME's DEFINITION

In the National Small Business Enabling Act of 1996, the Department of Trade and Industry explained why it defined and categorised SMME's as tabulated above. Its definitions include both the quantitative and qualitative characteristics. Qualitative definitions include "independent management, owner-management, a small market share, no ready access to financial markets, the manufacture of a limited range of production methods and use of local raw material", (Department of Trade and Industry, 1995:30). Commonly, quantitative definition includes "number of employees, business turnover, fixed assets... and personal remuneration", (Department of Trade and Industry: 1995:30). In the official standard definition of SMME's, an enterprise has to comply with one obligatory qualitative criterion and any two of the qualitative criteria.

Regarding the official standard definitions, one realises that the above table uses only quantitative criteria. There are three reasons why the criteria are quantitative. Firstly, they are statistically easy to establish, monitor and regulate. Secondly, it is a common international trend. Finally, they are inflation-adjustable and modifiable on account of macro-economic shifts. More important is that the category of employment is made broad so that many labour intensive enterprises can be classified as small business and get assistance.

ASSESSMENT OF THE SCHEDULE

The above table has several positive aspects. Firstly, by breaking down the enterprises by sector provides an indication of heterogeneity within enterprises and their sizes. This helps to determine sectional contribution to the Gross National Product and employment. Secondly, by displaying sectional categories, one is able to see the general or average number of employees, total turnover and assets. Observation or statistical computation can determine this average. For example, using statistical computation, the average employment size of SMME's is 136.36 for medium enterprises, 50 for small enterprises, 13.4 for very small ones and 5 for micro enterprises. Finally, although industries can overlap in terms of services and goods they provide, the table tries to separate sectors in terms of their fundamental differences and similarities. For example agriculture is separated from

manufacturing. This can be interpreted as separating primary sector from secondary sector. This could help sector-specific local business service centres. For example, a business service provider like Clotex (in the clothing industry) will be primarily interested in the row dealing with manufacturing.

The official classification has some limitations. Firstly, the definitions and classifications are prescriptive rather than concrete research-based assertions. Secondly, the classification does not reveal other important details such as the structure of ownership. Thirdly the danger of following international trends of classification is to lose sight of the domestic's situation that may not always need foreign strategies but rather relevant and context-specific ones. Finally the government does not seem to emphasise social variables that cannot be computed in economic classification of SMME's. These include the distribution by race, sex and age.

THE ROLE OF SMME's IN SOUTH AFRICA

The general theory of SMME's rests on the assumption that their role is fostering economic development. SMME's are acclaimed for creating jobs, creating competition in markets that might otherwise be monopolistic and that they increase national output as they grow into larger firms in the long run (Barber (1992)).

According to the Department of Trade and Industry(1994), SMME's absorb 44% of people formerly employed in the private sector. It contributes 34% of total employment in South Africa. Small and medium enterprises' contribution is largely in manufacturing, agriculture, trade, and construction and in community, social and personal services. There is little employment contribution in mining, transport, finance and nothing in electricity and water supply.

SMME's contribute 32.7% of the Gross National Product. The sectoral contribution to the Gross National Product corresponds to the employment size contribution. There is contribution in manufacturing, agriculture, and trade and in community, social and personal services. SMME's can help to create employment in labour intensive sectors. In South Africa, the Department of Trade and Industry indicates some points on the role and contribution of labour intensive SMME's. These are: economic and social development, labour absorptive capacity with relatively low average capital cost per job, counteracting the legacy of big business and constrained competition through job creation, equitable income distribution and exploiting niches (internationally and internally), supporting marginalised groups during structural changes, and contribution to labour peace as worker and owner usually overlap, (Department of Trade and Industry: 1994:9). In short, SMME's that are labour intensive are seen as creating jobs

and thus reducing unemployment (Mead and Liedholm (1998)). This stems from the SMME's flexibility to adapt to change in demand. They also have short production runs that enable them to respond quickly to contracts.

In 1995 Trevor Manuel (Minister of Trade and Industry)- quoted in the Human Science Research Council report- also stated, "Small medium and micro enterprises represent an important vehicle to address the challenges of job creation, economic growth and equity in our country. Throughout the world one finds SMME's are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. We are of the view that- with the appropriate enabling environment- SMME's in this country can follow these examples and make an indelible mark on this economy"

SMALL BUSINESS PROMOTION IN OTHER PARTS OF THE WORLD

The importance and promotion of small business is not confined to South Africa but it is a feature of economic restructuring and employment creation in other parts of the world. This includes developed countries, developing countries and transitional economies of Eastern Europe. The purpose of this subsection is to indicate that SMME's promotion is a global phenomenon in its importance of creating employment and helping disadvantaged communities. I will use America as an example of a developed country,

Africa as an example of developing countries and Eastern Europe as economies in transition.

SMME's Promotion in Eastern Europe

According to Lorincze et al (1996) SMME's in Russia were a backbone of the economy before World War I and provided two thirds of employment during the 1930's in Czechoslovakia and Hungary. SMME's remained an important part of the agricultural catering, retail and service sectors of the economy in central Europe (Hungary, Poland and GDR) even after 1948. However, SMME's began to diminish such that in 1989 they accounted for only one third of employment in countries like Czechoslovakia and Hungary.

Glasnost and Perestroika ushered a transition from a centrally planned economy to a market economy in the former Russia. Transition to democracy in Russia went simultaneously with economic restructuring. Part of the economic restructuring included SMME's development and promotion. "Whilst the process is naturally different in each country, the common aim of the reformers in Central and Eastern Europe is to stimulate the entry of new firms expected to meet consumer demands, which were previously notoriously neglected by the large state enterprises. As result of redirection

(Koning 1992) of the state efforts and influences at national, regional and local levels there has been a substantial growth of the small business sector throughout Central and Eastern Europe.”, (Ratcheva, 1996:1).

SMME's in the former Russia are facing the following difficulties and concerns:

- SMME's have taken limited advantage of opportunities from the influx of foreign capital in the liberalisation process, (Webb,1999:1). The new business has not translated into sufficient high rate of growth of small firms and few grow to be internationally competitive, (Ratcheva, 1996:1)
- There is rich but patchily resourced business support and the outlying regions are more disadvantaged than central ones. Moreover, even though there are heterogeneous business support agencies there is poor infrastructure and lack of specialised agencies, (Webb,1999:10).
- High level of taxation and social security; sophisticated bureaucracy and rapidly changing regulation; low level of both payment discipline and personal consumption; difficult access to banking financing; high interest rates; lack of venture capital funds equity participation; difficulty in influencing government policy; management problems, (Lorincze, 1996:2); Lack of knowledge and managerial expertise.

Some of the problems that account for problems faced by SMME's development and promotion in former Russia are:

- All Soviet production was organised into highly centralised and hierarchical ministries; command rather than demand driven market; all major decision made in Moscow; production areas planned in areas for political or social reasons rather than market ones; planned system of monopolies; emphasis on military, aerospace and heavy duty industry and very little consumer goods production and nothing on services. All this led to market inefficiencies, (Aman, 1996:1).

Small business promotion in the former Soviet is now an important part of economic restructuring in order to create employment and meet consumer demands. The government, private sector, researchers and non-profit organisation are taking part in small business development. Some the government measures for small business promotion are: loan guarantees, interest rates subsidies, training programmes, networks of SMME's promotion, export promotion, preference in taxation and regulation, (Lorincze, 1996:1-2). There is also international donor aid for loans and venture capital (Lorincze,1996:2).

SMME's promotion in Africa

“SME enterprise development has been considered a key to economic development throughout the so-called Third World for several decades. With unemployment ranging from 25 to 45 percent in most developing countries, ‘self-employment and micro-enterprises development is seen by many donor agencies as the only way to reach the ‘poorest of the poor’. The donors feel that without strong private enterprises, Third World countries cannot hope to enter international trading systems”, (Wallace,1999:1).

While SMME’s promotion is also a feature of economic restructuring and employment creation, Wallace points out at some difficulties faced by SMME’s in sub-Sahara Anglophone and Francophone Africa. These difficulties are: training poor and disadvantaged communities who are illiterate and have no resources; lack of commercial product for the poor because they have little disposable income and consequently SMME’s cannot produce for this category of people; lack of business linkages; poor macro economic performance, (Wallace, 1999:1-7).

SMME’s promotion has not always been a failure. The 1995 national survey in Kenya indicated that role of small and micro enterprises was found to be beneficial in terms of its contribution towards employment, national income and household income. The results of the survey indicated the following:

- ◆ About one-quarter of the micro and small enterprises in operation provide all or almost all of the household income both in rural and urban areas. The remaining three-quarters have other sources of income to augment on household income.
- ◆ Income from some micro and small enterprises in urban areas is above the absolute poverty line as defined and computed by the World Bank¹. However, 72% of small and micro enterprises in the urban areas and all in the rural areas do not generated enough earning to meet the poverty line of k Sh 4,531 and k Sh 6,415 (these are the Kenyan poverty line figures for rural and urban areas respectively using 1992 as the base year).
- ◆ In 1994 the small and micro sector employed one-third of the working people (over one million) and contributed 13% to the Gross Domestic Product. Within the manufacturing sector, small and micro enterprises in the clothing industry contributed the largest share of the Gross Domestic Product per enterprise. The share was estimated to be 16,704 Kenyan pounds.

Southern African countries are also pursuing small business promotion. South Africa is an example and focus of this research. Malawi is another

¹ Absolute poverty line is defined as "the minimum level of expenditure deemed necessary to satisfy a person's food requirement plus the consumption of few non-food necessities", (World Bank, 1995:8).

example: in a study of the capacity to develop and SMME's in Malawi, Kadool (1999) states that, "Malawi. . .was ranked as one of the poorest countries in the world in 1992. Small business development was being emphasised by government and donors to expand employment and income", (Kadool,1996:1). He concluded that even though institutional structures are in place for SMME's promotion (especially the promotion of business run by women), they lack the capacity to manage the process due to skill and financial limitations.

Small Business Promotion in North America

In America SMME's promotion is part of economic growth. According to the US Small Business Administration "The U.S. Small Business Administration, established in 1953, provides financial, technical and management assistance to help Americans start, run, and grow their businesses. With a portfolio of business loans, loan guarantees and disaster loans worth more than \$45 billion, SBA is the nation's largest single financial backer of small businesses. Last year, the SBA offered management and technical assistance to more than one million small business owners. The SBA also plays a major role in the government's disaster relief efforts by making low-interest recovery loans to both homeowners and businesses. America's 23 million small businesses employ more than 50 percent of the private workforce, generate more than half of the nation's gross domestic

product, and are the principal source of new jobs in the U.S. economy.”, (US Small Business Administration, 1999 <http://www.sba.gov/aboutsba>).

Young (1999) argues that emphasis on the small business sector as an integral part of the US economy encourages an examination of methods to aid in its efficiency and research shows that in the US small business have helped in fostering innovations, product development and job creation.

SMME'S in America face some difficulties, which a number of institutions (such as higher education institutions, government and NGO's) are lending a helping hand. In a study of small businesses in Texas, Young (1999) concluded that small businesses need more help in accounting, legal and business planning. More difficulties are faced by disadvantaged communities in America, but small business play a vital role as source of income for such communities. In a study of female poverty in rural America, Scannell (1997) concludes that even though women in her sample had little business skills and little capital their business offered them a source of income. She recommended more help for the entrepreneurs.

The US Small Business Administration does cater for disadvantaged minorities through its Small Disadvantaged Business unit. The aim of the unit is to “accomplish our goal by building community-based small

businesses, which in turn revitalizes neighbourhoods, creates jobs, and encourages economic growth. SBA uses a number of assistance intervention tools, ranging from contract support to low-interest loans for site acquisition, construction, and the purchase of new or upgraded equipment. The SBA administers two particular business assistance programs for small disadvantaged businesses (SDBs). These programs are the 8(a) Business Development Program and the Small Disadvantaged Business Certification Program. While the 8(a) Program offers a broad scope of assistance to socially and economically disadvantaged firms, SDB certification strictly pertains to benefits in federal procurement. 8(a) firms automatically qualify for SDB certification.

These findings indicate that even in both developed countries and less developed ones, small and micro enterprises can have a positive role for local people. It also indicates that small and micro enterprises can be able to generate enough income and occupy a significant share and position in the Gross Domestic Product. However, the picture is not that rosy. In a study conducted by Grey et al (1996) in Kenya, there were several problems faced by SMME's. These problems are: lack of capital, lack of aggressive marketing strategy, and unoriginal products, (Wallace,1996:7). Chesterman (1997) also indicates some of the problems facing SMME's in the United Kingdom. Eisen (1981), Mashigo (1992), and Bunn (1992) indicate some of the problems facing SMME's in South Africa.

PROBLEMS RELATING TO THE ROLE OF SMME'S

Although SMME's are said to absorb unemployment through new start-ups and expansions, there is an offsetting factor of closure of business and stagnant growth, (Mead and Liedholm (1998)). This means as SMME's number of entrants grows, it does not necessarily mean job creation. Anderson (1981) points out that existing SMME's create jobs, they generate low income and low productivity. He argues that labour productivity is also important. SMME's are also dependent on the state the economy. Policies and economic conditions can either be enhancing or hindering the rise and expansion of SMME's. Where the economy is dominated by big businesses there are barriers to entry and competition against SMME's. Another problem is that SMME's are not evenly distributed. Their density is low in rural areas- where they are needed most.

The most damaging criticism of the role of SMME's is that assertions about their role are ill researched. There is little concrete research-based evidence on the role of SMME's. Instead there are extrapolated assertions and analytical opinions. This makes it difficult and unwise to venture into a project based entirely on speculations. Related to this problem is the lack of data and statistical accuracy on SMME's in South Africa. Most data is taken from registered SMME's. For example, the last census on trade and transport were performed in 1983 and 1986. Data on unregistered enterprises is usually

extracted from household census. The Kenyan study that I mentioned above is a better example of how SMME's contribution could be researched and assessed.

Other authors are critical about the very existence of SMME's. Burach (1997:4) regards small firms as part of "post-modern economies". These economies emerge as capitalism discards some of its production activities. Post-modern economies comprise the informal sector, street vendors, flea markets, petty family business and industrial districts. The implication of this view is that SMME's are a problem in themselves rather than a solution to the problem of economic stagnation and unemployment.

Regardless of why SMME's exist and what their precise role is, this dissertation focuses on the fact that they exist and are given a recognisable position in South Africa's economic debates and economic policy formulation. The aim and scope of the research is to propose the way forward towards SMME's development and promotion in the Western Cape clothing industry in terms of:

- Creating an enabling environment for SMME's in the clothing industry, and

- Strengthening networking and co-operation between small and big enterprises.

SUMMARY

This chapter looked at the definition, classification and role of SMME's. It tried to problematise the definitions, classifications and role of SMME's. The conclusion was that there was no universal definition of SMME's even though there are common characteristics. The chapter also suggested the need for researched-based evidence on the role of SMME's and also outlined the premises that guide the whole research.

CHAPTER TWO

THEORETICAL FRAMEWORK & INDUSTRIAL STRATEGIES

INTRODUCTION

This chapter outlines a theoretical approach and two different types of industrial strategies to ensure international competitiveness. The theoretical approach is Economic Sociology. The two industrial strategies are the Industrial District Cluster model, and Porter's National Competitive Advantage model. The objective is to provide a theoretical framework and industrial strategies to evaluate government assistance to SMMEs and formulate a strategic way forward. The chapter commences with an exposition on Economic Sociology.

ECONOMIC SOCIOLOGY

Introduction

Economic Sociology is the primary theoretical perspective underlying this research. This chapter section briefly expounds and discusses Economic Sociology. It is not a historical, but rather an outline of three basic and central concepts in Economic Sociology. These concepts are embeddedness, networks, and institutions. Invariably, an explanation of Economic Sociology conversely and necessarily distinguishes mainstream Economics from Economic Sociology. In this chapter the distinction between Economic Sociology and Economics will also be explicated.

The meaning of economic sociology

Economic Sociology is a study within the discipline of sociology that argues that “neo-classical economics is not enough to solve economic problems; a much broader perspective-, which includes sociology, psychology, political science and other social sciences-, must be used”, (Grannovetter and Swedberg, 1992:2). It implies that sociological assumption, perspectives, models and research should be applied in the endeavour to understand the intricate matrix of economic life, which collectively encompasses the production, distribution, exchange, and consumption of commodities.

Economic Sociology infuses sociological insight into the neo-classical economic theory. It also attempts to develop an alternative methodological and theoretical framework to the mainstream comprehension and research in economic life as underpinned by neo-classical economics. Pressman (1996: 878) explains Economic Sociology by providing three ways in which Sociology and Economics can connect. Firstly as a sociological analysis of economic processes and systems. Secondly, as an analysis of the relationship between economy and society. Thirdly, as a study of how changing institutional and cultural patterns affects the economy.

Economic Sociology encompasses various themes related to patterns of economic life. These themes include labour markets, business organisations, industrial organisation, market structures, industrial relations and economic performance. The aim of studying these economic organisation and patterns is to elucidate the impact of social variables on economic performance. In a nutshell, Economic Sociology asserts the embedment of the economy into society; the economy is not differentiated from society. Instead, it is embedded in society.

Economic embeddedness

The concept of economic embeddedness was coined by Karl Polanyi (1945) in his economic historical book titled "*The Origins of Our Time- The Great Transformation*". In the book he tried to analyse the growth of capitalism

throughout the world and the protective measures against the ills of *laissez faire*. The purport of Polanyi's work was that the nineteenth century European economic system was institutionally distinct from the rest of the society. It functioned as a self-regulatory system based on the impersonal law of demand and supply. Personal gain and survival motivated the individual. Production of commodities was from non-economic institutions of society. "Neither the blood or tie, nor legal compulsion, nor religious obligation, nor fealty, nor magic created the sociologically defined situation that insured the participation of individuals in the system. They were rather the creation of institutions in the means of production and the wage system operating on purely economic incentives", (Polanyi, 1977:47) In brief, capitalism in the nineteenth century was characterised by a differentiation of the economy from society.

To distinguish the term differentiation from that of embeddedness, Polanyi discerned two meanings of the term 'economic'. They are the formal and the substantive meanings. By formal, Polanyi meant the logical choice of means and ends as used in 'formal' or mainstream Economics. It implies rules of rationality governing economic choices given alternatives means. In simple terms, formal economics is the contemporary Economics underpinned by neo-classical framework of impersonal markets governed by the law of supply and demand. The substantive meaning refers to the interplay of natural and social environment on which individuals depend for the

satisfaction of material wants. It derives from human beings' reliance on nature and society for their livelihood. Put simply, substantive economics refers to economic life as a substructure that is contingently and intentionally amenable to social variables and in turn also influences social patterns.

The two meanings are methodologically disparate and cannot be merged. The formal meaning is a logical deduction from untested assumptions. The substantive meaning rigorously emphasises empirical evidence. It adduces researched data to explain and interpret aspects of economic life. It is by conceding the validity of the substantive meaning over the formal meaning that a plausible frame of reference in understanding economic life can be constructed. It is also with such theoretical approach that one would be able to operationalise and determine the extent of economic embeddedness. By embeddedness Polanyi meant that society and the economy are interpenetrating each other in the process of production of economic life and the reproduction of economic life.

To explicate the term embeddedness, Polanyi illustrates his argument with historical examples of what he called primitive, archaic and ancient economies. In these preliterate societies, the economy was not separated from the rest of society, as it was in the nineteenth century market economies. Economic activity was a by-product of social customs. By virtue

of social membership, subsistence livelihood was guaranteed. As further explained by Dalton (1977) in his editorial introduction, that with prehistorical economies “It is the social right to receive land, labour and produce in ordinary times, and emergency support from kin friends, leaders and rulers, that Polanyi also meant by “embeddedness” of economy in the society”.

In these preliterate societies there were mainly two forms of integration namely, reciprocity and redistribution. With reciprocity, -as in tribal societies-groups of people move commodities between corresponding points of kinship in symmetrical arrangement. This means that one group established a mutual relationship with another group that established relations with another and so on. All groups stood in analogous relationship with one another and may reciprocate goods and services with any group in the arrangement. In these groups redistribution as a form of integration scanty occurred and only dominant in archaic ones.

Redistribution entails the centralisation and distribution of commodities by one legitimate authority. The process is one of storage-cum-redistribution after goods were manufactured, game was captured or plants were gathered. Custom, law or ad hoc central decision determined the pattern of the movement of goods. Unlike market economies in the nineteenth century, this indicates that economic life in preliterate economies was intricately

inseparable from society. However, market economies had a form of integration too, but quite practically different from reciprocity and redistribution in ancient and archaic society. This form of integration is called exchange.

Exchange is a form of integration in modern societies. It does not refer to barter or reciprocity because it has a different institutional structure. Exchange is a feature of nineteenth century market economy. It originates from institutions of private property, individualism and the motive of gain. The economy is differentiated from society. Social life is eroded. However, this was an ephemeral feature of modern society where economy and society were separated.

Polanyi asserted that, with the expansion of capitalism, the economy was reembedded into society. He based his contention on the observation of welfarism in capitalist economies and on the Soviet economy. The welfare state represented government intervention to curb discontents cause by the free market economy. The Soviet economy was perceived as an elaborate form of redistribution where the government centrally owned and collected resources and then redistributes them back to society.

In summary, Polanyi's historical analysis of the interaction of economies and their societies were based on the position that the economy occupied in a particular society. He made a historical and empirical analysis of economic

processes in preliterate and modern society in order to construct a frame of reference to study economies of any epoch. One of his premises was that, it was by repudiating the orthodox economic assumptions of the ahistorical and timeless rational individuality and by espousing the substantive meaning of the economy that we can understand economic life and its processes.

A response to Polanyi

Mark Granovetter (1990) is critical of the theoretical assumptions and empirical evidence underlying Polanyi's substantive perspective. At a theoretical level Granovetter argues that Polanyi's analysis is over-socialised. It means that the individual is assumed to passively and automatically internalise norms, values and habits. On the contrary, Granovetter contends that individuals are also active actors in society. At an empirical level, Granovetter asserts that in modern market economies, the economy was never completely dislodged from society. Economic embeddedness has existed in different society with the degree of embedment as the difference. The argument of embeddedness stems from Granovetter's modified definition of economic embeddedness.

By embeddedness, Granovetter's means that "economic actions, outcomes and institutions are affected by actor's personal relations, and by the structure of the overall network of relations", (Granovetter, 1990: 98). His concept of embeddedness is based on the three levels that he ascribes

economic phenomena to. The first level is the individual economic action whereby the individual pursues the provision of needs. Embeddedness is relational and structural, i.e., the individual has direct and indirect relations in economic activity. The second level is economic outcomes. It refers to macroeconomic phenomena such as price determination and wage levels. Economic outcomes are social constructions. They are manifested in examples such as long term trade relationships that influence actors' decision. The final level is economic institutions, which refers to complex sets of actions that ultimately become the normal way of doing things. Economic institutions are evident in examples of how firms, industries and professions are constructed and subsequently appear to be a normal pattern of life.

Grannovetter's analysis is useful in the following ways: Firstly it allows one to apply economic embeddedness in all capitalist societies in a continuum rather than Polanyi's embedment break and re-embedment that are empirically falsified by Grannovetter. This demonstrates to any researcher in Economic Sociology how to perceive the existence of economic embeddedness in terms of its extent rather than absolute presence or absence. Secondly, it indicates the intricacy of modern economies by distinguishing three levels of economic life and how they are embedded in society. This is also an insightful modification of Polanyi's definition of economic embeddedness. Finally, Grannovetter adds that embeddedness is both structural and relational whereas Polanyi considered only the structural

aspect. This addition dispels the pre-eminence of structures over agents. Instead it propounds an interactive approach to structural and relational economic relationships.

What I think is missing from Grannovetter's analysis of economic embeddedness in Western capitalist societies is his neglect of power relationships and the role of ideology. If economic actions, outcomes and institutions are social constructions, and given the heterogeneity of modern societies, then these outcomes, actions and institutions cannot emerge smoothly. Power relationships are characteristic of any heterogeneous and unequal society. Power relationships in political, economic and social terrains, must influence a particular form and extent of economic embeddedness. Ideology can also reflect and influence social arrangement. For example, in South Africa the racial purism of apartheid ideology inordinately and unjustly shaped almost all social, economic, legal and political institutions to reproduce itself as a pattern of life.

Even though Grannovetter did not consider ideology and power in institutional arrangements in his analysis of economic embeddedness, his response to Polanyi is impressive. Both Polanyi and Grannovetter have ingeniously dispelled the impersonality of economic life in modern societies and aptly reintroduced the interaction of the economy and society in sociological literature. The two authors comprehensibly propound economic

embeddedness as one of the three cornerstone of Economic Sociology. The next two cornerstones are networks and institutions.

Networks of production

With the rise of what Best (1990) calls 'New Competition', networks from economies of scale (i.e., the more the networking the lesser the cost of information gathering) are essential as a mode of the emergence and survival of enterprises and the restructuring of existing ones. By networks I refer to both inter-organisational and personal ties that help in facilitating the production of commodities. Networks can be loose or tight. They can be prescribed or emerge informally. They can enable or constrain economic performance. Smith-Doer and Powell (1994:368) distinguish two approaches in the study of networks. The first one is abstract and rooted in sociological and organisational theory. It uses networks as analytical tools to explicate social relations within and among organisations. The second one is multidisciplinary, empirical and prescriptive. It perceives networks as the organising logic and governing relationships among economic actors.

Nohria and Eccles (1992:48) propound five basic premises underlying a network perspective on organisations. Firstly, all organisations have social networks and need to be addressed and analysed as such. These networks can either be prescribed or burgeon informally. Regardless of their etiological backgrounds networks coexist in organisations. Secondly the environment

of organisations is a networking field for one another. Actors such as consumers, agencies, and supplies occupy this organisational field. Porter too concurs, “a nations successful industries are usually linked through vertical (buyer/supplier) or horizontal (common customers, technology, channel, etc.) relationships’, (Porter: 1990:149). Thirdly, actions of actors can best explained by their position in the network relationships. Gender, ethnicity and other attributes can have and impact on the role of actors. Fourthly, networks can constrain and facilitate action. Finally, a comparative analysis of organisations must take into account their network characteristics. Networks should not be viewed merely as underpinned by embeddedness, connectivity and reciprocity. They have to be understood in terms of both their structure and content.

Smith-Dower and Powell (1994:390) further delineate three main types of collaborative networks of production. These are the networks of place, networks of research and development and networks of strategic alliance and collaborative manufacturing.

With networks of place, firms are geographically clustered. They are mainly horizontally integrated and connected by local kinship, political and religious ties. Italian industrial districts are forms of networks of place. They are composed of socially integrated small scale and decentralised units of production. Small firms are arranged and grouped in zones according to

similar products they produce. "Knitwear in Modena; bicycles, motorcycles and shoes in Bologna; food processing machinery in Parma; and woodworking machines tools in Capri, (Smith-Doer and Powell, 1994:386). Similarly, Sengenberger and Pyke (1995:3-5) describe industrial districts as organised in strong networks of mainly small firms which are subcontracted and specialise in certain products within a specific industry. There is inter-firm co-operation in information sharing based on trust and entrepreneurial dynamism. In summary, Smith-Doer, Powell, Sengenberger and Pyke explain that production is embedded in social ties enhanced by kinship, geographical proximity and begets reciprocity. This is what they refer to as the networks of place. Now I proceed to networks of research and development.

Networks of research and development involve a synergistic and dynamic approach to innovation. Firms need to be flexible in their production methods due to the competitive and uncertain characteristic of segmented markets. They need to respond aptly to changing market demand as they can no longer rely on the Fordist based mass production and consumption of standardised products. This requires constant research to develop new products and machinery and to reorganise the labour process to dovetail aspects the whole process of innovation and restructuring. Research and development play a crucial role in a firm's competitiveness now that price alone is no longer the sole mode of competition; innovation, advertising and

quality are among modes of competition. Research and development is also necessitated by the plethora of information on successful production of commodities. Individual firms cannot acquire it all because of their size (relative to the market), uncertainty, competition and the expertise needed to overhaul themselves. Links are patently necessary to share and develop information for innovation and survival. Firms associate with resources of knowledge thereby forming professional and technological communities with them outside commerce. These resources of knowledge are “universities, government research institutes, research facilities, government statistical agencies, business and scientific literature, market research reports and database, trade associations and other sources”, (Porter, 1990:75). In summary, networks of research and development are necessary ties for business survival in markets characterised by competition based on flexibility, product quality and innovation. Now I turn to final type of network that is strategic alliance and collaborative manufacturing.

Strategic alliance and collaborative manufacturing are ad hoc ties. They are temporary and characterised by little trust. Cost and benefit calculations are decisive in the formation of such networks. They might be formed for similar purposes as other networks, but they differ in intensity and durability.

All three types of networks can function simultaneously. They are not mutually exclusive. They differ in terms of structure (vertical or horizontal), basis of relationship (contractual, informal, kinship or personal), intensity of networks, direction of network, people involved and the durability. It is noted that networks could be characterised by conflict. They are not always amicable arrangements. There could be power relationships that beget exploitation. There is also the dimension of trust which can either sustain or destroy networks.

Network theory is useful in several ways: Firstly, it indicates that networks are a medium through which economic action is socially embedded. Secondly, it indicates that for firms of any size to survive they needed to cooperate towards completing production. Thirdly, networks provide support in the face of global competition and uncertainty. Finally, it is also through networks that economic institutions are constructed.

In summary, economic action is embedded in social relationships. There are different bases for these relationships. Networks are a medium through which action and relationships are socially embedded.

Institutions

The concept of social institution is widely used in Sociology yet it has ambiguous definition and application. For purpose of this research it would

be a bottomless exercise to try and engage in a discussion of social institutions. What I have done in the succeeding paragraphs is to outline a common understanding of social institutions. In particular, I make reference to institutions that closely affect economic activity.

According to Mead (1934), an institution is “the common response in the community or the life habits of the community”, (Mead, 1934:261). “The whole community acts toward the individual under certain circumstances in an identical way... there is an identical response on the part of the whole community under these conditions. We call that the formation of the institution”, (Mead, 1934:167). This formation of institutions is internalised by individual as attitudinal structures that guide and controls our responses to particular situations. Jary and Jary define institution as “an established order comprising rule-bound and standardised behaviour”(Jary and Jary, 1995:324). Similarly, Watson defines institutions as “a regularly occurring and therefore normal pattern of actions and relationships”, (Watson, 1997:12). Paraphrasing Berger and Thomas, Grannovetter argues, “institutions are not the kind of objective, external realities that they seem. Instead they are typically the result of a slow, social creation: a way of doing something ‘hardens’ and ‘thickens’ and finally becomes ‘the way things are done’. When an institution is finally in existence people orient their action to a set of activities sanctioned by other social actors, treating the pattern ad

one that exists out of time and could not be otherwise”, (Grannovetter, 1992:17).

Focusing exclusively on industrial development concept of institutions can further be explained by regulation theory in development studies. The basic question of regulation theory is, “how can conflictual social practices be reproduced with sufficient regularity to form relations and system of relations?”, (Klerck, 1996:114). With regard to industrial development the question is, what is the regulatory mechanism that absorbs, limits and solve economic crises? Regulation theory seeks to understand how capitalism has survived when it necessarily generates conflictual social relations and crises that are a menace to the same accumulation process it is based on (Klerck (1996). This means that capitalist industrial development studies need to look at both accumulation and social regulation.

Regulation theorists argue that in every period of capitalism, the regime of accumulation is supported by a particular mode of regulation. “The regime of accumulation is a particular macro economic combination of production and consumption which can be sustained for some period of time despite the conflictual tendencies generated by its reproduction... The mode of regulation refers to an institutional pattern together with a set of norms, which can ensure capitalist reproduction in the short term notwithstanding the inherently contradictory character of capitalist social relations”, (Klerck,

1996:114). These institutions are constituted in economic activity. They influence economic activity and are in turn influenced by economic activity.

The relevance of regulation theory in this section is that it elucidates the definition and function of institutions in economic life. It makes us aware of why different countries at different periods experience different economic situations and why these situations change in the face of crises. It further adds an understanding and identification of social factors in the analysis of economic activity. Regulation theorists often make an example of Fordism to illustrate their point.

There are several common elements that I extrapolate from the definitions of institutions. Firstly, institutions are not predetermined but constructed by organised individuals in their daily activities. Secondly, they serve to enhance and limit socially organised activity. Thirdly, the formation of institutions is a process that cannot be completed. Instead it is a perpetual process to control social action for a particular end. Fourthly, there are different institutions for different social action. For analytical purpose, institutions are compartmentalised into political, social, economic, aesthetic and other categories. But in daily human interaction institutions coincide and impact on one another. Finally, institutions are constitutive of rules, structures and procedures that are not immediately apparent to individuals.

The value of economic sociology

In this section I provide the general value of Economic Sociology and the research specific value. In general, Pressman and Montecinos (1996) provide three indications in favour of Economic Sociology. Firstly, methodologically, the concept of economic embeddedness stresses rigorous empirical analysis in studying economies. Economies are factual and dynamic and therefore to overhaul them, one needs empirical data. Secondly, at the level of theory, economic embeddedness indicates that economic life cannot be fully, understood from non-factual assumptions as propounded by neo-classical economics. It is by investigating social relationships in economic activity that one can construct plausible assumptions about economic activity. Finally, for policy formulation, Economic Sociology heeds to us cultural and historical sensitivity. Historical contingencies and cultural peculiarities can have an impact on economic activity, which cannot be explained by principles of neo-classical economics.

Economic sociology is relevant and can be used in understanding the impact of globalisation on international competitiveness. Globalisation is a gradual “process whereby the economic, political and cultural links between different countries, industries, companies, organisations and individuals of the world are increasing”, (Isaacs, 1997:21). This process forms what is termed the global economy, which means “the increasing absorption of

national economies into a tightly integrated world wide economy that is governed by global rules”, (Isaacs, 1997:21). The relevance of Economic Sociology to globalisation is that it is through an understanding of possible social variables acting on economic activity that we can be able to predict and attain dynamic economic growth. For example, Grannovetter (1990) looks at extent of economic embeddedness in capitalist countries; Streeck (1992) argues that for a diversified quality production to be successful, the economy must be supported by institutional substructures and he makes Germany an example; Porter (1990:75) points out at universal determinants of national competitiveness across different countries; Sengenber and Pyke (1985) recognise the advantage of geographical proximity and interpersonal trust in the survival of small firms in Italy; Enster and Meier (1992:16-17) argue that “the idea that successful reproduction of capitalist system cannot proceed in the absence of institutionalised agencies and collective action holds not only at the level of the national economy but also at the level of the regional economy, where, because of the specialisation, agglomeration, and place-specific character of production, peculiar forms and imperatives of institutional order often present themselves”. The significance of Economic Sociology in this regard is that while we have to understand the impact of social variables on national economies we have to take into account the significant impact of global forces on national economies. Moreover it points out to the fact that we cannot isolate national economies from other

economies. Events that occur and decisions that are taken in one part of the world have significant repercussions on the political, social and economic activities of other parts of the world (McGrew, 1997:262) or to put it precisely, “ a trend in which the economic, political and cultural activities of people in different countries increasingly influence each other and become interdependent”, (Watson, 1997:335). Therefore, elements such as networks, embeddedness, institutions, trust and competitiveness have to be understood at both national and international levels.

I am aware of the moral dimension and debates regarding globalisation and its negative consequences on the daily experiences of ordinary people as propounded by authors such as Burach, Nunez and Kagarlitsky (1997). Echoing the debate on globalisation, the International Labour Resource and Information Group (ILRIG) points out at the fact that, “the major supporters of globalisation are transnational corporation, international financial institutions and governments of industrialised capitalist countries. They generally define globalisation as a process of freeing ‘economies’... providing more opportunities for business to make profits and reducing the state’s role as a producer or deliver of services”, (ILRIG, 1998). Opponents of neo-liberal globalisation view it as a perpetually changing strategy for control and oppression of workers and marginalized sectors of groups in industrial societies.

For the scope of this research, I do not engage in the critical analysis of globalisation and its consequences. Rather I try to indicate that Economic Sociology can be used to understand the process of globalisation and its impact on international competitiveness.

INDUSTRIAL DISTRICTS

Introduction

This chapter section explains what industrial districts are as outlined by Sengeberger and Pyke (1992:3-6). It will also make a link between industrial districts and Economic Sociology and point out at the value of the industrial district model for this research.

Characteristics of Industrial Districts

Industrial districts refer to the organisation of small-scale firms that led to their phenomenal success particularly in Italy. "That is to say that economic success for the industrial district has come not so much through advantageous access to low cost factors of production- cheap labour, land or capital- as from a particularly effective social and economic organisation based on small firms", (Sengeberger and Pyke, 1992:3). There are certain key characteristics that identify the most successful industrial districts. These are networks, co-operation, entrepreneurial dynamism, multi-dimensional competition, and trust. These key characteristics are described below.

Networks

There is a nexus among small firms within the same industry. This community of firms is geographically proximal and the networks are locally related. These networks are not conglomerates but rather an organisation based on certain principles. Through specialisation and subcontracting, there is a division of labour for the manufacture of goods. "Specialisation induces efficiency, both individually and at the level of the district; specialisation combined with subcontracting promotes collective capability", (Sengeberger and Pyke, 1992:4). As it was explained in the subsection of Economic Sociology the types of networks that characterise industrial districts are networks of place whereby production is embedded in social ties enhanced by kinship and geographical proximity.

Co-operation

Industrial districts are also characterised by sharing information that not only enhances competition, but also improves productivity, quality, and information of new technology, products and design. Networking provides a medium through which firms of the same industry organise themselves to work together. Firms in an industrial district not only co-operate among themselves but link with other institutions from which they benefit towards business growth. There is a need for co-operation because the clusters comprise small units of firms that cannot independently function in terms of

information and technology. Moreover family bonds and a history of trust and co-operation link some of the units within industrial clusters.

Entrepreneurial Dynamism

The environment of industrial districts is enabling entrepreneurs and firms to flourish and be dynamic against market uncertainties irrespective of their size. "This dynamism is itself a product of numerous conditions, which include: ease of information of new firms (access to capital, premises, etc. and an advantageous legal framework; protection from domination and dependency upon large firms... knowledgeable individuals capable and confident enough to establish new firms, (Sengeberger and Pyke, 1992:5).

Multi-dimensional Competition

Firms in industrial districts do not compete only on price. They compete on flexibility, innovation and quality. Firms are flexible in terms of production, niche markets and work organisation. Products are produced and designed to respond quickly to market demands. Firms specialise in specific markets and they organise their work to increase productivity and minimise defective items. This is achieved partly through a multi-skilled workforce and decentralised work relations. The standard or quality of products determines the success of these firms and hence they choose niches. Innovation keeps the firms' products ahead or in pace with market demands.

This is partly enhanced by the co-operative and collective production process.

Trust

Relations of trust, which are built in the process of economic interaction, are a crucial part of industrial districts. The attitude of trust among firms and with trade unions enhances further co-operation . Trust between firms and trade unions promote peaceful industrial relations. This is further promoted by breaking down the rigidities of managerial prerogative. Therefore “trust and co-operation... is helped by an attitude that seeks competitive success not by aggressive cutting of direct labour costs, but by general organisational competence, standards and productivity, (Sengeberger and Pyke, 1992:5).

The relationship between industrial districts and Economic Sociology

Industrial districts are a good example of the subject matter of Economic Sociology. Central to their organisational structure is the embeddedness of economic life into networks of social relationships. Economic transactions are not simply a matter of impersonal buyers and seller guided by rational individual choices. Rather, personal relations and the overall structure of networks influence economic outcomes, action and institutions (Grannovetter (1990)). Family ties and long term transactions produce attitudes of trust, networking and co-operation.

The value of industrial district cluster model

The key characteristics of industrial districts are what made most small-scale business in Italy, Europe and North America successful. Industrial districts differ and hence these characteristics are ideal types to make sense of the model. They exist but not strictly in the above mentioned form and sequence. This model has several points that are of value to this research. Firstly, the industrial district model has created a starting point for debates on an appropriate industrial strategy for the clothing industry in the Western Cape. Secondly, industrial districts confirm the contention that markets are embedded in social relationships. Finally, they are an example of key regional development that is much needed in South Africa.

PORTER'S THEORY OF COMPETITIVE ADVANTAGE

Introduction

This chapter section describes Michael Porter's theory of competitive advantage of nations, and why it is of value to this research. Porter's theory is a study of ten industrialised countries. From this study Porter (1990) concluded that there are four determinants of an internationally competitive cluster of related industries. These factors enhance and reinforce competition and efficiency. These are factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry. Individually and collectively, these determinants reinforce one another to create an

environment in which nations' firms are established and compete. These determinants are explained below.

Factor Conditions

Factor conditions means "the nation's position in factors of production, such as skilled labour or infrastructure, necessary to compete in a given industry", (Porter, 1990:71). These factors can be grouped into broad categories such as:

- Human resources: the quality and quantity of the entire labour input and its cost.
- Physical resources: geographical position, quality, accessibility and cost of land (in broad economic terms), and climatic conditions.
- Knowledge resources: reservoir and institutions of scientific, technical and market knowledge necessary for the dynamic production of commodities.
- Capital resources: availability and cost of productive and financial capital to finance investments in industry.
- Infrastructure: quality and quantity of basic facilities, services and installations, needed for the functioning of society, such as transport, communication systems, public institutions, water and power lines.

The availability and quality of these factors does not- on its own- improve competitiveness. Efficiency and effective deployment of factor mix is necessary to induce competitive advantage. This means that firms need an appropriate mix and amount of factors so that they can be internationally competitive. This mix differs from country to country. It all depends on the context and how all four determinants interact to produce a competitive cluster of related industries in a country.

Factor conditions are also distinguished by their specificity. Some factors are general and others are specialised. Generalised factors cut across industries sectors and skill. Any person in the labour force can acquire them. They are basic elements in the labour process. For example functional literacy is a generalised factor. Specialised factors are useful for a particular industry and related industries, workforce and personnel. Knowledge and training is usually esoteric and applicable to firms in and industry and other related industries such as clothing, textile and footwear industries. Computer programmes production is another example of a process that requires specialised factors with the electronic industry related to it.

Logically, generalised factors provide less competitive advantage than specialised ones. However, with changing market demands and innovation, specialised factors gradually become generalised.

The changing market demand and innovation has implications for natural and created factors. Natural factors such as land, forest, water and climate tend to lose their advantage as more factors are created through innovations. For example, demand for crude oil gradually decreased as more forms of energy are invented. Created factors- such as advanced education- induce competitiveness and continually compete for better quality through upgrading.

Some factor conditions arise from factor disadvantages. Countries such as Singapore partly created their specialised factors in electronics due to their lack of natural resources such as minerals. By means of research and innovation, lack of endowed factors becomes an opportunity to create specialised factors that should be deployed effectively and efficiently for international competitiveness

Demand Conditions

Demand conditions refers to the “nature of home demand for the industry’s product or service”, (Porter, 1990:71). Home demand determines the extent to which firms upgrade their products and services. Buyers who put pressure on local suppliers to innovate enhance competitive advantage.

The structure of home demand is an indication for firms on how to deploy their productive factors efficiently and effectively. This means firms’ decision will be partly influenced by the structure of the home demand. A large size

of demand is advantageous for both buyers and suppliers because firms accord bigger buyer's needs priority over smaller ones and they in turn innovate to meet the demand. Large home demand is not necessarily advantageous. Firms can create a large demand through exports.

Large home demand is not the only factor that makes firms competitive. Buyers have to be sophisticated enough to serve as windows into global trends. This makes local firms not only to reap local benefits but later global ones through exports. Moreover, firms gain advantage if the demand needs of local buyers anticipates those of other nations. This should be on an ongoing process for innovation and quality upgrading. The faster the anticipation, the better the chances of being competitive.

The size and pattern of demand reinforces the benefits of a sophisticated demand because a sophisticated home demand helps domestic firms to become internationally competitive. If the size and rate of growth of home demand induces investments and innovation then it is useful. However, if its only benefit is enjoying economies of scale, then it will not last.

The number of independent buyers also has an impact on the competitiveness of firms. When markets are characterised by many independent buyers, there is greater likelihood of competition for better products than when it is monopsonistic. Independent buyers stimulate

entry and investment into the market whereas in a monopsony, the product may remain static or less dynamic as with independent buyers.

Home market eventually gets saturated and price levels for saturated commodities fall. Early saturation force firms to innovate and tap new markets. Saturation is beneficial if the firm innovates and has an outlet to global markets to sell the product especially if global markets cannot meet the demand for that product. Local products reach global markets through multinational and transnational corporations and influence of foreign culture. It is also advantageous if buyers are foreign firms.

Related and Supporting Industries

Supporting industries are among the four determinants of internationally competitive clusters of related firms. The presence of supplier and related industries that are internationally competitive is an advantage to local firms who are linked to them. This means that if vertical and horizontal linkages are made of internationally competitive firms, then the end products has greater likelihood of being competitive too.

Geographical distance is an important factor in supporting and related industries. Proximity is advantageous for local firms in terms of information sharing, overcoming cultural barriers, transportation, technical knowledge and quick innovation. Internationally competitive suppliers help local firms to be in pace with new innovations by supplying them with improved

inputs. If networking is within one political boundary, there are less cultural differences and innovations may not be a product of misreading the market. Firms that network with competitive suppliers are able to access up to date information, and are less transaction costs involved. However, global links are also important especially when multinational and transnational corporation share the same home base with local firms. Firms can be competitive at local level but not at a global level. It is important that local firms network with internationally competitive suppliers.

Firm Strategy, Structure and Rivalry

By firm strategy, structure and rivalry Porter refers to “the conditions in the nation governing how companies are created, organised and managed and the nature of domestic rivalry”, (Porter, 1990: 71). National circumstances influence the management and competitive nature of firms. Where domestic rivalry is fierce firms are likely to compete for survival, and those that survive are most prepared for international competition. However, firms do not randomly or uniformly compete against one another. Firms compete in markets where they have a competitive advantage through economies of scale and scope, innovation, quality upgrading and dynamic work organisation.

Government policy also plays an important role in enhancing firm strategy towards international competitiveness. Foreign exchange and trade policies

indicate the government's willingness to expose domestic firms to international competition.

Interplay of Determinants of National Advantage

Porter observes that the four determinants of international competitiveness are interlinked and inseparable. The success of firms depends on the right mix of these determinants while taking into account the specific context within which firms operate. The role of the government is important in enhancing international competitiveness. Governments that actively play a role in their national economies help firms to pursue their strategies.

The value of Porter's model

Porter's model is helpful for the overall research for the following reasons. Firstly it indicates the need to be aware of key determinants in finding ways and strategies to succeed nationally and internationally. Secondly by emphasising context, the model reminds us that even though nations differ and have the same goals, and the strategies may not be the same, there are some universal determinants towards reaching the goal of being internationally competitive. Thirdly, the model draws our attention to the significant role of the government. In South Africa, it is necessary that the government continue to play a role in SMME's promotion. Finally, Porter constantly reminds us of the need to be dynamic in our approach to

competitiveness. This implies that the SMME's promotion strategy needs to take into account future developments that might impact upon the:

- Enabling environment for SMME'S, and
- Creation and promotion of networks of production

SUMMARY

This chapter dealt with the theoretical framework underlying the research and the two industrial strategies in trying to develop tool in determining the way forward towards SMME's promotion in the Western Cape clothing industry. The theoretical framework is Economic Sociology, and the industrial strategies are Porter's National Advantage model and the Industrial District model. Three of them were explained and their relevant value for the research was stated.

CHAPTER THREE

NATIONAL SMALL BUSINESS STRATEGY

INTRODUCTION

This chapter traces the development of the national small business promotion in South Africa. It also provides an outline of the developments of business promotion campaign from its establishment in 1994 to the present situation (1999). The periodisation does not imply that small businesses have been neglected in South Africa's economic affairs. Rather, the reason is that in 1994, the first ever democratically elected government was installed and small business promotion was unleashed in non-racial and substantive terms.

The sole purpose of this chapter is to try and broadly systematise and make sense of the components of the national government strategy of small business promotion. It also tries to situate small business promotion into the

entire economic restructuring. It is purely descriptive and informative, with a commentary in the end. It informs the reader what the government has done to promote small businesses.

GOVERNMENT STRATEGY

Principles and Objectives

The promotion of small businesses in South Africa has followed worldwide trends. These trends are: shift of emphasis from big businesses to small ones; a concern about surging unemployment rate and how small business can absorb it; a search for self-employment and entrepreneurial opportunities; redistribution of wealth through the spread of small business (especially to the previously disadvantaged groups), (WESGRO, 1997:24).

These trends have been translated as follows in South Africa: big business and parastatals are unbundling with rationalisation of industry as emphasis shifts in favour of small businesses; there is a search for black empowerment (to redress income inequalities) in all business sectors including small businesses; the government is putting great effort on small businesses as initially documented in the *White Paper on National Strategy for the Development and Promotion of Small Business in South Africa* in 1995.

The government's economic objective is to follow a growth path that would increase investments, enhance productivity and create countrywide

employment opportunities. There are two key components to achieve this goal. They are “the diversification of the large manufacturing sub-sectors to enhance their global competitiveness and, on the other, the development and promotion of the small medium and micro-enterprise sector”, (Department of Trade and Industry (DTI), 1994:5). According to the government the importance of small business promotion “lies in its ability to instil an entrepreneurial culture, provide a viable alternative for youths looking in vain for blue or white-collar jobs opportunities, spread development to the regions, create an environment for innovation and spread industrial skills and know-how among a broad spectrum of the population.

The focus on small business promotion was a synergistic work by government, business organisation and non-governmental organisations. These organisations include the National Economic Forum, National Chamber of Commerce, Small Business Development Corporation, Development of Southern Africa, National Industrial Chamber, Sunnyside Group, South African Chamber of Business, World Bank, Friedrich Ebert Foundation, African National Congress and other government and statutory bodies, (DTI, 1994). The end result was a discussion paper and finally a White Paper that contained some recommendations, objectives, action plan, an institutional framework and a funding strategy for small business promotion.

There are several principles that underpin the government strategy of small business promotion. These are set out in the *Discussion Paper on National Small Business Promotion Strategy* of 1995 and the subsequent White Paper on National Small Business Promotion of 1995. These principles are:

- The ultimate responsibility for small business strategy rests with the Department of Trade and Industry.
- Emphasis will be on emergent enterprises rather than established ones. Most of the public funds allocated for small business promotion will be spent on emergent business. Emergent enterprises are categorised as those that are owned by people who were politically disenfranchised, racially discriminated and socially marginalised. This refers particularly to Asians, Africans, Coloureds and women.
- The private sector, co-operatives, NGO's, business associations, universities and technikons, parastatals, regional governments and foreign assistance programmes have a critical role in small business promotion.
- Small business promotion should be pursued with full recognition of the market orientation of the South African economy.
- There is need for bottom-up and top-down co-operation and co-ordination both at national and regional levels.

The aforementioned principles guide the aim of the small business promotion strategy. The primary aim is to create an **enabling environment** that is conducive for small business development. To achieve this goal, the Paper set out fourteen recommendations. They are as follows:

1. Awareness building and goal commitment whereby the public will be educated about the value and role of small businesses in the development of South Africa.
2. Needs assessment of small business within resource constraints.
3. Resource identification. This includes infrastructure, markets, research on the capacity of small firms, and market indicators.
4. Training and retraining of staff in support agencies through new methods and programmes.
5. Monitoring legislation to curb inappropriate or unduly restrictive legislation.
6. Creating an enabling legal framework: A National Law on Small Business- to define the size of enterprises and propel the government to facilitate and improve small business promotion; A Small Business Co-operative Act- to equalise business opportunities vis-à-vis large firms; A Sub-contracting and Public Procurement Act- enabling access to markets

by reserving some types of products to be produced by small enterprises and facilitate orderly competition; A Small Business Finance and Banking Act- to mobilise funds for the needs of small businesses and establish specialised financial institutions to attend to these needs.

7. Creation of income tax scheme that will enable small business to reinvest and yet guard against the government from running out of revenue.
8. Creation of affordable industrial start-up premises with the assistance of the private sector.
9. Access to information and advice through the Department of Trade and Industry, Central Statistics Services, Small Business Development Agency and provincial governments.
10. Enhancing access to marketing and procurement through small business export support programmes, simplification of tender procedures, adjusting procurement practices in favour of emergent businesses, forming big-small business linkage and use the Competition Board to restrict unfair competition and be accessible to small businesses.
11. Access to technology.
12. Encourage joint ventures among all sectors where possible.

13. A need for sector specific assistance. The government and other agencies will have to research on particular needs of different sectors.

14. A continuous evaluation of small business promotion strategy.

A Programme of Action

The action programme is divided into three periods. These are the short, medium and long terms. The short-term period was from 1994 to 1996. During this period the following was done: the completion of the discussion document on small business promotion and feedback analysis from different stakeholders; preparation of the White Paper on small business promotion; establishment of an interim committee for the National Small Business Act; preparations for the establishment of Small Business Development Act; Presidential conference on small business implementation proposals; establishment of the Chief Directorate in the Department of Trade and Industry; planning of the Local Service Centres strategy and reorientation of stated procurement towards small business suppliers. Central to this phase is priority given to "target areas" (women entrepreneurs, youth self-employment and rural infrastructure development). The budget for the short term was estimated at R180 million and most of the funds were secured from foreign support.

The medium term is from 1996-2000. This term is sub-divided into 1996/1997 to 1997/1998 and 1998/1999 to 1999/2000. The former period was envisaged as a two-year budget period after the acceptance of the White Paper by parliament. The priorities for this period are as follows:

- To develop monitoring and evaluation systems for programmes assistance.
- Expand access to finance for micro, survivalist and small businesses.
- Expand the Local Business Service Centre network grid.
- Facilitate the development of further sector and target programmes.
- Strengthen the capacity building process in particular for provincials SMME's support staff and business and sector associations.
- Expanding links with Southern African Development Co-operation (SADC) countries in SMME's support areas.

The second period of this term is envisaged with all enabling policies in place and all supporting agencies functioning. The challenge for this period would be to ensure that support programmes spread throughout the country.

The long-term period is from 2000 to 2005. This period is will be for further strengthening support agencies and programmes for small business

development. However, the White Paper states that events and progress of this period will be determined by progress during the previous terms.

Funding the National Strategy

The Department of Trade and Industry recognises that the government alone cannot fund initiatives directed at small business development. It has taken an integrated and synergistic approach to funding. It suggests that stakeholders including small businesses should contribute towards financial needs of the strategy. The funds could come in a form of grants or loans.

Government budget

In the 1998/99 national budget, the Department of Trade and Industry allocated R77 million to the small business promotion. In 1996/7 the allocation was R87 million. More than R90 million was allocated to small business promotion in the 1994/95 budget. The government plans to increase the allocation over of ten years. The Department of Trade and Industry received the highest share of the 'economic service' category in the 1998/99 national budget. Other sources of finance will be described in the next section.

THE PRESENT SITUATION

This section describes and explains the present small business promotion environment in totality. It provides a profile of institutional and financial support services for small businesses.

Institutional Structures

The Department of Trade and Industry is the ultimate body that is responsible for small business promotion in South Africa. It is a government department with regional ministries. It is largely responsible for economic development in general and small business promotion is one of its projects. Within the Department of Trade and Industry, there is the national **Centre for Small Business Promotion (CSBP)**. The unit is responsible for the coordination and implementation of the government's small business promotion strategy. The Centre for Small Business Promotion established two agencies namely, **Ntsika Enterprises Promotion Agency (NEPA)** and **Khula Enterprise Finance (Khula)**.

Ntsika

Ntsika is a nationally based government agency. It is a wholesaler of delivery programmes to the support of small business promotion. Ntsika acts as an intermediary between government, private sector and service providers in order to provide non-financial services to SMME's. Its strategic goals are as follows:

- “- Ntsika will develop/establish an effective service provider network to implement and deliver efficient appropriate services to SMME's.
- Ntsika will provide information to policy-makers and implementers to create and maintain an enabling environment and to define priorities and design interventions for SMME's.
 - Ntsika will develop its capabilities and professionalism to efficiently achieve its strategic goals.
 - Ntsika will actively generate income and raise funds from a broad range of funders to finance its objectives.
 - Ntsika will effectively promote its profile and activities to stakeholders and the broader South African community.
 - Ntsika will systematically develop demand-driven and informed new products.
 - Ntsika will constructively interact with other role-players to achieve a co-ordinated approach to enhance the implementation of the National Small Business Strategy and its own objectives.
 - Ntsika will promote the development of an entrepreneurial culture in South Africa in order to increase self-employment and business growth”, (www.ntsika.org.za/vision.htm), accessed on 1st June 2000.

Ntsika is composed of four units. They are *Management and Entrepreneur Development Division, Business Development Services Division, Marketing and Business Linkage Division and Policy, Research and Information.*

Management and Entrepreneur Development Division

This division has three units. The first one is the Training and Capacity Building Unit. It aims at improving the training, counselling, information and management skills of both SMME's public and private service providers.

The second unit is the Targeted Assistance Unit. It aims at facilitating and enabling SMME's environment within which new and existing enterprises of youth, women, the disabled and rural entrepreneurs can flourish. Four programmes have been established. The first one is the School Leavers Opportunity Training Programme. It is aimed at empowering young people with tangible skills so that they can open their own enterprises. The second one is the Project Crime Buster. It aims at assisting homeless rehabilitating youth by offering employment in the recycling sector. The third one is the Support Programme for Entrepreneurs with Disabilities. It deals with support initiatives for disabled people only. The fourth one is the Support for Women's Initiatives. Its focus is on sectors dominated by marginalised women. The final one is the Support Programme for Rural Initiative. It focuses on support for small scale farming and small scale food processing.

The third and final unit is the Special Project Unit. It focuses on servicing the SMME's sector by working closely with colleges, universities, technical colleges, technikons and private sector. The aim is to provide entrepreneurs with technology and appropriate skill transfer through the Technopreneur Programme. It also aims at creating an entrepreneurial culture through the Schools Programme. Through the University Programme, the unit aims to provide applied research on economic development and develop training materials.

Business Development Services Division

The task of the division is to create a network of service providers at local, regional and national levels. The primary programme undertaken by this division is the **Local Business Service Centre (LBSC)** programme. Local Business Service Centres are government-accredited service providers to SMME's. They ensure that SMME's are run productively and efficiently. This division helps LBSC's with capacity to deliver non-financial services to SMME's.

Marketing and Business Linkage Division

This division tries to remove market constraints confronting SMME's. It facilitates the increase and expansion of both domestic and international markets through business linkage. The areas of focus are both national and international business linkages. National linkages facilitate increased SMME's participation in the market through tendering for public and private contracts. This is done through the government Procurement Programme that helps entrepreneurs to identify opportunities for small businesses. International linkages focus on market development and product improvement for SMME's to be internationally competitive. This is mainly done through national and international business exhibitions.

Policy, Research and Information.

This division is responsible for supporting policy formulation, programme design and implementation. Its task is to gather data on SMME's; fund and undertake research or contract out research; develop policy and recommendations; collaborate with other research institutions; disseminate information through workshops, seminars and the Annual Review of small business promotion strategy.

Local Business Service Centres

Local Business Service Centres (LBSC's) are an important and integral part of the small business promotion strategy. Ntsika establishes LBSC's (through its Development Service Division) as a network of regional service providers throughout South Africa. LBSC's provide non-financial services to SMME's. These services include business skills training, counselling, information, networking and referrals.

Some service providers are sector specific whereas others are general. General ones provide service to any sector. They provide general yet dynamic business information. Sector specific LBSC's provide business information and assistance for a particular sector. For example, Clotex is clothing-specific and the Brilliant Financial Services is agriculture specific.

According to Ntsika Enterprise Promotion Agency and ideal LBSC should have three characteristics. They are focus, partnership and impact. By focus it means to concentrate on target groups and geographically isolated areas. Being in partnership means collaborating with all stakeholders in small business promotion. By impact it means LBSC's should have a positive effect in job creation, establishment of new business and increase in sales, profits and owner equity and assets.

Some LBSC's are accredited by NEPA. At the time of this research 27 LBSC's were accredited by NEPA. Other service providers are financed by

NEPA through the Service Provider Interim Grant (SPIG). This means that NEPA assists other LBSC's that it has not yet accredited. During this research 61 organisations (including the accredited LBSC's) were supported by NEPA. The distribution of SPIG was:

PROVINCE	No. of SPIG Recipients
Eastern Cape	7
Free State	0
Gauteng	5
KwaZulu Natal	5
Mpumalanga	3
North West	0
Northern Cape	2
Northern Province	2
Western Cape	12
TOTAL	36

The table indicates two points. One is that LBSC's that are SPIG recipients are concentrated in the Western Cape and the Eastern Cape and less or virtually non-existent in other provinces. This means that if the trend continues like this, more LBSC's accredited to NEPA may be in the Eastern and Western Cape and that other provinces have to speed up the process of building the necessary foundation for SMME's promotion. Secondly half of the total organisations in small business development receive SPIG. This is promising but there is a need to target poor provinces that seem to have less LBSC's receiving such assistance. The NEPA is still in the process of revising its accreditation criteria to efficiently fund the spread of service providers. This is necessary and in line with the national promotion strategy of focusing on under-resourced provinces for small business development.

Khula Enterprise Finance Ltd (Khula)

KHULA is a wholesale lending institution that was launched on 7th December 1995. It was established in 1996 under the companies' act in terms of the Department of Trade and Industry's initiative. It is an independent, limited liability company, with its own board of directors. The aim of Khula is to improve lending resources for SMME's. It lends money to financiers who in turn lend it to SMME's. It does not lend money directly to

enterprises. The financial institutions act as intermediaries between Khula and SMME's.

Khula offer five services in its endeavour to create a financial base for SMME's. These are business loans, credit guarantees seed loans, equity fund and capacity building.

Business Loans

Khula advances business loans from R1m to R100m to retail finance institutions. These institutions must have the potential to be sustainable and also meet Khula's developmental and institutional criteria. The criteria for experienced financial retailers and inexperienced ones are different. Experienced ones must fund their projects for the first two months of implementation. They have to indicate operational and financial sustainability within three years and five years respectively. Three million rands to R10m is available for loan to experienced financial retailers. Less experienced financial retailers must provide credible plans for operation, management, credit policy and operating procedures. They must also indicate operational sustainability within sixty months. Ten million Rands (R10m) to one hundred million rand (R100m) is available for loan to the less experienced retail finance institutions.

Some of the institutions loaned by Khula are the Get Ahead Financial Services, and the South Cross Business Development Trust. They in turn lend between R300 to R25 000 to existing or new businesses (BIG, 1999:5).

Seed Loans

Seed loans are interest-free and provide capital to new organisations to begin their small business support programme and to fund operational costs at specified period. If entrepreneurs and financial institutions achieve their pre-arranged programmes the loan could be converted into a grant to entrepreneurs. The aim is to develop a growing network of financial assistance. The criteria to qualify for seed loans is to:

- Be legally constituted,
- Have clearly defined SMME's target market,
- Have sound accounting and financial systems,
- Have capacity to carry out current projects,
- Have matching funds of at least 15% of operating costs.

Capacity Building

The Khula capacity building helps new retail finance institutions to initiate loan portfolios and the established ones to expand theirs. It assists retail

finance institutions to identify areas where training, manpower and systems' assistance are needed. It also helps to finance the acquisition of these skills and systems. Khula provides these services as financial grants. The grants range from R10 000 to R500 000. The areas of assistance are:

- Employment of specialists for strategic planning
- Accounting system support
- Design and installation of debtor systems
- Training of loan officers
- Skill development for board of directors

Equity Fund

The equity fund provides finance for SMME's through banks and other private companies. This facility is for SMME's that are recapitalising and expanding their activities with other companies. Khula is working with private companies to make this form of capital available through equity funds. Maximum indemnity is 60%-70% and the maximum facility is R75 000. To qualify for equity loans an enterprise must meet three criteria. The first one is for the enterprise to be independently owned. The second one is that it must possess assets less than R2m before financing. The last criterion is that it must meet the standards set by the relevant bank.

Credit Guarantees

Khula also provides guarantees to secure loans provided to entrepreneurs. These guarantees are provided to entrepreneurs whose applications are successful. There are three types of these guarantees namely, the individual, institutional and portfolio guarantees. The individual guarantee allows the bank to apply for additional security if the entrepreneur cannot afford more than what the bank requires for security. Institutional guarantees are for retail finance institutions that need loans for the financial retailers. Portfolio guarantees are a joint risk system between Khula and the financial retailers. This is effective when SMME's portfolio falls beyond a financial retailer's lending practice. When such arrangements are made, Khula will be prepared to indemnify the retail finance institutions for up to 80% of its losses.

Those who qualify for the portfolio and institutional guarantees must pass the Khula eligibility criteria. With the individual guarantee, there are additional criteria such as:

- The applicant must be an owner manager
- Business premises must be in the Republic of South Africa
- SMME'S must be viable and run for profits
- There must be an acceptable credit record.

The government has not been the only provider of finance to SMME's. Commercial banks such as Standard Bank, First National Bank, Fidelity Bank, Mercantile Bank, Nedbank and the Amalgamated Banks of South Africa have finance facilities for SMME's, (BIG, 1999:11). However, at the time of this report Morris (1999) indicated that banks have admitted that they have not done enough to help SMME's and that the Minister of Trade (Alerc Erwin) was negotiating with banks to speed the process.

There are foreign agencies that help Khula and NGO's with funds. These include the Danish International Development Agency, European Union, United Nations Development Programme, Ford Foundation and Norwegian Agency for Development (Enterprise, 1997:9).

Legal Framework- The Small Business Council

The National Small Business Council (NSBC) is a statutory body established by the Small Business Act of 1996. It is composed mainly of small business organisations (in all provinces) to create an institution that would facilitate communication amongst business organisations, policy advisory bodies and government. The National Small Business Council (composed of 2 councillors from each province, making a total of 14 councillors) coordinates the national strategy with both provincial and local ones. The

primary task of the NSBC is to guard the interests of SMME's throughout South Africa.

The Small Business Act mandates the NSBC to:

- Represent and promote the interests of small business, with emphasis on those entities contemplated in the National Strategy for Small Business Support.
- Advise the national, provincial, and local spheres of government on social and economic policy that promotes the development of small businesses.

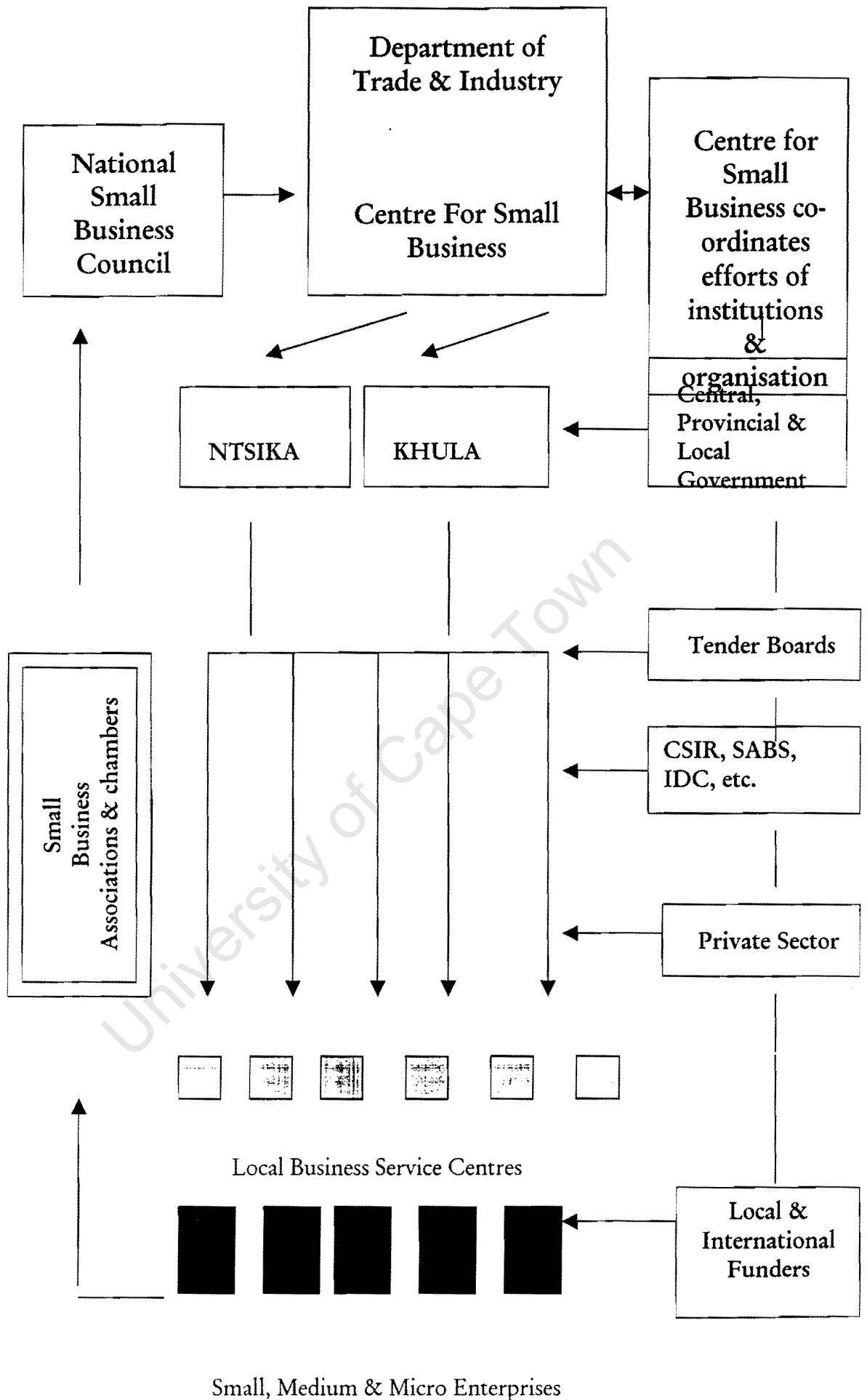
The NSBC is committed to what it terms the competitive EDGE which is an acronym for Enterprise Development for Growth and Equity (EDGE). The NSBC believes that business function smoothly in a competitive, enabling environment. If local communities can create an environment in which enterprises flourish, then they would reach the competitive EDGE.

The NSBC pursues its competitive edge approach through:

1. Collaborative efforts with all stakeholders in partaking in small business support.
2. Strengthening provincial and local structures to create an enabling environment.

3. Bringing the small business sector close to the process of policy and programme planning and decision making at all governmental levels.
4. Promoting equity and growth by encouraging broader community participation.
5. Enhancing the economic capacity of local communities by creating new business and employment opportunities.

The national small business strategy is diagrammatically represented on the following page.



Commentary

I have extracted and distilled some points from the national government small business development strategy. These points are noteworthy for a comprehensive understanding of the government strategy of small business promotion.

- The government's approach is reconstructive because it emphasises redress of racial and gender inequalities through black empowerment and focus on marginalised groups.
- It also recognises SMME's that have been historically neglected in favour of multi-national and big businesses. This produced unequal access to capital and a skewed income distribution. Part of the objectives of the government is to redress these inequalities in its SMME's promotion strategy.
- The strategy is synergistic. The government invites any interested individuals to participate in the project. This makes the process representative and participatory. "The new, flexible and demand-driven approach adopted by the government cannot succeed without outside agencies playing a more constructive role in supporting small business. Research organisations and NGO's are singled out for attention. Research organisations are called on to develop a more practical, problem-solving orientation in their work", (Bank, 1996:4).

- The government strategy indicates commitment and responsibility. The Department of Trade and Industry has pledged itself verbally and practically to be ultimately responsible for small business promotion and to monitor its progress.
- There is goal orientation. The government has set itself a ten-year period to realise small business development. This compels the government to in put more effort and evaluate itself consistently.
- There is an extent of transparency as the small business agencies publish their progress and financial statements of different projects.
- It should be noted that most of what I wrote above is from reading and talking to key people in the Small Business Promotion Strategy. There might be some aberration at a practical level. For example, access to finance is not automatic as it is based on certain criteria and some SMME's still have problems to access it. Moreover some SMME's are not aware of the existence of local business service centres. Much of the work is still unfolding at grassroots level. We should therefore guard against romanticising this process.

Small business promotion is still at it formative and incipient stage but with tangible progress. Putting structures at grassroots and policy formulation has

begun. Local business centres are an example. NEPA is constantly evaluating its strategies. By the time this research is completed there will be new developments underway.

Summary

This chapter was focused on the essential elements of the government national strategy for small business development from 1994-1999. It set out principles and objectives of the strategy. It also laid out the implementation and funding procedures. Institutional and legal support of small businesses was also described. In the end I have spelt out my comments on the strategy.

CHAPTER FOUR

SMME'S PROMOTION IN THE WESTERN CAPE CLOTHING INDUSTRY

INTRODUCTION

This chapter describes the Western Cape's provincial government activities in SMME's promotion. The aim is to show the correspondence between the national strategy and the provincial strategy and to provide a backdrop for the next section, which will focus on Clotex (the Western Cape Clothing and Textile Service Centre) as an example of a local business service centre.

As stated in the previous chapter, all provincial SMME's promotions are supported by the national government agencies namely, the Department of Trade and Industry, Khula Enterprise Finance and Ntsika Enterprise Promotion Agency. The Western Cape provincial government has a Small Business Desk in the Ministry of Trade Industry and Tourism. The Small Business Desk realises the principles and objectives of the national strategy. The local governments of the Cape metropolitan area supports SMME's promotion by facilitating the process. Western Cape metropolitan local governments have Small Business Units and Tender Advice Centres. These establishments are used to expose SMME's to available resource and to help them through referrals to relevant people. Local governments do not offer any financial assistance to SMME's.

The Western Cape SMME's promotion is financially supported by institutions that operate at both local and national levels. At the time of writing this report, the following institutions financed SMME's promotion: Amalgamated Banks of South Africa, Community Business Services, FBC Fidelity, First National Bank, Group Credit, Khetani Business Finance, Nations Trust, Ned Enterprise Unit, South Cross Business Development Trust, Standard Bank and Start Up Fund.

Less close to the types of enterprises I am focusing on are chambers of commerce in the Western Cape. These organisations generally look after the broader interest of entrepreneurs. However, they tend to focus on well-established enterprises. At the time of writing this report the following chambers of commerce were existent: Afrikaanse Handels Instituut, Cape Town Chambers of Commerce and Industry, Foundation of African Business and Consumer Service (FABCOS), Informal Traders Association, National African Federation Chamber of Commerce (NAFCOC), and the Western Cape Business Opportunities Forum (WECBOF).

There are also organisations that offer training, support and services across industries and sectors. These include the Information Business Training Trust, Triple Trust Organisation, Zenzele Enterprises, Foundation for Economic and Business Development (FEBDEV), Cape Town Small Business Centre, Business Opportunities Network and the Building Industries Federation South Africa (BIFSA). At the time of this report there were about 101 local business support, training and service centres in the Western Cape. A list of some of these centres is attached to appendix B. For the purpose of this research, the most relevant business service centre is the Western Cape Clothing and Textile Service Centre (Clotex).

CLOTEX²

Formed in 1995 and fully accredited by NTSIKA as a Local Business Service Centre in 1997 Clotex aims to “facilitate access to information, advice, trade contracts and training opportunities as well as counselling for SMME’s in the industry and its related sub-sectors, with particular though not exclusive emphasis on the needs of emerging and formally disadvantaged entrepreneurs”, (Clotex, 1998:2)

Clotex is mainly funded by three organisations namely, NTSIKA, Department of Trade and Industry and Tourism, and local authorities. The rest of Clotex’s income comes from foreign assistance, national Department of Trade and Industry, private sector, Wesgro and membership fees.

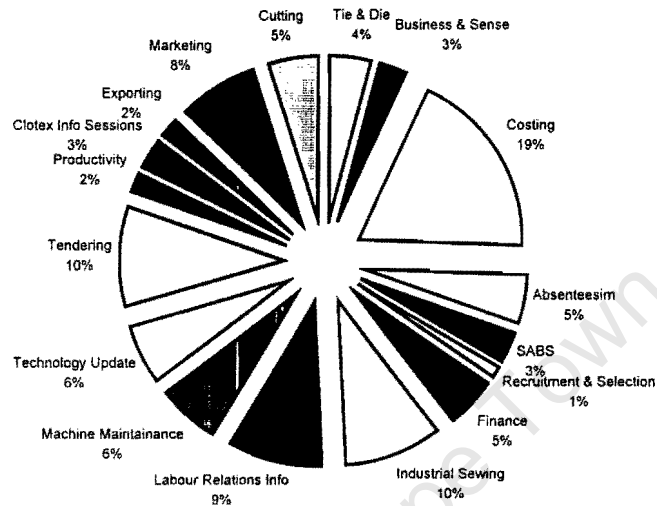
Clotex helps SMME’s in the Western Cape clothing industry as part of the national SMME’s promotion. Some of the services provided by Clotex are as follows:

- Information and advice through newsletter publication, distribution of information to members and physical and telephonic enquiries.

² The information about Clotex is mainly extracted from Clotex Annual Reports of 1997/98 and 1998.

- Providing subcontracting and tendering opportunities by linking their members with bigger businesses and other support organisations such as the Business Opportunities Networks.
- There is a Technical Mentoring Programme, for the mentoring and counselling of emerging entrepreneurs by experts.
- Providing training in conjunction with organisations such as Zenzele Training School, Triple Trust Organisation and Nations Trust. Clotex is involved in training SMME's in different aspects as depicted in the chart below:

FIGURE 4.1: Clotex's training concentration in 1998



Adapted from Clotex Annual Report 1998:6

To sustain its activities Clotex continues to network with other organisations in a form of partnerships to help it provide services for SMME's in the industry. Moreover, the staff at Clotex continues to attend conferences and workshop to keep abreast with developments and challenges facing the clothing industry.

At the time of writing this report, Clotex was contemplating to establish a Clotex Enterprise Centre. The aim is "to establish a high quality business support Centre to develop the design, marketing, technological and productive capacity of small, medium and micro clothing manufacturing in

the Western Cape Province and encourage exports”, (Clotex, 1998: 8). This project is contemplated with the partnership of the Independent Development Trust.

Summary

This chapter outlined the strategy for SMME’s promotion in the clothing industry of the Western Cape. It has also shown that the strategy corresponds to the national strategy of SMME’s promotion. The chapter also introduced Clotex as the local business service centre for the clothing industry in the Western Cape. Moreover it indicated some of the future developments that Clotex is planning.

CHAPTER FIVE

FINDINGS ON SMME'S

INTRODUCTION

This chapter maps out the findings on 21 SMME's in the cape metropolitan area. It is purely descriptive as it gives the profile of the SMME's that were studied. The recommendations and comments will be made in the light of the profiles of the twenty-one SMME's and the recent economic events in South Africa with the aim of propose a way forward toward SMME's promotion in the clothing industry.

Firm sizes

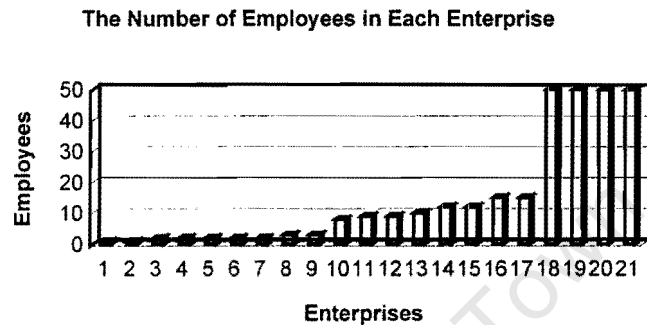
The following table indicates the firms size distribution of the sample:

TABLE 5.1 : Firm size distribution.

SIZE	No. of	COUNT	%
Micro	< 5	9	43%
Very Small	< 20	4	19%
Small	< 50	4	19%
Medium	< 200	4	19%
TOTAL		21	100%

The following chart shows the number of employees in each enterprise:

FIGURE 5.1 : Distribution of employees per enterprise.



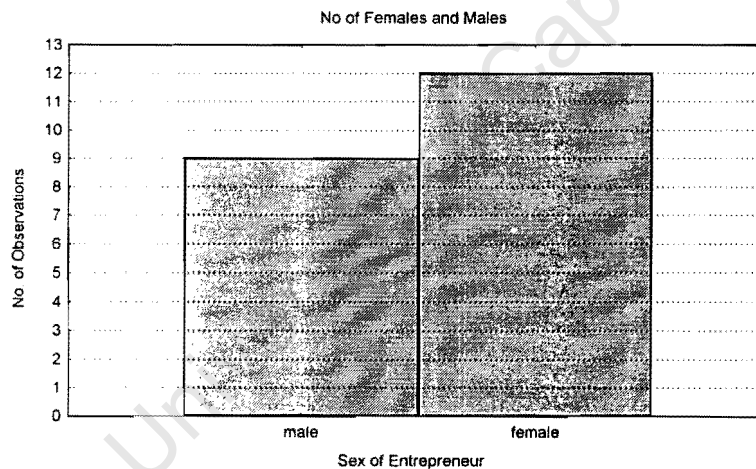
In this sample micro enterprises to form a larger part (9 out of 21 enterprises). According to the DTI micro enterprises form a large part of SMME's in all the provinces in South Africa. Hence I decided to take more micro enterprises than other sizes. However, it does not mean that other enterprise sizes are equally distributed across industries and provinces. Rather micro enterprises are of relevance to my research because it focuses on the targeted groups in which micro enterprises are concentrated.

What should be noted is that Clotex uses the same definitions of SMME's as the governments. However, Clotex's definition- like most local business service centres is characterised mainly by employment size of the enterprise rather than net asset value and total annual turnover.

Sex Distribution

Most of the entrepreneurs were females. This is a general characteristic of the clothing industry. This is especially true in the SMME's sector. But the interesting point is that the bigger the businesses, the lesser the number of female entrepreneurs become. Instead, they become employees rather than employers in bigger businesses. The following histogram represents the sex distribution of the sample.

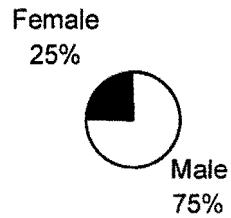
FIGURE 5.2: Distribution of entrepreneurs according to sex.



The following charts represent the ratio of male to females in the four different enterprise sizes to indicate that from this sample, the bigger the enterprise the lesser is the proportion of women:

FIGURE 5.3 : The ratio of male to female in the small size enterprises.

**The Ratio of Male to Female in the
Small Enterprise as 4:1**



FIGUER 5.4 : The ratio of male to female in the medium size enterprises.

**The Ratio of Male to Female in the
Medium Size Enterprise as 1:0**



FIGURE 5.5 : The ratio of male to female in the micro enterprises.

**The Ratio of Male to Female in the
Micro Size Enterprises as 1:9**

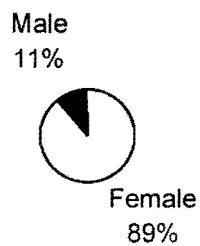
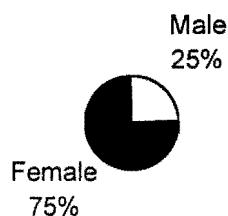


FIGURE 5.6 : The ratio of male to female in the very small size enterprises.

**The Ration of Male to female in the
Very Small Size Enterprises as 1:4**



Age Distribution

Respondents were not asked their exact age but the range within which their ages lie. The following table indicates the age intervals and the number of respondents falling within it.

TABLE 5.3 : Age distribution of entrepreneurs.

AGE INTERVAL	PERCENTAGE
< 21	-
21-30	5%
31-40	35%
41-50	45%
> 50	15%

Most of the respondents' ages (45%) lie within the range of 41-50 years and followed by the range 31-40 years (35%). None of the respondents were less than the age of twenty-one

Domestic Background

Ninety percent of the respondents selected English as their home language. Of that ninety percent, 45 percent also included Afrikaans as their home language. Ten percent of them selected Xhosa as their home language. All respondents are residents of the Western Cape.

All the respondents indicated that they were breadwinners at their residing places. The maximum number of people that share the house with respondents was six. None of the respondents lives alone.

Respondents were asked to state their main source of income. Only medium sized enterprises were a main source of income. Twenty percent (20%) of the respondents indicated that their present business is the sole source of income. This twenty percent was for medium size enterprises. Most respondents (55%) augmented their enterprise income with household income (i.e., income from other members of the family). Fifteen percent (15%) of respondents had other jobs and used their business income to augment income from their employment. None of the respondents had more than two sources of income. Only income from their enterprises, household or employment was mentioned.

Education and Business Training

Fifty five percent (55%) of the respondents had secondary education levels as their highest level of education. Forty-five percent (45%) of the respondents have post-matriculation formal training. All respondents had High school education but not all of them completed secondary education. None of the respondents fell under the category of “no formal” education or lower primary education as their highest level of education. In general, all the respondents have a basic functional literacy level. The following table indicated the distribution of education level of the respondents:

TABLE 5.4: Education level of entrepreneurs.

EDUCATION LEVEL	PERCENTAGE
No Formal Education	-
Sub A – Standard 5	-
Std. 6 – 9	30
Std. 10	25
Post Matriculation Education	45

Focusing on business training, 55% percent of respondents said that they undertook business training. The most cited courses were Small Business Management, Business Management and Business Start Up courses. The least cited were those that strictly dealt with financial matters. Few respondents (5) had other forms of training or experience that were linked or may be

helpful towards their business. Experience from previous business was the most cited help for the present business.

Most entrepreneurs have no formal training in dressmaking. They either learnt it by themselves, observation or trained by family or friends. However, all respondents had an idea of making clothes. The following table shows the distribution in terms of training for dressmaking:

TABLE 5.5: Business training level of entrepreneurs

TRAINING	COUNT
Formal Training	6
Self-Training	8
Family Training	3
Friends	4

Starting a Business

Only two started in partnership. Five of the entrepreneurs owned some businesses before. All shut down because “there were no profits”. None of the previous businesses were related to the clothing industry. Only three entrepreneurs previously worked in clothing related companies. All of them acknowledged the extent to which their previous experiences were helping them in their businesses. The reason that is put forward for starting a business is to make money or livelihood. The second most cited reason is augmenting household income.

On average the starting capital is about R3000. However, this varies when the enterprises are categorised in terms of size. The average value of venture capital in terms of business size is:

TABLE 5.6: Average amount of starting a business.

Enterprise Size	Average Venture Capital
Small & V Small	R1500
Micro	R500
Medium	R15000

The number of years of the respondents business ranges from five months to ten years. Most of them have operated the business for about two years. Only three of them lasted longer than five years. However, there was no relationship between years in business and the size and success of entrepreneurs. Some entrepreneurs operated for more than five years while securing formal employment outside their business, and are still working in their homes as micro enterprises. Others have worked less than three years as full time entrepreneurs and using the business as the main source of income.

Production Information

Types of Garments

There is a variety of clothing that is produced by entrepreneurs that I investigated. The types of clothing range from simple aprons to industrial

work wear and bridal gowns. Most of the entrepreneurs produce items such as aprons, shirts, T-shirts, skirts, tracksuits, underwear, dresses and school uniforms. Only three produced specialised garments like industrial wear and bridal gowns as core activities.

Marketing and Selling

All of the entrepreneurs I investigated sell their products in the domestic market. None sell outside the Western Cape. Some do not sell beyond their areas. Ninety percent (90%) is not subcontracted and only depend on individual orders to start working.

Only two entrepreneurs made promotional products as a form of advertising. These two are categorised as medium enterprises. The rest of the entrepreneurs relied on word of mouth or public displays to advertise their businesses. Those that are working at the Industria Park are able to display their finished clothes at their stalls as a way of advertising.

Business Management

The main aim of this part of the questionnaire was to assess the extent to which entrepreneurs were able to manage their businesses rather than to compute a cost analysis of their activities. Medium and some small sized business were better able to respond compared to micro and some small sized entrepreneurs.

Medium sized businesses had an idea of fixed costs, financial management and an estimation of total sales per month. Most of the micro and small businesses had a vague or no idea of their fixed costs and turnover per month. They responded that it was difficult to make such an assessment because costs and income vary according to the frequency and price for orders. "When the month is right I make money, but when it is bad there is no business", said one respondent.

Even though some of the entrepreneurs indicated better business management, eighty percent of the sample did not separate household expenditures from business ones. Income from sales was indiscriminately used for household and business purposes. Ninety percent indicated that they did not yet determine whether they were making profits or not. However, it is not clear whether that meant they do not know how to do it or have not done it for the month.

Future Business Plans

The aim of this part of the questionnaire was to determine the extent to which respondents were planning to expand or improve their businesses. Moreover, it aimed at finding out if respondents had any other alternatives in case the present business does not operate as they wished.

All the respondents had some plans for their enterprises. The most recurring plan was expansion of business. Most small and micro enterprises stated the need for subcontracting or “more people to order the garments”. However, only 10% of the respondents had clear goals and how they may go about to achieve them. The rest of the respondents were not clear about how to achieve their goals.

In terms of alternatives, 90% of the respondents did not have alternatives if the clothing business fails. They stated that they would have to shut down. Other respondents said that they would go for some business but none was clear about the exact path to take if business failed. In the light of their future hopes, however, none of them contemplated shutting down.

Outside Assistance

Respondents were asked to mention if they were in touch with other clothing firms or organisations to discuss any problems related to their businesses. All the respondents were in touch with other clothing manufacturers. However, most of the contacts were not an elaborate networking but tie of individual friendship or acquaintances. Eighty percent of the respondents stated that they have contacted some organisations such as Clotex to help them run their businesses. The frequency with which they contact these organisations depends on how often they face problems.

Problems

Respondents were asked to indicate areas that were problematic before they contacted organisations for help. Even those who did not consult were asked to fill in the grid. The following charts indicates areas of problems and the percentage of respondents in each area:

FIGURE 5.7: Entrepreneurs' response on declining profits.

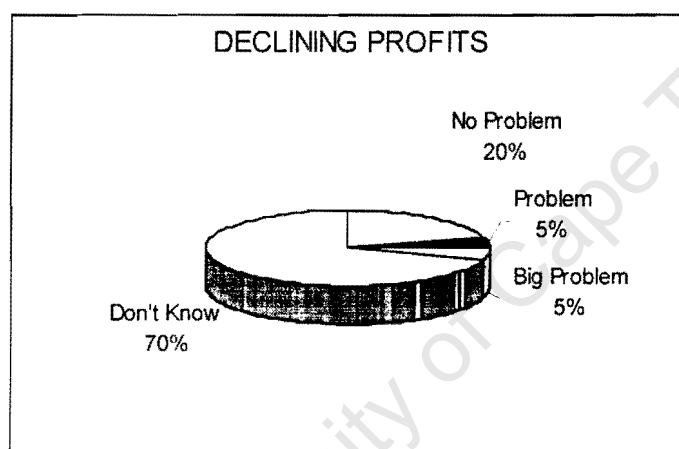


FIGURE 5.8: Entrepreneurs' response on the price of materials.

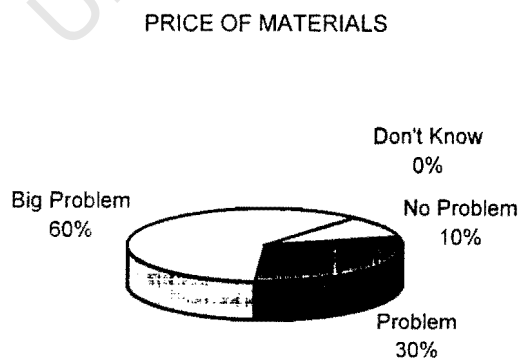


FIGURE 5.9: Entrepreneurs' response on sourcing materials.

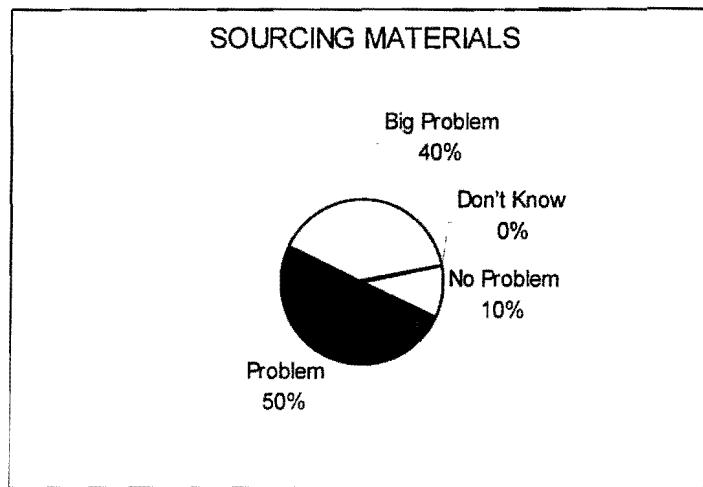


FIGURE 5.10: Entrepreneurs' response on meeting quality.

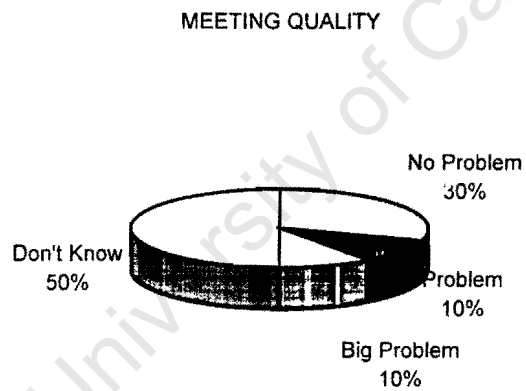


FIGURE 5.11: Entrepreneurs' response on price competition.

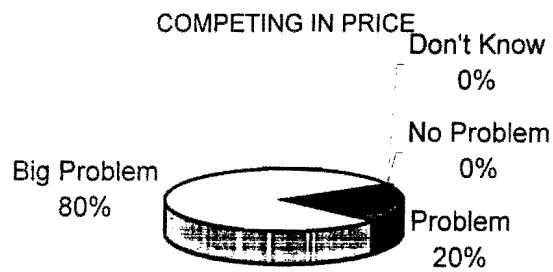


FIGURE 5.11 : Entrepreneurs' response on obtaining loans.

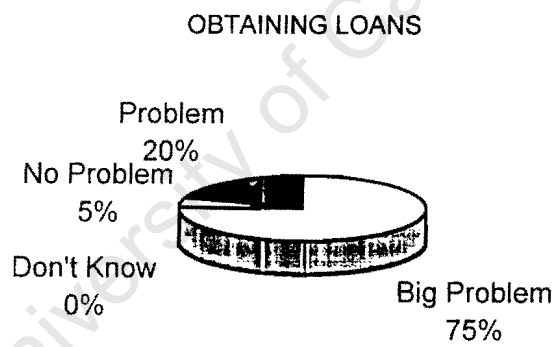


FIGURE 5.12: Entrepreneurs' response on obtaining credit.

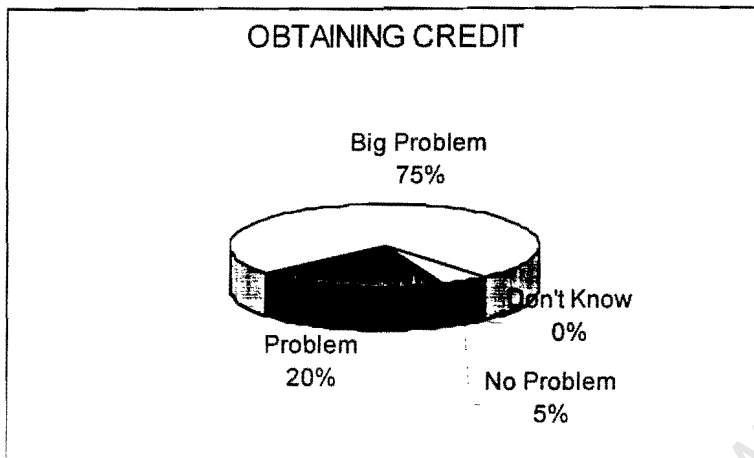


FIGURE 5.13 Entrepreneurs' response on obtaining orders.

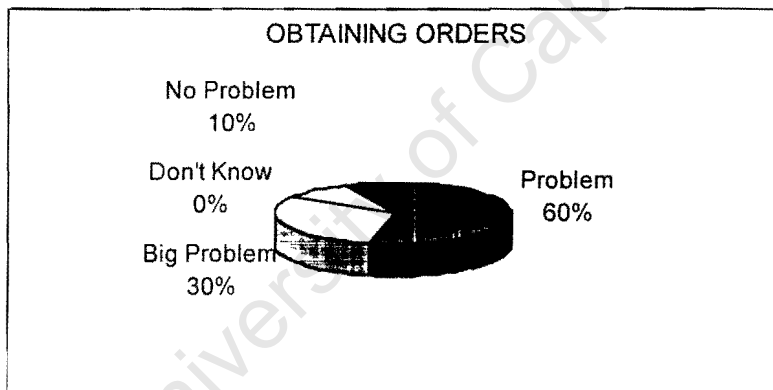


FIGURE 5.14: Entrepreneurs' response on promoting sales.

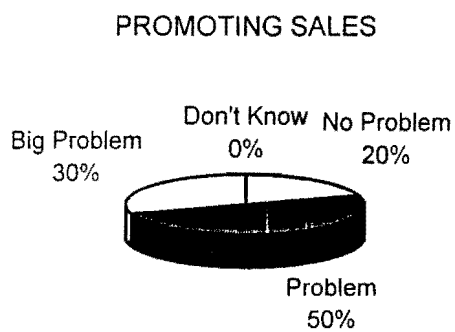


FIGURE 5.15 : Entrepreneurs' response on business skills.

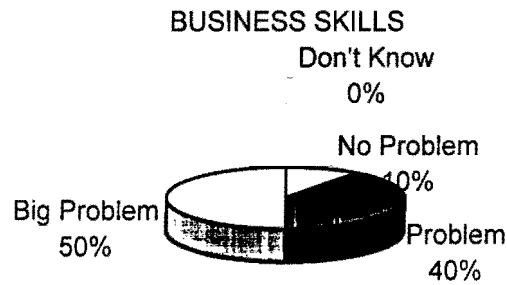


FIGURE 5.16: Entrepreneurs' response on bookkeeping.

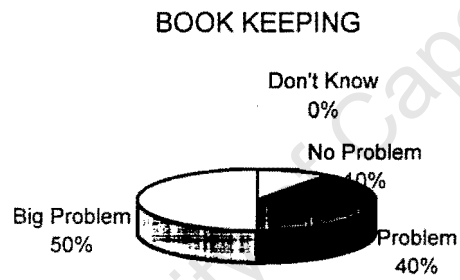


FIGURE 5.17: Entrepreneurs' response on fixing machines.

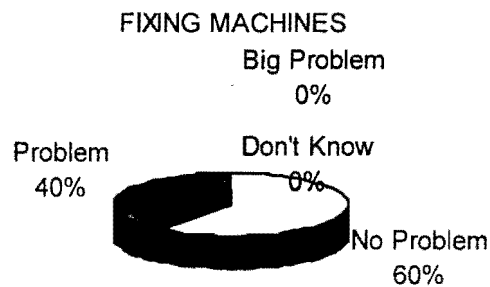


FIGURE 5.18: Entrepreneurs' response on the cost of renting business premises.

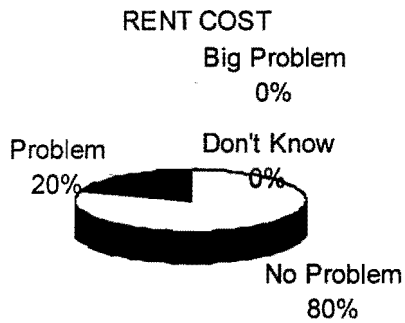


FIGURE 5.19: Entrepreneurs' response on buying new machines.

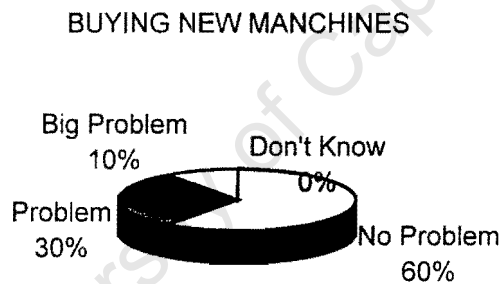
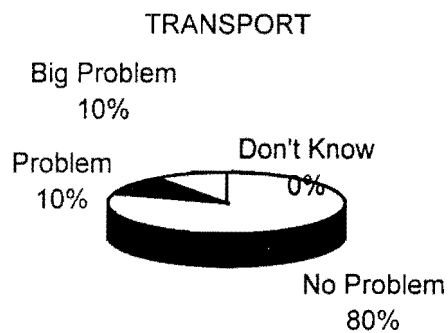
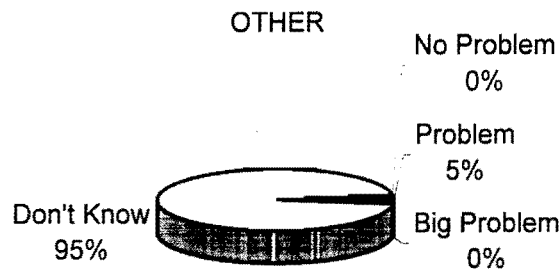


FIGURE 5.20: Entrepreneurs' response on transport availability.



- The biggest problem is that of obtaining credit for raw materials and loans for operating their businesses. All small, very small and micro enterprises indicated that it was difficult to get loans and be given credit to purchase raw materials and machines.
- Business skills and marketing is also one area that is problematic for SMME's. Respondents stated that what they needed was a solid base of buyers for their products or a satisfactory share of buyers.
- Transport (figure 5.20) was not seen as a problem by 80% of the respondents. The only problem that entrepreneurs had was that sometimes public transport is not convenient in terms of their destination or time at which they might want to use it for business purposes
- Respondents are fairly comfortable with the types of garments they produce but not sure of the issue of quality and how it affects them.
- Respondents' immediate competition is in terms of price (figure 5.11) set by other entrepreneurs. Eighty five percent (85%) of the respondents felt that if they had to survive they had to be price competitive.
- Business premises and the cost thereof were not problems for the entrepreneurs as indicated in figure 5.18. The only problem with renting was that entrepreneurs felt that sometimes they had to pay the rent regardless of whether they had enough income or not during that month.
- For those who have employees, wages were indicated to be the other problem. The issue was to pay out employees regardless of profitability or increase in sales. This is indicated in figure 5.23 where 5% indicated



Looking at the individual charts in the previous page, the following points emerged:

- Most respondents (90%) as indicated in figure 5. 21 have no idea of how the law might be affecting their businesses. Ten percent of the respondents indicated that they had a problem with government regulation. The only problems cited were that the government should have more tenders for SMME's and that they should not be subjected to the same tax system as big business.
- Even though most respondents in figure 5.22 had no idea about industrial councils, those who had an idea only indicated that industrial councils are forcing them to behave as big firms when they cannot afford the costs. For example, some entrepreneurs complained that they could not afford to have employee benefits like those in big firms.
- A large number of them (70% in figure 5.7) have no idea of whether they are making profits or not, with 20% indicating that they have no problems with declining profits and only 10 % experiencing problems with declining profits. This means that only 30% of the sample has an idea of their profit margins.

FIGURE 5.21: Entrepreneurs' response on the impact of government regulations.

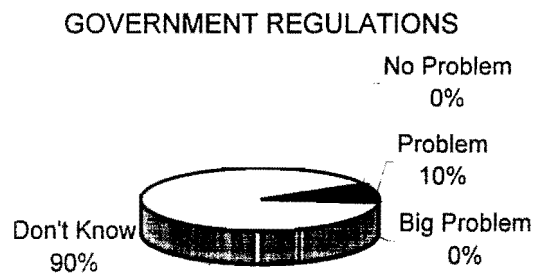


FIGURE 5.22 Entrepreneurs' response on the impact of industrial councils.

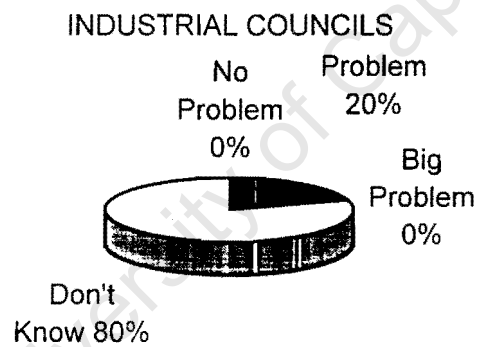


FIGURE 5.23: Entrepreneurs' response on other aspects of their business in which they experience any other problems.

such concerns. One entrepreneur indicated that unions are not sympathetic to their businesses and keep demanding more than he could give. This chart also indicates that a majority of respondents (95%) did not indicate any other problems except the ones on the questionnaire and the issue of wages.

Improvements

Respondents were asked to state if there has been any improvement with any problems that they encountered before consulting. None of the respondents consulted for all the problems listed in the above grid. They consulted for specific problems. Most respondents indicated that they consulted for business skills, information on tenders and how to start a business. However, none of the respondents were sure as how far there was improvement. What emerged from this question are possible explanations. Firstly, respondents might not have applied the advice they received from their LBSC's. Secondly, the advice they were given might not have produced the desired results. Thirdly, the respondents might have no idea of how to measure such improvements. This is not clear from their responses.

Further Assistance

Respondents were asked to state the kind of help that they still need most and the one they do not need anymore. Most of the respondents stated that they need further business training such as costing, accounting and administration. The second most cited need was subcontracting/tenders so

that they could have a reliable source of orders. One respondent said that what she needed most was “unions attitude to be more helpful to employers”.

What respondents obviously did not need at all was business start up skill. However, most mentioned that they still needed help to improve but did not state exactly the kind of help they needed. From the above entries the following points summarise the findings. Some (5%) had no idea of what they did not need most.

SUMMARY

This chapter presented the findings from the interviews with some of the respondent and from other self-administered responses. The summary of the findings is:

1. Most of the entrepreneurs were women.
2. All of the entrepreneurs were above the age of twenty-five.
3. All entrepreneurs were sole owners of the enterprises. There were no partnership or any other form of ownership.

4. Most of the enterprises were not the main income for entrepreneurs because they relied on household income.
5. All the entrepreneurs stated that they were breadwinners in the household. The maximum number of the household was six.
6. Forty-five percent of the entrepreneurs had post-matriculation education.
7. Most entrepreneurs were either self-trained or had formal training in dressmaking.
8. None of the entrepreneurs has formal training in business. Some attended courses or advice sessions on business.
9. The most cited reason for starting a business was to make money and most have been in business for at least one year.
10. The types of garments they produced varied. It also depended on what orders are made.
11. A few are subcontracted and all sell in the domestic market. Most of the entrepreneurs stated that their turnover depended on the frequency of orders, which varies.

12. In terms of business management medium sized entrepreneurs were better able to respond more convincingly than small and micro sized entrepreneurs.
13. All entrepreneurs had plans to improve their businesses. However, not all of them indicated some ideas to achieve the goal. Most of them simply expressed wish rather those plans.
14. All entrepreneurs said that they were in touch with other clothing manufacturers. Most indicated that they have contacted some organisations to help them in running their businesses.
15. Entrepreneurs seem to contact organisations for specific reasons rather than a general knowledge of business operations. There is also a general ignorance on government regulations regarding SMME's and their promotion.

CHAPTER SIX

RECOMMENDATIONS

Introduction

The purpose of this chapter is to propose some recommendations in terms small, medium and micro enterprises promotion in the Western Cape clothing industry. This will be done in the light of the research findings. Following the recommendations will be an outline of the general developments in the national and international economy, in particular in the clothing industry that should not be ignored in the promotion of SMME'S in the clothing industry. The recommendations are based on the two of the nine Western Cape provincial government's objectives, namely to create an enabling environment and to create and strengthen networks for SMME's. The recommendations are articulated at two levels namely, micro (Local Business Service Centre level), and the macro level (national and international).

LOCAL BUSINESS SERVICE CENTRE LEVEL

What is always emerging from researches on SMME's are typical problems such as lack of finance, business skills and poor turnover and management of the business. It is now common knowledge that even though SMME's differ, they are generally less competitive and profitable than big enterprises. Moreover, even though there are SMME's in high-tech and electronics sectors, SMME's are concentrated in labour intensive sectors such as clothing. These findings are true and informative for policy and action towards SMME's promotion. Some of the problem is that face other SMME's still persist in emerging ones. What I have found from the interviews is not very different from what other researchers on SMME's have found regardless of their focus, academic discipline, or objectives. Most of my respondents had difficulties in terms of finance, tendering, business management and access to information. Researchers on SMME' suggest that more work still need to be done to help SMME's. Jawoodeen (1996:100) concluded that "small business in South Africa face a wide range of constraints and problems and are less able to address the problems on their own. These constraints include: the legal environment, the access to markets, finance and business premises at affordable rentals, level of skills and managerial expertise . . . The thesis has highlighted that a supportive environment is present in the Western Cape but more active support from

institutions and government departments is needed by small business to make them function more effectively". Similar conclusions were reached by Levine (1992), Mashigo (1992), and von Broemsben (1995).

The assumption is that SMME's utilise the resources but they are not enough. I differ. My view is that if resources and structures are available but not necessarily in abundance, there can be a way to offset this such as periodically restructure individual LBSC's by constantly re-evaluating themselves through audits as Clotex has done. This will not only help LBSC's in assessing their efficiency but also SMME's too will benefit as the services are constantly improved.

RECOMMENDATION 1: LBSC's should constantly audit their practices to evaluate the effectiveness and efficiency of their activities towards benefiting SMME's in the clothing industry.

Most of the entrepreneurs that I interviewed visited at most two service centres and had not consulted frequently. It is not clear why consultations are not frequent but at least they know that such organisations exist. Local Business Service Centres (LBSC's) are the direct and most immediate source of help for SMME's. The first tasks of LBSC's is to let the public know that they exist as they do in newsletters for SMME's such as *BIG* and *Enterprise*.

Service centres should continue to advertise themselves this way and also try other means of advertisements to reach SMME's and inform them about their existing and new services. For example, Clotex does not only advertise in SMME's newsletter but also keeps a database of its clients to send information that might be helpful to its clients.

RECOMMENDATION 2: LBSC's should continue to access the public through different media or channels to constantly inform interested parties about their services and activities.

Knowing the existence of an LBSC's is different from utilising them. This aspect is largely dependent on the individual entrepreneur. From my observation, I think LBSC's in the Western Cape are situated within public reach. It is therefore not difficult for many people to reach their business service centres such as Clotex, Small Business Centre, Business Opportunities Network.

RECOMMENDATION 3: It is necessary and good for an LBSC to be within reach of the public. LBSC's that are geographically difficult to access are not of much use to the public.

Some LBSC's -like Clotex- are sector specific and not within reach of all SMME's in that sector. It is a sensible practice fro Clotex to continue to link with other training organisation in dressmaking and other related aspects so that people who cannot reach Clotex on a regular basis are referred to those organisations and be informed about them. These organisations include the Clothing Industry Training Board, CMT employer association, Data Source International, Mitchell's Plain Garment Manufacturers Association and the Clothing Industry Bargaining Council.

RECOMMENDATION 4: LBSC's should link with businesses and organisations that help in improving the quality of their services.

Most of respondents in the interviews had little business training and do not seem to apply it. Respondents are more trained in dressmaking than in business skills, which are necessary for the smooth running of the business. Respondents indicated that they consulted more about opening a business than actually running a business, yet respondents also said that they would like to know more about business skills. It is difficult to solve such a problem because running a business requires training in all aspects of business especially if SMME's are to grow into bigger businesses.

RECOMMENDATION 5: LBSC's should continue to network with institutions that were established for training in business skills to try and find some solutions towards equipping SMME's owners with more business skills.

A large number of SMME's from the sample had no idea about how legal regulations might be affecting their businesses. This is a disadvantage because there are regulations that are in favour of SMME's and need to be taken advantage of by the entrepreneurs (e.g., the Procurement Act). Moreover there are regulations that SMME's owners need to comply with (e.g., the Small Business Act). They also have to understand how the legal framework affects their business as it is something that is lacking according to my findings.

RECOMMENDATION 6: Experts should not only solve problems for SMME's but entrepreneurs need to have a working understanding of the roots of their business problems and the business environment within which they operate.

All entrepreneurs indicated that they have consulted some LBSC's for advice and training, but it is striking that most of them seem not to be able to apply some basic business skills such as determining profit margins and book keeping. It is not clear whether the problem lies with the LBSC's or with the entrepreneurs. Wherever it may be, it is still the responsibility of entrepreneurs to ultimately take such responsibilities.

RECOMMENDATION 7: LBSC's constantly remind SMME's owners that regardless of the extent of training and advice they give, SMME's owners have the ultimate responsibility to apply that knowledge in the interest of their businesses.

All entrepreneurs indicated that they consulted other SMME's owners in the clothing industry to discuss some problems in the running of their businesses. However, I do not know to what extent they interact with other entrepreneurs during their training. Nevertheless, it is good practice to communicate with other people in the industry for advice and information.

RECOMMENDTION 8: LBSC's should encourage networking not only between institutions and entrepreneurs but also among entrepreneurs.

Central to business success is the idea of quality and niche markets. As I have already described in chapter two, Porter's theory of national competitiveness points out at need for doing what one can best do and differently from others. Even though Porter is expounding at a global level, the idea should be translated at micro level and be made a reality. Local business service centres need to include the idea of quality and niche markets in their services. Most of SMME's owners that I interviewed seem to have no idea of quality and how it affects their businesses. They seem to work only when there are certain orders. SMME's owners should be able to create and stimulate market bases however small they may be. For example, there are presently SMME's who have created the manufacturing of African traditional wear and secured niche markets for themselves.

RECOMMENDATION 9: LBSC's should advice and support SMME's owners toward the fact that price is not the only source of competition, but quality and market niches are important in the success of a business.

More than the availability of resources and support, I think individual entrepreneurs need to take the ultimate responsibility for success. Not only is the theory of progression from micro to medium enterprises an underlying idea in SMME's research (Chesterman, 1997), SMME's owners also expresses the desire to expand. Notwithstanding structural constraints

LBSC's should play a significant role in motivating emerging entrepreneurs towards success and overcoming obstacles to success. The most common way to do that is inviting successful SMME's entrepreneurs to relate their experiences of starting a business and their road to success. Moreover such people can be used as suggested references to clients. There are many anecdotes of successful entrepreneurs who say that they worked hard to reach the top. For example Riedoh Allen was featured in the Cape Business News for his successful clothing business. He was quoted to have said, "it certainly wasn't easy... we had little or no capital, and could get no help from the banks. Not even the Small Business Development Corporation would help us-though a few years later they considered me for their Businessman of the year". He started in 1992 and is still in business and seeking new ways to expand.

RECOMMENDATION 10: LBSC's need to emphasise individual motivational anecdotes that appear on newsletters to their clients to emphasise the idea of individual responsibility even though there are support systems.

Respondents indicated that what they needed most was information on tendering and to actually be contracted for tendering. Moreover, a small number of the respondents were not subcontracted. Of those who were

subcontracted, they indicated that they received no assistance from their subcontractors.

RECOMMENDATION 11: More opportunities should be created for SMME's for tenders and LBSC's should continue to lobby for tenders under the Procurement Act. Moreover, subcontractors should form partnerships with LBSC's in trying to provide help for contracted SMME's.

The ideas that I have proposed at the level of LBSC's (especially Clotex) can help to enable SMME's at grassroots level. This level should help them to access information and build rudimentary networks for the benefit of their businesses. It is at this level that they need to exchange ideas and learn the complexities of their businesses from one another's everyday experiences and probably come up with some resolutions towards their problems. The government is committed to looking after the interests of SMME's, but setting up organisations to look after the interests of SMME's is not enough. Instead, SMME's owners should be encouraged to solve everyday experiences rather than dwelling on macro problems that need the attention of government and experts.

At this point I have dealt only with recommendations towards local business service centres. I am aware that these are not the only problems facing SMME's. There are many challenges such as access to finance, competition with bigger clothing companies and competition with imports. Such

challenges are beyond the scope of LBSC's and within the ambit of the government and financial institutions. What LBSC's need to do is to highlight to SMME's owners the existence of such challenges and keep them informed or advice them on how to be up to date with developments in their industries. For example, there are free publications on SMME's and service centres can automatically subscribe their members for such information. It is only when SMME's owners have information that they can be able see LBSC's and other NGO's as helping hands rather than a fortress against all their problems. As I said above, LBSC's should be seen as a channel through which SMME's can be guided to improve themselves through access to information, access to networking, and access to specific places for specific aspects of their businesses.

MACRO LEVEL

There are several points that one needs to take into account in order to create an enabling environment and a creation of networks for SMME's in the clothing industry. These points are not directly related to the interviews with the twenty-one entrepreneurs but do have some bearing on the clothing industry. These points are the market structure and the impact of globalisation and trade liberalisation in the clothing industry.

Market Structure

Market structure which refers to “the organisational and other characteristics of a market and in particular those which affect the nature of competition and pricing. Traditionally, the most important features of market structure are the number and size distribution of buyers and sellers, which reflect the extent of monopoly or monopsony; this in turn will be affected by the existence or absence of barriers to entry” (Bannock, 1992:275). The market structure of the South African clothing industry is characterised by high concentration of retail structures (October,1996). This means few firms account for a largely significant proportion of production, ownership and other important aspects of an industry. Presently, the clothing industry in South Africa comprises about “300 manufacturers and 130 000 formal sector employees. Of this, the Western Cape represents a 40 percent of share of the national industry, with some 500 firms and more than 40 000 employees. To the local formal sector should be added many thousand informal-sector home-based operators. Of employment in the local manufacturing industry, clothing accounts for some 20 percent of the total”, (Kench, 1997:110).

The market structure of the Western Cape clothing industry has certain implications for SMME's in the industry and how to proceed with the promotion strategy at this point. For a long time South Africa has been

characterised by monopolistic tendencies and restrictive business practises. The impact of market concentration included retrenchments due to mergers and acquisitions and an unfair competition against SMME's and barriers to entry of emerging SMME's. Presently, the South African government has released the Competition Act as a way of dealing with market concentration by eliminating unfair competition.

The act is composed of:

- its various prohibitions on anti-competitive conduct, which may be sub-divided into generally applicable prohibitions and prohibitions applicable only to dominant firms;
- a new procedure for the control of mergers and acquisitions;
and
- the provisions of the Act which create institutions and procedures for the enforcement of its substantive provisions,
(<http://www.mbendi.co.za/werksmns/index.htm?page=/werksmns/wkcmp.htm>)

The act aims at promoting and maintaining competition in South Africa in order to:

1. Promote the efficiency, adaptability and development of the economy;
2. Provide consumers with competitive prices and product choice;
3. Promote employment and advance the social and economic welfare of South Africans;
4. Expand opportunities for South African participation in world markets and recognise the role of foreign competition in the Republic;
5. Ensure that small and medium-sized enterprises have an equitable opportunity to participate in the economy; (*this point is the only focus of this research report*).
6. Promote greater spread of ownership, in particular to increase the ownership stakes of historically disadvantaged background, (Jooste, 1999:12).

The competition policy can create a more enabling environment for SMME's in the clothing industry of the Western Cape along some of the principles based on Porter's model and the Industrial Districts model. If the act is successful large companies will cease to merge and form monopolies

and dominate the industry in terms of the market share and price setting. Instead there will be 'fair' competition among themselves too.

Globalisation and Trade Liberalisation

Trade liberalisation is a catch 22 situation in South Africa. It is both enhancing and challenging the clothing industry and other sectors of the economy. South Africa has been internationalising its economy to encourage investments. Achievements in this regard include:

1. Significant reduction of in tariff barriers, ahead of the WTO timetable, resulting in the lowest (trade weighted) average rate of protection in the SADC region;
2. A market related and competitive exchange rate;
3. No restrictions on the type or extent of investments available to foreigners nor is government approval required;
4. Strengthening of competition and the development of industrial cluster programmes
5. The abolition of exchange control on non-residents and the substantial reduction of controls on residents, with further reductions to come;

6. A proactive strategy to attract foreign strategic equity partners into the process of restructuring state assets and infrastructure;
7. The introduction of greater labour market flexibility and
8. The availability of attractive investment incentive to enhance international competitiveness,
(www.isa.org/ResourCentre/10reasons/Page3_01.htm)

In the clothing industry tariffs are gradually being phased down in order to open the domestic clothing industry to the world economy. The duty levels are being phased down annually on 1st of September at a rate of 10%. Since 1996 September, the minimum specific duties fell away. The phase down of the ad valorem is planned as follows:

PRODUCT	1997	1998	1999	2000	2001	2002
Fabrics	36%	33%	30%	27%	24%	22%
Clothing	72%	66%	60%	54%	47%	40%

Source: South African Clothing Federation,
<http://www.clofed.co.za/stats.htm>

The implication of globalisation and trade liberalisation are two fold. Firstly the exposure of the clothing industry to the global economy has had adverse effects of retrenchments and downsizing as firms try to restructure

themselves. “Over two-hundred (200 000) jobs have been lost in the clothing and textile industry last year. The South African Clothing and Textile Workers Union estimates 10 000 workers have been retrenched so far this year”, (Merten, 1999:1).

Secondly, the exposure of the South African clothing industry to the global economy has unintentionally led to illegal clothing imports that undercut the sales revenue of the local industry. This has not only led to the closure of some clothing firms but also loss of employment.

Finally, regardless of the negative effects of globalisation and trade liberalisation there are opportunities that will be rewarding in the long run and that depends on the extent to which South Africa’s macroeconomic strategy and its industrial strategy in the clothing industry enable firms in the economy to be competitive.

For the purpose of this research, I think the Western Cape SMME’s promotion should note and pursue the following ideas:

- Principles of Economic Sociology as I have outlined them in chapter two need to be taken seriously when promoting SMME’s. South Africa is unique yet it shares certain characteristics with other countries, especially developing ones. It is useless to pursue all our strategies as if we are at the same level as America, Japan, United Kingdom, Germany, Canada, France and other developed countries and the recently successful economies of East Asia. South Africa has

been successful in coming up with policies to liberalise and grow the economy.

Economic Sociology, Porter's model and the Industrial District model have important points for SMME's promotion. Economic Sociology indicates that economic activity is socially embedded. It points out that it is through individual interaction that markets are constructed and maintained. Then the Industrial District Model shows that it through taking advantaged of the domestic context that one is able to build a sustainable clothing industry regardless of firm size. Porter's model indicated that it also by exploiting and improving national resources that nations do and focus on what they do best. These theories and models are there to guide other economies how to look at their economies not to directly translate every idea in them. I do not believe in monoeconomics whereby the argument is that the basic principle of the market are the same and therefore all economies should be treated the same. Principles of economics are the same but they operate in different historical, cultural and political contexts with particular social relation and economic behaviour.

- In terms of creating networks of production with the SMME's in the clothing industry, the same ideas that I have put forward are applicable. Industrial Districts have indicated that networks of production have been significant for SMME's in Italy but not that it should be the case everywhere. The idea sounds plausible but in South Africa we need to consider our context. Firstly, we do not have a solid history of networking in the clothing industry as it

happened in Italy. Secondly networks based on trust are questionable in a country that is characterised by a history of racial, ideological and gender chasms and conflict. Thirdly, networks of production cannot be easily successful when the clothing industry has been characterised by concentration and subcontracting relations based on labour brokerage alone. It is therefore necessary to overcome such barriers. However, these are historical barriers and it is through the gradual democratic transformation that such cultural obstacles will slowly change while LBSC's are also playing their relevant role of promoting business networking.

CHAPTER SEVEN

CONCLUSION

The aim of this research was to propose a way forward for the promotion of SMME's in the Western Cape clothing industry to provide an enabling environment for SMME's and promote networks for SMME's. The government's elaborate and ongoing national strategy to promote SMME's was outlined with a particular focus on Local Business Service Centres (LBSC's) whereby Clotex was used as a good example of a LBSC in the clothing industry. Twenty-one SMME's were researched to see how far the strategy could continue to help them.

The research outcome shows that the government is committed to the promotion of SMME's and that there are structures in place for the promotion of SMME's. Even though SMME's face some problems, there are support structures that they are utilising to help them with their business operation. Clotex is also evidence of the commitment of the Western Cape clothing industry to promote their SMME's. Respondents also indicated that they use their LBSC's when they have problems regarding their business or when they need information.

The dissertation is underpinned by Economic Sociology, Porter's National Competitiveness model, and the Industrial District model. This theoretical framework was used to anchor the dissertation into a perspective, which

argues that firstly economic activity is embedded in society. Secondly even though nations differ, there are universal principles in economic activity and finally, it is through the environment of networking that firms compete better and efficiently. This perspective was applied to the research recommendations which suggest that the present strategy should continue to promote networking and recognise the opportunities provided by globalisation and try to strategise to overcome obstacles thereof by applying the relevant insight provided by Porter's model, Economic Sociology and the Industrial District model.

Considering the findings, the South African situation, and the theoretical framework of this research, the summative recommendation is that SMME's promotion in the South African clothing industry should continue as conceptualised and as it operates right now, but carefully consider challenges in the global economy and yet take advantage of the opportunities that spring out in the process of globalisation.

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APPENDIX A: QUESTIONNAIRE

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**A Study on Small, Medium and Micro Enterprises Promotion
in the Western Cape Clothing Industry**

(A) DEMOGRAPHIC PROFILE

1. Sex:

MALE	
FEMALE	

2. Age:

< 21 years	
21 -30 years	
31-40 years	
41 -50 years	
> 50 years	

DOMESTIC BACKGROUND

3. What is your home language?

Afrikaans	
English	
Xhosa	
Other (Specify)	

4. How long have you lived in the Western Cape?.....

5. Where did you live before settling in the Western Cape?.....

6. How many people do you live with at home?.....

7. Are you a breadwinner?

YES	
NO	

8. What is your main source of income?

Present Business	
Another Job	
Household Income	
Other (Specify).....	

EDUCATION PROFILE

9. What is your highest level of education?

No Formal Education	
Sub A – Standard 5	
Std.6 – 9	
Std. 10	
Post Matric Education	

10. Have you undertaken any business training?

YES	
NO	

11. If yes, what courses did you take?.....

.....

12. Where were you trained?.....

13. How did you learn making clothes?

Formal Training	
Self- Training	
Family Training	
Friends	

14. Do you have any other type of training that you think is helpful towards your business?

YES	
NO	

15. If yes, how does it help you?

.....

(B) ESTABLISHING THE BUSINESS

16. How did you start your business?.....

.....

17. What did you need most to start your business?... ..

.....

18. How much did you need to have in order to start your business?... ..

19. What type of ownership is the business you are running?

Your own	
Family Business	
Partnership	
Co-operative	
Other (Specify).....	
.....	

20. How many people are presently employed in your business?... ..

21. Why did you open a business?... ..

.....

22. Do you rent or own the place where you run your business?

OWN	
RENT	

23. If you rent the place, how much is the rent per month?.....

24. Do you own, rent, or loan the machines?

OWN	
RENT	

25. If you rent them, how much is the rent per month?.....

26. If you loan them, how much is the loan per month?.....

27. What other services do you provide besides making clothes?.....

28. Do you have your own transport?

YES	
-----	--

NO	
----	--

29 If yes, what do you use it for?.....

.....

(C) PRODUCTION INFORMATION

30. What type(s) of garments do you make?.....

.....

31. How many of these garments do you make a month?.....

.....

32. To whom do you sell your garments?

.....

33. Are you subcontracted?

YES	
-----	--

NO	
----	--

34. If yes, to what firm(s) are you subcontracted?... ..

.....

35. Do you receive any assistance from your subcontractor?... ..

.....

36. How long have you run this business?... ..

37. Have you run other businesses before?

YES	
NO	

38. If yes, what kind of business?... ..

39. How long did it last?... ..

40. Why did you leave that business?... ..

.....

(D) MANAGING THE BUSINESS

OVERHEADS

41. Please list your fixed costs (per month) for the following items:

ITEM	AMOUNT
Premise rent	
Transport	
Machine Rent	
Materials (including buttons, zips, threads, etc.)	
Wages	
Other	

42. How much money do you usually make from sales per month?... ..

FINANCIAL MANAGEMENT

43. Do you keep financial records?

YES	
NO	

44. Are your financial records up to date?

YES	
NO	

45. Are household expenses kept separate from business expenses?

YES	
NO	

46. If yes how do you separate them?.....

.....
.....

47. How do you know if you have made profit or loss?.....

.....

FUTURE OF BUSINESS

48. What is your present goal for this business?.....

49. When do you hope to achieve it?.....

50. How are you going to carry on the job of achieving your goals?.....

.....
.....

51. What have you done so far to work towards your goal?.....
.....
.....

52. Who will be involved in your plan?.....

53. How much do you think you are going to spend?.....

54. What problems do you think you might face?.....

55. If you have problems where do you plan to go for help?.....

56. If plans fail what are your alternatives?.....

(E) ASSISTANCE IN BUSINESS MANAGEMENT

57. Are you in touch with other clothing firms?

YES	
NO	

58. Do you discuss problems with your employees?

YES	
NO	

59. Do you discuss problems with other clothing firms?

YES	
NO	

60. Have you contacted any organisation(s) to help you in running your business?

YES	
NO	

61. If yes, how often do go and seek help?.....

62. What is the name of the organisation(s)?.....

63. What kind of help did they offer you?.....

.....

Government Laws				
Industrial Councils				
Other (Specify.....)				

66. After your consultations with the service organisation indicate in which of the following have you experienced improvements (tick in only if you have consulted a service organisation).

Area	No improve.	Improve	Big improve	Don't Know
Declining Profits				
Price of Materials				
Finding Materials				
Meeting Quality				
Competing in Price				
Obtaining Loans				
Obtaining Credit				
Obtaining Orders				
Promoting Sales				
Designing Originals				
Business Skills				
Book Keeping				
Fixing Machines				
Paying Rent				
Finding Business Premises				
Buying New Machines				

Transport				
Government Laws				
Industrial Councils				
Other (Specify.....)				

67. What kind of assistance do you think you still need most?.....

68. What kind of help do you think you do not need anymore?.....
.....

APPENDIX B: A LIST OF LBSC's IN THE WESTERN CAPE

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