BLACK MANUFACTURING SMALL AND MEDIUM-SIZED ENTERPRISES IN THE WESTERN CAPE: AN ANALYSIS OF SUCCESS FACTORS

by

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ABSTRACT

This thesis examines manufacturing small and medium-sized enterprises (SMEs) from the Western Cape, drawn from three leading industries in the manufacturing sector: clothing, furniture, and panel beating and metal works. The aim of the study is to analyze factors that contribute to the success of black manufacturing enterprises.

To this end, the study isolated a group of black SMEs regarded as successful in terms of comparative studies in other countries. A sample of 20 SMEs was selected and detailed interviews formed the basis of the analysis. The information gathered during this process was analysed using Porter's model of competitiveness. A central finding of the survey is that the profile of a successful enterprise would include an entrepreneur with post-school training, a motivation for independence and enhancement of self-esteem, a participative relationship between workers and management, and a good relationship with customers.

Most of these entrepreneurs attained competitiveness independent of support institutions (private or public). Entrepreneurs interviewed mentioned that their performance could be enhanced by effective support in marketing and exporting, finance, training, information and technology, and subcontracting. The conclusion is therefore that the support envisaged in terms of the national stratergy for SMEs' advancement, would assist the individual enterprise's quest for competitiveness.

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ABBREVIATIONS

ANC	African National Congress
BSCs	Business Service Centres
CCMA	Cape Clothing Manufacturing Association
CEBRAE	Centre for Support of Small and Medium Enterprises (Centro Brazileiro de Apoio a Pequena e Media Empresas)(Brazil)
CMT	Cut Make and Trim
CSIR	Council for Scientific and Industrial Research
DBSA	Development Bank of South Africa
DTI	Department of Trade and Industry
FABCOS	Foundation of African Business and Consumer Service
FNB	First National Bank
GDP	Gross Domestic Product
GGP	Gross Geographic Product
GRP	Gross Regional Product
GUL	Get Up Lending Fund
IBTT	Informal Business Training Trust
IDC	Industrial Development Corporation
JIT	Just in Time
LEDP	Local Economic Development Partnership
LSCs	Local Service Centres
MEA	Medium Enterprise Agency (Japan)
MITI	Ministry of International Trade and Industry (Japan)
MTI	Ministry of Trade and Industry

NAFCOC	National Federation Chamber of Commerce
NAFCOC	National African Federated Chamber of Commerce and Industry
Nedlac	National Economic Development and Labour Advisory Committee
NGOs	Non-governmental Organisations
NMC	National Manpower Commission
NPI	National Productivity Institute
NSBC	National Small Business Council
NUFAWSA	National Union of Furniture and Allied Workers of South Africa
NUMSA	National Union of Metal Workers of South Africa
OECD	Organisation for Economic Corporation and Development
PROEXPO	Export Promotion Agency (Fondo de Promocion de Exportacienes) (Columbia)
R & D	Research and Development
RDP	Reconstruction and Development Programme
RMTCs	Regional Manufacturing Technology Centres
RSA	Republic of South Africa
RTO	Research and Technology Organisation
SACTWU	South African Clothing and Textile Workers Union
SADC	Southern African Development Community
SARB	South African Reserve Bank
SBDA	Small Business Development Agency
SBDC	Small Business Development Corporation
SCDA	Southern Cross Development Agency
SENA	National Training Agency (Servico Nacional de Aprendizaje) (Columbia)
SMEs	Small and Medium Enterprises
SMMEs	Small, Medium and Micro-enterprises
TTO	Triple Trust Organisation
UNIDO	United National Industrial Development Organisation
WCEM	Western Cape Economic Monitor

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Everything contained in this thesis is based upon my personal experiences, and any faults are mine.

CHAPTER 0

INTRODUCTION

1.1 The problem: its scope and dimension.

Global interest in manufacturing small and medium-sized enterprises (SMEs), has recently increased substantially. This interest has been fuelled largely by the awareness amongst policy makers and international agencies of the related problems of unemployment and poverty. Experience in a range of countries has shown that SMEs, particularly in manufacturing, can play a vital role as employment creators and generators of economic growth. Realisation that the formal manufacturing sector is unable to generate opportunities to absorb the increase in the labour force led to emphasis being placed on SMEs. Experience shows that almost all over the world a significant part of the population made its livelihood outside the large modern sector. Schmitz, indicates that many of these activities were not officially registered and escaped statistical surveys; such that, initially, their importance in the economy was grossly overlooked and their contributions to the overall development of society marginalised (Schmitz, 1982a:429).

In South Africa, there is uncertainty about the precise unemployment rate, but according to conservative estimates, put it between 18 to 20 per cent, and seems to be on the increase (Manning & Mashigo, 1993:5). Recent reports indicate that employment has been declining by 4.6 percent from the first quarter of 1994, bringing the figure of unemployment in the formal sector to 510 000, back to the levels that existed in 1980 (Indicator, 1995:42). The pace at which the economy is growing is not sufficient to accommodate the new entrants to the labour market. The South African non-agriculture GDP increased by 2.5 percent year-on-year, towards the closing months of 1994, disappointedly below the expected rate of 3.2 percent envisaged by most economic watchers (FNB, 1995:1).

In the rest of Africa, many countries are undergoing structural adjustment programmes aiming at correcting acute distortions that were made by unsound economic policies of post-independent regimes. Governments in these countries have looked to the industrial sector to spearhead economic recovery.

A response has been to turn to SMEs. The creation of these enterprises needs minimum and affordable outlay, material and skills. They play a crucial role in both political and regional economic employment. SMEs form a critical part of the overall industrial structure operating in areas in which scale economies (production and marketing) are not especially important, capacity intensity is often low, skill intensity often high and demand often highly specific and variable (Rothwell & Zegveld, 1982:20). SMEs also have potential for expansion. Case histories of medium and large sized firms have suggested that much of the growth of employment in large industry is due to the expansion of previously small firms through the size distribution (Anderson, 1982:913).

1.2 Timeliness of the study.

The phrase "small is beautiful" has become the common theme in numerous development planning offices throughout the world. Unfortunately, the renewed interest has not been backed by substantive research[1]. The structure of the SMEs, let alone their behaviour and performance has remained murkily shrouded. The meagre research that has been effected on SMEs, focused on their importance, contribution, efficiency and innovative capability. Detailed evaluations have been made on the disadvantages and factors that hampered the

[1] The amount of research devoted to this subject, has not matched the level of renewed interest. Even less research has been made to specific groups, such as manufacturing SMEs or enterprises owned by special groups; e.g. women.

growth of this sector. Much research (Schmitz, 1982a: Ruiters, 1994; Steel *et al.*, 1991) has indicated that lack of finance and credit facilities are a serious cause of sluggishness in the growth of manufacturing SMEs. Others (Watanabe, 1970; Du Toit *et al.*, 1994), cited the shortage of trained manpower, technology and lack of market access.

The major omission in the South African context, is the vital question of what makes a black manufacturing SME succeed. As Pyke & Sengenberger (1992) put it: What makes an individual small firm a success, more clearly, what inputs and support structures did contribute to the success of prospering SMEs in the first place?

The purpose of this paper is to address this important omission by making a study of a sample of manufacturing SMEs in the Western Cape - black owned SMEs in particular.

1.3 Objectives of the study

Increasing participation of the disadvantaged communities in manufacturing SMEs is crucial. This is not only due to the sector's contribution to employment creation, but its role in improving the technical skills of the black groups and the economy as a whole. "Because manufacturing activities require some technical skills on the part of the entrepreneur, small scale manufacturers tend to be more skilled than individuals operating in other types of enterprises." (Manning & Mashigo, 1993:34). Manufacturers are not only themselves highly skilled, but employ and train skilled personnel. They are quality conscious, able to make improvement in techniques on their own and quick to learn from others. "As manufacturers, they are versatile and resourceful with few resources at their command. If they cannot buy a machine, they will build it themselves." (Schmitz, 1982a:430).

The purpose of this research is to investigate the factors that lead to the success of a group of successful[2] black manufacturers and secondly, focus on the support structures that

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[2] The definition and criteria of successful enterprises will be elaborated in chapter four; but briefly, successful black SMEs managed to survive and thrive despite constraints from previous policies of separate development, and market failure associated with the provision of support services including finance, marketing assistance, training facilities; lack

contributed to their success. Finally, recommendations for policy interventions will be made. The policy recommendations will be made taking the following three objectives into account:

(a) Allow for the emergence of new manufacturing enterprises. Successful entrepreneurs tend to produce other successful entrepreneurs through training, apprenticeship and the influence of a role model. In a group of successful entrepreneurs in the USA who had founded small firms, twenty five per cent of their fathers had been small business proprietors; 10 per cent professionals, 19 per cent farmers and 8 per cent salesmen, clerks or supervisors (Boswell, 1973:43)

(b) Allow those in operation to survive. Support needs to be rendered to sustain the SMEs in the form of financial assistance, managerial and technological guidance; provision of market opportunities; information and training, and legal protection from unfair treatment by larger enterprises.

3) Allow those with potential to expand. Experience worldwide has shown that only a small proportion of small firms can grow to be large or even medium sized. Reasons for failure of SMEs to grow range from: complaints of unsympathetic banking communities; selling in geographic limited areas,[3] unavailability of skilled labour and technology, and constricting government purchasing policies (Barber, *et al.*, 1992:5). This research has to attempt to find what solutions can be employed to elucidate constraints that hinder SMEs growth.

In the process of tackling these questions, a recent World Bank[4], survey on successful SMEs in Japan, Korea and Colombia and Indonesia, provides assistance. The current research will draw on the findings and experiences of the World Bank report and emulate them to the Western Cape.

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of exposure to new technology and exclusion from subcontracting.

[3] It could also be said: lack of marketing opportunities and demand for their products, and impediments in creating niches which small firms can exploit.

[4] (B. Levy, 1994.)

1.4 Outline of the Paper

The introduction offers a brief review of the role of SMEs in the economy, in various countries.

Chapter one provides a framework for the analysis of successful manufacturing SMEs. It draws on Porter's work on competitiveness, in which he isolates factors which will distinguish successful enterprises[5].

Chapter two surveys the international experience regarding SME development. It analyses the role of SMEs in industrialised countries, evaluating the case of Japan and the European industrial districts, notably those in Italy. The experience of SMEs in developing countries is then focused on: Asia, Latin America and Africa. It concludes with a review of SMEs in South Africa.

Chapter three homes in on the issue of black entrepreneurship in the Western Cape. The constraints facing emerging and expanding manufacturing SMEs are examined. The chapter then critically explores the support framework available and envisaged national strategy to alleviate these constraints.

Chapter four presents the core analysis of this paper. The main factors and support mechanisms envisaged to be critical for the successful SMEs are outlined. These factors then form the basis for drafting the plan of the research. The methodology to be used for carrying out empirical research is presented. In this methodological summary, the criteria for a successful firm are defined and this leads to the index used in selecting the sample of the manufacturing SMEs to be studied.

Data and material gathered in the field work are then compiled and classified. The general characteristics of the sample are then assembled and investigated in depth so as to link the findings to the profiled theory of successful SMEs.

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[5] The two sources are: The Competitive Advantage of Nations (Porter, M., 1990) and The Competitive Advantage of Nations: The New Paradigm for Company Competition and Global Strategy (Porter, M., 1993).

The ultimate consideration in this chapter is to declare the results of the empirical study, and pave a way for the drawing of an assenting conclusion.

Chapter five, presents the conclusions and policy recommendations. These are made in context of the experiences of manufacturing SMEs from the disadvantaged communities of the Western Cape.

CHAPTER 1

AN ANALYTICAL FRAMEWORK

1.1 Competitiveness

The Porter model is becoming increasingly popular in South Africa, and it is now being applied to analyze and formulate policies relevant to the small and medium-sized enterprise sector. The following section will provide a concise outline of Porter's model of competitive advantage. This model will be adapted for analysis of the findings of an empirical research on black manufacturing SMEs carried out in the Western Cape.

1.1.1 Competitive advantage

(a) The Classical doctrine

In his analysis of what makes a firm competitive, Michael Porter has analyzed the sources of firms' competitiveness in great detail. Porter begins by drawing on classical school's doctrine of comparative advantage. Adam Smith's notion of absolute advantage, provides the basis for David Ricardo's doctrine of comparative advantage. Ricardo postulated that market forces will allocate a nation's resources to those industries where it is relatively most productive. This means that a nation might still import a good where it could be the low-cost producer if it is even more productive in producing other goods. The main translation of the comparative advantage theory, conceived initially to Heckscher-Ohlin, is based on the assumptions that nations all have equivalent technology but differ in their endowments of the factors of production, namely: land, labour, capital, infrastructure, natural resources , and good climate (Porter, 1990:11).

The classical school postulated that a nation would be competitive in sectors that made intensive use of the factors of production in which it was well-endowed. For instance, if a country is endowed with a large pool of labour, then it should concentrate its production in labour-intensive industries. Porter, argues however, that there are two modern traits that invalidate the classical paradigm. First, because of the globalization of markets, relying on home market productive factors exclusively does not make a country competitive. Second, the acquisition and employment of new technology, allows the firms to compensate for the lack of local factors of production. If a firm operates in a high-wage environment, it can decide to substitute capital for labour (ibid.).

(b) The five competitive factors

Porter takes the industry as the basic unit of analysis. He defines the industry as a group of firms that produce a comparable product or service and compete directly with one another. A strategically distinct industry encompasses products where the sources of competitive advantage are similar. There may be related industries that produce products that share customers, technologies, or channels, but they have their own unique requirements for competitive advantage (Porter, 1990:33-34).

Porter asserts that firms, through their choice of an appropriate competitive strategy seek to find a position within an industry that is both profitable and sustainable. The objective of a firm's competitive strategy is to sustain the firm's profitability. The fundamental requirement for a successful strategy is that it should be tailored to the circumstances prevailing in a particular industry, and to the skills and asset-base of the individual firm. Porter advocates five forces that should be taken into consideration in analyzing the competitive nature of an industry: (i) the threat of new entrants, (ii) the threat of substitute products or services, (iii) the bargaining power of suppliers, (iv) the bargaining power of buyers, and (v) the rivalry among the existing competitors (Porter, 1990:35). These factors are summarised on figure 1.1.

The five forces govern the prices firms can charge, the costs they have to bear and the level of investment required to compete in the industry. The threat of new entrants limits the

(c) The two components of competitive advantage

Porter separates competitive advantage into two components: Lower cost and Differentiation. Lower cost is the ability of a firm to design, produce, and market a comparable product more efficiently than its competitors. At prices at or near those of its competitors, lower cost translates into superior returns. Other countries have strived against their competitors, by producing comparable products at very low cost, employing low wage but highly productive labour and modern process technology purchased or licensed from foreign suppliers. Differentiation is the ability to provide unique and superior value to the buyer in terms of product quality, special features, and after-sales service. Producers who have a competitive advantage compete on differentiation strategies involving high product performance, reliability, and responsive service. Differentiation gives the firm the ability to command premium prices which lead to profitability as long as the costs are comparable to those of competitors (Porter, 1990:37).
Competitive advantage of either type translates into increased productivity for a firm. The low cost firm produces a given output using fewer inputs than competitors require. The differentiated firm achieves higher revenue per item than competitors. Successful firms have to pay close attention to both types of advantages, yet, maintaining a clear commitment to superiority on one. A low cost producer must offer acceptable quality and service to avoid nullifying its cost advantage through the necessity to discount prices, while a differentiator's cost position must not be way above that of competitors as to offset its price premium (Porter, 1990:37).

Recent world trends have shown that competitiveness is a dynamic notion. Technology is diffusing rapidly to different parts of the world; as a result, communication and transportation costs are minimised. However, the possibility of attaining low-cost factors from other countries or disseminating activities to low cost areas does not create real competitive advantages. Porter says, competitive advantage is attained by continuously upgrading these factors into more sophisticated types (Porter, 1993:10).

He however, warns that any advantage can be replicated by competitors sooner than it may be realised. Initially, the solution is to improve consistently the firm's performance against its existing advantages; for example, more efficient operation of its production facilities or more responsiveness in terms of customer service. This makes it more difficult for competitors to overtake a firm without having to involve extraordinary measures of innovation. Sustaining advantage demands change. It demands that a firm exploit, rather than ignore industry trends. It also requires the firm to invest to shut out avenues along which competitors could use. To sustain its position, a firm may need to discard current advantages to create new, advanced ones (Porter, 1990:51).

The development of a competitive advantage also develops from the way local customers respond to the products of the industry. Local demand can pressure firms to meet the high standards demanded by them. Demanding customers are far more likely to incite improvement and innovation than buyers from other places, because of high visibility, short lines of communication, and the possibility of a joint working relationship with local customers (Porter, 1993:13). Moreover, competitive advantage develops from the way firms organise and perform their organisational activities, such as the managerial skills of the managers, the preparedness of the sales staff and the knowledge and versatility of service technicians and repair mechanics.

(d) The Diamond Paradigm

Porter uses a model which he calls the *competitive diamond*[6], to explain why a nation achieves international success in a particular industry. The diamond is made of four factors, namely:

(i) Factor conditions e.g. skilled labour or infrastructure, necessary to compete in a given industry.

(ii) Firm strategy, structure, and rivalry: The conditions in the nation governing how companies are created, organised, and managed, and the nature of local rivalry.

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[6] The diamond paradigm may include other related factors such as the role of the government and chance. In this regard, the firm can appreciate the dynamism of its industry that results from the interaction of the four factors in the diamond, including the influence of government and chance. However, for the analysis of this paper the involvement of the government is not considered. In fact, only the influence of the four major factors of the diamond will be analyzed. In addition, the relationship between the diamond and geographic industry concentration, leading to the formation of "clusters" will be left out in this analysis of the competitive diamond.

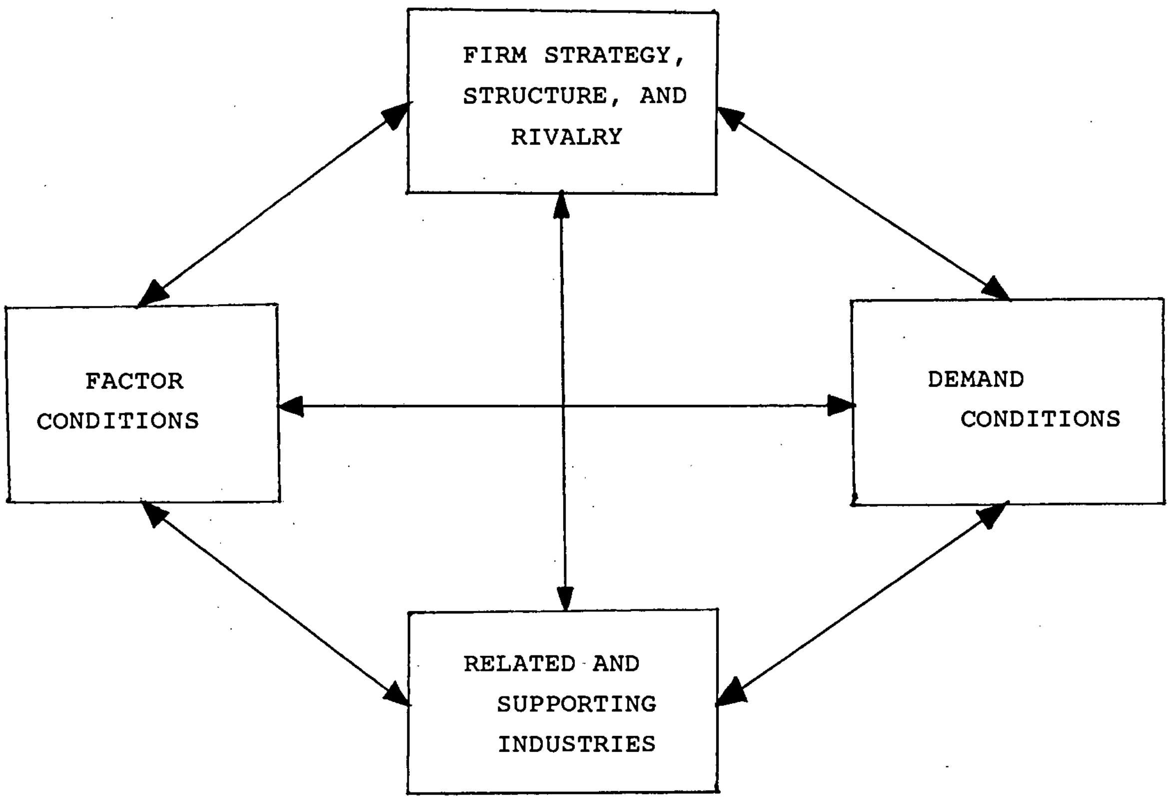
(iii) Demand conditions. The nature of home demand for the industry's product or service.

(iv) Related and supporting industries. The presence or absence in a nation of supplier industries and related industries that are internationally competitive (Porter, 1990:71).

The interrelationship among factors is demonstrated on figure 1.2.

Figure 1.2

The determinants of National Advantage



Source: Porter, 1990:72.

The effect of one section of the diamond on competitive advantage depends upon the state of the others. Higher factor conditions such as labour, or raw materials will not lead to innovation unless there is also a vigorous local competition and the technical and supplier foundation to overcome them. Serious weakness in any one determinant will constrain an industry's potential for advancement. The four factors also complement each other. Vigorous local rivalry not only spurs firms to improve but also inspires the development of unique pools of specialized skills and technology. A firm's ability to innovate and upgrade continuously is influenced by its proximity to the diamond. Having capable rivals, suppliers, demanding customers and providers of specialized factors, leads to greater pressures to innovate (Porter, 1993:19).

Firms gain competitive advantage in industries where home demand gives them an indication of customers needs. If domestic buyers are sophisticated and demand products of good quality, they will pressure local firms to meet high standards in terms of product quality, features, and services. Firms gain advantage if home buyers pressure them to innovate faster to cope or even achieve more sophistication than with products from foreign rivals. Because of proximity with home customers, cultural similarity, and clearer communications, firms are able to perceive, understand, and act on buyer needs and tend to be more confident in doing so. Understanding needs requires access to customers, open channels of communications between them and the firms's top technical and managerial personnel. In this way the latter can shape their production pattern and management style to comply with the preferences and taste of local customers (Porter, 1990:86)

1.1.2 Innovation

Drawing examples from experiences in several countries, Porter affirms that disadvantages in basic factors such as high wages or raw material shortages can often contribute to competitiveness. Sometimes abundance of basic inputs lead to inefficient use. Shortages, on the other hand can stimulate innovation, provided a favourable environment exists[7]. In Italy, private owned steel mills pioneered new mini-mill technology, to replace an ailing costly, steel industry. The mini-mills required modest capital investment, used comparatively small amounts of energy, and employed scrap metal as a feedstock. Mini mills are efficient at small scale and allow producers to locate facilities close to buyers of steel products and sources of

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[7] It is obvious that in order for innovation to take place, favourable factors such as availability of physical and human infrastructure, and suitable macroeconomic conditions must exist.

scrap. Competitiveness, therefore emerges from pressure. It arises out of a local context that coerces firms to innovate and upgrade continuously (Porter, 1993:13).

Competitive advantage grows not from a comfortable home environment, but out of pressure and challenge, according to Porter. The firm that successfully implements new or improved ways of competing is the one that pursues its activities faced with constraints. Therefore innovation and success, results from pressure, necessity, or even adversity. The concern of losing, and closing down, often proves more powerful than the hope of gain. Companies that innovate are not necessarily established leaders or even large companies. Economies of scale in research and development and innovation that would normally favour large firms are outweighed by the fact that many innovations do not involve complicated technology. Larger firms face many barriers in adopting new technology and are left behind by small firms (Porter, 1990:49).

The ability of enterprises to source low-cost factors does not create sustainable advantages. Factor advantages arise from highly specialized pools of skills, applied technology, and even sources of capital that are tailored to the needs of the particular industry. In chapter four of this study of SMEs in the Western Cape, evidence of firms employing specialised skills and applied technology, tailored for the clothing, furniture, panel beating and metal works sectors is provided.

Having attained a satisfactory and reasonably secure position in its area of competitive advantage, a firm with additional resources for expansion over and above those required to maintain its current advantages, may find that opportunities for expansion into new areas look more prosperous than further expansion in its existing areas. As long as the firm's position in the new areas is sufficient to ensure it the important economies of production and marketing as well as the advantages of widespread consumer acceptance and confidence, the additional investment required to procure a larger output of existing products may be considered relatively unprofitable when new and lucrative opportunities for apportioning of its funds are at hand (Penrose, 1980:136).

In entering any new field, a firm must consider not only the rate of return it might expect on its new investment, but also whether or not its resources are going to be sufficient for the maintenance of the rate of investment that will be required to keep up with competitors's innovations and expansion in its existing field as well as the new one. Even if the firm enters the new area equipped with an ingenious innovation and it is able to ward off competition with patent protection or other restrictive mechanisms, it must expect that in time it will be overtaken if it fails to continue to upgrade and innovate, and continue to develop its advantage (Penrose, 1980:137).

1.1.3 Scale economies

It used to be taken for granted that the biggest companies were the most competitive, because they could take advantages of economies of scale, through Fordist mass production. But there are two separate theories relating to growth and size that tend to contradict with this assertion. The first assumption implies that if all firms face identical U-shaped average cost curves, then a negative relationship between firm size and growth is to be expected. This is because large firms are assumed to be at or near their optimum size and would therefore have to grow only slightly, if at all, to reach peak efficiency. On the other hand, smaller firms would be operating at a level below the optimum size and would, as a result, have a large inducement to grow at a faster pace (Storey *et al.,* 1987:85).

The second assumption of the relationship between size and growth states that the modern large firm is characterised by a divorce of ownership from control. Large firms are managed by professionals who generally have a small equity stake but whose income is decided by the size of the firm and by their position in the company. Thus the managers, provided they can satisfy the shareholders by achieving a satisfactory rate of return will, personally, obtain higher incomes by choosing projects which increase corporate size rather than profits (ibid.).

Relating competitive advantage to economies of scale, many large firms enjoy economies of scale due to their sizes. But of all the factors of production, the entrepreneurs and managers of small firms, unlike the large ones, are the least standardised. Therefore the key to the competitiveness of small firms lies with the special knowledge, skills, or abilities of the entrepreneurs. Therefore the small firms use these abilities as an advantage to develop new products or services. Alternatively, the entrepreneur may develop a product which has, or is believed to have a better performance than existing products (Pratten, 1991:32).

The second assumption cited above, relating to the size of the firms, growth, and competitiveness details the divorce relationship in large firms, between management and ownership of the firm, which in turn makes the managers concentrate on improving the scope of their income rather than striving for the firm's profitability. Besides aiming at maximising profits, owners of small firms strive to retain personal control of their firms. They may even accept a low rate of return on their capital, time, and effort they exert into their businesses in order to retain control of the business. This enhances the quest for competitiveness (Pratten, 1991:34).

Three concepts; innovation, scale economies, and competitiveness seem to be connected to each other in respect to small firms. Small firms have the advantage of being quick in taking the challenge of innovations and new technology. The argument that a small firm's smallness make it lack economies of scale and scope, is therefore compensated by their readiness to adopt new techniques of production and the use of flexible manufacturing systems. The impact of technical change in a firm, is often discussed in terms of shifts in the production function, although, it can also be approached from the cost side. Given a set of factors and inputs prices, innovation may allow the firm to produce a higher level of output at the same cost, or the same level of output at a lower cost (Alcorta, 1994:756).

Therefore the impact of innovative change on cost and optimal scale is threefold. It may alter the share in unit costs of factors or inputs at any given level of production for any single commodity. It may also affect the cost of joint production of goods, possibly allowing economies of scope. Finally, it may alter the technical combination of factors or inputs, leading to higher levels of output. Small firms carrying out innovation and technological upgrading, thus compensate for their small sizes and attain competitive advantage (Alcorta, 1994:757).

On this point, Porter declares that competitive advantage is increasingly a function of how well a company can manage what he terms the *value system*[8]. Good management allows on-time delivery without a costly inventory, and not only does good management connect activities inside the company, but also create harmonious working relationship between the firm and its suppliers. The value system allows a firm to source cheaper sources of inputs, therefore successful cost leaders are also low-cost product developers, low-cost marketers, and low-cost service providers, drawing cost advantages from the value system. In this respect, small firm owners who exert direct control over their enterprises are in a better position to draw advantages from the value system, despite lacking the advantages of scale brought about by firm size (Porter, 1990:42-43).

A survey carried out among small UK firms by Pratten (1991), to determine their sources of competitiveness[9], managers were asked if the scale of their firms and the scale of production of their products made by their firms were sources of competitiveness. About 36 out of 64 firms surveyed considered the small size of their firms to be a source of advantage. They indicated that it was the large scale of production for the products they made (compared to their sizes) relative to their competitors, which gave them this advantage. Half of the remaining firms mentioned that the quality of their products was superior to their competitors, and some specialised. This specialisation included making distinct products for a niche market, making a similar product but selling to a niche market, making short runs, and making a broader range of products. They compensated for their competitors's scale advantage with low overheads (Pratten, 1991:70).

1.1.4 Education and competitiveness

A good basic educational system is necessary to support competitiveness, but is not sufficient. In contemporary world economy, specialised skills and training are vital to enduring competitive advantage. Many companies invest heavily to train their workers in specialised skill, both technical and managerial. In some developed countries such as

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[8] Value system includes suppliers, who provide inputs; including raw materials, machinery, and components and distributors or retailers.

[9] The survey was on small firms, in this survey defined as having less than 500 employees.

Germany, companies invest heavily to train their employees in more specialised skills. The government in these countries subsidize education, supporting many technical schools and research institutes tailored to meet the requirements of local industries (Porter, 1993:22).

Firms have a responsibility, not to mention a self-interest, in determining the type of training to be offered to their workers. Firms can shape factor creation in training institutes by playing an active role in helping institutions identify the needs of the industry, planning curriculum, placing trainees, and providing financial support for equipment and facilities. Firms can also establish working relationships with tertiary institutes and centres of research, through sponsoring visits by the training and research personnel to the firm. Lastly, a firm must maintain regular contact with centres of research that bears on its activities to be kept up-to-date with new development in technology, and innovations (Porter, 1990:595).

Having analyzed the theory of competitive advantage on the premises of Porter's model, sifted through its contents in relationship with relevant aspects such as innovation, scale economies, and education and training, the paradigm will form a basis for examining the issues of competitiveness that underpins successful manufacturing black SMEs in the Western Cape in chapter four. Before that, *a priori* review of SMEs' international experience and a South African perspective on black SMEs development will be made in the following two chapters.

CHAPTER 2

REVIEW OF INTERNATIONAL SME EXPERIENCE

2.1 Introduction.

Evidence gathered throughout the world indicates that the industrialisation process begins with rapid growth of small-scale enterprises. Some of these would enlarge to be medium-sized, and a smaller proportion expand to large firms or survive in a market niche where they can remain competitive as large-scale industries came to dominate the size distribution (Steel & Webster, 1991:1). This tendency of small firms to expand into larger organisations is prevalent in Asia and a few countries in South America. In many African countries as Steel & Webster, observe, most manufacturing enterprises remain small with fewer than 10 workers, although they provide the bulk of manufacturing employment and contribute from 26 to 64 percent of manufacturing value added (ibid.).

In South Africa, industrial policy particularly from the 1960's focused on import substitution. Industries were developed to reduce South Africa's reliance on strategic products, such as oil, in response to an increasingly hostile international economic environment. The focus was therefore on large investments to the disadvantage of SMEs. Prior to 1985 only 37.6 percent of jobs were provided by SMEs (Ruiters, 1994:23). During the 1980s, the policy outlook surrounding small scale industries began shifting from the tradition of outright repression to new initiatives for promotion. As a result, over the period from the early 1980's, 94.2 percent of all new enterprises in the manufacturing sector were SMEs, and 57 percent of all new employment opportunities were created by SMEs (SBDC, 1991:8)

Most black enterprises, according to the World Bank survey of 1993, have a comparatively recent history. Nearly 64 percent of microenterprises surveyed were less than four years old. Retail and food activities emerged more recently, with 54 percent having operated for less than three years. Engineering activities were having the longest life span, 48 percent reported being five years old or more. Only about 10 percent of surviving microenterprises graduate to become dynamic small and medium-sized enterprises in South Africa (World Bank, 1993:18 & 31 taken from Ruiters, 1994:47).

2.2 SMEs in Industrialised countries

The role of manufacturing SMEs in employment creation and enhancing economic growth in industrialised countries, continues to generate much interest in these countries. During the post-war epoch, the prominence of SMEs declined in these countries, and paved the way to large manufacturing companies. Large manufacturing enterprises influenced price levels, lobbied governments, emphasised minute fragmentation of work; typical of Fordism[10], and almost 'dictated ' the nature of market forces (Scase & Groffee, 1987:20).

Industrialised countries sensed the potential social, political and economic hazards of commercial monopolies that were created by these large enterprises. To counter this inauspicious tendency towards large firms, industrialised countries established policies aimed at encouraging the emergence of a post-Fordist production regime based on small scale, high-technology cottage industry, intended to hand back to labour some of the creativity of work Fordism has eliminated. This is reminiscent of the Industrial Districts described by Marshall. Small manufacturers are seen as a dynamic solution that will encourage innovation and competitiveness. The small-firm revival is viewed as the means of preserving the free market nature of modern Western economies (Murray, 1987:85).

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[10] For the purpose of this paper, Fordism can be defined as a labour process characterised by semi-automatic assembly-line mass production. In this production process the individual worker has little or no job autonomy and workers collectively are subjected to the uniform movement of a complex machine system.

The rate of survival of SMEs in industrialised countries is higher than in developing countries. This is partly because the average size of manufacturing plant and firm is much larger in the industrialised countries. Their definition of a small enterprise is often less than 200 workers and medium enterprise from 200 to 499 workers[11] (Little *et al.*, 1985:14). But more importantly, in the developed countries, the markets are large, and national incomes higher. Smaller industrialised countries have the opportunity of exporting a larger portion of their products. The availability of an elaborate and advanced infrastructure in the industrialised countries, permits economies of scale to be attained. SMEs growing under these conditions in the industrialised countries are at an advantage over their counterparts in developing countries. As such, there is a trend in expanding economies for the size of firms to grow over time (ibid.).

The abundance of large firms in industrialised countries and their dominance in the economy is not entirely an undesirable situation. Through subcontracting, franchising and licensing arrangements many large corporations offer sanctuary to small firms. As elaborated by Scase & Groffee, within the manufacturing and engineering industries, for example, large firms may assist small manufacturers in the production of components and specialised products. This mechanism helps small manufacturers to reduce manufacturing costs. Large firms may also buy manufactured products from small firms and give them an opportunity to expand (Scase & Groffee, 1987:21).

Subcontracting

Subcontracting needs to be approached with caution to avoid a relationship that leads to dependency and exploitation between the small producer and the large subcontracting firm. In developed countries like Britain, some construction companies, rather than engaging their own wage workers, subcontract small companies who do piece and contract-work using their journeymen and apprentices as labourers. These small companies lower costs by paying their workers and apprentices low wages with no pension schemes and social benefits of any kind (Schmitz, 1982a:435).

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[11] The definition of the sizes of small and medium enterprises in developing countries varies from country to country, but in many cases (as detailed in appendix A), it is limited to a maximum of 50 workers for a small-sized firms and between 50 to 200 workers for a medium-sized firm.

In other countries such as Peru, small manufacturers find it increasingly difficult to survive as independent producers and become out-workers or subcontractors; for example, one small tailor shop makes clothes for another small factory which is itself subcontracted to a large manufacturer. The result of this inter-dependency is that the large manufacturer controls the market; the small manufacturers produce parts or complete products for the large firm which sells them at high profits. The small producers are thus not independent, but simply an extension of the production network of large firms (ibid.).

2.2.1 The Japanese Experience in SMEs support.

In Japan, barriers to entry into the market for SMEs are reduced to a considerable extent by the practise of "Shitauke" or subcontracting. According to Watanabe, in 1966, more than 50 percent of SMEs in Japan were subcontracting (Watanabe, 1970:551). Japan has twice as many small ènterprises as the USA and nearly ten times as many as Britain. For the last 30 years, small firms have been critical instruments that made Japan a world leader in industrial competition (Trevor & Christie, 1988:26).

A very adaptable system used by the Japanese manufacturing is the Just in Time (JIT) mode. JIT is mainly employed in the motor industry. JIT is dependent upon the ability to produce products manufactured to specification on time every time. Although zero defect is something to aim for, the current state of the art in Japan is to achieve quality levels in terms of parts per million[12] (Hutchins, 1988:97). The JIT arrangement is extensively used in subcontracting in the Japanese motor industry. SMEs contracted to car manufacturers such as Toyota, are required to organise themselves so as to harness the collective thinking power, creativity, and job organisation required to meet the demands and discipline of JIT.

Not every small manufacturer benefits from this kind of support from large manufacturers. Competition is always very fierce. Many SMEs compete for trading opportunities with large

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[12] In other industrialised countries defect levels of parts per hundred are more the norm and tolerated. Parts per million cannot be achieved through traditional production methods, it requires the intensive application of the quality sciences and disciplines.

firms. Large firms in turn, tend to impose harsh terms of trade, which limit the independence of SMEs. There are cases where large manufacturers provide premises, extend credit facilities and dictate prices to SMEs. This results in large firms exploiting their smaller counterparts. Both systems offer opportunities for business start-up and they are becoming increasingly important as large companies try to slim down their operations to a set of high value-added core activities (Scase & Groffee, 1987:21).

2.2.2 The European Industrial districts

The Italian industrial districts characterised as the 'Third Italy' include the regions of Marches, Tuscany, and Umbria. The districts are characterised by the presence of small and medium-sized artisan firms in the engineering, textiles and clothing industries (Murray, 1987:84). Close geographical proximity helps in creating synergy effects by reducing transport and transaction costs. Transaction costs are minimised through mutual trust and cooperation between the firms (Pyke & Sengenberger, 1992:15). Thus an efficient blend of competition and cooperation exist among the firms.

Industrial districts are not limited to Italy. In Europe, industrial districts are prevalent in the regions of West Jutland in Denmark; Baden-Wurttemburg in Germany; and several regions of Spain (Pyke & Sengenberger, 1992:6).

Industrial districts are characterised by a coordinated network of small firms in close geographical proximity, each specialising in one function of a complete production processes, this 'cluster', resulting in economies of agglomerations, makes it more appropriate for the emergence of support organisations in the fields of training and marketing. Within the industrial districts, the private sector plays an important role in influencing the contents of training programmes, such that the composition of training programmes, reflects the requirements of the enterprises in the districts (Schmitz, 1994:896).

Strong interfirm cooperation within industrial districts is conducive to subcontracting. Firms normally accept orders beyond their capacities to enable them to compete with larger firms.

Firms with excess work would then subcontract some of the work to other firms in the districts, resulting in economies of scale and scope for the entire district (Pyke & Sengenberger, 1992:4).

2.3 SMEs in Asia and Latin America: success factors and support

In developing countries, renewed interest in SMEs has largely been prompted by the problem of unemployment. This is a contentious conclusion though, as testimony shows that in more advanced developing states such as Taiwan, there is evidence that employment in small manufacturing establishment with between 4 - 49 workers fell from 45 to 26 percent between 1954 to 1971 (Little *et al.,* 1985:9).

2.3.1 The Asian experience in SMEs advancement

SMEs in developing countries of Asia have made great strides in establishing themselves as an important sector in the economy. Entrepreneurs in Asia, appear to be more skilled and disposed to accepting new challenges than their Latin American and African counterparts[13] due to higher levels of technical development in the Asian countries. A large number of successful SMEs in many Asian countries are started and developed by entrepreneurs who are highly skilled and well educated. The World Bank (1994) study sample revealed that in Korea and Indonesia, nearly 80 and 75 percent respectively, of owners of SMEs have tertiary education. In Korea, half of the sample had degrees in science or engineering; and prior to starting their enterprises over 90 percent had experience in a related business (Levy, 1994:8).

The survey carried out in the Asian countries could not link the pervasiveness in subcontracting with success in exporting. For example, in the case of Indonesia, only 22 percent of SMEs had engaged in subcontracting before embarking in exporting (Levy,

[13] The Latin American and African experiences with SMEs will be detailed further ahead in this chapter.

1994:8). The ability to become a successful exporter[14] does not correlate with the educational level of the SME owner. Evidence from Indonesia had shown SMEs whose owners had a lower educational level, succeeding in breaking into the export market. The success of SMEs in exporting is therefore not linked to educational levels or experience in subcontracting, but to the presence of mechanisms which reduce the costs of search to SME suppliers, and to the importers, and which can reliably signal the reputation of suppliers to prospective importers and vice versa (ibid.).

2.3.2 SMEs in Latin America

Development of SMEs in Latin America seem to have lagged behind the pace of Asian countries. Columbia, is amongst the few countries which have put emphasis on this sector. The level of education for entrepreneurs who start and manage successful firms is quite high and vies with important Asian countries such as Korea. Columbian small and medium-sized firms made significant headway in subcontracting, and from the World Bank survey of successful SMEs, 67 percent of Columbian SMEs subcontracted out (Levy. 1994:17).

A country like Columbia, which lacks access to pre-existing private export networks[15], necessitates substantial collective marketing support. The delivery of collective market support may be hampered by the question of deciding on the methods to be used to provide such support and which institutions to involve. Methods suggested for Columbian SMEs included trade fairs abroad and at home; information on trade opportunities and buyer introductions. Trade fairs emerged as the most favoured means of collective support. The provision of collective support had been designated to the Columbia's national export agency, PROEXPO, created in 1967 to provide direct marketing support. Few SMEs in Columbia

[14] The criteria of being a successful exporter, rests with the SME's ability to integrate mechanisms that reduce the transaction costs of the SME to identify a party with whom to trade, and which can signal the reputation of the SME to prospective foreign buyers.

[15] Lack of access to pre-existing private export networks implies that Columbia, unlike the newly industrialised countries such as Korea, has not developed elaborate export information systems, mechanisms for promoting local exporters, and extensive international network of offices to niche into foreign markets.

benefited from this organisation's collective support, and instead, more support was coming from local industrial associations, such as the leather and garment industrial organisations (Levy, 1994:28).

In the Latin American case, Columbia has one of the best examples of SMEs success and availability of support compared with countries like Brazil. Brazil has concentrated on restructuring the capital goods industry, emphasising capital intensive rather than labour intensive techniques. Brazil went ahead and encouraged large scale industries and ignored small and medium-scale manufacturing. All they did in support of SMEs was to organise managerial training programmes through the Brazilian Centre for Support of Small and Medium Enterprises (CEBRAE). This is because the government believed that all problems with SMEs were caused by mismanagement rather than the environment with which they operate (Schmitz, 1982b:179-180).

2.4 SMEs in African countries, and support mechanisms.

2.4.1 Characteristics

SMEs in Africa are high-risk enterprises. Of all new enterprises established, about 85 percent fail, leaving only 15 percent successful. The reason for the high failure rate is that African governments have not created an enabling environment for the indigenous private sector to survive (Mutharika, 1992:3).

When evaluating the criteria of success for Africa's SMEs, consideration must be given to the difficult economic and social conditions of the countries in which SMEs operate. The characteristics of promising African SMEs tend to differ with SMEs in Asia and Europe, due to differences in the degree of development.

The age at which entrepreneurs start their businesses in Africa is not expected to differ significantly with any other place where research has been carried out. Entrepreneurs who took over businesses from their parents, are expected to be younger than entrepreneurs who had to work over the years to build their own firms. Concerning education, the general educational levels of African entrepreneurs tend to be lower than their Asian and Latin American counterparts. A survey of successful SMEs in Ghana, found that 15 percent of small business owners had no education at all; 40 percent completed middle school, and only 17 percent had post-secondary training (Steel & Webster, 1991:11). In contrast, a random survey of successful enterprises in Korea and Colombia, showed that over 80 percent of SMEs entrepreneurs in both countries had some university education, and the figure was 75 percent for Indonesia (Levy, 1994:8).

Turning to reasons that prompt an entrepreneur to go into business, in Ghana, 37 percent of those sampled indicated that they saw a profitable opportunity and took it; followed by 21 percent who said they were trained and prepared for it (Steel & Webster, 1991:12). In a study in Japan, more than 70 percent of Japanese entrepreneurs indicated that they were motivated by the status of being the business proprietor. In other words, a majority of small Japanese entrepreneurs are motivated by the ambition for independence and accomplishment (Umeki, 1966:18; cited in Watanabe, 1970:542). The reason for such a disparity, reflects on the scale of social and economic advancement of Japan in relation to Ghana. It can be implied that entrepreneurs in Africa launch their businesses mainly for subsistence purposes, whilst in developed countries, accomplishment tend to be the primary motive.

2.4.2 Support schemes to African SMEs

In relation to the study in Ghana, the firms surveyed were asked to indicate the foremost constraints affecting their businesses. About 23 percent cited the lack of credit as their main constraint. Lack of demand was mentioned as a problem by 17 percent, raw materials cited by 7 percent, and 6 percent complained about stiff competition (Steel & Webster, 1991:17). Additional constraints on the growth of Africa's SMEs came from government actions. De Vletter (1992) in his research on small enterprises in Mozambique mentioned that despite the government's recognition of small scale production and the need to support it, serious problems continued to hamper small business growth such as, high levels of taxation (all firms, including small firms, are subject to a 50 percent profit tax); excessive import duties on capital goods needed for production but which are not produced locally, and sluggish and often corruption prone bureaucracy to obtain trading licences (De Vletter, 1992:7).

Support for SMEs in African countries is mainly provided by the governments and NGOs. The government of Kenya for example, has long played a major interventionist role in the small enterprise sector. Government programmes have attempted to address human, financial, and physical resource constraints by providing training, credit, infrastructure, and to a limited degree, incentives for purchase of capital equipment. Out of over 600 NGOs and other private organisations in Kenya, 45 are involved in programmes to promote SMEs. The NGOs have provided technical and managerial training, advisory services, credit and in a few cases, tools or business premises (House *et al.,* 1993:1218). Both the government and the NGOs' support programmes, besides being pro-active in modifying their programmes in the light of new information and changing conditions, have not had enough impact to satisfy the great demand for such support services.

In other African countries support for SMEs has been limited. The government in Sierra Leone has concentrated on financial support, fiscal subsidies, and tax concessions to large firms, in effect, penalising smaller firms, making them incapable of competing effectively. For an example, tax concessions enable large firms to waive import duties on raw materials for a period of time. Small manufacturers without such privileges face higher prices for their raw materials and fail to compete in the marketplace (Chuta & Liedholm, 1982:110).

The tendency in some African countries has been to support only those SMEs that are creating jobs. Financial support is rendered to enterprises that are expanding employment over those seeking modernisation without employment expansion. This selective type of support has limited long-term benefits to the African countries. African SMEs are faced with low productivity, and the cure for low productivity is not the creation of more jobs, but improvement in productivity. The right SMEs to support, so says Anderson (1982), are those generating a satisfactory return on investment; whether or not an expansion of employment or of fixed assets is involved (Anderson, 1982:938).

In general, African countries face a shortage of *ex post* evaluation of the many support programmes for SMEs that have been implemented in different countries of the continent. Such an evaluation is critical so that African countries can isolate areas that have shown improvement from those that have resulted in dismal failure. African authorities can then restructure their support systems and improve this important sector for their ailing economies.

2.5 SMEs in South Africa

The previous policies of separate development, kept potential entrepreneurs out of the urban areas and away from direct involvement in the modern economic process. White business involvement on the other hand, grew along the big business path rather than through grassroots expansion. Small businesses as a whole received limited attention and encouragement from the state and large businesses (Thomas, 1992:482).

In February 1981, the Small Business Development Corporation (SBDC)[16] was formed. Its objectives centred on the development of entrepreneurship among all population groups in South Africa and forward support, through the provision of business premises, finance, marketing, information, training, and lobbying for the removal of unnecessary legal restrictions and bureaucratic practices (SBDC, 1991:2).

Arising from efforts to encourage small enterprises in the country the following facts are evident in South Africa:

(i) More than 85% of business enterprises in South Africa can be considered small, with total assets not exceeding R2 million (SBDC, 1991:1).

(ii) Approximately 40% of overall economic activity in South Africa can be accredited to small scale enterprises in both formal and informal sectors (ibid.)

(iii) Approximately 75 per cent of new jobs in South Africa are generated by the small business sector. Presently, out of the 14,3 million active labour force, SMEs provide some

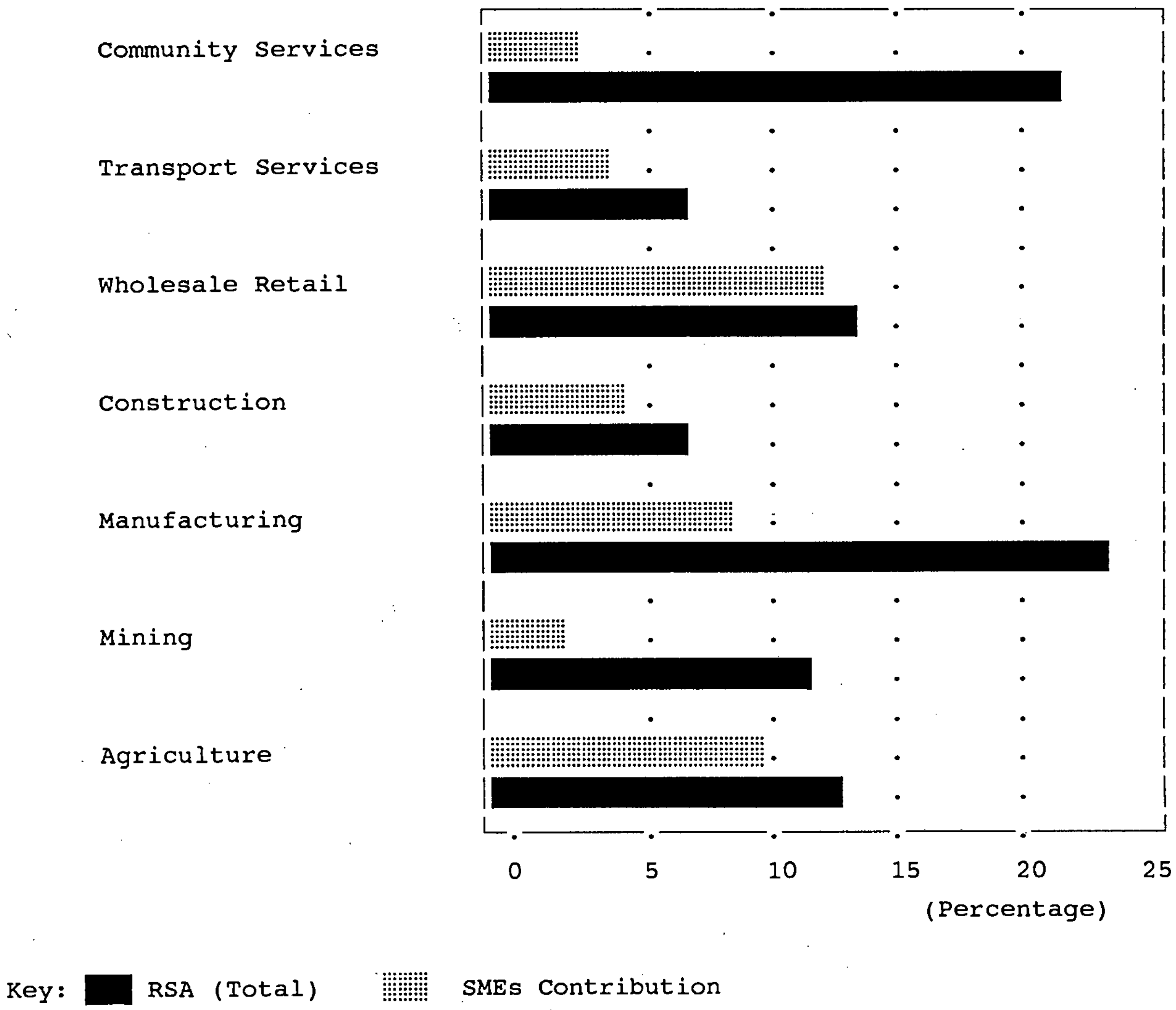
[16] The SBDC is to be streamlined into a smaller organisation, with parts of its functions taken over by a new Small Business Development Agency (SBDA). Details will be provided in chapter three.

6.9 million jobs; divided as follows: SME (formal) 16.7 per cent and SME (informal) 24.5 per cent of total employment (ibid.).

Figure 2.1

SME Contribution to Employment (%)

(Formal Sector Only)



Source: Ruiters, 1994.

Figure 2.1 shows the contribution to employment made by formal SMEs in comparison with the contribution made by all sectors in the South African economy.

The structure of SMEs in general, together with the provision of support services have sparked a lot of discussion in South Africa. Discussions have centred on the way in which support services have been rendered and to which areas of the economy has it been emphasised. The nature of the support rendering organisations has come under scrutiny with a call for the modification of the entire support framework in the country, to reflect the critical nature of the contribution of SMEs in the economy, and the special needs of SMEs belonging to the previously disadvantaged population groups. Chapter three looks in detail at the basis of the recent discussion; concentrating on the constraints and envisaged support mechanism for black manufacturing SMEs.

CHAPTER 3

A SOUTH AFRICAN PERSPECTIVE ON BLACK SME DEVELOPMENT

3.1 The black entrepreneurship issue in South Africa

The government, through the Business Act of 1991, (Manning & Mashigo, 1993:60), removed some[17] of the restrictive Acts governing black micro-enterprises, thus creating a free environment for blacks to operate manufacturing businesses. Prior to that, restrictions limited the ability of many black entrepreneurs from owning manufacturing enterprises, seriously affecting the nurturing of black entrepreneurship.

Entrepreneurship, according to Watanabe (1970), is the driving force behind economic development. Without it, labour, capital and technology remain practically useless. Watanabe's arguments are relevant to the situation in South Africa, because it is not the shortage of resources, but the lack of the ability and determination to put them in productive use that has retarded economic progress in black South Africa, especially amongst the African group. The participation of African entrepreneurs is mostly limited to informal-sector microenterprises with less than 10 employees (Nattrass, 1992:27). The crucial issue in planning for the development of the disadvantaged groups, is to develop potential entrepreneurial resources and then ensure that they are employed productively (Watanabe, 1970:532).

The term entrepreneurship as elaborated by Anderson (1982), is very broad. It can be divided into those functions related to the making of an investment decision and establishing or

[17] Some of these restrictions included laws banning black people from operating businesses in urban areas.

expanding a business. Second, entrepreneurship can also relate to the functions of running the business after the investment has been made. Being endowed with the factors of production will not result in sustainable profits to the firm if there is a lack of determination and ability to put them to productive use.

Strictly speaking, the two points are not distinct from each other, but related, especially in small enterprises, because once the enterprise is established, the task of managing and running the business by the owner follows. People will establish manufacturing enterprises if the expected returns exceeds the initial outlay of launching the business. Taking into consideration that the entrepreneur will spend most of his time running the business, he will weigh this against the opportunity cost of being employed somewhere else and earning a salary.

There are other issues that will be considered by a prospective entrepreneur prior to launching a business. A manufacturing entrepreneur will appraise the chances of finding a niche in the market and demand for the products of his enterprise. Second, the entrepreneur will deliberate on the availability of inputs, supply of infrastructure, technical services and more importantly, finance. The absence of one of these factors, will influence the decision of the entrepreneur (Anderson, 1982:929). Black entrepreneurs in South Africa, thinking of venturing into manufacturing, are likely to get negative feedback on the possibility of having a favourable environment for the prosperity of their enterprise.

With only 17 percent of manufacturing enterprises in South Africa being black-owned (Ruiters, 1994:21), South Africa lags behind when compared with some African countries. In Africa as a whole, small firms provide the bulk of manufacturing employment, and contribute from 26 to 64 percent of value added. (Steel & Webster, 1991:1). Increasing participation of the disadvantaged communities in manufacturing SMEs is therefore crucial. This is not only due to the sector's contribution to the creation of employment, but its role in raising the levels of technical skills of black groups and the economy as a whole.

The nagging problem is to isolate the constraints that impede the emergence and development of black manufacturing entrepreneurs. In doing this, it is appropriate to analyze the types and availability of support structures that could encourage the development of this sector. The following two sections examine the major constraints facing black manufacturing enterprises and the support framework that may be created to alleviate the constraints .

3.2 Constraints facing black manufacturing SMEs

The smallness of SMEs may give them advantages to be more labour intensive, utilize low levels of technology and give them flexibility to change product lines and inputs. However, small firms also face many limitations and problems. Pyke & Sengenberger, suggest that the major problem for small firms is not being small but being lonely. Small firms on their own, lack resources and the economies of scale and scope normally attained by large companies (Pyke & Sengenberger, 1992:11). Large firms enjoy economies of scale with respect to plant; economies of scale with respect to management and marketing; superior technical and management efficiency; preferential access to supporting infrastructure, services and external finance (Anderson, 1982:923). In the following profile, the constraints facing SMEs and types of support mechanisms related to the constraints are outlined.

3.2.1 Need for credit facilities

Access to credit may constitute a most significant obstacle facing SMEs, as it affects the very capability of the SME owner to get resources to run the enterprise (Steel & Webster, 1991:17; House *et al.,* 1993:1212). Without funds it is impossible to purchase equipment and inputs for the enterprise, pay wages, service machinery and undertake the day-to-day running of the SME. Many SMEs start operating with very little funds. A few manage to save and use these funds for growth and expansion. For a majority of firms however, they are not able to accumulate enough funds to expand and create more jobs. Financial institutions are reluctant to offer credit to small high risk businesses that are not deemed to be credit-worthy. Firms that have no bank accounts, or assets that enable them to qualify for a loan are sometimes forced to depend on middlemen or money lenders who charge higher interest rates on their funds than established financial institutions (UNIDO, 1969:6).

South Africa's financial sector has been hesitant to offer loans to the risk-prone and geographically dispersed SMEs, in particular black emergent enterprises. Previous restrictions, forced removals, influx control, migrant labour and job reservation, made it impossible for blacks to acquire collateral as a basis for loan financing (MTI, 1994:25). Blacks were designated to different homelands, and they were not recognized as permanent settlers in urban areas, making it more difficult for them to have credibility in acquiring bank loans.

Another constraint facing black owned SMEs is the high interest rates charged by the financial institutions. For example, the overdraft rate on clearing banks of 17.50 percent, and term lending rate of 15.25 percent, for the first quarter of 1995, (SARB, 1995) makes the cost of servicing loans prohibitively high for the SMEs. It would be unrealistic to expect these financial institutions to arbitrarily lower interest rates, knowing that alterations in interest rates, are a result of intertwined macroeconomic processes, involving the costs of capital, changes in prices, the money market, balance of payments, government spending, consumption, etc. The problem of high costs for capital should not preclude efforts to procure feasible financial schemes for this important sector. Support may be provided by established local institutions like the Development Bank of Southern Africa, by establishing lower-interest loan schemes. Private organisations including the NGOs should also be involved in supplying micro-loans, especially to small-sized enterprises[18] (DTI, 1995:31).

3.2.2 Marketing and Exporting problems

Access to markets is normally one of the major hindrances to the growth of manufacturing enterprises. Schmitz (1982a), conjectures that the blockages lie in the pre-existence of very advanced technologies and the control which large firms exert over product markets and raw materials. As such, SMEs find it hard to penetrate markets that are dominated by large firms. In addition, SMEs do not have resources to establish distant markets or distribution agencies.

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[18] Procedures of devising loan schemes that are more attainable for SMEs from disadvantaged groups, such as community banking schemes, will be discussed in section 3.3.1.

The marketing problem facing black manufacturing SMEs could be alleviated if large companies were prepared to purchase from small firms. In turn, large companies could benefit from such an arrangement from low prices, greater speed and flexibility of response, and more innovative products. However, the information costs involved in seeking out the SMEs, and the perceived risks of dealing with unknown small producers; together with the attitude that SMEs cannot deliver on time and in stipulated quantities, result in this potential being undermined (Barber *et al.*, 1992:14).

The problems associated with exports are related to the SMEs' inability to meet the information costs of searching for export markets. It also revolves around the lack of a mechanism whereby a prospective buyer can communicate with the SMEs. Lack of access to appropriate, relevant and understandable information and advice is one of the most prominent obstacle of SMEs[19]. The importance of this constraint is well established. As Pyke & Sengenberger indicate, exporting today demands an enormous amount of technical knowledge and legal expertise; expensive know-how about the technical norms, licences, legal procedures etc., in foreign countries is needed (Pyke & Sengenberger, 1992:16). In developed countries, small firms that aren't able to establish their own overseas exporting contacts, use agents who deal with many products, hence spread costs over a wider product range (Pratten, 1991:75-76).

The Danish export manager-for-hire system, is one example of this process. Consultants are placed at the disposal of SMEs and can be hired by any SME that wishes to export. The consultants assist the SMEs to prepare all relevant export documentation and make a follow up on the consignment to the port of destination. The consultants also offer counsel and information on foreign markets and ways of marketing SME's products overseas. Under this scheme, a database bank is also kept at the disposal of SMEs which desire to be up-to-date with new sources of foreign markets, or use the facilities to promote their own products overseas. This approach, which is an example of collective marketing, is not yet prevalent

[19] An analysis of mechanisms to provide access to business information and advice to SMEs under the DTI scheme is discussed in section 3.3.9.

among black manufacturing SMEs in South Africa[20]. In short, SMEs' success in export markets require the presence of a mechanism which reduces the costs of search to SME suppliers and to their buyers, and which can reliably signal the reputation of suppliers to prospective buyers (Levy, 1994:8).

3.2.3 Technical assistance and technological information

Developing new products and acquiring new production capabilities is vital to the growth and development of SMEs. To enable manufacturing SMEs to achieve this, proper maintenance of existing equipment and machinery is important. Equipment and machinery, even if properly looked after, do become obsolete, and incapable of coping with new methods and pace of production[21]. Maintenance of production tools is always an expensive exercise and a major burden for cash-strapped black SMEs. The problem is exacerbated by the lack of adequate support infrastructure to alleviate the problem of acquisition of technical needs of black manufacturing SMEs.

A firm encountering increased competition or declining profit margins may decide to reduce its selling prices by implementing a new production process. The new process, most likely may require improved technology. For example, a furniture manufacturer using hand tools may opt for a multi-purpose wood-working machine that will enable the manufacturer to produce more items in a shorter time, use less labour time, and produce furniture of better quality. Although SMEs are active sources of innovation and acceptance of new technology, innovation calls for highly skilled workers and qualified engineers, especially in research and development (OECD, 1982:32).

SMEs are limited in size, as such they are unable to invest in Research and Development (R & D). SMEs also face the difficulty of accessing information on innovations and new technologies from the outside world. Limited financial capability of SMEs, poses an

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[20] There is an envisaged plan to provide export support for these SMEs prepared under the DTI programme. It will be discussed in section 3.3.2.

[21] Old and outdated equipment such as manual sewing machines are slower than new automatic models, as a result; they cannot cope with increased volumes of production and the speed required to meet delivery deadlines.

additional problem to acquire innovation. This limitation in SMEs' capability to access new technology, needs to be alleviated by the intervention of the Department of Trade and Industry (DTI) through its support programme for industrial innovation.

With the Council for Scientific and Industrial Research (CSIR) as the leading parastatal, the support programmes for industrial innovation can be implemented. Universities and technicons have to be involved to systematically address the SMEs' needs in R & D, with emphasis in the field of appropriate technology[22]. Appropriate technology may be emphasised for small enterprises operating in labour-intensive, low-skill areas, such as rural areas. In rural areas, for example, energy in the form of methane gas can be tapped from animal excreter and other organic waste, and used as an environmentally friendly and cheap source of energy in small manufacturing units (DTI, 1995:36).

At the grassroots level, the proposed Local Service Centres (LSCs), are regarded as best suited to disseminate technology information to individual SMEs and to identify any areas that require further technological investigations. In the rural areas, emphasis will have to be placed on product development and the implementation of low-cost state-of-the-art technology[23] (ibid.).

3.2.4 Implementation of training programmes

A shortage of skilled and trained manpower presents special difficulties to black manufacturing SMEs. Even when skilled workers are available, it is sometimes beyond the financial ability of, especially, the smaller entrepreneurs to seek their services. SMEs are more labour intensive as compared with large enterprises, even if there has to be a budget allocated for training, it would be thinly spread over employees. Second, the lower levels of specialization in smaller enterprises affect the returns from investment in training and the

[22] These schemes will nevertheless, have to be implemented in the context of specific industry or sector programmes, e.g. the clothing industry, furniture industry etc..

[23] A more critical role in providing best channels to filter technology information, can be played by private support mechanisms, spearheaded by the NGOs, as will be explained later.

willingness to fund it. Third, small firms investing in employee training have no means of committing employees to the enterprise after acquiring training, thus, reducing the rate of return to this type of investment. Fourth, as job security is not guaranteed in SMEs, this reduces the willingness of employees to fund their own training, limiting the skill level of the enterprise (Bosworth, 1992:74).

The development of black enterprises faces a further constraint of lack of managerial skills on the part of the entrepreneurs themselves. When the entrepreneur lacks such skills, the consequence may impact on the existence of the business as a whole. If the owner or manager of the enterprise does not posses managerial skills, certainly the firm's performance and growth potential is bound to be restricted.

Diversification into new products and expansion of scale is often prevented by inadequate levels of both technical and managerial skills. Inferior education, together with statutory restrictions with regard to artisanal training, resulted in a limited number of black entrepreneurs having technical and managerial skills crucial for SME expansion and success. There are 26 industry training boards currently in South Africa falling into two categories: those which offer training and those which offer accreditation. The majority of the training boards simply offer accreditation services, and of those offering training[24], many only offer courses up to artisan level (IDR, 1995:58). There is a great need for upgrading these boards and make them more accessible to SMEs from the disadvantaged communities. Section 3.3.4, highlights plans by the DTI concerning worker training.

3.2.5 Acquiring machinery and raw materials

Literature on manufacturing SMEs highlights the difficulty in obtaining raw materials and machinery as one of the major constraint (Schmitz, 1982a:439; Chuta & Liedholm, 1982:101). But a careful analysis of this constraint needs to be made. In poor developing countries, the problem is acute because such materials are not available in those countries and

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[24] The Clothing Industry Training Board (CITB), is one of the few training boards that are advanced in worker training, and offer a broad range of training in the clothing sector. A comprehensive review of this board and other training facilities is made in chapter four.

have to be imported using scarce foreign reserves. Small enterprises are the worst sufferers from the shortage of foreign reserves. Large enterprises may qualify for credit from foreign governments or suppliers of foreign machinery and raw materials, and suffer less (UNIDO, 1969:6).

According to the World Bank report, South Africa is listed as an upper-middle-income country. During the period 1980 - 1992 South Africa had experienced a negative annual growth rate in manufacturing (-0.2 percent). GDP growth had been a mere 1.1 percent, and GNP per capita at 0.1 percent. South Africa's performance in relation to other upper-middle-income countries, has been dampened due to the 1980s' decade of exclusion from international capital markets and political uncertainty (World Bank, 1994:163). South Africa, nevertheless, has no shortage of basic raw materials or machinery required by most manufacturing SMEs. The problem likely to face these enterprises is lack of sufficient funds to procure material and machinery. SMEs manufacture products according to their ability to procure material, and engage the type of machinery they can afford. Manning & Mashigo, observed that furniture manufacturers producing low value furniture for low income consumers, tended to use mostly second-hand wood, which reduced their costs substantially. On the other hand, furniture manufacturers producing high quality products used real treated wood and wood-products that were costly and needed extra time and effort to prepare (Manning & Mashigo, 1993:44).

3.2.6 Factory premises and Infrastructure

For most black manufacturing SMEs, acquiring suitable factory premises is a problem, especially, when planning expansion. Where such premises are available, the rents are high. The SBDC claims that they are assisting small businesses by restoring old buildings for use by SMEs and erecting new premises in underdeveloped areas (SBDC, 1991:2). Such projects are welcomed, but some of these premises have to be established right in the townships and rural areas, and rented at rates that would be affordable by the disadvantaged groups they intend to serve.

Infrastructure can be classified into three categories: physical, social and human infrastructures. South Africa in general, has ample reserves of each of the three categories. The country is endowed with good roads and railway systems, adequate telecommunication systems, and electricity generating facilities. It has less bureaucracy and dishonesty in the public sector compared to other developing countries. The country has a pool of trained personnel and skilled manpower with encouraging R & D programmes (Stern, 1991:128). The concentration of infrastructure is however, highly skewed. For black manufacturing SMEs, especially those located in African townships, infrastructure in general is remarkably inadequate. Because of the historic inattention of these areas, serious constraints to the emergence and development of black enterprises have resulted. Black townships have been identified as areas requiring special attention in the Reconstruction and Development Programme (RDP) (MTI, 1994:24).

3.2.7 Business environment

In some developing countries, legal concerns that block entry into self-employment or constrains a firm's growth, fall into seven broad categories: licensing and registration, regulation of premises, labour laws, taxes, debt collection, lack of legal protection for product innovation; and foreign trade restrictions (House *et al.,* 1993:1216).

Trade licensing serves not only as permission to operate a business, but also permission to locate a business in a particular area. Until recently[25] African-blacks manufacturing enterprises were precluded from operating in metropolitan or urban areas and were confined to underdeveloped townships or rural areas. Exceptions were made for the coloured and Indian communities, some of whom were allowed to own and operate businesses in urban areas. The majority of the businesses were in retail and services, only a few were in the manufacturing sector. In other words, trade licensing restrictions that excluded the black groups in general from accessing other areas of the economy, served as a major barrier to black SMEs advancement[26].

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[25] Towards the end of the 1980s when a new dispensation was beginning to unfold.

[26] With the enactment of the new government of national unity, trade licensing restrictions against blacks have been removed.

Minimum wages negotiated through the national industrial councils and enforced by the unions, for example, the stipulated R13.35 per hour for grade A employees, and R6.05 per hour for grade H workers[27]: for iron, steel engineering and metallurgical workers, may be a burden to SMEs, especially if they are imposed without consideration of the financial position of the SMEs or whether the SMEs are experiencing a slump in production.

Concerning taxation, many SMEs are reluctant to expose their annual turnovers fearing re-assessment of their income taxes. This implies that taxes imposed are normally high and tend to be burdensome to the SMEs.
An additional difficulty, is the compliance with a variety of tax and levy laws. According to Coopers & Lybrand in Natal, at least fifty statutory returns have to be completed during the course of the year. There are different submission dates for each type of tax and varying definitions of the bases on which the different taxes are computed. The Katz Commission had recommended one fixed return date for all statutory returns, a single central point for all necessary registrations and a common definition of earnings for employees tax (Business Report, 16/03/1995:iv). Proposals for tax relief for SMEs were made in the 1995 budget, and will be analyzed later in this chapter.

Inappropriate or unduly restrictive legislative and regulatory conditions are often viewed as a hindrance to small enterprises' access to the business sector and as an obstacle to growth. All over the world, including South Africa, there is a discussion on the proper degree of regulation and deregulation in the business scene. Unduly strict regulations often harm small, and in particular emergent entrepreneurs and benefit larger established firms (MTI, 1994:21).

3.2.8 Short-comings in Subcontracting

Two types of subcontracting can be identified: commercial and industrial. In commercial subcontracting, the parent firm supplies the subcontractor with machines, material and

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[27] Grade A workers in the iron, steel, engineering and metallurgical industries refer to fully trained artisans; Grade H may include cleaners, helpers and other unskilled workers.

sometimes, finance. The subcontractor manufactures the product then sends it back to the parent firm, which markets the product under its name (Watanabe, 1970:551). This method is widely used in South Africa by large retail clothing outlets subcontracting small clothing manufacturers through the Cut Make and Trim (CMT) scheme. In the second method, the parent company subcontracts the contracting firm to make only components of a finished products, which is to be manufactured and sold by the parent firm. The parent firm takes full advantage of economies of scale made possible by automation and mechanisation, while relying upon subcontractors for the labour intensive processes. Car manufacturers use this pattern in South Africa, by subcontracting small firms to make floor mats and other products. It is also widely used in the mining industry and food processing industry.

The first major problem experienced by black manufacturing SMEs is that few large firms subcontract them. Large firms tend to subcontract to more established enterprises located in urban areas. Large clothing retail stores are increasingly engaging in vertical integration, by producing their own clothing, consequently negating the need of involving smaller manufacturers. The second problem involves the fierce competition created by the subcontracting firms, which results in subcontractors operating with marginal profits. Sometimes large firms use the threat of rescinding contracts if the subcontractors attempt to query their contracting patterns.

3.3 Support framework in South Africa

After analyzing the constraints facing manufacturing SMEs, it is appropriate to examine the support framework envisaged as a solution to these constraints.

3.3.1 Creating a conducive financial environment

Three reasons are given that prevent commercial banks from granting loans to small businesses: high transaction costs; unfamiliarity with the clientele, and high default rates. Commercial banks in cooperation with other relevant organisations involved with SME development can reduce transaction costs. An example of this is the cooperation between the Standard Bank and the Informal Business Training Trust (IBTT). In this scheme, IBTT introduces a client to the Standard bank which offers loans from R200 - R5000. IBTT then monitors the client and ensures that the entrepreneurs pay back the loan (Manning & Mashigo, 1993:64-65).

It is now generally accepted that the only way large financial institutions will be able to successfully lend to small businesses, is if they bring to the market, characteristics of informal money lenders. The banks will have to concentrate on key issues such as proximity to the client, non-collateral lending, simple repayment terms, the provision of small amounts of credit with short-terms repayment periods and rapid and decentralised approval of loans. The means of achieving this objective, is to take the bank to the borrower and not the other way around, so as to minimise the transaction costs of obtaining finance to the borrower. The Standard Bank has a division styled as Community Banking Service Division, whose objective is to promote the goals of informal sector lending, and facilitating the improvement of the quality of life of people who lack the conceptual understanding of formal finance and related services. Their ultimum aim is to assist small businesses that cannot obtain finance through the established commercial banking systems (Polkinghorne, 1993:4-6).

Additional measures are necessary to probe existing credit guarantee facilities for various segments of the market, such as short to medium term loans, micro-finance and sector specific schemes. Government is now considering ways of reviewing an existing loan scheme involving the SBDC[28] and commercial banks, in view of adjustments and expansion. Through the RPD programme, the government is devising means of making commercial bank loan facilities accessible to black SMEs in the townships and encourage the emergence of new entrepreneurs (MTI, 1994:25).

There are other existing small loan programmes in South Africa, such as the Get Up Lending Fund (GUL); Triple Trust Organisation (TTO); and Southern Cross Development Agency

[28] The SBDC is to be restructured and streamlined in line with the new strategy for the development of an integrated policy and support programme for SMEs. This will be explained further ahead in the chapter.

(SCDA). These organisations suffer from low collection rates, with about half of their clientele not being current at any given time (Manning & Mashigo, 1993:65). It is the aim of the government to reorient, rationalise and restructure these organisations to be more effective and reach enterprises in the disadvantaged areas. The aim is eventually to make it possible for every province to have a support body responsible for SME financing. In order for the government to encourage financial institutions and other establishments to finance small businesses, it will provide incentives in the form of tax relief measures (MTI, 1994:26).

3.3.2 Marketing and export support framework

As mentioned in section 3.1.2, small enterprises face transaction costs related to searching for customers and participating in export markets. Part of the solution is to conceive ways of reducing transaction costs through trading intermediaries, opportunities for indirect exporting via subcontracting and collective efforts to ease entry into export markets (Levy, 1994:10). Responsibility for implementation of this operation falls to; first, black manufacturing SMEs themselves have to exert extra effort to be competitive and compete with other firms in the market. Second, the prerogative is on local government to remove regulations that act as a barrier to small firm and new entrants into the market. Third, public sector institutions and big business should facilitate the pro-active involvement of small firms, producers and subcontractors (MTI, 1994:30).

With the endorsement of the government, the Department of Trade and Industry can assist in a number of ways: it can encourage large business to expand contacts with small enterprises, especially black manufacturing SMEs, through tax incentives, procurement quotas, and voluntary commitments. The DTI can formulate ways of giving black enterprises preferences in tender schemes by making it possible for them to compete with large firms for tenders issued by the government. In addition, action is necessary in adjusting public procurement practises to facilitate the granting of contracts to black manufacturing SMEs (MTI, 1994:30).

On the export front, a small enterprise export support programme may be formed that will take over the functions of existing export support programmes that are geared towards the needs of large established enterprises. The programme will be equipped with financing schemes, exhibition facilities, new types of export trading houses and adjusted export credit-guarantee schemes (ibid.). With these tools, the support programmes can extend their activities to the disadvantaged area and set up export strategies through collective marketing schemes. These schemes will operate within the framework of the envisaged Local Service Centres (LSC)[29] to provide black manufacturing SMEs with facilities such as information on export opportunities, introduction to prospective buyers, hosting of local trade fairs and financing the participation of SMEs in international trade fairs (Levy, 1994:23).

3.3.3 Support in technical and technological expertise

Among the purposes of setting up industrial hives mentioned by the SBDC, besides providing accommodation for small entrepreneurs, is to render collective support in areas such as communal workshops. These workshops are important for providing back up services to equipment and machinery in the factories (SBDC, 1994:1). The other type of technical support available to black manufacturing SMEs, is limited to technical training programmes. Technical training is offered by several specialised institutions, and to a lesser extent, NGOs; unfortunately, the programmes are largely constrained by limited funds. Courses in sewing and knitting; woodwork, leather work, welding, bricklaying, and some management and supervisory courses are offered by the specialised institutes (Manning & Mashigo, 1993:69). These courses are usually too short and fail to develop a fully skilled artisan.

Technical support, especially collective support, can take two different forms. It may be broad-based and work to facilitate the emergence of an information rich environment. Otherwise, it may attempt to promote high intensity technological learning by delivering technical inputs directly to firms. The first option, works through the supply of useful

[29] More details on the structures of the LSCs will be given in section 3.5.

information, and left to individual firms to decide what information is suitable for the environment of that firm. Such support can be in the form of:

(a) allowing openness to expatriate workers and technology transfer from abroad;
(b) investing in human capital including technical and engineering training (Levy, 1994:43).
(c) encouraging subcontracting and other technical relationships between large firms and SMEs as mentioned above, so as to allow a transfer of knowhow from the former to the latter (Watanabe, 1974:414-417).

The second method of disseminating technical support, is where direct support is offered to a factory, say on techniques of producing a particular component, or expertise on the use of new technologically advanced machinery (Levy, 1993:37).

In recent years, a number of organisations in South Africa began looking into the question of providing technological support to small firms. The CSIR has taken the lead through scientific research, in conjunction with other institutions such as the National Productivity Institute (NPI). Specialised units to be known as Regional Manufacturing Technology Centres (RMTCs), will be established alongside the LSCs. The RMTCs will work in conjunction with large and small organisations in the dissemination of technical support, including Research and Development (R & D), to facilitate the filtering of technological innovation support to black manufacturing SMEs, especially in the townships. (MTI, 1994:31).

3.3.4 Support on training

Resource centres have been set up in the townships by Engen Foundation to stimulate entrepreneurship by providing among other things, information on training (Manning & Mashigo, 1994:70). However, the White Paper report on Strategies for the Development of an Integrated Policy and Support Programme for Small, Medium and Micro-Enterprises in South Africa outlines that responsibility for education, training and experience transfer, rests on a range of institutions; including the public sector, parastatals, NGOs, as well as the private sector (MTI, 1994:27).

Training, especially of black manufacturing enterprises has to be directed to the conditions where these enterprises are located and the overall problems they encounter. Consideration must be given to the type of training offered, and the means of communicating the knowledge to the learners.

The government envisages certain measures that may be vital for implementation of training as a crucial element in SME support programmes. The target is to start at schools, where the syllabuses and approach need to be planned such that they put emphasis on appreciation and nurturing of entrepreneurial inclination. More technical subjects have to be incorporated in the schools' curricula, and plans for urging more vocational training be implemented. The DTI's function is to draw together the relevant organisations involved in training and formulating strategies for providing training needs to small enterprises, in particular black SMEs. It is also planned that such training programmes should be continuous, and follow up programmes set in motion to determine the effectiveness of the programmes (MTI, 1994:28).

3.3.5 Support programmes in procurement of inputs and machinery

South Africa is a fairly well-off middle-income country, and the problems facing SMEs are not the unavailability of material, machinery or other inputs, but the inability of these small enterprises to fund their procurement. The support framework intended to alleviate this problem will have to address the financial constraints before tackling the core issue of input limitation.

3.3.6 Support in acquiring Factory accommodation

The SBDC has undertaken to provide industrial hives and parks to the disadvantaged communities, thus assisting black entrepreneurs to access factory space. However, this support framework is still insufficient. Many organisations are hesitant to develop black townships because of four factors: perceived unstable conditions, inexperience operating in these areas, returns that do not compensate for the risks involved, and the more intensive support needed in managing these developments (SBDC, 1991:3).

The problems of accommodation are usually more acute for the smallest enterprises. Government is committed to design support programmes suitable for assisting such enterprises. It will form part of the government's desire to move away from complex support programmes to more sector specific programmes such as providing affordable and convenient sites for new entrepreneurs to start their enterprises. Such a scheme can be liaised through the envisaged LSCs in line with the RDP (MTI, 1994:24).

3.3.7 Support structures for enabling business environment

Some countries notably Belgium, have instituted the so-called anti-crisis law which includes tax exemptions to stimulate industrial investment. Profits may be exempted from tax up to 15 percent of the amount of additional investment in tangible or intangible assets. The tax exemptions, however, produced limited improvement to small firms (OECD, 1982:151).

In South Africa, the government is convinced that a way can be found to link tax incentives to development oriented behaviour of small enterprises. This could include relieving SMEs from taxation in certain circumstances. Regularization of the tax system to favour emergent enterprises is being envisaged (MTI, 1994:23). The Katz Commission recommended that small businesses have the option to use a simplified VAT return and income tax computation. It recommended that income tax computations be based on cash received less cash expenses paid, without including debtors, creditors or stock held[30]. In the 1995 budget, the government has accepted the recommendation that taxation be executed on a cash flow basis. The other recommendations, including the Commission's suggestion that only micro and small enterprises be included in the tax-relief programmes, excluding medium sized enterprises, are awaiting further investigation. These recommendations will be given serious attention, as the government realises the importance of SMEs in the reconstruction and development of the country (R.S.A., Dept of Finance, 1995:2.29).

The problem with a taxation system based on cash flow basis is that it may be difficult to determine the total yearly cash flows for transactions that are not recorded and issued with receipts. In addition, there may be other transactions involving cash flows, done simply by writing off creditors' account against debtors, resulting in significant tax evasion.

The government is working towards formulating policies that will improve the competitiveness of small enterprises. These include: a National Law on Small Businesses that will involve the registration of SMEs with other business associations to facilitate the inclusion of SMEs into small business support programmes. Such registration will enable the DTI to determine the number and sizes of micro, small and medium-sized enterprises available in the country. This registry will guide supporting organisations on a fair distributional pattern of support service to the different categories of enterprises (MTI, 1994:23).

A Small Business Cooperative Act will encourage the formation and development of SMEs co-operatives that will incorporate SMEs from disadvantaged areas with equal status. It will also equate business opportunities between small firms and large ones. A Small Business Transactional Act will favour small businesses in certain types of manufacturing products, and allow them to niche into markets that are under fierce competition from large producers. An example of a favourable treatment for SMEs can be applied in the RDP programme for housing construction. The Ministry of Housing can issue a directive that all masonry,

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[30] Prior to the Katz Commission, the Margo Tax Commission recommended the simplification of SME tax obligations and this was before the implementation of regional levies and VAT.

carpentry, welding, and plumbing jobs for the housing project be reserved for small businesses, with emphasis on small enterprises from the disadvantaged communities. This will allow these enterprises to gain experience, grow, and be in a position to create more employment.

3.3.8 Support envisaged to encourage subcontracting

In Japan, there are two laws that protect subcontractors, especially small enterprises, from unfair treatment by large firms. The laws are, the Anti-Monopoly Law and the Payment of Subcontractors (Prevention of Delay) Law. The first law aims at establishing fair trade practises regarding the supply of raw materials, marketing of products, financing etc. The second law, not only makes punctual payment compulsory, but protects against other forms of unethical treatment of subcontractors by parent firms (Watanabe, 1970:569).

Subcontracting between large firms and black manufacturing firms needs to be encouraged, not necessarily through laws as listed above, but through the dissemination of information between the larger firms and SMEs in view of expanding subcontracting links, and fostering an environment of trust and dependability between the two sides.

The government can assist by giving incentives to large manufacturers subcontracting to black manufacturing enterprises in the form of tax relief or preference in obtaining large government tenders. To assist the manufacturing enterprises further, a Sub-Contracting and Public Sector Procurement Act could be enacted, which will address initial needs of SMEs to acquire fair access to procurement markets of large and public sector enterprises and departments. This act will give SMEs access to public contracts and encourage increased sub-contracting from large enterprises to SMEs (MTI, 1994:23.).

3.3.9 Access to information and advise support

Many SMEs are unable to take advantage of niches in different local and foreign markets due to a lack of business information and advice pertaining to the existence and structures of these markets. In South Africa, the DTI has a mandate for alleviating the problem through the dissemination of relevant material to grassroots levels with the assistance of the private sector; including the NGOs, and public sectors through the SBDAs, LSCs and RMTCs. The scheme will initially be discharged by the release of an Annual Small Business Report Handbook that includes a progress report and updated statistics. Information to the black SMEs located in the townships will be disseminated mainly through the LSCs. The NGOs role will be to provide financial support to LSCs and other private organisations involved in this endeavour.

Statistical information, which is vital for any business development, will be rendered with the assistance of specialised institutions such as, the Department of Trade and Industry, the Central Statistical Services, provincial governments, development agencies and the private sector: which include large businesses, with abundant experience and information pertaining to local markets, exports, new technologies, finance channels and training opportunities (MTI, 1994:29).

3.4 Support Services for Women Entrepreneurs.

Assistance of all types to manufacturing SMEs should help women as well as male entrepreneurs. Due to the disadvantaged position women find themselves in society, additional measures to support women entrepreneurs are needed if women are to benefit to the same extent as men.

Because fewer women than men own their own property, and are thus, unable to afford collateral to access credit, fewer financial institutions are disposed to lend to women entrepreneurs. Differentiated schemes need to be introduced which provide credit to women. Special women's units or women's business advisory services may need to be established within existing support organisations to redress the disadvantages women face (Carr, 1993:113).

Because of the historical disadvantages facing women, they require greater access to extensive technical skills, so that they can improve manufacturing methods and increase productivity. The need for broad technical skills for women is necessary to compensate for the neglect which women experienced in the technical and manufacturing fields[31]. Black women's skills in general are lower than men, this suggests that women may be going into business more for lack of viable alternatives, whereas male entrepreneurs are more likely to be applying their skills to exploit new opportunities (Steel & Webster, 1991:15).

Training to provide technical and business skills should take into consideration the problems facing women when leaving their families for even a short period of time. Technical and other types of training support should therefore be structured in a way which will accommodate women's commitments (Carr, 1993:113). Support programmes for women could fit in with the envisaged Local Service Centres, which would be providing support in co-operation with other relevant bodies[32] and at close proximity to the SMEs (MTI, 1994:28).

3.5 Institutional reform

3.5.1 The idea behind the Local Service Centres (LSCs)

Having outlined the constraints facing SMEs in the country, and reviewing possible support mechanisms for alleviating them, the question now is how to implement these support

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[31] A common myth in many communities is that technical jobs are suitable for men, and women are supposed to perform domestic or farming jobs. Recent trends in many countries have see even more women venturing into avenues that were once reserved only for men.

[32] These 'relevant bodies' may include both public training institutions and those controlled and funded by NGOs.

structures. As part of the broad Reconstruction and Development Programme, and in an effort to make small business support available to enterprises all over the country, the Department of Trade and Industry is about to launch a 'delivery strategy' to be known as Local Services Centres (LSCs) (MTI, 1995).

(i) Objectives for establishing LSCs

According to the White Paper, three major strategic objectives of the LSCs are outlined:

(a) To develop a consistent support framework for small, medium and micro enterprises (SMMEs)[33]. This will be achieved by minimising wastage of resources, by moving resources from areas where resources are not being efficiently used, to those areas in the country where there is an enormous and urgent need of support services (MTI, 1995:11).

(b) To assist the evolution of a consistent and high quality SMME service sector. Accepted standards will be set on the services that are deemed to be vital for the advancement of SMMEs. This approach will include committing resources for training and development to be provided by support staff of acceptable professional standards.

(c) To establish a SMMEs support framework that will reach all its intended beneficiaries. The LSCs must be geared to address the special needs of disadvantaged groups: including women, people in remote rural areas, the youth, and disabled people. To enable the scheme to reach these groups special efforts must be devised, such as the launching of extension services, or engaging specialised professional staff, who are well versed with the difficulties of these groups (MTI, 1995:12).

(ii) Structure of LSCs

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[33] In this report, the designation SMME will be used to include micro-enterprises, otherwise, SME appears overwhelmingly because the paper is specifically aimed at small and medium enterprises.

A network of local service centres will be comprised of a full range of service-centre institutions, which will form the basis of LSCs. They include business information centres, small industry incubators or hives, business opportunity centres and offices available for information; advice and other support for small enterprises. These would be established by private enterprises, the restructured SBDC, regional development corporations, local authorities, small business institutes, NGOs, or training institutes. In the case of non-availability of any of the above centres in an area, new centres may be established on the basis of their own plans and responsible for own funding. The Department of Trade and Industry will also assist in the formation of LSCs, where there are no parastatal organisations or NGOs to do so. The DTI will liaise with local personnel and other interested parties[34] in such areas and encourage them to set up an LSC with the department's supervision and support (MTI, 1994:40).

Local service centres will be developed by Local Economic Development Partnership (LEDP) formed by common interest groups as listed above. The board membership must be local and representative; and should include representatives from service providers such as banks, education institutions, and local and provincial governments. LSCs are expected to be entrepreneurial in nature and approach; and be non-bureaucratic, flexible and perceived as non-governmental. In other words, LSCs should be seen as independent, largely autonomous, operate with a broad mandate, with full transparency (MTI, 1995:18). The responsibility for funding the LSCs will rest with the partnership, with additional funds from the government.[35]

South Africa has a well developed existing technology support infrastructure involving organisations such as the industrial Research and Technology Organisations (RTOs), National Productivity Institute (NPI) and the Council for Scientific and Industrial Research (CSIR). These organisations are located around big cities and do not reach all the regions, especially, areas of disadvantaged groups. In order to give support to small manufacturing enterprises,

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[34] Interested parties could include cooperatives, community centres, technical colleges and religious centres (including churches) etc.

[35] Funds from the government will nevertheless be limited, and certainly, less than the contribution from the LSCs' partnership.

specialised institutes are to be set up as part of the LSCs. These include the already mentioned RMTCs which will put emphasis on stimulating black manufacturing enterprises in need of expert advice in industrial management and technological issues. As part of the LSCs scheme, the RMTCs will be regionally based in close proximity to the areas of special need (MTI, 1995:2).

(iii) Reservations concerning the LSCs programme.

At present, the SBDC has a network of Business Service Centres (BSCs) throughout South Africa where entrepreneurs can obtain information, advice, and support services. These BSCs are available to all entrepreneurs in micro, small or medium enterprises in all communities throughout South Africa (SBDC, 1995:2). These services, as it is claimed, cover the whole country and cater for all communities. Evidence from a survey on black manufacturing SMEs carried out in the Western Cape[36] nonetheless, did not tally with this claim. Most of the respondents did not mention or were not even aware of the existence of such service centres. The first question that is to be asked is how will the envisaged LSCs avoid falling into the same trap of obscurity that characterised the SBDC's business service centres?

The LSCs are expected to be independent, non-profit, run on commercial basis, managed by business people, perceived as non-governmental, shaped by local needs, entrepreneurial in nature, and non-bureaucratic. Yet, they should be funded in part by government, their board members be composed of members from various institutions including provincial government, and under the supervision of the envisaged SBDAs. These characteristics tend to contradict each other in the sense that if the LSCs are to be run on an entrepreneurial nature, how will they avoid being profit oriented? And if they have to have members from various institutions including government, how will they avoid the bureaucratic trap?

The best solution is to encourage successful[37] small and medium-sized entrepreneurs to

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[36] The findings of the study on black manufacturing SMEs in the Western Cape are detailed in Chapter 4.

[37] Successful business-persons in this regard implies those running SMEs that are going concerns and able to survive.

form, manage, and run the LSCs on a profit basis. These business-persons will be able to identify and diagnose constraints likely to face new SMEs, especially during the start-up phase, because they have gone through similar problems before. With their experience they can prescribe better solutions to the problems facing SMEs, disseminate support services directly to the SMEs when needed, and pinpoint areas where additional support from support institutions such as the DTI, the SBDAs, the streamlined SBDC, and NGOs can be incorporated.

The funding of support programmes in an economically responsible way constitutes the biggest challenge of the national strategy. The government has emphasised strict financial discipline to be adhered to by all organisations involved with SMEs support funds.[38] This brings the second contradiction: if the LSCs are going to receive government funds, then to a certain extent they will be accountable to the government, as the government will not commit its funds to any organisation without getting feedback on how the funds are used. Moreover, the LSCs are going to have board members from various institutions that include local and provincial governments. The inclusion of government agencies in the decision making of the LSCs will impact on the efficiency of the LSCs and hamper their effectiveness in the delivery of support services.

The role of the government should be limited to the provision of physical, social and human infrastructure. For the LSCs to succeed, accessible roads, reliable electricity and water supplies, telephone and mail services; training of skilled personnel and disciplined macroeconomic policies must be put in place. The government and the private sector must therefore work independently, yet in tandem to make the process a success. The government should create the appropriate and necessary conditions for the LSCs and other private organisations to succeed in accomplishing the support delivery strategy.

There are areas of great importance in SMEs support that were not properly taken into consideration in the planning of the LSCs programme. One of these areas is marketing. Small

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[38] Besides the government's insistence on financial discipline, it still has to come forwards with criteria for monitoring the disbursement of support rendering funds.

enterprises find themselves at a disadvantage (compared to large firms) when trying to niche into the market. Established large companies have the advantage of credibility, and there are economies for spreading the costs associated with sales management, such as, advertising costs and costs for sales-persons. Local service centres are supposed to be structured to have departments that will assist SMEs in advertising their products. This can be done in a competitive manner with each SME emphasising what makes its products superior to those of rival SMEs. LSCs may engage sales and marketing consultants at the disposal of SMEs. Due to the high cost of employing such personnel, each province or district can engage a few consultants and let them advise all the LSCs in the district or province. SMEs may use these consultants individually or collectively depending on their requirements.

The second area that should be given more emphasis is training and R & D. Although there are plans to revise industrial training boards and the 'man-programme' schemes of the Department of Trade (MTI, 1994:28), this would not be enough. A vast amount of literature attempting to assess the relationship between productivity, R & D and the size of the firm, has shown that R & D carried out in small firms can be very productive. Proprietors and managers of small enterprises are always searching for new ideas for products and new uses for the products they make, and sometimes small firms generated more ideas than large firms (Pratten, 1991:228)

Training should be appropriate to the type of manufacturing that is competitive in a particular area. For example, the clothing manufacturing industry is competitive in certain areas of the Western Cape, therefore training should concentrate on designing different types of cloth-fashions, that would compete locally and internationally, marketing skills to capture the emerging market in the rest of Africa and Asia, and better factory management techniques that will incorporate innovations.

Training and R & D has to be coordinated with large firms to take advantage of their economies of scale and advancement in these fields. Such an arrangement can be made through the envisaged RMTCs and existing organisations such as the CSIR. In Germany, according to Porter, the province of Baden-Wurttemberg does, amongst other activities, develop education and training systems tailored to meet the needs of local industry, which include small and medium-sized industries. The Steinberg Foundation makes advanced technology available to those small and medium-sized companies that cannot afford their formal research activities (Porter, 1993:38).

What Porter says is that large German industries take into their companies young people and train them on the job and expose them to research, efficient use of energy, and environmental cleanliness (Porter, 1993:16). The German example may be emulated by South Africa. The DTI, through its local structures may organise entrepreneurs and SMEs employees from disadvantaged areas, and make arrangements with large manufacturers to train them at the large firm's premises and involve the more technical oriented entrepreneurs in joint R & D. Incentives, such as weavers on corporate taxes, can be offered to large enterprises prepared to cooperate in this venture.

Within the industrial districts of Italy, strong cooperation within the district and geographical proximity, allows for the 'natural growth' of specialised firms that helps to secure synergy effects. Specialised firms emerge that offer support and advice on marketing and exports, technical support and R & D , handling accounts and obtaining credit at lower interest rates (Pyke & Sengenberger, 1992:15). The envisaged LSCs are designed to deliver similar types of support and advice to SMEs at close proximity as the specialised firms in the Italian industrial districts.

The main difference is that the Italian specialised firms are a natural outgrowth of the industrial districts, arising from the need for such services and the rewards associated with them. They are not planned neither funded by the government. They are not run by appointed officials or committees (thus not bureaucratic). The specialised firms move around the districts identifying needs; they do not wait for the inquiries to come to them. Most importantly, they cooperate and compete with other specialised support firms, ensuring efficiency and transparency. The LSCs will not be competing with each other in their endeavour. The success of the LSCs is then put in doubt, because they will not be formed on a competitive basis, but rather, established as parastatal institutes. In the words of Levy, concerning institutional support, he professes: "Institutional capability to deliver such support is weak in most developing countries. Indeed, the developing world is littered with failed support programmes and 'white elephant' institutions" (Levy, 1994:24).

3.5.2 Restructuring of the SBDC

Several complaints about the delivery patterns of the SBDC in its present form have been made. SMEs, in particular those from the disadvantaged communities, have criticised the organisation for paying little attention to their problems. The small enterprises mentioned that financial schemes provided by the SBDC favoured white-owned small businesses and biased against small black businesses. In addition, the organisation has been criticised for promoting larger established businesses, thus perpetuating the marginalisation of black businesses (Manning & Mashigo, 1993:63).

The restructuring of the SBDC has been under consideration for some time. The 1994 White Paper released by the Ministry of Trade and Industry, suggested that the SBDC be transformed into a small, streamlined Small Business Development Agency, to facilitate the implementation of support programmes in the regional/provincial branches for Small Medium and Micro-Enterprises. The SBDC's operational activities such as loan financing, property development and information services were to be decentralised and become autonomous subsidiaries of the SBDA (MTI, 1994:39).

Following the release of the Department of Trade and Industry's White Paper in February 1995, the continued existence of the SBDC as a private-sector-dominated partnership of government and the corporate sector was approved. It will however, narrow its activities and scope of operation, with some of its present functions taken over by the SBDA. The SBDC will maintain provincial offices in each province, and its regional offices be transformed into regional boards that will include members from the provincial development agencies, the provisional government and the private sector. A compromise is therefore being made to allow the continuation of SBDC services, while allowing the evolution of a new national and regional body through the transformation of the SBDC's organisational structure, including the composition of the corporation's senior staff, its finance policy and management style (DTI, 1995:43).

To fulfil the implementation of part of the national small-enterprise strategy, the government will establish a new Small Business Development Agency. The SBDA will run autonomous operational units, some based at the organization's headquarters, and others to be located in the provinces. The board to run the organisation, will include directors from different areas of the public and private sector, including the Chief Director for small businesses of the DTI, as well as directors representing important stakeholder groups (DTI,1995:42).

Although the SBDA is not expected to totally replace the activities of the SBDC, it is designated to take over some of its property assets. This includes taking over SBDC's credit guarantee scheme. The SBDA will be entrusted with additional newly established schemes: a SMME finance trust and export-support programme, aimed at directing support, especially to SMMEs in the disadvantaged communities. The funding of the SBDA units will depend on the activities of each unit and its geographical location. Some of the SBDA units will derive their funds from public-sector assets taken from the SBDCs, whereas other units will receive their funds from donor contributions, NGOs, and the Department of Trade and Industry (DTI, 1995:42).

3.5.3 A critical appraisal of the proposed SBDC and SBDA's programmes.

The major grievances that have been levelled against the SBDC in the past, concerned the organisation's pattern of providing support to SMEs. Some of the SMEs, particularly from the disadvantaged communities, have complained about the organisation's insensitivity to their problems. The SBDC, they asserted, concentrated its support to SMEs in the urban areas and offered minimal support to SMEs in the townships and rural areas. The little that has been provided, such as industrial parks and hives, have been provided at high rents, causing further hardship to SMEs occupying them and placing them out of reach for new entrepreneurs.

The proposed restructuring of the SBDC seems to be limited to streamlining the organisation, withdrawing some of its assets and re-organising its leadership structure. The main function of the streamlined SBDC, according to the White Paper, would be to finance viable small enterprises (DTI, 1995:43). The White Paper does not explain the criterion that is going to be used to judge these 'viable' enterprise. If the yardstick of determining a viable enterprise is going to be based on annual turnover, number of employees, or value of assets, then the programme will fall into the same trap of targeting enterprises which are not in dire need of support, and leaving out enterprises that are in desperate need of assistance. Enterprises that are most likely to be left out under this scheme would be those from the disadvantaged communities.

The purposes of the restructured SBDC could be better defined and more effective if the organisation was to be assigned a specific task; for example, of supporting manufacturing SMEs, incorporating the functions of the RMTCs (which offers only technical/technological assistance to SMEs), and allow other organisations (including SBDAs) to support the remaining sectors; including all micro-enterprises, retail, construction, transport, services and agriculture.

If a division of responsibilities between the SBDC, SBDA and other supporting organisations is to be carried out as suggested above, then the designation of the organisations should be clearly made to avoid contradiction. The SBDC should be incorporated as a specialised division of the SBDA and the name SBDC dropped and designated as SBDA-Manufacturing Support Division. This will prevent the two organisations from clashing over funds from the government and private organisations The SBDC is going to have offices offering support in every province, the SBDA, through the LSCs with the assistance of the LEDPs, will extend its operations in all provinces as well. This may result in duplication of activities, and omission of support in other areas.

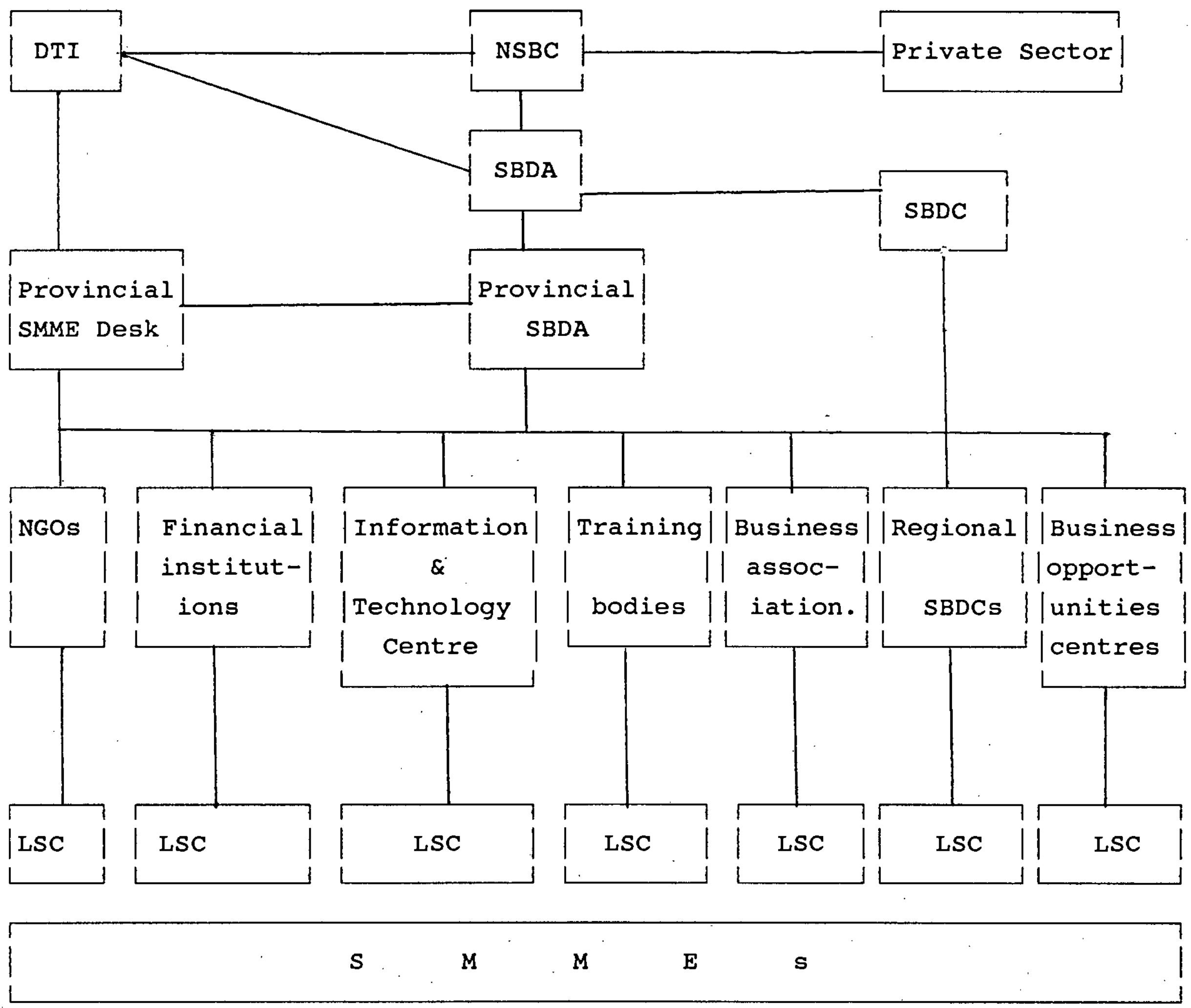
3.5.4 The National Small Business Council

An additional institution to be known as the National Small Business Council (NSBC), is to be established soon. It will become a national coordinating board of small business interests and concerns, given the wide diversity of support agencies, business associations and public-sector bodies involved in support of and assistance for small enterprises. It may be established under the jurisdiction of the National Economic Development and Labour Advisory Committee (Nedlac). The NSBC's main objectives are still being discussed, but it will operate closely with relevant government departments involved in SMMEs support, together with organised business and NGOs. The NSBC's secretariat will be provided by the SBDA (DTI,1995:41).

Figure 3.1 shows the framework of SMME support as conceived by the DTI.

Figure 3.1

Institutional framework for SMME development Support



Source: MTI, 1994:44

The above chart shows the proposed structure of institutional support framework proposed by the DTI. It is well understood that concerted efforts have to be made to support SMMEs, from all levels of the government, a whole range of parastatals, NGOs, private organisations, and community based institutions. The DTI has an enormous responsibility of maintaining strict control over organisations receiving or channelling public-sector funds for SMMEs support. It will monitor and evaluate the performance of each project, and at the end of the year the DTI will evaluate the financial reports of a sample of the organisations under its jurisdiction.

The problem with the above framework, is that, because of the congestion of so many intermediary organisations, the DTI is kept far away from the SMMEs. As a result, there are two intricacies that have to be considered here. First, there is a likelihood of delay for the assistance package to reach its destination due to the bureaucratic set-up and a danger of bottlenecks and inefficiencies occurring along the way. Second, all the organisations in the support framework will have their own operational expenses added to the DTI's burden. Funds which should have been used for SMME support could end up being consumed as operating expenses by the numerous organisations within the institutional framework[39].

[39] In short, expenses of running all the massive support infrastructure, will take a large chunk of funds which are designed to be used for the support programmes.

CHAPTER 4

A STUDY OF BLACK MANUFACTURING SMEs IN WESTERN CAPE

4.1 Brief economic overview of the Western Cape

The Western Cape region has an estimated population of 4 400 000 people (1993 census), living in the greater Cape Town metropolitan area and other towns of Atlantis, Wellington, Paarl, Stellenbosch, Strand/Gordons Bay, plus several other local authority areas (Wesgro, 1994:1).

Out of the total population of Western Cape, only 11 percent is classified as rural. The high level of urbanisation means that in terms of health, literacy, transport facilities and supply of infrastructural facilities, the region is well ahead of the rest of the country (Wesgro, 1994:2)

4.1.1 Labour force and unemployment

The potential labour force of the region is about 1.6 million; metropolitan Cape Town on its own having about 1.2 million (Wesgro, 1994:2). Unemployment in the region is increasing due to the continued influx of rural people mainly from the Eastern Cape. As a result, unemployment has been increasing in the predominantly African south eastern townships such as Khayelitsha, Gugulethu, Nyanga, Langa and Crossroads (Bridgeman *et al.*, 1992:30). Recent economic trends however, have changed this pessimistic picture. The prospects are good that for the first time since 1992, a net total of more than 45 000 new jobs will be created during 1995, in order to reduce unemployment. These will come from (1) increased commercial activities in major metropolitan centres of Cape Town, (2) increased in tourism as a result of major promotional efforts; benefiting the service rendering industries (3) manufacturing, with emphasis in SMEs and (4) construction, from the RPD's housing scheme (WCEM, 1995:5).

About 495 000 people are absorbed outside formal employment; mostly in the metropolitan area. The informal sector accounts for about 36 percent of the labour force. Of the region's total formal labour force of 900 000, about 25 percent are employed in manufacturing; second only to the community, social and personal services sector (Bridgeman *et al.*, 1992:39; WCEM, 1995:5).

4.1.2 The state of the Western Cape's economy.

The Western Cape's Gross Regional Product (GRP) is estimated at R4,5 billion; approximately 13 per cent of South Africa's GDP. The per-capita Gross Geographic Product (GGP) index is at 1.38 (South Africa's average index is 1.00) this makes the region second only to the Gauteng area. In addition, the Western Cape has been the metropolitan area with the fastest economic growth over the past ten years (Bridgeman *et al.*, 1992:42-3).

The economy comprises agriculture with 8.5 percent contribution to GRP; manufacturing and industry 21.7 percent ; financial services 22 percent; catering and accommodation 17 percent and social services 16 percent. Other sectors occupy the remaining 14.8 percent of GRP (Wesgro, 1994:3).

Manufacturing in its entirety engages almost a quarter of the employed labour force. In terms of employment, the most significant sectors are clothing, food, textiles, printing, metal products, chemicals and other beverages (Bridgeman *et al.*, 1992:54). The clothing and textiles industry, consisting mainly of SMEs, employs a total of 75 632 workers in formal employment and 25 000 in informal employment in the clothing sector alone. Employment, both formal and informal, in the clothing and textile sectors represents over 30 percent of total employment in manufacturing in the Western Cape (Wesgro, 1995:13).

The swing towards smaller enterprises is likely to be more pronounced, owing to the consolidation of the African urban settlements, and growing number of small-scale, self employment ventures in the coloured communities. More to be expected, is the increase amongst the black communities of franchising, sub-contracting, joint or cooperative ventures and other types of small and big business link-ups (Bridgeman *et al.,* 1992:55).

Entrepreneurship is the willingness and ability to start and continue a business enterprise with initiative and energy. Good entrepreneurs are quick to respond to the opportunity to introducing new goods, new methods of production; opening new markets and developing new sources of supply of raw materials (Watanabe, 1970:531). These opportunities have been prevalent in Western Cape. Several constraints have nevertheless, hampered entrepreneurial activity. The Engen Directory of Black Business in South Africa states that the major problem experienced by black business in the Western Cape is a lack of communication between entrepreneurs and agencies that may provide them with finance or valuable advice (Engen, 1994:284). Conversely, the SBDC cites the major problem for small enterprises as that of finding suitably priced and conveniently situated premises from which to launch their enterprises (SBDC, 1991:3).

The SBDC's response to this problem, was to provide reasonably-priced business premises to facilitate easier entry into business. Where possible, the SBDC refurbished existing buildings which had reached functional obsolescence, giving them a new lease of life. In less developed areas, where the need for business is greatest, the SBDC erected industrial hives and commercial premises (SBDC, 1991:3). In the Western Cape the SBDC established industrial hives in Athlone, Beaufort West, Blackheath, Mitchells Plain, Paarl, Phillippi, Springbok, Strand Abattoir and Worcester amongst others. The hives, according to the SBDC, attempt to bridge the first and third world economies. They offer a foundation where fledgling enterprises are provided with sufficient breathing space to demonstrate whether they will be able to survive and grow (SBDC, 1994:1).

On the other hand Wesgro, another major Western Cape's small business promoter, has embarked on a campaign of promoting business-like interaction between black businessmen and Wesgro's members[40]. This should generate business for the benefit of both black business and Wesgro's members. Wesgro has already begun negotiating for funds and has succeeded in acquiring funds from the majority of municipalities in the Western Cape region to launch a focused investment promotion activity for the benefit of the region (Montsi & Associates, 1994: 6 & 8; WCEM, 1995:1).

4.2 Methodology

4.2.1 The research

The current research will be informed by structured field interviews on the general characteristics of successful[41] black manufacturing SMEs in the Western Cape and determine what support framework contributed, or is required to make them successful. The definition of the manufacturing SMEs to be adopted for the purpose of this study is extracted from the general definition given in chapter 2, but specifically it would be as follows:

- independent economic units.
- owned and run independently with ownership vested with a few people or family.
- having between 5 to 250 permanent employees.
- having an annual turnover of between R250 000 and R2.5 million.
- having capital assets of less than R2 million.

4.2.2 Selection procedure

It is not a straightforward matter to translate the general criteria for success into practical

[40] Wesgro membership consists of representatives from big businesses, academics, professional bodies and private individuals.

[41] The definition of 'successful' is to be given later on in the section.

criteria for sample selection for field work. The decision could only be made after the selection of a sizeable sample. The selection of the sample was done with the assistance of two offices in Cape Town responsible for the small business sector namely Wesgro and SBDC. Lists of recently published major black manufacturing enterprises were obtained from Wesgro[42]. The useful publications were the "Report to Wesgro on major black businesses in the Western Cape", by Montsi & Associates and from SBDC, a file known as the "Black Book", listing a number of registered black SMEs in the Western Cape.

Preliminary selection of a group of 50 SMEs

It was then decided to isolate 50 firms from three targeted sectors: clothing, panel beating and metal works and furniture[43]; based on a broad definition of successful firms from the literature of similar studies carried out elsewhere[44]. This literature provided salient characteristics of the SMEs as follows:

(i) It is regarded that firms which manage more assets or turnover with fewer workers in comparison with similar sized firms operating in a similar environment, are assumed to have high labour productivity, which is a quality of successful firms.

(ii) Research conducted by the World Bank in Asia, Latin America and other countries has shown that firms led by educated managers and training their employees were performing better than other firms in all respects of business achievement, including having less labour problems, engaging in exports, and capturing niches in markets characterised by heavy competition.

(iii) Evidence has shown that firms whose owners had previous work experience in related fields, performed better than firms started by people who had no work experience at all, or

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[42] The list was provided by the courtesy of Mr Wolfgang Thomas.

[43] The distribution of the sample within the clothing, panel beating and metal works and furniture sectors is detailed in section 4.2.3.

[44] Notably the literatures includes: (1) A World Bank (1993) study of successful SMEs in Japan, Korea, Indonesia and Columbia, by Brian Levy (2) A World Bank (1991) survey of SMEs under adjustment in Ghana, by W. Steel and L. Webster.

never undertaken any apprenticeship.

(iv) The factors that prompt an entrepreneur to start a business, have in recent times been related to how the firm performs. It may virtually be concluded that firms started by people because they are unemployed, or have been retrenched, rarely become successful. Conversely, in many cases, entrepreneurs starting businesses in pursuit of personal achievement ended up successfully.

(v) Successful firms were perceived to be at the forefront of adopting new technology, contesting for a favourable position in the market, and effectively drawing on external support; be it in finance, training, information or exports.

All these factors assisted in making a preliminary selection of the first group of 50 SMEs for the study. The criteria for selecting the first fifty enterprises were therefore merely based on the definitions of successful firms derived from this literature.

Selection of the sample of 20 SMEs to be studied in depth.

From the preliminary selection of the 50 SMEs, an attempt was made to streamline the group to about 20 firms, again from the three sectors. There were two issues which brought the composition of the sample to this number of SMEs, broadly stated as 'limitations' and 'criteria':

(1) Limitations

(i) Due to shortages of funds and transport constraints, it was not possible to access some of the areas out of the greater Cape Town metropolitan, such as Atlantis and Stellenbosch.

(ii) Besides the availability of the manuals listing black businesses, the material available did not give an explicit picture of the characteristics of the SMEs, such as number of employees, annual turnovers, age of the owners and value of the assets.

(iii) Although the study takes the black groups as one unit, the black group is composed of coloured, Indians and Africans. There was an attempt to get proportional representation from each of these group. Unfortunately due to the past racial policies in the Cape, it was difficult to find enough African manufacturing SMEs to fit with the general definition given in section 4.2.1 because Africans, especially in the Western Cape, were forced to confine their businesses to the townships, where opportunities for development and expansion were limited. As a result the sample overwhelmingly consisted of coloured and Indian owned firms.

(iv) Following exploratory inquiry, some of the SMEs expressed clearly that they would not be willing to cooperate in the research.

(v) Some of the firms after the exploratory stage were found not to meet the criteria of the required successful firms, as explained below:

(2) Selection criteria

(a) The SMEs' level of competence.
The entrepreneurial ability of the owner, how he or she managed to overcome obstacles at the time of starting the firm and during the time of operation. Obstacles would include previous government legislation, lack of support from financial and other support institutions, and competition from well established and larger firms.

(b) The SMEs' efficiency in procuring and allocating resources.
Resources are scarce and resources of good quality are not cheaply obtained. The study concentrated on SMEs which took the initiative in procuring inputs by establishing reliable sources of supply or through importation.

c) Their medium and long-term growth perspectives.
The study centred on SMEs which are viable and dynamic. Firms which are geared towards sustainable growth and finding new niches in the market place and possibilities of engaging in exports. Firms that are geared towards making use of support structures, incorporate

innovations and new technology, thus increasing income and spur new opportunities of creating employment; SMEs that have incorporated training and apprenticeship as part of their development programmes.

From these selection criteria it was therefore possible to define clearly the characteristics that lead a black manufacturing SME to be termed 'successful':

(i) Successful black SMEs are endowed with the ability to survive against restrictions ranging from previous policies of separate development, and market failure associated with the provision of support services including finance, marketing outlets, training facilities; lack of exposure to new technology and exclusion from subcontracting.

(ii) The SMEs' competence in attaining reliable inputs, for the firm to meet its obligations with its customers of fulfilling orders, honouring delivery dates and accuracy in executing orders as per customers' requirements.

(iii) SMEs that have set developmental targets, and striven towards sustainable growth, including progressing into becoming medium even large enterprises.

(iv) SMEs that are prepared to innovate and incorporate new technologies, train their workers and engage apprentices. In addition, they should be willing to contain and encourage worker representation for the benefit of good worker-management relationship.

(v) Firms that are prepared to cooperate with one another in subcontracting, and exchange innovative ideas to improve product quality and market share of their products.

Eventually the 20 best suited companies were selected based on this rigorous procedure. The firms were located in different areas including five major hives around the Western Cape: Athlone, Blackheath, Mitchells Plain, Philippi and Retreat. The manner of selection was therefore not done randomly, but on a stratified basis, as the study was aimed specifically at a distinctive model pertaining to successful black manufacturing SMEs.

A comprehensive questionnaire[45] was drawn based on a draft copy courtesy of Dr Alistair Ruiters and from a World Bank technical paper[46].

4.2.3 Categories of manufacturing enterprises

The manufacturing activities are grouped in three main manufacturing categories:

		Number of firms selected
(1)	Clothing, dressmaking and curtain makers	10
(2)	Metal works (welding, fencing and panel beating)	6
(3)	Furniture making	4
	Total number of firms	20

Entry into the clothing industry is deemed to be relatively easy, requiring minimum capital. According to Manning & Mashigo, it costs a mere R390 to begin a small manufacturing enterprise. It is therefore easier for the clothing firms to expand and hire more people as it requires only R300 to buy a second-hand sewing machine and R90 for material (Manning & Mashigo, 1993:38). Setting up a panel beating shop demands more capital; to purchase machinery, tools and inputs. Many black panel beaters cannot afford to create large workshops and employ more employees. Expansion is also constrained by the same factors.

Furniture making equipment is also expensive and inputs such as wood of quality to make marketable furniture are out of reach for many would-be furniture manufacturers. A small firm wishing to enter the furniture industry, faces three constraints: first, prices that are dictated by large retail outlets which are not sympathetic to SMEs; second, the furniture

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45 The questionnaire is attached in Appendix B.

46 World Bank technical paper no. 138, (1991), by William Steel and Leila Webster.

industry is dominated by large furniture manufacturers which are not keen to face competition; third, large input-supplying agents collude and are vertically integrated with large furniture manufacturers. Inputs suppliers and large furniture producers can manipulate prices and restrict the supply of vital raw materials like wood, chipboard and wood chemicals. Consequently, small producers are forced out of the market. Small manufacturers are not able to set prices, hence, they cannot compete and expand. Employment creation in the furniture sector is therefore constrained by the effect of these three factors (Manning, 1993:4).

A summary of the top thirty economic activities of small black businesses in the country made in 1989, further demonstrated that the clothing manufacturing sector (dressmaking), is the leading contributor of black manufacturing turnover followed by panel beating and welding then furniture manufacturing (table 4.1).

Table 4.1

Economic Activities of Small Black Businesses
in 1989.(Estimates in Rands)

Summary of top Economic Activities of Black Manufacturing businesses.	Turnover in R'000/Month
Clothing making (Dressmakers)	42,491
Welders & Panel Beaters	37,638
Furniture manufacturers (Carpenters)	27,778
Knitters	16,556
Other Crafts	12,010

Source: BMI, 1992:13 from Ruiters, 1994:42)

Evidence from table 4.1, reveals that if the three main manufacturing activities are summed, clothing manufacturing occupies close to 40 percent of the businesses, followed by welders and panel beaters at 34 percent, and furniture manufacturing at 26 percent. In the Western Cape, the clothing industry is more established than in any other province. It was therefore, decided for this study, to select more clothing manufacturers than panel beating and metal working and furniture manufacturers, at the ratio of 50% ; 30% and 20% respectively, as shown above.

4.2.4 Interviews and information gathering.

(a) Exploratory stage.

This stage involved identifying the relevant enterprises in each category. Appointments for meetings were made by phone and visits followed. This stage offered the informal aspect of getting acquainted with the owners of the manufacturing enterprises and observing their daily working schedule and management patterns.

(b) Conducting interviews.

The formal part of the research began at this stage with the conducting of interviews using a prepared questionnaire. The time used for each interview depended on the type of enterprise and the willingness of the respondent. The average interview never lasted for more than one hour.

(c) Observations.

The last stage was to consolidate information gained from the investigations. This information was blended with theoretical studies on SMEs; black manufacturing enterprises in Western Cape[47] in particular. Also taken into consideration, were problems that occurred during the

[47] Consequently, it will apply to the whole of South Africa.

interviews: such as the reluctance of respondents to release information they considered confidential; lack of proper records; lack of time to attend to the interview and the language constraint (Montsi & Associates, 1994:9).

4.3 Results of the study

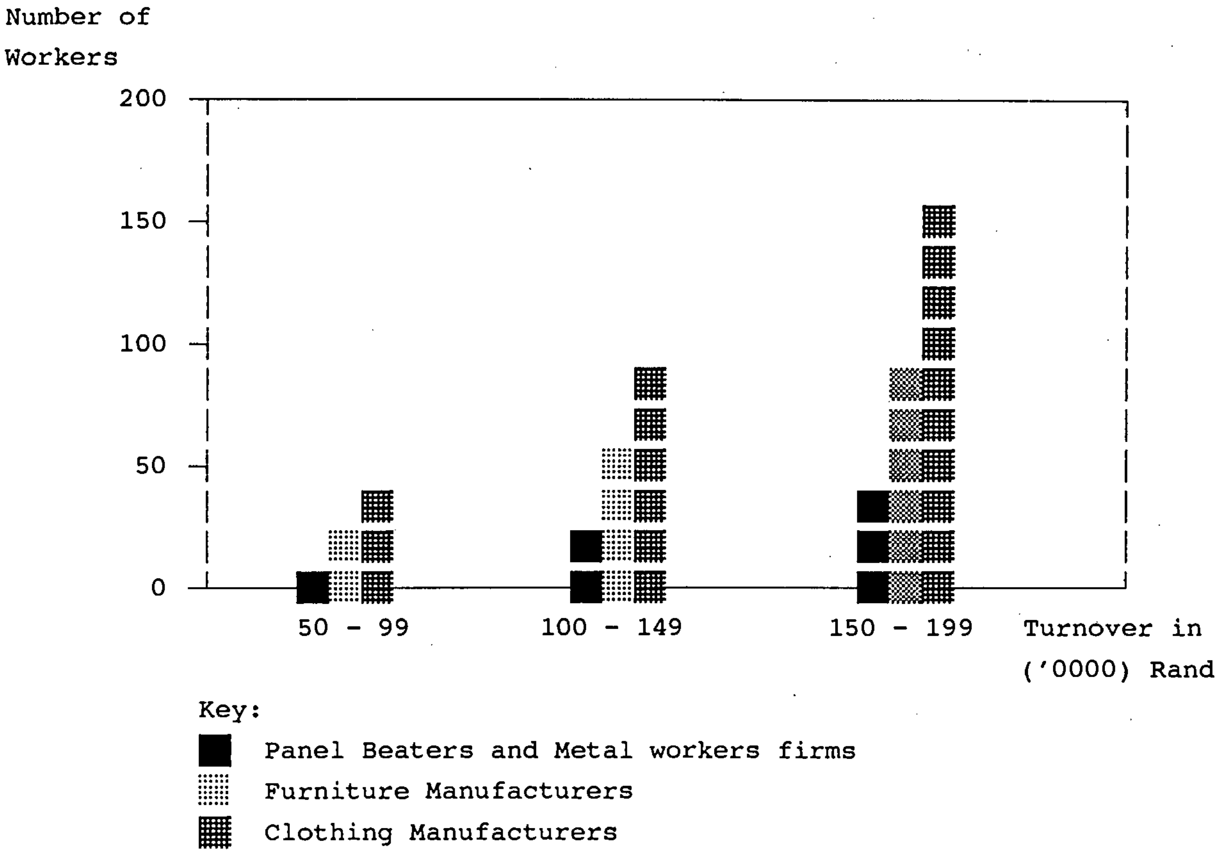
4.3.1 Number of employees.

The three industries under study portray different employee composition. It is not possible to judge outright whether a particular industry employs more people than the others, prior to making a comprehensive survey of a sample of firms from these industries. But from the reality of the structure of these industries, and the ease or difficulty of entry, translate into the composition of workers in these industries in the country, and the Western Cape in particular.

Results from the survey show that the clothing industry employed more people per unit of investment and turnover. Among the medium-sized enterprises sampled, all clothing manufacturers with annual turnovers exceeding R 1 500 000 employed more than 100 employees. Half of the furniture manufacturers in this category also had more than 100 employees, whilst the other half had between 50 to 100 employees. On the other hand, panel beating and metal works SMEs of a similar turnover had a maximum of 20 employees (see figure 4.1).

Figure 4.1

Chart showing the composition of employees in the clothing, panelbeating and furniture industries in relation to the size of firm in terms of turnover.



Moving to the small-sized manufacturing category, the contribution of the clothing sector to employment is also manifested. Among the small-sized clothing enterprises with turnovers of below one million rand, 25 percent had more than 35 employees; the other 25 percent with ten employees; and the rest had between five to ten employees. By comparison with the panel beating and metal works sectors, only about 30 percent of those sampled under the small-sized manufacturing category had ten or more employees.

As expected, most companies started with fewer workers then gradually increased the numbers as the enterprises grew. There are instances however, where enterprises (especially clothing enterprises) started with more workers than they employed at present. These companies restructured and rationalised their enterprises and had to reduce the number of employees. There were two main reasons for this action; first, diminished demand for their products; second, bringing down the number of employees to the level that the wages paid, matched comparative rise in labour productivity[48]. Other clothing manufacturers altered the number of employees depending on the availability of contracts. Subcontracting firms experienced low demand from consumers, especially during the winter season.

4.3.2 Age of entrepreneur

It is expected that the age of the business owner will correspond to the age of the enterprise: the older the enterprise, the older the owner is expected to be. But this was not always the case, because people start their enterprises for different reasons. Two thirds of entrepreneurs sampled were over the age of forty at the time of the survey. This was expected as most of them had worked in other firms before starting their own enterprises or joining family members in business. Those who had worked in other enterprises and started their businesses from scratch were as expected, older than owners who took over the running of the enterprises from family members. Nearly 50 percent of the sampled entrepreneurs, started business before the age of thirty. However, 15 percent started their enterprises well over the age of forty.

Entrepreneurs who were still below the age of thirty at the time of the study, comprising 15 percent of the sample, were all from the clothing sector. This can be attributed to the ease of entry into the clothing business[49], and the limited investment required to launch such a business.

Over 60 percent of entrepreneurs in the furniture and panel beating and metal works sectors

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[48] This action was usually taken following trade unions' insistence on adherence to minimum wages.

[49] As explained in section 4.2.1, it takes little outlay, such as one or two sewing machines to start a clothing business.

were above the age of thirty, implying that, prior to setting the business, the entrepreneur needs to have acquired a number of years of work experience in a related field. Moreover, unlike in the clothing industry, it takes a larger investment and requires more skilled workers, namely artisans and mechanics to run a furniture or panel beating enterprise.

The age distribution of entrepreneurs is shown on table 4.2.

Table 4.2

Ages of Respondents: at the commencement of business and present time. (Given in numbers).

Age Distribution	Age at Commencement	Age at Present Time
20 - 29	10	3
30 - 39	7	4
40 - 49	3	7
50 - Over	0	6
Total	20	20

4.3.3 Origin of Entrepreneurs

A question was included to determine how the business was started. Among the entrepreneurs sampled, 55 percent claimed to have started their manufacturing enterprises on their own and are still running them on their own. The entrepreneurs started business with limited capital, with virtually no material or financial support from government or any private source. A little more than one third of the SMEs indicated that they joined their families in running the businesses (see table 4.3). As mentioned in section 4.3.2 about 70 percent of entrepreneurs who joined their families were young professionals who left previous employment and decided to help their aging parents to run the businesses.

Table 4.3

Origins of Entrepreneurs

How the Entrepreneur Started a Manufacturing Enterprise.	%
Started Business and Runs It	55
Bought It From Someone Else	5
Took It Over From Family	5
Joined Family In Running It	35
Total	100

From the sample survey, it is evident that most black entrepreneurs start their enterprises with very little capital, and they are not in a position to purchase an established business. Without collateral, no financial institution is prepared to offer them financial assistance. In this respect, only five percent of entrepreneurs sampled, reported that they had bought their businesses from someone else.

and [illegible]

4.3.4 Motives for establishing new enterprises

Entrepreneurship is the talent to begin and run a business enterprise with motivation and potency (Watanabe, 1970:531). As the definition points out, there is a 'motive' to start a business. A question was posed to the business-persons: what motivated them to go into manufacturing business? From the sample, 35 percent were motivated by the desire for independence. Several causes were cited that prompted the desire to be their 'own boss'. Some prominent panel beaters claimed to have worked for their previous organisations for several years without getting promotion or deserved recognition. They said that, promotion used to follow colour lines and not experience or ability to do the job. In one case, someone felt that he was contributing substantially to the enterprise but the 'fruits' of his labour went to the owners of the enterprise. This prompted him to opt for setting up his own enterprise. 'Working for a boss for a long time you end up being just a 'number': meaning you will always be a person who receives orders and instructions. You will not have the opportunity to determine your own destiny and make an impact in life'. That feeling played an important part in prompting an entrepreneur to establish his own business and be independent.

Table 4.4

Reasons for going into Business

Reason For Starting Own Business	%
Retrenched	10
Higher Earnings	5
Getting Employed	5
Putting Training Into Use	10
Family Reasons	20
Independence (To Be Own Boss)	35
Accomplishment and Status	10
Need For The Type of Business Arose	5
Total	100

Family reasons became the second most important reason for entrepreneurs to go into private businesses. One fifth of those sampled as shown in table 4.4, said they joined their families to support the businesses. Young professionals working in public companies decided that it was more beneficial for them to give up employment and use their talents to support family enterprises. This also facilitated the possibility of a smooth transferral of businesses from parents to sons and daughters. The continuity of business along family lines emulates some of the characteristics of industrial districts in Italy where family succession is considered a major factor in the continuity and success of the Italian industrial districts (Pyke & Sengenberger, 1992:22-23).

People who were retrenched and decided to establish their own enterprises accounted for 10 percent of the sample. This section is distinguished from those comprising 5 percent of the sample, who have never been employed before and decided to set up businesses to provide themselves with employment. Such a low percentage was expected in this category of successful manufacturing entrepreneurs. It is assumed that people who have never been employed, and never went through any type of training or apprenticeship, lack work experience, technical and managerial capabilities to run successful enterprises. Such people are to be found in abundance in micro and small retail trades, rather than in manufacturing enterprises (Ruiters, 1994:21).

The argument that many successful black entrepreneurs are prompted to enter into business because they find a niche in the market (Ruiters, 1994:45; Steel & Webster, 1991:12) could not be substantiated[50]. Only 5 percent acknowledged that there was a need for their type of business in the areas where they operated. Twice as many entrepreneurs cited the desire to put their training to use as a motive for setting up manufacturing enterprises. One tenth of the sample which represents the most successful black entrepreneurs indicated that their prime reason for getting involved in manufacturing enterprises was status and accomplishment. Other reasons such as the need to be their own boss and getting higher earnings could have played a part in their decisions, but the need to fulfil personal goals reigned supreme.

4.3.5 Annual turnover

A little less than half of enterprises sampled indicated that they had a turnover of less than half a million rand. This was the most difficult question to advance to the entrepreneurs and the one they were most reluctant to answer. Some interviewees were sceptical about giving the actual figures, thinking that the information will find its way to the collectors of tax

[50] Ruiters, A., (citing from BMI, 1992, p.36) showed that 33 percent of black entrepreneurs started their businesses because they found a niche in the market. Steel *et al.*, in a study in Ghana, found that 37 percent (a majority of respondents) saw a profitable opportunity in the market and took it.

revenue[51].

As expected, enterprises with less than ten employees had the lowest turnovers. Panel beaters depending on contracts from insurance companies (about 30 percent of all panel beaters sampled) mentioned that despite the high turnover figures, the profit margin was very small. High material and labour costs, constituted their major operating expenses. Although this sector hires less labour per unit of investment than the clothing industry, it is maintained that experienced panel beaters or spray painters get paid far higher wages than machine operators in a clothing enterprise. Results of turnovers are shown on table 4.5.

Table 4.5

Annual turnover in Rands

Turnover	Number of Firms
250 000 - 500 000	8
500 000 - 1 000 000	5
1 000 000 - 1 500 000	2
Over 1 500 000	5
Total	20

[51] Some business owners even asked if the interview was for taxation purposes; others refused to have their disclosures on financial matters recorded.

4.3.6 Origin of competition

Enterprises that were entirely dependent on subcontracting were not affected by competition from other firms. Comprising 25 percent of the sample, they include clothing manufactures who are subcontracted through CMT and furniture manufacturers who claim they make unique products.

On the other hand, more than two thirds of the sample faced stiff competition, coming especially, from similar sized or smaller enterprises. Clothing manufacturers in particular complained about smaller manufacturers who operate from home. It sounds paradoxical that medium-sized firms which enjoy scale economies and economies of scope[52], attributed to the size of their factories, size of the batches produced, and ability to produce a variety of products, should be apprehensive of smaller informal manufacturers deprived of similar economies.

The answer to the ambiguity is not related to dimensions of scale. Most of the smaller manufacturers are not registered and do not have large overheads. In addition, clothing manufacturers operating from home don't have to comply with statutory requirements such as minimum wages, safety standards, and retrenchment compensations. As a result, these manufacturers operate at lower total-costs that offset the benefits of scale enjoyed by larger and formal SMEs.

Panel beaters as well, mentioned the problem of unlicensed operators under trees or in house garages, who enticed customers by charging them lower prices because they had no overheads. According to registered panel beaters, the makeshift garages operate without following conventional motor vehicle repair procedures, and use cheaper pirate parts, that

[52] In this regard, economies of scale are defined as a reduction in average unit costs attributable to increases in the scale of output. Economies of scope are achieved when the production of two or more products reduce unit costs compared to the position where each product is produced separately in similar quantities (Pratten, 1991:15)

are not standard and durable[53].

Porter's analysis of the dangers that may be caused by competitors has relevancy here. Porter warns that any advantage enjoyed by a firm may be replicated by competitors sooner than it may be realised. He suggests that the alternative is to improve consistently the firm's performance against its existing advantages; for example, more efficient utilisation of its production facilities or more responsiveness in terms of customer service. The established firms should be in a favourable position to offer better customer services than firms operating in the backyards. This makes it more difficult for competitors to overtake the firm without having to involve extraordinary measures of innovation. Sustaining advantage demands change. It demands that a firm exploit, rather than ignore industry trend. It also requires the firm to invest to close off avenues along which competitors could use. To sustain its position, a firm may need to discard current advantages to create new, advanced ones (Porter, 1990:51).

Table 4.6

Source of the Firm's Competitors

Where is the Source of Competition	%
Other Small Manufacturers	65
Large Domestic Firms	10
Imports	0
Unique Product (CMT Contract)	25
Total	100

Only one tenth, of the sample (all furniture makers), responded that their main source of

[53] These were accusations from established panel beaters, who resented the makeshift garages for taking away their customers.

competition came from large companies (shown on table 4.6). They asserted that contracts, especially for furnishing new homes, were being awarded to large furniture firms rather than to them. None of the firms sampled, mentioned imported merchandise as competition for them. Due to tariffs imposed on imported fabrics[54], clothing manufacturers seem not to be too concerned about competition from these imports. However, some concerns were raised regarding ready made fabrics that are smuggled into the country from neighbouring countries, such as Zimbabwe and Zambia.

4.3.7 Membership in Trade Unions and Industrial action

As shown in table 4.7, slightly more than 80 percent of employees in small firms (less than 10 employees) were not members of any trade union. Comprising about one third of the sample, most indicated that they were registered with the industrial councils and exempted from trade unions. Enterprises in the rest of the sample belonged to one of the several trade unions representing each sector of the economy.

Table 4.7

Union Membership and Industrial Action

Union Membership	Number of Employees in the Firms				Total Sample %
	5 - 9	10 - 49	50 - 99	=> 100	
Not in Union	25	10			35
In Union no Action	5	30	5	10	50
In Union with Action		5	10		15
Total % Firms size	30	45	15	10	100

[54] Tariffs on imported fabrics are to be reduced in compliance to GATT agreements. This will be explain later in the chapter.

The three main unions mentioned were the South African Clothing and Textiles Workers Union (SACTWU) and Garment Workers Union for the clothing sector; National Union of Metal Workers of South Africa (NUMSA) for metal workers; Motor Industrial Union for panel beaters and National Union of Furniture and Allied Workers of South Africa (NUFAWSA) representing furniture workers.

From the sample, 50 percent of interviewees had their employees as members of one of the above mentioned unions, but had never experienced any type of industrial action. They attributed this to a healthy working relationship between management and workers. Ten percent of the most affluent enterprises (with more than 100 employees)[55] established communication channels with their staff members such that workers were free to approach management and discuss any issue they felt needed to be addressed. Apart from the open lines of communication, the owners provided several incentives[56] to their staff members, such as bonuses to increase morale and deter industrial action. As a result, although all firms in this group had their workers in the union, none experienced any industrial action.

A little less than one quarter of respondents whose workers were in trade unions had experienced industrial action with the unions involved. Incidentally, all the enterprises affected belonged to the clothing sector. This is not surprising as firms in the clothing sector employ more people than other sectors. Several reasons were put forward for the causes of industrial action. Reduction of wages during sluggish periods is usually met with industrial action supported by the unions demanding that management either continue paying their workers the same wages or have them retrenched with sizeable compensation. Other business owners complained of the tendency of some employees, who think that because they are protected by the unions, they can contravene with impunity, the established employment regulations, prohibiting absenteeism, laziness, and other behaviours that contravene the smooth functioning of the enterprise.

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[55] In this survey medium-sized firms with more than 100 employees happened to be better organised, with minimal labour problems, trained workers, engaged in exports, generated highest annual turnovers, and run by highly educated and experienced entrepreneurs. More discussion on this issue in section 4.3.8.

[56] Incentives may be provided collectively, on attainment of production targets; or individually to an employee who shows dedication in his/her work.

Unions have been criticised by a number of SMEs as being unrealistic in their approach to worker-management disputes. Unions do not consult with business to understand their problems or listen to their suggestions. Unions' tendency to side with the workers without regard to the position of the employers has been cited as a deterrent by some businesses in their quest for expansion and creation of more jobs. About ten percent of clothing manufacturers indicated that during times of limited production, they prefer to reduce some of their workers' salaries rather than laying them off. But as mentioned above, this option has always been negatively perceived by the workers and the unions. The latter insist that either the workers be paid their salaries in full, or laid off and paid their full benefits. The concerned business-owners viewed the unions' attitude with contempt, and felt that the unions were not being sensible in serving their member's long time interests.

4.3.8 The Education of the Business-person.

Half of the entrepreneurs sampled had educational levels between standard five and ten. All respondents with less than standard five were over the age of 45 years; two thirds being women who had taken over the businesses from their husbands. Twenty percent of the sample had tertiary education: their ages ranged from early thirties to mid-forties. Moreover, they had turnovers of over 1 million rand (table 4.8), less problems with labour management and also engaged in exports.

Nearly 60 percent of entrepreneurs with commercial/technical and tertiary education are young, (less than 35 years of age). They are mostly professionals who left their professions, and decided either to join their families in running the enterprises, or established their own businesses. Their motives for going into business were chiefly, to be independent and the need for accomplishment. The distribution of education levels compared with age, turnovers, levels of industrial action (for those who are members of the unions), and situation with exports, is shown on table 4.8.

Table 4.8

Educational Levels versus other important variables

(Figures in Percentage).

Education	Age Years		Annual Turnover in Rand		Industrial Action		Exports	
Years	20-39	Over 40	250000-1000000	Over 1000000	Had Ind.A	Never had	Do exp	Never exp
None								
0 - 5		15	15			15		
5 - 10	15	35	40	10	5	25	5	
Comm/Tec	10	5	10	5	5			
Tertiary	10	10	5	15	5	10	10	
Total	100		100		65		15	

Key on abbreviations:

Exp = Exports; Ind.A = Industrial action; Comm = Commercial;

Tec = Technicon.

4.4 Nature of support systems available to manufacturing SMEs.

4.4.1 Origins of founding capital and current financing

As table 4.9 indicates, three quarters of the entrepreneurs started their businesses without support from any institution. They had to use their savings, sometimes amounting to a few hundred rand to launch a manufacturing enterprise. When asked the reasons for not seeking loans from financial institutions, lack of collateral was cited as the main impediment. Public organisations offering financial assistance, were not keen to help the new entrepreneurs, arguing that the entrepreneurs had not distinguished themselves as being capable of running viable enterprises. Such excuses were dismissed as invalid by these entrepreneurs, who saw them as a ploy by the financial institutions to avoid aiding black entrepreneurs.

Table 4.9

Source of Starting-up Capital and Current Financing

Sources of Capital	At Start-up %	Current Financing %
Own Capital	75	55
Loans From Commercial Banks	15	40
SBDC	5	0
Religious/Other Voluntary Organisations	5	0
Private Money Lenders	0	5
Total	100	100

Only 15 percent of the sampled entrepreneurs were able to raise credit from commercial banks, when starting their enterprises. Most possessed houses to put up as collateral. They however, noted that it was a risky decision to stake one's house on a small manufacturing venture. Businesses do fail sometimes; if that had to happen, the entrepreneur would lose the most important possession in his/her life. The number of entrepreneurs who sought finance from commercial banks during the course of their businesses increased to 40 percent, from a mere 15 percent. Most were using overdraft facilities. Enterprises in this category were those that managed to grow and have assets such as houses, that could be held as a guarantee for bank loans. These enterprises managed to establish themselves as viable enterprises, operating from their own premises and doing business with reputable clients, notably large retail outlets, or handling major government and private contracts. It was more economically feasible for them to use bank overdraft facilities for their current expenses, and save their profit earnings for factory expansion and innovation; including the repairing of malfunctioning equipment, or replacing obsolete machinery with modern ones.

Only five percent of the sample received financial assistance from the SBDC. The type of assistance, as reported by certain panel-beaters, was for the purchasing of premises. Many enterprises in the study, were dissatisfied with the services rendered by SBDC, accusing the organisation of supporting only metropolitan and urban based enterprises, and overlooking black enterprises in providing support services.

The majority of respondents still depended on their own finances. This group could be divided into two sections. The first category included those capable of raising collateral and obtaining credit from financial institutions, but decided to continue using their own finances. They abhorred the need to pay interest to financial institutions, and felt that being indebted to the banks, is tantamount to losing 'independence' and being under the control of the banks.

A second category consisted of entrepreneurs who were still unable to raise the required collateral to qualify for overdraft facilities or other loans. This group had no other source of finance available to them except to depend on their own income. To some smaller clothing manufacturers, this constraint precluded them from thriving and expanding. The SBDC's condition for assistance included proper maintenance of accounting books and financial records. Some clothing manufacturers insisted that they had fully complied with this requirement, yet the SBDC never kept its promise.

In spite of the presence of numerous non-governmental organisations (NGOs) and other private and religious organisations, none of the respondents mentioned receiving any type of financial assistance from them. An owner of a welding school, initially based in Durban, came across an American company preparing to execute a huge contract at Secunda, in the Western Cape, and was facing a shortage of highly skilled welders. The school of welding was given a task of training the welders according to American specifications. The school was required by the American company to supply up to 50 welders per month, but its capacity allowed it to train only 25 welders per month. The owners of the school decided in 1978, to open another branch in Cape Town with an assistance of R10 000 from the American company to meet the required number of qualified welders.

On completion of the project at Secunda, the school continued to train welders for local companies and construction sites. Lately, the owners of the school have expressed concern over the diminished numbers of new students enrolment, which is caused by a lack of support from both public institutions and private business organisations. The directors of the school are aware that with the advent of the reconstruction and development programme, there is a huge demand for skilled artisans, imperative for the improvement of the manufacturing sector. The directors are therefore surprised that, schools like theirs are not being encouraged and supported to contribute to the training of artisans, especially from the disadvantaged background, to promote the essentials of the reconstruction programme.

In this regard, it is evident that there has not been a considerable impact of private organisations and NGOs in assisting black manufacturing enterprises in the Western Cape.

4.4.2 Marketing and Export Support

Eighty five percent of the firms indicate that all their customers were within the country and were not involved in exports. About a quarter of clothing manufacturers in this section, were solely contracted through CMT, and all their products went to big clothing retail chains such as Foschini, Edgars, Jet Stores and Pep Stores. The second group of clothing manufacturers were making clothes for the general public; selling directly to them, through their own outlets, flea markets, and through hawkers. Some of these manufacturers subcontracted to CMT as well, especially when there was a low demand from other sources.

Smaller furniture manufacturers made and sold their furniture directly to retailers. Cabinet makers vied for tenders primarily from housing constructors. In contrast to clothing manufacturers, only well established and especially medium-sized furniture enterprises, get access to supply major retail outlets. New and smaller manufacturers are virtually blocked from accessing retail outlet groups, due to the reluctance of these large outlets (which are organised as a cartel and dictate production conditions and prices) in subcontracting them. Large retail groups[57] usually mention three reasons for not preferring small manufacturers: the inability of smaller manufacturers to produce the volumes required at a given time; second, small firms's tendency of not meeting the quality requirements specifies to them. Third, lack of economies of scale impede the small manufacturers from being competitive and offer lower prices (Manning, 1993:5; Pratten, 1991:229).

Table 4.10

Source of Market

Source of Markets	%
Local Only	85
Foreign Only	0
Foreign and Local	15
Total	100

[57] These large retail groups are in the furniture sector such as Dan Hands, Lewis, and Triangle; or in the clothing retail industry, namely Woolworth, Foschini, Edgars, Sales House, and Jet Stores.

Only fifteen percent of the enterprises sampled engaged in exports (table 4.10). These were mostly well established clothing and furniture manufacturers with personal contacts outside the country. One furniture manufacturer exported to Finland, Germany and Hungary. The amount exported ranged from 40 to 60 percent of total annual output. The manufacturer had a long record of dealing with foreign countries ever since he started his operations in East Africa. Presently, he still maintains business links with furniture manufacturers and other businessmen in Africa and overseas, giving him the opportunity to expand his export market.

Clothing makers exported to Europe and some neighbouring countries including, Botswana and Zimbabwe. Clothing manufacturers exported an average of 20 percent of their output, a comparatively lower proportion of their total annual production. The limited number of SMEs engaging in exports within the black manufacturing enterprises was an issue of special concern taking into consideration the critical role this sector plays in the economy. Michael Porter reveals that SMEs account for a substantial portion of international trade, in nations like Germany, Italy, and Switzerland. These companies focus on narrow segments or compete in relatively small industries, for example, Montblanc, a Germany medium-sized company, competes globally in high-priced pens (Porter, 1990:62). It is therefore possible for SMEs in the Western Cape to increase their exports shares, and niche in similar specialised segments.

All the exporting firms in the Western Cape relied solely on their personal contacts in the countries they exported to. Of those who were not exporting, nearly 80 percent said they would have liked to export if the opportunity arose. Their dilemma was to get access to external markets. There was no evidence of the existence of any public or private export support organisations at the disposal of black manufacturing SMEs[58]. If there was any organisation in existence, then it had failed dismally to make itself transparent to the black manufacturing SMEs. When asked if the firms cooperated in any respect, a mere one third replied they had limited collaboration with other firms, confined to the exchange of

[58] Plans to provide export assistance to black manufacturing SMEs are elaborated in chapter 3. Policy implications concerning SME export support will be provided in chapter 5.

machinery or material. Sometimes if one firm had work above its capacity it asked for assistance from other manufacturer. The absence of collective marketing support among black manufacturing enterprises, contributed to their insignificant participation in exports.

Lack of appropriate information and advice on possible channels of exports is a major problem for the aspiring SMEs exporters. Information need to be disseminated to the black manufacturing SMEs by public and private support organisations. One way is through local and international trade fairs. Very few firms said they knew of, or participated in any local or international trade fairs. Most of these fairs that were being held in the country attracted mostly large established enterprises. SMEs belonging to disadvantaged groups had little access to the exhibitions, as their products were considered unfit to be presented in these fairs. Consequently, exposure to international markets was limited. The most renowned local trade fair was the Trade-Expo featuring at the Good Hope Centre. The exhibition is still being held once a year at the Good Hope Centre. The participating interviewees mentioned that it used to expose them to prospective international markets.

Another option to boost black SMEs' exports is the establishment of export support agencies. These must however, be carefully planned, because in most countries[59], as Levy (1993) reveals, are inundated with failed export support programmes. The appropriate type of export marketing support schemes have to be decentralised and tailored to specific realities of the marketplace and compatible with the characteristics of black manufacturing SMEs. A possible course is to include such a support blueprint in the envisaged local service centres programme.

4.4.3 Means of Technical support

The only real technical support a third or so of the SMEs receive is orientation on new machines from visiting manufacturers's sales technicians. These technicians usually service new machines that are sold by their companies and still under guarantee. Some equipment salesmen call on their regular customers to inform them of innovations in machinery and

[59] Especially less developed countries.

updated versions of older equipment. If a sale is made, sometimes the sales technicians offer training on the use of new machinery to the SMEs as a complimentary service. Most of the SMEs that received these visits acknowledged the benefits of such services, insisting that they were helpful for the smooth operation of their enterprises.

From this study, it appeared that the above mentioned services were the only visible technical support available to black manufacturing SMEs. Over half of the enterprises surveyed described that they made their own arrangements to acquire technical services (table 4.11). Most medium-sized manufacturers employed their own technicians, keeping them on standby to attend to any eventuality. Some of these companies even sent their technicians for further training and upgrading to specialized training institutes for clothing, furniture and metal workers (to be elaborated in the next section). Because they lacked the financial means of hiring their own mechanics, smaller enterprises made arrangements with private mechanics for services and repairs, depending on whatever skills that were available.

It happens that smaller companies are compelled to pay higher fees to private mechanics who may not be familiar with the small company's machinery. On the other hand, companies that hire their own technicians, usually do have them specialised in the type of machinery the factory uses. Individual small groups of SMEs could do better if collective support was available to them. Collective support that would assist small manufacturing in acquiring technical support and information on new innovations; new machinery and provision of consultants to advise them on technical issues.

When the entrepreneurs were asked if technical support should be organised through a parastatal or private body and be at the disposal of all SMEs, two thirds were in favour of this proposal. The rest insisted on continuing with their own arrangements, convinced that such centrally based establishments rarely become impartial in fulfilling the SMEs' requirements. This response followed their experiences with other institutionally based assisting programmes, like finance schemes, which they alleged, catered for mainly white-owned enterprises. In the same way, the entrepreneurs feared that these technical support programmes would favour well established enterprises, at the expense of the groups they were designed to assist.

In one of the industrial hives visited, the SBDC supported furniture manufacturers by loaning them wood-working equipment and providing some backup services. This is a welcomed development, but it appears to be a drop of water in an ocean. More technical support is required and it should be accessible to all sectors of manufacturing SMEs[60].

Table 4.11

Type of Technical Support

Type of Technical Support Received	%
Use Own Technical Capability - Not Outside	55
From Manufacturer's Representatives	35
Information on New Innovations	5
Technical Support from SBDC or Other Public	5
Total	100

4.4.4 Employees training and support

Table 4.12 shows the distribution of the categories of training of employees in black manufacturing enterprises. Nearly two thirds of those sampled trained their workers. Training of employees took place either at work or at specialized institutes in Cape Town. Those who managed to train their workers outside their places of work were predominantly well established medium-sized enterprises. They consisted of all the three sectors under study, as detailed below:

Furniture manufacturers used amongst others, the Furniture Industry Training Programme, under the auspices of the Furniture Industrial Training Board (FITB). The institute is situated

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[60] A review of possible manufacturing technical support for SMEs through the Regional Manufacturing Technology Centres (RMTCs) is made in chapter 3.

at Paarden Eiland, and it is privately run, funded by levies from members of the Furniture Manufacturers Association. The FITB provides training mainly to the members of the furniture association which is made up of both large firms and SMEs. However, the training programme is open to any interested individual, subject to the fees stipulated by the FITB. At present, non-members make up one percent of the trainees. Two modules of training are offered: supervisory and technical training. Supervisory training, the academic part of the programme, is set on three stages: level one, two and three, which are determined by the progress of the trainee. The supervisory course offers tuition in general business management, bookkeeping and marketing management. Technical training deals with the practical part of the course. It entails the training of machine operators, mechanics and gives a two year apprenticeship programme. (interview, John Nobele, 18/04/95)[61].

Prominent medium-sized clothing enterprises trained their workers at the Clothing Industry Training Board (CITB) situated at Salt River in Cape Town. The membership of the CITB board of directors are made up of equal numbers of members from employers' organisations and trade unions. The headquarters of the CITB are in Cape Town, with branches in Transvaal and Natal. The training activities taking place under the auspices of the CITB in the Cape region, include management and development programmes, business studies, and supervisory development programmes. On the technical side, the courses offered are training instruction programmes, pattern-making and grading, mechanics and technician instruction, sewing machine operators and safety and quality management (CITB, 1994).

The CITB has a policy of annual accreditation of in-factory training schools. In 1994, nearly 33 Western Cape factories which had registered in-factory training schools were accredited (CITB, 1994). In 1994, there were 110 certificated training officers and 200 certificated sewing machinist instructresses on the CITB's register designated for dealing with the in-factory training schools. To enable the CITB to further its objective of producing highly qualified trained graduates, it is liaising with tertiary education institutes in order to cooperate in research and training. It is making arrangements with the Cape Technikon and Peninsula Technicon amongst others, to provide education or training for the clothing

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[61] Mr John Nobele is a senior official in the Furniture Industrial Board.

industry. Contact between the CITB and the Universities of Cape Town and Western Cape involving research projects has been going on for a while, and the department of Business Studies at the University of Cape Town has made available a group of post-graduate students to carry out research into the clothing industry (CITB, 1994).

Well known panel beaters sent their staff to the Training Centre for Artisans situated in Bellville in Cape Town, to acquire more skills and knowledge on the panel beating trade. The centre accepts candidates who have gone up to standard ten, and have not done an apprenticeship before. The centre is run by the Department of Labour, and the courses have a duration of one year. Courses offered are in panel beating, electric wiring, spray painting and boiler making. Upon completion of the year at the centre, the artisans have to spend up to two years doing practical in a workshop before being allowed to sit for a trade test. It is upon the completion of the test when a candidate can claim to be a fully qualified artisan and be remunerated accordingly (Interview, Mr Felix, 02/05/95)[62].

All the enterprises that trained their workers either in their premises or outside agreed that their undertakings were well rewarded. Trained workers performed better and increased productivity. The training received in and out of the premises gave employees multi-skills and made them versatile to cope with different manufacturing requirements. The benefits of training compensated for the costs incurred in training them. Porter underpins that a good basic educational system is necessary to support competitiveness, but it is not sufficient. In the contemporary world economy, specialised skills and training are vital to enduring competitive advantage. He reveals that many companies throughout the world invest a lot of funds and time to train their employees in specialised technical and managerial skills.

Firms have a responsibility, not to mention a self-interest, in determining the type of training to be offered to their workers, says Porter (1990). Firms can shape factor creation in training institutes by playing an active role in helping institutions identify the needs of the industry, planning curriculum, placing trainees, and providing financial support for equipment and facilities. Besides their overwhelming commitment to worker training, SMEs in this survey

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[62] Mr Felix is an owner of a small enterprise in Cape Town.

were yet to exert their influence to the training institutes and make their suggestions concerning the programmes. Apparently, this could not be done by individual firms due to their sizes. Their smallness meant they lacked the voice and environment to be effective, unless they linked up with the resource pools of other firms and influence the training programmes for their own interests.

Table 4.12

Training Given to Employees

Does The Firm Train Employees	%	%	
Hire Trained Employees only	35		
Firm Trains Employees		Trains at Work-place	Trains Outside
	65	45	20
Total	100		

Smaller entrepreneurs hired skilled employees, citing that it was costly and time consuming to train, and they lacked spare capacity in their factories to use for training. In order to train, one uses machines that could otherwise be used to generate income. However, even enterprises that hired skilled people, sometimes needed to give their workers additional training to meet the high quality of merchandise demanded by customers; especially those enterprises subcontracting to prominent retail outlets.

Support in training comes from different organisations as mentioned in the four paragraphs of this section. The more affluent SMEs as we have seen, could make use of these facilities. A sizeable portion of black manufacturing SMEs, found training to be a burden to their businesses, due to the costs involved, and lack of training facilities at their premises. A training support mechanism coordinated by a private or public organisation would be welcomed by this sub-group of manufacturing SMEs.

4.4.5 Subcontracting

Only 30 percent of the sampled SMEs never participated in any type of subcontracting. The rest were subcontracting to other SMEs, public institutions, private organisations, and large retail outlets: with a typical example being the CMT arrangement. Some clothing manufacturers deplored the CMT system, giving two main reasons: first, they criticized the CMT pricing system arguing that the main retail stores dictated unreasonably low prices to the manufacturers. The fees retail stores are prepared to pay for a CMT contract normally leaves the SMEs manufacturers with no profits. Second, retail stores emphasise high quality standards for the garments that are not attainable by small SMEs. The retail stores are inflexible and it is not unusual for them to reject garments and return them to the manufacturers[63], who end up with costly, undesirable stock. In addition, retail stores deal with lots of enterprises, they never hesitated to rescind a contract, especially when a manufacturer fails to honour delivery dates.

Subcontracting is divided into two categories: In the first category, retailers or companies subcontract to an enterprise and supply it with material, and the manufacturer makes the items according to the subcontractor's specifications. The only value added by the manufacturer, is in respect of the labour supplied; an example is the CMT process. In the other category, the manufacturer is left with the discretion to organize the material, supply labour, and manufacture the required product according to the subcontractor's instructions. This is the case when insurance companies subcontract panel beaters to repair their clients's vehicles. Table 4.13 summarizes the subcontracting position of the SMEs.

[63] This is despite the SMEs efforts to maintain high quality control in garments production.

Table 4.13

Firm Engaging in Sub-Contracting

Is the Firm Sub-Contracting?	No
Does not Sub-Contract at all	6
Sub-Contracts Only	9
Sub-Contract and Receive Material	5
Total	20

To the majority of manufacturing SMEs, subcontracting is an important source of revenue. The study included enterprises which depended entirely on subcontracting, and those which subcontracted on a part-time basis. A large portion of subcontracting took place within the clothing sector. Through the CMT, large retail stores subcontracted even to small clothing manufacturers, as long as they met the quality requirements and delivery times, and so long as the retail stores continue having adequate demand for clothing. It occurred in other seasons, especially during winters, that demand for clothing from retail stores slumps; as a result, fewer CMT contracts become available at stiff competition. During these seasons the smaller manufacturers may encounter problems in securing CMT contracts.

The furniture sector is characterised by high levels of concentration of ownership, and virtual monopolies that tend to exclude smaller manufacturers. Manning (1993) mentions that 92.3 of market share of furniture sales in South Africa is held by 12 major retail groups. The dominance of the market by the retail groups constitutes one of the most serious obstacles to the competitiveness of the furniture sector. Michael Porter (1990), in his assertion of industrial evolution, underpins that a nation loses competitive advantage if home buyers have lost sophistication, demand is moving away from global needs, and so on. The large retail groups pricing strategy aims at creating barriers that deny new entrants, especially small manufacturers, access to the furniture market.

Furniture retail stores preferred to deal with large furniture manufacturers, citing quality and ability to produce in large quantities as a reason for such preference. According to Porter, a strong anti-trust policy especially in the area of horizontal mergers, alliances and collusive behaviour is seen as essential to the rate of upgrading in the economy. Mergers, acquisitions, and alliances involving industry leaders should be disallowed. For the small furniture manufacturers to thrive effectively in the Western Cape, some sort of government's intervention to regulate the retail outlets is inevitable. Porter however, cautions that anti-trust laws should not impede vertical collaboration between suppliers and buyers which is so integral to the innovation process, except when they unduly prohibit other competitors from access to customers, channels or suppliers (Porter, 1990:663).

Two thirds of panel beaters entered into subcontracting relationships with Insurance companies. Some were not happy with the insurance companies's procedure of awarding contracts to each enterprise in accordance with its location. Most black panel beaters are situated in areas that have limited vehicles per capita. Black panel beaters ended up getting limited contracts as most contracts were awarded to garages in urban centres or those in the vicinity of affluent areas.

A technical support scheme in subcontracting was required, especially by furniture and clothing manufacturers. Small furniture manufacturers pleaded with the SBDC to consider a scheme that will introduce them to large consumers of furniture like housing constructors. Using this channel, large consumers can appreciate the contribution that can be rendered by small furniture manufacturers. The SBDC is still to respond to this request and no scheme has been set up to bring the housing constructors and furniture manufacturers together.

Half the clothing manufacturers subcontracting through CMT wished to be assisted from what they considered as exploitation by large retailers through the imposition of cut-throat prices that tend to diminish profitability and cause a weakened labour position.

4.4.6 Sources of Competitiveness.

The SMEs sampled were asked to indicate issues they considered to be crucial for their success and which lead to profitability. Several factors were investigated, including support from the SBDC or other organisations. It was not a question that had a simple answer. Most entrepreneurs gave several reasons they thought were critical to their businesses and income generation.

Table 4.14

Key Success Factors - Leading to Profitability

Success Factors	%
Service and Management Quality	20
Product Quality	30
Customer Relationship	30
Worker Relationship	15
Support from SBDC or Other Organisations	0
Total	100

Values that came up more frequently to about 60 percent of the respondents, were product quality and customer relationships in table 4.14. A vibrant relationship with customers emanates from: reliability in delivery, reasonable prices, unrestrained communication and product quality. The entrepreneurs claimed to be producing output of good quality, assuring themselves of continued contracts with subcontracting partners and competence in the marketplace.

Following Porter's analysis, there is an application of the analysis in three ways: first, for the firms to maintain product quality they have to continually improve production patterns and incorporate new ideas; second, they have to use managerial skills, including expertise of skilled and highly trained employees and third, the firms have to respond to pressure from local demand for products of good quality and reasonable prices.

Many SMEs found that good services to their customers, delivery in time, and honouring quoted prices, were crucial to their success. In agreement with this, Porter contends that competitive advantage is increasingly a function of how well a firm manages what he calls the value system. He underscores the necessity of maintaining good relationship between the SMEs and their customers, as well as establishing reliable sources of supply. Not only does good management connect activities inside the company, but also creates harmonious working relationship between the firm and its suppliers. Within the context of the value system, SMEs find cheaper sources of inputs and become efficient low-cost producers and low-cost marketers. Under these premises, the SMEs are able to carry out on-time delivery without costly inventories.

Successful SMEs have taken the initiative in adopting specialized skills, and attaining lower cost competitive advantage, in unanimity with Porter's observations, that factor advantages arise from highly specialized pools of skills, applied technology, and even sources of capital tailored to the needs of the particular industry. For example, a couple of clothing manufacturers in Athlone and Mitchell's Plain, made T-shirts and printed them with their own colourful designs that attracted considerable local demand. Other clothing manufacturers developed dress-patterns under their own trade-mark and distributed the garments in their retail outlets, finding a niche in an almost saturated market. One furniture manufacturer in Blackheath, produces furniture that he has designed (unique). He faces no competition even from large manufacturers, and is assured of reliable customers. This again, was a direct reflection of Porter's assertion: 'Specialized factors create advantage because they are unique and hard to replicate, and because it is difficult for competitors based far away to tap into them'(Porter, 1993:12).

Applied and appropriate technology is being employed by certain panel beaters in devising their own technique of mixing car paints to obtain optimum finish. Moreover, as they can't afford to purchase conventional spray-painting chambers, they devised their own techniques of spray-painting vehicles in open space, and obtain similar results to vehicles sprayed in specialised chambers. All these examples from SMEs in the sample, illustrate Porter's arguments that competitiveness is not simply a function of comparative advantage in factor endowments, but a function of the firm's ability to be dynamic, to contest constraints, innovate and upgrade.

Customer service and management quality were mentioned by about 20 percent of the enterprises as crucial for them to survive in business and made them successful. This quality supports Porter's analysis that competitive advantage grows out of the way firms organise and perform discrete activities, such as sales people making sales calls, technicians performing repairs and the firms' efforts in enhancing worker management. A good working relationship with employees was credited by nearly 15 percent of the manufacturers, who admitted that if it were not for the cordial relationship in the factory the repercussion on productivity would have been deleterious to their businesses.

Porter's assessment that competitive advantage grows not from a comfortable home environment, but out of pressure and challenge, was shown to be applicable in the survey. None of the entrepreneurs sampled attributed their achievements to support structures offered by private or public organisations. This was rather an intriguing issue taking into consideration that 40 percent of those sampled occupied SBDC hives or property procured with the help of this organisation. Lack of support did not hinder these enterprises from thriving. They persevered by financing themselves, trained employees on their own, searched and competed in the market, devised innovative ways of production and explored new technology. Therefore, innovation and success, results from pressure, necessity, or even adversity.

4.4.7 Constraints facing the enterprises

Thirty percent of entrepreneurs were concerned about limited demand for their products (table 4.15). Furniture manufacturers recalled that in the past, people used to buy furniture and replaced it when new fashion came to the market. With the reality of the present economic situation, the consumption profile is changing and people tend to buy furniture that will last them even for a lifetime. This means that only a limited quantity of furniture will be purchased at any particular time. Clothing manufacturers noted that people in general, have limited income to spend on clothing. Clothing is increasingly being bought as a necessity rather than for the passion of fashion or status. Clothing manufacturers subcontracting through CMT, linked the issue of insufficient demand from large retail stores to the stiff competition posed by abundant clothing manufacturers.

Table 4.15

Types of Constraints Facing The Firm

Constraints Facing the Firm	%
Lack of Support From Banks and SBDC	20
Lack of Demand for Products of Firm	30
Lack of Raw Materials	0
Lack of Equipment and Machinery	0
Labour Management	15
Business Environment (Regulations)	5
Meeting Customer's Orders in Time	10
Competition From Other Firms	20
Total	100

Lack of support infrastructure, namely, financial, marketing, technical, legal and training, were more frequently highlighted as debilitating constraints by smaller rather than medium enterprises. Smaller manufacturers were not able to raise collateral to acquire loans from major financial institutions. More than half of small black manufacturing enterprises felt that they were being overlooked by support organisations; both public and those under NGOs. Panel beating and metal works firms, also felt that they got little support from these organisations. Ten percent of panel beaters had no means of communicating their grievances to the support services organisations. They perceived a wide gap between them and these support organisations.

Literature on SMEs support services mentions the existence of a number of support organisations in the Western Cape. As mentioned earlier in this chapter, the Engen Foundation published a list of business support organisation available to black SMEs in the Western Cape (Engen, 1994). Three private organisations appearing on the list, need additional analysis; they are:

The association for the Western Cape's Economic Growth (Wesgro). Wesgro aims at promoting economic development and employment for the benefit of all the people in the Western Cape. Although not limited to black SMEs advancement, Wesgro has decided to engage black businesses and contribute to their growth. Research by Montsi & Associates in the Western Cape revealed that more than 60 percent of the sampled black businesses had heard of the organisation, but 40 percent (of the 60 percent), were not clear as to what Wesgro does, and another 40 percent had negative feelings about Wesgro (Montsi & Associates, 1994:16).

The National Federation of Chamber of Commerce (NAFCOC) is one of the first organisations formed to fight for the interests of black businesses in South Africa. The Foundation of African Business and Consumer Services (FABCOS), unlike NAFCOC does not regard itself as a chamber of commerce but a development agency. Its main aim is to empower black business people by pooling resources and enhancing the development process. Both organisations disseminate information and support black SMEs' advancement, and have established banks: the African Bank, formed by NAFCOC and the Future Bank of FABCOS for the purposes of offering financial support (Manning & Mashigo, 1993:70).

Besides the high profile attached to NAFCOC and FABCOC, it emerged from the study of the black manufacturing SMEs in the Western Cape, that no mention of support from these organisation was made by the respondents. The lack of recognition of their activities is a major setback for these organisations, implying that their objectives and aspirations of supporting black enterprises are not being fulfilled.

Labour-management relations became a prominent constraint to 20 percent of the enterprises. A poor relationship with the unions was blamed as the prime cause of the labour problems. Unions never considered employers' position when deliberating on labour disputes. In this regard, unions were always at odds with business-owners, a fact that was not assisting the nurturing of entrepreneurship in the Western Cape. Labour absenteeism seemed to be a major problem for 20 to 30 percent of the clothing manufacturers, Absenteeism resulted in manufacturers failing to honour delivery times and hampering labour productivity.

Although lack of raw materials, machinery and equipment were not quoted as a major constraints by any enterprise during the survey, nearly all panel beaters had expressed concern over the shortage of spare parts and other vehicle replacement materials during the motor industry strike. The problem was however, short-lived and disappeared after the end of the strike. An insignificant number of enterprises seemed to be constrained by the public tax system or government licensing requirements. In contrast to many developing and middle income countries, government regulations did not appear to be a major constraint to black SMEs in the Western Cape.

With the conclusion of the Uruguay Round of the GATT in December 1993, the local clothing industry was given 12 years, commencing in July 1995, to reduce its duties from current 100 percent ad-valorem to a maximum of 45 percent with no specific duties. This gradual reduction in ceiling tariffs will provide the time for restructuring of the clothing and textile industry. The restructuring process has been under the chairmanship of Dr Nico Swart of the Board of Tariffs and Trade. The objective of the restructuring exercise, besides complying with the Uruguay Round requirements of reducing tariffs, is to stimulate the clothing industry, make it competitive and promote exports (National Clothing Federation, March/May 1994:1).

The final decision on the restructuring of the clothing and textile industry has eventually been made[64]. It has been decided that it should take eight years in which to reduce tariffs on textiles from 55 to 30 percent and fabrics from 45 to 22 percent. It has also been recommended to adopt efficient anti-dumping and customs control procedures. The National Clothing Federation[65] is however, unhappy with the decisions taken. The federation wanted a four year phase-out period for textile tariffs instead of eight. The proposed creation of a joint textile-clothing federation is still being discussed and no concrete decisions have been reached[66] (Financial Mail, June 16 1995:95-96).

There were no significant reactions from the SMEs surveyed concerning the proposition of restructuring the industry. The lack of response could be attributed to two issues: first, most black manufacturing enterprises were preoccupied with other immediate concerns such as financial problems, inadequate demand for their products and labour management disputes. Second, nearly 85 percent of the sampled SMEs were not involved in exporting. They depended exclusively on local demand. Historically, there has been a general lack of export consciousness amongst South African manufacturers. The high protection that the South African clothing industry enjoyed, made the local market more viable, and even the least efficient firms could make a profit on the local market (Cassim, 1991:76). SMEs never concerned themselves with tariff structures, although most used imported inputs subject to tariffs. The SMEs accepted local prices of inputs and adjusted themselves to any escalation caused by increased tariffs.

Concern over increasing duties for the textile industry was nevertheless, raised by the Cape Clothing Manufacturers Association (CCMA). The association which draws most of its

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[64] The decision was made by the Minister of Trade and Industry, calling it a 'definitive' decision on the restructuring of the clothing and textile industries.

[65] The National Clothing Federation is a major umbrella body representing clothing manufacturers throughout the country, both large and small.

[66] In many counties of the world the clothing and textile industries are represented by one body. Over the years in South Africa, the clothing and textile bodies have operated as different organisation, and all along, it has virtually been impossible to bring the two sides together.

members from SMMEs is backing the call for a removal of high duties on textiles. According the CCMA, the textile duties hinder the development of emerging businesses in the clothing sector. High textile duties benefited large conglomerates at the expense of small producers. The CCMA puts three suggestions that government should be doing instead of maintaining these high duties:

- The government should develop an export drive that supports the SMMEs and ensure training is accessible and relevant to them.
- The government should develop an integrated programme for emergent businesses in the clothing industry, which are mainly African women.
- Government should ensure that SMMEs in the clothing industry can buy raw materials at competitive prices, and investigate ways of reducing input costs (Cape Business News, (monthly) April, 1995:7).

4.5 The Trade Union's position.

During the course of the study, several SMEs, especially in the clothing industry and panel beating and metal works, commented on their relationship with the unions. This has already been discussed in the report, but to highlight the major reservation levelled against the unions, their concerns revolved over the issues of minimum wages and anticipated support from the unions.

4.5.1 Minimum wages

The union's view stipulates that minimum wages such as the recommended in industrial council agreements of R13.35 per hour for grade A employees, and R6.05 per hour for grade H workers: for iron, steel engineering and metallurgical workers, or the R263 per week for a machinist[67], designated for members of the clothing industry, are a result of negotiations carried out jointly between workers representatives, the unions and employers, under the umbrella of the national industrial councils for steel and metal workers, and the clothing industry. The rates are supposed to apply across the board without differentiating

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[67] A example of *machinists* was taken because they make up to 67 percent of all the workforce in the clothing industry.

between SMEs and large firms. The unions envision that if they have to concede to lower wage rates for SMEs, the repercussions might be felt in the industries in two respects:

(a) SMEs employ skilled workers of equivalent experience level or same training like those employed in large firms. It would be unfair to have workers employed in SMEs, earning lower wages than their counterparts doing the same work in large firms.
(b) Firms paying lower wages may lose skilled workers, who may be attracted to enterprises paying higher wages. Without skilled workers, SMEs won't be able to carry out manufacturing and may be forced to close down. The results would be to create more unemployment.
(c) Firms paying lower wages will have lower operating costs; they will be able to offer their products at lower prices and have an edge in the market. This will be at the disadvantage of firms paying higher wages[68].

The unions, may concede to wavering the stipulated rates to SME on an individual basis, following a successful application by the SME to the industrial councils. The industrial councils may consider the plea valid if they are convinced that the SME in question, is in financial difficulty, or in the process of making substantial restructuring and setting up new machinery, and cannot pay its employees the recommended minimum wage rates. As an example, the exemption criteria for small business covered by industrial council agreements in the steel, engineering and metallurgical industries is valid for SMEs which:

(i) Are independent, privately-owned businesses.
(ii) Employ no more than ten scheduled employees[69].
(iii) Have been in operation for a period of less than three years.
(iv) Are able to show that such exemption would enable them to create additional jobs or

[68] Known otherwise as the danger of sweatshop conditions.

[69] A scheduled employee is an employee engaged in production related activities (thus excludes support staff such as cleaners, telephone operators etc.).

retain existing jobs in their firms[70].
(IDR, 1995:53).

The unions are nevertheless careful not to allow this loophole to be exploited by unscrupulous firms, inclined towards rent seeking, wishing to take advantage of the lower wages concession to underpay their employees.

4.5.2 Training

In section 4.4.4 the question of worker training in the clothing, panel beating and metal works and furniture industries was appraised.
The issue of training is high on the agenda of all trade unions representing the three industries under this study. Although the decision to train was in most cases initiated by the owners of the firms in these industries, the role of the unions in encouraging them can not be disputed.

SACTWU, being at the forefront of spurring worker training within the clothing industry, insists that workers training should be a major component of workers management. According to SACTWU, emphasis on training
has all along been on management programmes and supervisory development skills. SACTWU wants emphasis to be shifted to more technical training that will offer specialised skills to machine operators and mechanics, to attain the highest levels of qualifications attainable in these fields. SACTWU aims at convincing the training institutes to structure their programmes to be more career oriented. As part of SACTWU's efforts in achieving this aim, it has made direct efforts to be represented at the highest levels of decision making in major clothing training institutions in the country.

SACTWU occupies nearly half of board membership positions of the CITB, and was instrumental in transforming the training strategy of CITB, to be more skills based, and pro-

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[70] This factor must be covered in a written motivation to be submitted together with the application for exemption. The motivation will highlight the SMEs' plans for creation or retention of jobs.

active to satisfy the training needs of smaller manufacturers within the industry. It is common knowledge that skilled workers are more likely to be successful when forming enterprises of their own. To encourage career training in other words, is to lay the seeds of entrepreneurship. SACTWU is also aware that efforts at negotiating better wages and working conditions for their members would not bear fruits, unless it is accompanied with a comprehensive propositions to add value to the workers, in the form of training and skills improvement (Interview, Mr Lionel October, 05/05/95)[71].

NUMSA's has appointed education officers to oversee the training of workers who belong to the union. The educational officer's task is to visit factories and workshops and encourage management to organise training programmes for the employees. NUMSA undertakes to supervise such training programmes and make follow up to determine the progress of trained staff and make sure they are deservedly remunerated. NUMSA does not carry out the actual training schemes, but they liaise with the training boards in developing training modules. NUMSA has its own instructions schedule involving the formation of shop-stewards. Shop-stewards are given instructions to understand the structure and objectives of NUMSA and COSATU[72]; methods of defending workers and negotiations tactics, basic economic principles and the tariffs framework. The shop-stewards task is to impart their knowledge to fellow workers in their respective firms, and raise the level of union awareness within these firms (Interview, Mr Fred Peterson, 04/04/95)[73].

The clothing and textile workers' unions expressed their views concerning the proposed restructuring of the clothing industry. SACTWU is strongly in favour of GATT proposals, calling for the reduction of tariffs from the present rate of 100 percent to 45 percent over a span of twelve years. SACTWU would prefer the rates to be brought down to 40 percent and the span reduced to ten years. The union is strongly in favour of the reductions as it believes that tariffs were initially imposed as a result of persuasions from separate lobbying groups,

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[71] Mr L. October is a senior official of SACTWU.

[72] Congress of South African Trade Unions (COSATU), is the largest umbrella body that affiliates trade unions from different industries throughout South Africa.

[73] Mr Fred Peterson is an official of NUMSA.

from different business organisations, such as textile producers, spinning mills, large retail stores and large clothing producers. The union regarded the actions of these pressure groups as abusing the purposes of the tariff instrument, brought about by the fear of competition, and attempts at reaping monopolistic rents from the local market. SACTWU therefore believes it would be beneficial for the industry as a whole, and SMEs in particular, if tariffs were reduced and competitiveness extolled.

SACTWU is aware that a mere reduction of tariffs will not bring the guaranteed benefit to the clothing industry unless accompanied by a series of supporting activities, namely: availability of finance, worker training, accessibility to technology, marketing opportunities and notably, assistance in export promotion. As a follow up to tariff reduction, SACTWU proposes the establishment of an export trading house to assist, especially small enterprises, to access the foreign market. The trading houses are to be structured in the format of Danish support system, with the inclusion of export assisting consultants and a system of databases containing foreign buyer contacts, and other relevant information pertaining to exports promotion (Interview, Mr Lionel October, 05/05/95).

CHAPTER 5

CONCLUSIONS AND POLICY RECOMMENDATIONS

5.1 Conclusion

The study has examined the general characteristics of small and medium-sized black manufacturing enterprises in the Western Cape that can be described as successful according to criteria developed in the study. The review took place against the background of the importance of SMEs in the economy of the Western Cape and South Africa as a whole, in terms of the sector's contribution to employment and earnings, and its increasingly critical role in attaining the aims of the Reconstruction and Development Programme (RDP). An important objective of the RDP is to deracialise business ownership and control, through focused policies of black economic empowerment. Black small business development must form an integral part of the national economy and economic policy (ANC, 1994:94).

The initial criteria for determining a successful enterprise were drawn from existing literature on similar research done in other countries. Based on these findings, a comprehensive study amongst black manufacturing SMEs in the Western Cape established the following:

5.1.1 Characteristics of black manufacturing SMEs in the Western Cape

(i) Age of entrepreneurs

Two thirds of entrepreneurs sampled were over the age of forty. Most had spent several years working in other firms prior to starting their own businesses. Working experience, especially in related fields, appears to be one of the characteristics of successful black manufacturing entrepreneurs.

(ii) Education Level

Although most of the business owners had at least standard five education, the most successful had tertiary education. None of those sampled reported not having received any schooling at all. It is quite clear that education was a vital component in black SMEs' success. The rate of success was highly correlated with the level of education attained by the owner.

(iii) Start-up funds

Overwhelming evidence indicates that most successful black entrepreneurs start their businesses with their own savings. This does not imply that they do not need financial support, but most firms started under difficult conditions and managed to survive and grow against great odds.

(iv) Motive for starting the enterprise

The study has shown that although there were several reasons that motivated black entrepreneurs to set up manufacturing enterprises, the desire to be independent seem to be paramount. These entrepreneurs had worked for a number of years under bosses with little reward and opted to launch their own enterprises.

(v) Sources of competition

Some literature on SME development (Penrose, 1980:218; Schmitz, 1982b:27), has indicated that large manufacturing companies are the major competitors to small and medium-sized manufacturing enterprises. The study has emphatically established that the main competitors facing black SMEs, are other small manufacturers. Many of the competing small firms are unregistered and operate from makeshift sites having minimal operating costs.

(vi) Unions and worker relationships

One of the outstanding findings of the study shows that successful black manufacturing SMEs have put in place elaborate mechanisms to facilitate channels of communication between employees and management. Such a healthy worker and management partnership, has been instrumental in preventing possible industrial actions that could have been detrimental to the smooth functioning of the enterprises. Proof is provided from the sample, that a majority of SMEs categorised as successful, whose workers belonged to unions, had never experienced any form of industrial action.

5.1.2 Contribution of support services

(i) Capital and financial support

Most entrepreneurs started their enterprises with meagre capital. Without tangible assets, they could not raise collateral to be considered for loans from financial institutions. Having begun with very limited assets and equipment, and located in areas that were viewed as not economic viable, black SMEs were not given recognition by other private and NGOs support organisations. Even after managing to establish themselves as viable enterprises, many black manufacturing SMEs continue experiencing financial constraints. There were mixed reactions towards acquiring finance from commercial banks. Quite a few successful entrepreneurs were unhappy with the existing commercial banks' loans policy of securing immovable assets and charging high interest rates, and attempted to depend on their own financing.

(ii) Marketing and export support

Except for a few, mostly medium-sized enterprises, the majority of black manufacturing SMEs marketed their goods in the local markets. Several firms considered themselves at a disadvantage compared to large companies in getting access to large retail stores' markets. Most SMEs indicated their willingness to engage in exports if they could find a way of accessing foreign markets. The study found very little evidence of the availability of support in marketing and exporting for black manufacturing SMEs. Facilitating market access is an area where support could play a major role.

(iii) Support in training

Many enterprises in the sample trained their own workers and realised the benefits derived from training. Training resulted in increased productivity, and motivated the workers. Entrepreneurs were aware that workers trained at specialised higher technical institutes were more productive. Smaller enterprises could not afford to send their employees to these institutes, thus appealed for support in technical and managerial training for their employees to meet the high quality of production and services demanded by the market.

(iv) Technical support

Technical support was rarely delivered to manufacturing SMEs from the disadvantaged communities. Black-owned SMEs had to depend on their own initiatives to procure backup services for equipment and machinery, at prohibitive costs and inconvenience. A majority of these enterprises expressed the wish for established technical support infrastructure to serve them.

(v) Support in subcontracting

The majority of the firms in the sample subcontracted in one way or another; subcontracting is therefore a critical component of the SMEs' business life. Complaints were however, raised over the subcontracting patterns of large firms and public institutions, to SMEs from the disadvantaged communities. Panel beaters criticised the limited and largely unprofitable contracts from insurance companies, which tend to favour urban-based panel beating shops. Furniture-making SMEs censured the highly concentrated furniture retail sector that was hesitant to subcontract to black SMEs. And clothing producers had their reservations with the CMT scheme, which tolerates large retail outlets subcontracting SME at cut-throat prices, leaving them with negligible profits. The SMEs were unanimous in their desire to see the establishment of a support framework that would assure them fair access to procurement markets of large and public sector enterprises, and the promulgation of laws and acts that would facilitate orderly competition in the market, and protect them from exploitation and unfair practices from subcontracting firms.

(vi) Sources of competitiveness

Product quality and customer relationships were deemed most critical for the success of the surveyed manufacturing SMEs. Successful black SMEs believed their products were of good quality and could compete equally in the market with products of large manufacturers. They kept their customers satisfied by manufacturing in compliance with the customer's instructions, honouring delivery dates, and adhering to quoted prices.

(vii) Limitations facing the SMEs

Firms in the sample cited lack of demand for their products as a major constraint. This occurred because of existing economic conditions in the country, characterised with low income levels, surging consumer prices, and increasing unemployment. Competition from other small firms and lack of support from financial and other support institutions also contributed to the limitations affecting the overall performance of black manufacturing SMEs.

5.2 POLICY RECOMMENDATIONS

In this study, a comprehensive analysis on the drawbacks of black manufacturing SMEs was made and a review of support mechanism to alleviate this sector undertaken. An evaluation of possible policy framework for future support mechanism to be implemented ensued, culminating with a scrutiny of the document from the ministry of trade and industry, and the White Paper from the department of trade, pertaining to the strategies for the development of an integrated policy and support programme for small, medium and micro-enterprises in South Africa. Adding to these are additional policy recommendations:

5.2.1 Entrepreneurship

Factors of production: labour, capital and technology, cannot combine themselves to bring about economic development, entrepreneurship is the driving force to achieve this. The market, if left on its own, cannot be expected to deliver the required number of entrepreneurs to address the scarcity of this resource in the black communities. Entrepreneurial qualities can be motivated in young people in three ways:

(a) Education

Students from primary schools onwards, can be exposed to the values of entrepreneurship through vocational training that gives them necessary technical skills. With technical expertise, there is a greater possibility for a prospective entrepreneur to start a business. This programme will certainly require extra funds to be committed to schools in order to provide for the workshops and instructors to carry out the syllabus. But the gains to the students and the long term benefits to the economy will offset the initial costs.

(b) Apprenticeships

Entrepreneurship can be inspired by encouraging successful SMEs and even large manufacturing enterprises to take young people as apprenticeship. Apprenticeship is a vehicle to entrepreneurship. Black youths have for a long time being denied the chance to undergo apprenticeships, because of the limited number of black enterprises and the unwillingness of large firms to take these youths as apprentices. An increased willingness on part of the established firms to reverse this trait will go a long way into planting the seeds of entrepreneurship in black communities.

(c) Role models

Role models are an important motivation to young people. Rather than promoting movie stars and American musicians as role models to black youths, successful business-people could be exposed to the youths and act as inspirators to be emulated by the youth. Visits of such influential personalities to schools and community centres where they can speak and impart their experiences to young people, would leave an indispensable ambience to the them, that will spur compassion for entrepreneurship. The local media could also play a prominent role, for example, by making television drama or humour programmes that involve successful business people, derived from the local communities, extolling business achievement as a theme.

5.2.2 Support framework

A comprehensive evaluation of support services that could be implemented to assist black manufacturing enterprises were outlined in Chapter three; nonetheless, additional points can be added.

(i) Financial support

As mentioned in chapter three, there is a need to look into the possibilities of reviewing loan programmes so as to encourage institutions to meet the financial requirements of small enterprises in the disadvantaged communities. The establishment of institutions that will provide soft loans at lower interest rates to black manufacturing enterprises have been forwarded. Supplementary to this are incentives to financial institutions in the form of tax rebates for those prepared to
extend credit to small enterprises.

For the scheme to be successful, pressure must not only be exerted on financial institutions to provide more loans, but black manufacturing entrepreneurs need to be familiarized with proper ways of utilising finance. They have to be given technical and managerial assistance on the techniques of formulating projects and funds allocation. The need for being current and honouring debt repayment must be emphasised.

(ii) Marketing and Exports

A number of market support programmes have been suggested in the White Paper to support SMEs. They include making the Competitive Board more accessible to small enterprises, motivating the big business sector to expand its links with SMEs; simplification of tender procedures to make it easier for black SMEs to compete, and developing small-enterprise export-support programmes to supplement or replace those in existence, but geared to the interests of large enterprises (MTI, 1994, p.30). These measures are welcomed, but there is a need of direct involvement of both public and private organisations in two respects:

(a) Trade Fairs

More trade fairs involving manufacturing SMEs should be arranged, whereby products of the SMEs, especially those from disadvantaged groups, can be displayed and exposed to potential customers, both locally and internationally.

(b) Advertisement

Assistance in advertising can be rendered to black enterprises by using organs such as the Industrial Development Corporation (IDC) and the Small Business Development Corporation (SBDA). Merchandise of these enterprises could be advertised to large retail stores, supermarkets, industries; to regional bodies such as the Southern African Development Community (SADC) and overseas countries.

(iii) Training

Large manufacturing firms should be involved in providing technical and managerial skills to manufacturing SMEs. Large firms need to be informed of the values of improving the levels of skill of SMEs, and the advantages that may accrue to them (such as the availability of inputs from manufacturing SMEs), and the benefits to the economy as a whole.

Existing training institutions for the different industries (clothing, metal works, furniture, etc.,), should market themselves to the SMEs. Presently, there is ignorance on the part of some of the SMEs concerning the functions, and types of training offered by the training institutes.

The survey encountered private training schools run by highly skilled entrepreneurs. Most of these schools were in need of support in order to increase student enrolment. The Department of Trade and Industry should establish a scheme that would give these small training institutions accreditation and support. Accreditation could be done in conjunction with major technical training centres and tertiary institutions. A suitable preferential[74] support action should enable these small training schools to receive students from enterprises that are under the DTI's training scheme, and the trade union's training programmes.

In support of SACTWU's[75] suggestions, training programmes offered to employees should be career oriented, in order to provide artisanal skills, together with business tips. Business skills (including basic accounting, and negotiating skills) and concise knowledge of economic issues (inflation, exchange rates and other indicators), will help to equip the candidates with the vital skills to enable them become entrepreneurs.

(iv) Subcontracting

The Ministry of Trade and Industry recommends the creation of laws that will safeguard and facilitate support for SMEs. Some of these laws may include the Sub-contracting and Public Sector Procurement Act, that will ensure SMEs get a fair access to procurement markets of large and public sector enterprises (MTI, 1994, p. 23). The acts should also include a provision that will ensure a portion of all contracts awarded by the public, parastatal, even private sectors, are reserved for small manufacturing enterprises from the disadvantaged areas. For example, if a contract is awarded for the construction of an office block, it can be legislated that the welding jobs, be reserved to SMEs from the underprivileged groups.

An evaluation of the CMT scheme needs to be carried out to bring mutual understanding between the contracting large retail stores and SME clothing manufacturers, in order to address the pricing constraint. A compromise needs to be reached on CMT pricing that will

---

[74] The DTI currently subsidises training programmes through its so called 'man-programme'; the DTI, through this scheme could channel some of the trainees to the SMEs schools and cover part of the training fees.

[75] The SACTWU suggestions are mentioned in Chapter four, section 4.5.2.

satisfy both sides. Instead of merely supplying material and ready cut designs, large retail stores should involve SMEs in the creation and design of new clothing fashions. SMEs are active sources of innovation and acceptance of new technology, and are quick to adopt to new designs. Such a partnership will benefit the retail stores by increasing sales and finding new niches in the market. In turn, large retail stores would be in a position to share their profits with SMEs by tendering higher prices when subcontracting to the SMEs.

(v) Technical assistance

Through the envisaged Local Service Centres, the formation of technical brigades should be encouraged. These brigades should be formed on an entrepreneurial basis, and should be profit motivated to guarantee efficiency. Their function would be to provide swift technical assistance[76] to manufacturing SMEs in areas where such services are scarce, for example, in townships and rural areas. The work of the brigades should not be seen as a duplication of other forms of support programmes, but as *a priori,* measure of complimenting those efforts by providing a rapid responding instrument to assist disadvantaged manufacturing SMEs in remote areas[77].

5.2.3 Affirmative Measures

Affirmative action when applied in business should be very carefully considered not to compromise business competitiveness and productivity. Because black manufacturing SMEs were disadvantaged in the past, certain affirmative measures may be applied:

(a) Encouraging large companies acquiring government tenders to involve black and women manufacturing SMEs through sub-contracting or through joint projects.

(b) The government and parastatals should reserve certain projects and tenders for black

---

[76] Technical assistance in the form of machine repairs, technical extension services, instructions on use of new equipment and machinery, and advise on proper maintenance of factories and workshops.

[77] These rapid responding brigades should be envisioned in the same light as flying doctors who respond quickly to emergencies in remote unaccessible areas.

manufacturing SMEs.

(c) Emergent black manufacturing SMEs need to receive relief from taxes and industrial regulations. Measures may also be taken to exempt these SMEs from complying with minimum wage enforcements by trade unions. At the same time, through the industrial councils, a mechanism has to be devised to lay minimum acceptable standards for workers' rights in order to preclude employees from being exploited by SMEs exempted from complying with minimum wages requirements[78].

The measures outlined above are not empty speculative suggestions, but have been implemented successfully in India resulting in increased growth of the small enterprises sector (Levitsky, 1986:39).

5.2.4 Collective Measures

(a) Marketing and exports

Collective measures have to be encouraged to ensure the survival and prosperity of black manufacturing SMEs. Presently a majority of black SMEs operate individually, encountering procuring, production, and distribution constraints on their own. Collective measures should be encouraged mainly, in marketing and exports. If firms work collectively they can attain economies of scale and agglomeration, reduce costs, and niche in markets that were out of reach of individual firms.

Many large firms use agents with contacts overseas to sell their products in those markets. A small manufacturer has difficulties in attracting competent agents in competition with large firms. Collective efforts will allow the firms to use adept agents, because the agents can spread costs over a wider product range, thus reducing costs per unit and manage to bargain better export prices.

[78] The policy of exempting certain SMEs based on established criteria (see chapter four section 4.5.1), has been going on for a while. What is required is to have it amended to benefit more SMEs from the disadvantaged communities, especially in the advent of new labour relations acts.

Schmitz, offers a valid example of the versatility of export agents among the shoe manufacturers in Brazil:

These export agents are not just buyers. In addition to negotiating with foreign buyers on the one hand and the local producers on the other, they carry out the following functions: they study the market which necessitates visiting shoe shops overseas, as well as international shoe fairs; they developed models, which require setting up model shops in the areas they operate to produce samples; they inspect product quality and production schedule on site; they provide technical assistance; they organise transport and payment arrangements (Schmitz, 1993:13).

(b) Co-operatives

Collective measures conceived through the formation of co-operatives similar to those formed in the agricultural sector, will assist clothing manufacturers in bargaining better pricing deals with subcontracting companies. Furniture manufacturers operating under a co-operative benefit from the resulting economies of agglomeration by producing furniture to meet the minimum quantities required by large retail stores. Through the co-operative network, individual firms may specialise in manufacturing different components of furniture sets, and improve the general quality of the furniture produced.

Collective measures are also beneficial in securing finance. A group of firms can more easily amass resources and guarantee participant firms within their ranks, to obtain loans from financial institutions. Financial institutions will put more trust on a group of firms who can bail each other out in case of default.

5.3 National Strategy

After reviewing the constraints, characteristics and support framework for successful black SMEs, it is appropriate to conclude with reference to the envisioned national strategy aimed at enhancing this sector.

The responsibility for support and assistance for SMEs should fall upon a wide range of organisations active in this field, including government departments, parastatals, foreign donor agencies, and business organisations. It is vital for these organisations to join forces and put the resources available to the advancement of SMEs, especially those from the disadvantaged communities, in recognition of the importance of this sector in job creation and stimulating economic growth.

It is nevertheless, encouraging that positive developmental plans are being planned and implemented by the government through the Department of Trade and Industry in conjunction with a range of other organisations towards this goal. The President's Conference on Small Business held in March 1995, helped to emphasis the importance of a coordinated national strategy towards the small enterprise sector.

APPENDIX A

DEFINITIONS

Numerous organisations in South Africa have come up with their own definitions of micro, small, and medium enterprises. For the purpose of this study, a definition appropriate to the South African situation is used.

1. Micro enterprises

The definition of a micro enterprise offered by the National Manpower Commission (NMC) consists of the following:
- an independent economic unit
- managed and controlled by a natural person who is also the owner of the business
- employs no more than 5 permanent employees
- has an annual turnover not exceeding R250 000
- should not have resulted from the division of another business (NMC, 1991:55 taken from Ruiters, 1994).

2. Small business

From the viewpoint of the Development Bank of Southern Africa (DBSA), a small business has the following characteristics:
- it is owned and managed independently; with ownership vested in one or two persons or family
- a business with no more than 50 workers

Adding to the definition in this category are additional criteria from the National African Federated Chamber of Commerce and Industry (NAFCOC) given in 1991:
- has capital base of less than R300 000

- has an annual turnover of less than R1 000 000

(Bureau of Market Research, 1992:20; taken from Ruiters, 1994:7).

3. Small and Medium-sized Enterprises.

The Small Business Development Corporation (SBDC) categorizes small and medium-sized enterprises (SME)s as follows:

- have less than 200 employees (less than 50 is classified small; Medium size is from 50 to 200)
- have a close linkage between management and ownership of the firm
- independent decision making
- have annual turnover of less than R5 million
- have capital assets of less than R2 million

(SBDC, 1991:5).

APPENDIX B

THE QUESTIONNAIRE

1 **BASIC INFORMATION**

1.1 Person being interviewed:
Position: Owner [ ] Manager [ ] Other(specify) [ ]

1.2 Gender: Male [ ] Female [ ] Please tick.

1.3 Current age.....

(a) 20 - 29 years [ ]
(b) 30 - 39 years [ ]
(c) 40 - 49 years [ ]
(d) 50 - over [ ]

1.4 Age at which you commenced business...............
1.5 Highest level of education and training completed

(a) None [ ]
(b) Less than Standard 5 [ ]
(c) Between standard 5 and 10 [ ]
(d) Commercial; Technical [ ]
(e) Vocational; Artisan eg. boiler maker [ ]
(f) Teacher training; diploma, university degree [ ]

1.6 Years of apprenticeship..........................

1.7 Have you participated in government training or industrial extension programs? Yes [ ] No [ ]

If yes what kind of program?..........................

....

....

1.8 Were you employed previously?

(a) Yes [ ] (b) No [ ]

1.9 If yes, where were you employed, and for how long?

....

....

....

1.10 Describe previous employment..........................

....

....

....

1.11 What made you leave your previous job?................

....

....

1.12 Was you job relevant to your business?................

....

....

....

1.13 What was the motive of going into this business?......

(a) Because parents/relatives were in business [ ]
(b) Few job opportunities elsewhere [ ]
(c) Put training into use [ ]
(d) Saw a profitable opportunity and took it [ ]
(e) Lost job or was laid off [ ]
(f) Wanted to be own boss [ ]
(g) Prove personal capability and satisfaction [ ]
(h) Others [ ]

2. **FIRM CHARACTERISTICS**

2.2 Name of the firm.......................................

2.3 Address of location....................................

2.4 Principal product......................................

2.5 Other products...

2.6 Are you :

(a) Sole owner of the business [ ]
(b) Joint owner of the business [ ]

2.7 Did you :

(a) Start the business yourself [ ]
(b) Bought it from someone else [ ]
(c) Took it over from family [ ]

2.8 What prompted you into starting this business?

....

....

....

2.9 Type of site such as workshop, home, factory, other...
....

2.10 Describe the machines and tools used for production...
....

....

....

2.11 Describe the type of raw materials used in your firm..

....

....

2.12 What was the value of your start up capital?

....

2.13 What is your average yearly turnover?:

(a) 250 000 to 500 000 [ ]
(b) 500 000 to 1 000 000 [ ]
(c) 1 000 000 to 1 500 000 [ ]

2.14 Is this firm registered as a business?

(a) Yes [ ] No [ ]

2.15 If no, why not?.......................................

2.16 If yes, how long did it take to register?............

....

3 **LABOUR DESCRIPTION**

3.1 How many people were employed when the firm started?

....

3.2 How many people are employed in the firm:

(a) Full time ....

(b) Part time ....

(c) Apprentices ....

3.3 Do the employees belong to a trade union?

(a) Yes [ ] No [ ]

3.4 If yes, please name the union.

....

3.5 Have you had any industrial action, such as strikes, or work stoppages.

(a) Yes [ ] No [ ]

3.6 If yes, how did this affect your business? If at all..

....

....

4. **TRAINING**

4.1 Have you received training related to:

(a) Operating machines? If yes please describe.......

....

(b) Organising production? if yes please describe....

....

(c) To market products? If yes please describe.......

....

4.2 Have the employees received any training related to the operations of the business?

(a) Yes [ ] (b) No [ ]

4.3 If yes, Please describe training....................

....

....

4.4 Where did they acquire training, and for how long?

....

4.5 Which of the following institutions provide training to the operations of your business?

(a) SBDC [ ]
(b) IDT [ ]
(c) IDC [ ]
(d) DBSA [ ]
(e) SAFTO [ ]
(f) Other (specify) [ ]
(g) None [ ]

5. **FINANCE**

5.1 Did you receive any financial assistance in setting up of your business.

(a) Yes [ ] No [ ]

5.2 If yes, where have you received finance from?

(a) Commercial bank [ ]
(b) Parastatal development organisation [ ]
(c) Small business organisation or association [ ]
(d) Religious /voluntary organisation [ ]
(e) Previous money lenders [ ]
(f) Own capital [ ]
(g) Other (specify) [ ]

5.3 Could you give an approximate estimate of your current assets. (e.g. stock, fixed property, etc.)

....

....

....

5.4 Could you give an approximate estimate of your current liabilities. (e.g. loans, debt etc)

....

....

5.5 Have you received any financial assistance in the operation of your business?

(a) Yes [ ] (b) No [ ]

5.6 If yes, where have you received finance from?

(a) Commercial bank	[ ]
(b) Parastatal development organisation	[ ]
(c) Small business organisation or association	[ ]
(d) Religious /voluntary organisation	[ ]
(e) Previous money lenders	[ ]
(f) Own capital	[ ]
(g) Other (specify)	[ ]

5.7 If no, why have you not received financial assistance in the operation of your firm?

....

....

5.8 What were the conditions for receiving financial assistance? Explain in details. (Collateral, terms of payment, interest rates etc)

....

....

....

5.9 Describe aspects of the above conditions which affect the operations of your business. How did these conditions affect your business?

....

....

6. **MARKETING**

6.1 Where is your market?

(a) Local [ ] (b) Foreign [ ] (c)Both a and b [ ]

6.2 Clients: percentage of production that goes to:

(a) wholesalers [ ]
(b) shops [ ]
(c) informal retailers [ ]
(d) direct to consumers [ ]
(e) parent firms (in subcontracting system) [ ]

6.3 Is there any competition with other firms?

(a) Yes [ ] (b) No [ ]

6.4 If yes, who are the firm's main competitors?

(a) Other small manufacturers [ ]
(b) Large domestic firms [ ]
(c) Imports [ ]
(d) Others (specify) [ ]

6.5 Does the firm cooperate with other firms? If yes give details:

....

....

....

6.6 Who markets your product(s) ....

....

6.7 If you are making use of advertising, what is your expenditure on advertising?

....

6.8 Does the firm make use of collective marketing?

(a) Yes [ ] (b) No [ ]

6.9 If yes, please give details..........................

....

....

6.10 Did the firm engage in export on its first year of inception?

(a) Yes [ ] (b) No [ ]

6.11 If no, after how long did it begin?

....

6.12 Does the firm export its product directly or through other traders or organisations?

(a) Yes, export directly. [ ]
(b) Yes, export mainly through traders [ ]
(c) No doesn't export. [ ]

6.13 If yes, what proportion of output is exported?.....%

6.14 Which organisation offered you export support?.......

....

6.15 Was it a public or private organisation?

....

6.16 Have you participated in trade fairs at home?........

(a) Yes [ ] (b) No [ ]

6.17 If yes, which trade fair?............................

....

6.18 Have you participated in trade fairs abroad?........

(a) Yes [ ] (b) No [ ]

6.19 If yes, which trade fair, and where?................

....

6.20 If not presently involved in export, is the firm considering producing for exports? If yes, explain.

....

....

7 TECHNICAL

7.1 Have you received any type of technical support such as:

(1) Mechanics services and repairs.
(2) Back up services on new machines.
(3) Orientation on the use of new machinery.
(4) Information on new products?

from any organisation, public or private?

(a) Yes [ ] (b) No [ ]

7.2 If yes, what form of support and from where?

....

....

7.3 Was it helpful? Please explain.

....

....

....

7.4 If not helpful, what was the reason?

....

....

....

7.5 If you have not received technical support, why not?

(a) Not needed [ ]
(b) Not available [ ]
(c) Still planning [ ]

8 **SUBCONTRACTING**

8.1 Is the firm engaged in subcontracting?
(a) Yes [ ] (b) No [ ]

8.2 If yes, working for whom?...........................

....

8.3 Do parent firms supply:

(a) raw materials [ ]
(b) machinery [ ]
(c) loans [ ]

8.4 Does the parent firm provide assistance in:

(a) organisation of production [ ]

(b) operation of machines (training) [ ]
(c) maintenance of machinery [ ]

GENERAL ISSUES

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9 **SOURCES OF COMPETITIVENESS**

The purpose of the question in this section is to determine the source of the firm's competitiveness.

9.1 What has been the major issues you considered to be vital for the success of your business and lead to profitability?

(a) Service and management quality [ ]
(b) Product quality [ ]
(c) Customer relationship [ ]
(d) Worker management relationship [ ]
(e) Support from SBDC or other organisations [ ]
(f) Other [ ]

10 **MAJOR LIMITATIONS FACING THE SMEs**

10.1 What are the three major problems affecting your business now?

1...

....

2...

....

3...

Other constraints:

10.2 Demand:

(a) people don't have enough money (generally) [ ]
(b) too many firms in the same business [ ]
(c) too many imports [ ]
(d) other demand problems [ ]

10.3 Raw materials:

(a) can't get enough raw materials [ ]
(b) price of local raw materials is too high [ ]
(c) can't get enough imported raw materials [ ]
(d) price of imported raw materials too high [ ]
(e) other (specify) [ ]

10.4 Equipment and machinery:

(a) equipment is old and need replacing [ ]
(b) replacement costs are too high [ ]
(c) can't get spare parts [ ]
(d) workshop space inadequate [ ]
(e) other (specify) [ ]

10.5 Labour management:

(a) lack of skilled workers [ ]
(b) high wages and benefits demanded [ ]
(c) inadequate management skills [ ]
(d) other (specify) [ ]

10.6 Infrastructure:

(a) lack of electricity [ ]
(b) transportation costs too high [ ]
(c) other (specify) [ ]

10.7 Business environment:

(a) taxes [ ]
(b) regulations; licensing, permits [ ]
(c) standards and quality requirements [ ]
(d) other (specify)

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