

**PROCUREMENT PROFESSION: A TOOL FOR COMPETITIVENESS
AND EMPOWERMENT**

by

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with the requirements for the Degree**

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MAY 2004

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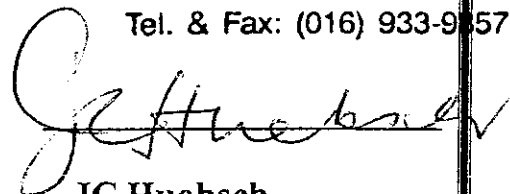
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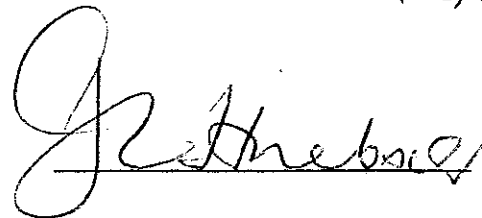
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DECLARATION

I declare that thesis -

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is my own work, that all sources used or quoted, have been indicated and acknowledged by means of complete references, and that this thesis had not previously been submitted by me for a degree at any other university.

.....
Ramonoe Mahlasela

May 2004

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by

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SUMMARY

The emerging manufacturing businesses in the Vaal Triangle Metropolitan Area operate along the fringes of the mainstream economy and for these businesses, breaking into major markets dominated by large players, is often extremely difficult. It is, however, of paramount importance for the development of these businesses, that this breakthrough, should take place.

For these businesses to break into the major markets, there should be a synergistic relationship between the public and private sectors in order to embrace social investment as a common vision towards directing the economy towards one which is stable, nurtures empowerment and increases competitiveness.

In general terms, the development of the economy depends on the effective participation of both the private and public sectors by the introduction of initiatives that will create sustainable supply opportunities for the manufacturing SMMEs

The study examines the role played by the procurement industry in the creation of opportunities, geared towards accommodating manufacturing SMMEs in the purchasing ambit, especially those from the historically disadvantaged ranks in the mainstream economy.

The research is supported by a detailed literature study on public procurement, issues relating to manufacturing SMMEs as well as Affirmative Procurement.

The empirical part of the study involved conducting both a preliminary qualitative study and the main survey. The main survey consisted of a questionnaire that was personally distributed to and collected from the respondents. The response rate was a meaningful 64%.

Research findings indicated, that the procurement profession is an important tool for competitiveness and the empowerment of manufacturing SMMEs. Some recommendations are made in the last chapter.

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CHAPTER 1

1.1 BACKGROUND

With the globalization of markets, firms are continually searching for ways to remain competitive. In such an environment, purchasing has emerged as a critical area for a firm in order for it to achieve its strategic goals. Cohn (1990:3) indicated, that purchasing controls typically one quarter to one-third of the expenses incurred by the firm in manufacturing its products. The purchasing function can via its policies have an impact on the firm's ability to achieve its chosen strategies, since buyers comprise one of the five forces that impact on competition. An effective purchasing system is not necessarily one that promises maximum efficiency or at least total cost, but rather one that fits the needs of the business and/or organization and strives for consistency between its capabilities and the competitive advantage being sought.

Competitiveness and sustainability can be attained in different ways; amongst them, various purchasing programmes that embrace SMMEs. In recent years South Africa has witnessed a growing sensitivity on the part of SA's business firms to their potential roles in helping solve some of the country's major socioeconomic problems. This expanded role includes extensive participation in a wide variety of youth development programmes, secondary higher education support activities, and community charity efforts, as well as genuine support for affirmative action and equal employment opportunity programmes. In addition to these highly visible activities, a less visible but no less important - thrust has gradually emerged in the form of a variety of small business procurement programmes.

Heinritz *et al.*, (1991:68) indicated that these similar programmes continued to grow and develop within corporate America. Companies have undertaken minority purchasing programmes for a number of reasons, including among others, government legislation, social responsiveness, increased sales, and alternate sources of supply. Public law required, that prime contractors who wish to obtain government contracts, in excess of a certain US\$, should establish minority sourcing programmes. The law mandates that percentage goals for minority involvement be established prior to contract award. It also requires, that prospective bidders submit to the relevant federal agency a subcontracting plan incorporating percentage goals and methods towards accomplishing those goals.

From a big company's point of view, the decision to purchase from small businesses, should be taken on the basis of business considerations (Hugo *et al.*, 1999:354-356). For various reasons purchases from large enterprises are involved in the development of suppliers. It may be that:

- ◆ there is no local supplier;
- ◆ the firm manufactures the part or item itself, but because it is not its core activity, it is not cost effective to do so;
- ◆ foreign suppliers have become unaffordable;
- ◆ the present suppliers are not performing according to expectations; and
- ◆ a monopoly in the market and good relations are impossible, because of the unreasonable attitude of suppliers.

New trends in purchasing practices, such as the development of partnerships suppliers, are extremely suited to affirmative purchasing. The supplier market for certain commodities in SA, is characterized by monopolistic and oligopolistic conditions and shortages. This, therefore

makes it ideal for large purchasing firms to become involved in the development of small suppliers on the basis of business considerations (Khula, 2002).

The dilemma facing the formal industrial sector in regard to its procurement policies, is how to embrace the unique aspects of the South African economy, without compromising on high delivery criteria for goods and services (Lobelo, 2001; Saffer, 2002:10). There is a need for a balance between sustainability, competitiveness and empowerment. The role of small, medium and micro enterprises (SMMEs) has all along been important to the success of many established businesses, mainly through businesses, adopting those outsourcing strategies which embrace the SMMEs.

In general terms, the development of the economy depends on the effective participation of both the private and public sectors by the introduction of initiative that will create sustainable supply opportunities for the SMMEs (Lobelo, 2001:34). The procurement profession plays an important facilitative role, in creating opportunities geared towards accommodating SMMEs in the purchasing arena. These initiatives would result in an immeasurable socio-economic impact, in that the effect is multifaceted: the purchasing power created, stimulates the micro-economy of these societies and indirectly raises their standards of living.

Thus the goal should then be to foster a synergistic relationship between the public and private sectors to embrace social investment as a common vision in directing our economy towards one which is stable, which nurtures empowerment and which increases competitiveness. The focus on improving the service delivery to the procurement industry by the SMMEs must be towards rightsizing their needs with minimal barriers of entry, when creating sustainable opportunities for them.

Most established businesses engage SMMEs to carry out different services by managing the process. This accepted norm of subcontracting often places the contracted party in the unenviable position of being squeezed for profit margins and with payments being late. As a result, these entities face cashflow problems which retard their growth. However, this can be prevented by engaging with the SMMEs directly and offering them favourable payment terms.

Therefore, to develop a first world economy, the procurement industry needs to develop a culture of social investment through direct engagement of SMMEs.

Affirmative Procurement (AP) is another element of empowerment and competitiveness (i.e., the social responsibility by big companies to assist with the transfer of skills and technology to Previously Disadvantaged Individuals (PDI) through joint ventures, outsourcing and subcontracting).

For example, Telkom provides a practical guide towards implementing affirmative procurement. During 2000 Telkom received the Professional Management Review Empowerment and Enterprise Development Forum award for its Black Economic Empowerment Programme (BEEP), targeted at previously disadvantaged individuals (who came from the African, Coloured and Indian communities in South Africa). This is in recognition of Telkom's sustainable and innovative affirmative procurement programme in South Africa (Maelane, 2001).

The government, through its legislation and policy framework, is trying to empower previously disadvantaged communities. For example, the Preferential Procurement Policy Framework Act (Act no. 5 of 2000) (annexure C) is designed to facilitate access to government contracts and

procurement by suppliers from communities previously disadvantaged under the old regime. Not only does it apply to all 37 Central Government Departments, but also to nine Provincial Governments and to 286 local authorities. It will bring official government policy in line with constitution and do away with the old system which allowed provincial and local authorities to determine their own preferential policies.

Briefly, the act introduces a two-tier points system which will apply to all public institutions. (i.e. 80/20 preference point system and 90/10 preference point system).

An organ of state must determine its preferential procurement policy and implement it within the following framework.

- ◆ A preferential point system must be followed.
- ◆ For contracts with a Rand value above a prescribed amount, a maximum of 10 points may be allocated for specific goals, provided that the lowest acceptable tender scores 90 points for price.
- ◆ For contracts with a Rand value equal to or below a prescribed amount, a maximum of 20 points may be allocated for specific goals, provided that the lowest acceptable tender scores 80 points for price.
- ◆ Any other acceptable tenders which are higher in price, must score fewer points on a pro-rata basis, calculated on their tender prices in relation to the lowest acceptable tender, in accordance with a prescribed formula.

- ◆ The specific goals may include firstly, contracting with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender or disability. Secondly; implementing the programme of Reconstruction and Development as published in Government Gazette No. 16085 dated 23 November 1994.
- ◆ Any specific goal for which a point may be awarded, must be clearly specified in the initiative to submit a tender.
- ◆ The contract must be awarded to the tenderer who scores the highest points, unless objective criteria in addition to those contemplated above justify the award to another tenderer.
- ◆ Any contract awarded on account of false information furnished by the tenderer in order to secure preference in terms of this act, may be cancelled at the sole discretion of the organ of state without prejudice to any other remedies the organ of state may have.

(RSA, 2 000)

1.2 PURPOSE OF THE STUDY

The purpose of this study is as follows.

- Providing information to supporting structures of SMMEs about networking strategies.
- Making public and private sectors aware of the role played by SMMEs through adopting outsourcing strategies which embrace them.

- ◆ Providing information to the government about the importance of procurement in creating opportunities geared towards SMMEs in the purchasing ambit.

1.3 PROBLEM STATEMENT

In any transition to democracy, small business empowerment is highly desirable, if not essential, for creating a growing and sustainable economy. The SMMEs are seen as an important elements of change in the process of transition to a market economy and supportive elements in the development of democracy and a strong civil society. However, developing a sustainable SMME sector is subject to numerous obstacles (Cruz, 2000).

The same can be said about the whole of South Africa, and in the Vaal Triangle in particular, many small manufacturing businesses in the area (VTMA) operate on the fringes of the mainstream of the economy and for these businesses, breaking into major markets dominated by large players is often an insurmountable task. It is absolutely beneficial and perhaps even more essential to the development of small manufacturing businesses that this breakthrough should take place. This is because of the following:

Firstly: Transition to market economy involves the dismantling of public enterprises, which is accompanied by the displacement of large numbers of workers, generating high levels of unemployment and often depressing real wages. Thus the development of SMMEs would provide a potentially critical employment option for economies undergoing such profound structural change (Saffer, 2002:11; Kesper, 2001).

Secondly: Access to major markets provides a sound profit base from which small businesses may be transformed from often incompetent to growing, competent, dynamic and established undertakings. The contribution of SMMEs towards economic performance, is universally accepted as significant.

Thirdly: An unhealthy concentration of economic power exist in the South African economy while a viable SMME sector has the potential to redistribute income and power over a broad spectrum of society, whilst still retaining a competitive economy (Scott, 1990:7).

Can the above be achieved without compromising on the high delivery criteria for goods and services (i.e competitively)? Part of the solution to this problem could be the following factors that, will be discussed in different chapters.

- ◆ A percentage preference for the purpose of comparing prices for small suppliers who qualify and who are able to compete against other suppliers in the open market.
- ◆ A percentage preference for suppliers who give a certain percentage of their purchase or subcontracting to SMMEs.
- ◆ The conclusion of a contract and the development of small suppliers who have the desire and potential to become independent suppliers.
- ◆ Outsourcing of services or products which are currently performed or produced by the enterprise itself to an outside party.

- ◆ Subcontracting, where a contract is entered into with other independent (usually SMMEs) for the manufacturing of a part, according to specifications, which is used in the enterprise's final product. The subcontracting relationship may also vary from an impersonal contract (in the case of an independent enterprise) to the provision of assistance (in the case of suppliers who are not independent, but who have the potential). Because the parts are included in the final product, quality and delivery are very important and it is in this area, that assistance will probably be required.

1.4 OBJECTIVES

1.4.1 Primary Objective

The primary objective of this study, is to promote a sustainable mutual relationship through procurement in the private and public sectors to embrace social investment as a common vision to redirect the economy towards one which is stable, which nurtures empowerment and which increases the competitiveness of the SMMEs.

1.4.2 Secondary Objectives

The attainment of the following secondary objectives is important towards supporting the achievement of the primary objective.

- ◆ Promoting locally owned businesses.
- ◆ Building capacity for SMMEs
- ◆ Improving service delivery and quality through interaction of both big and small, medium and micro enterprises.
- ◆ Evaluating the implementation of procurement programmes.

1.5 HYPOTHESIS

The research problem where possible, should be translated into a research hypothesis. Since the nature of the study is not to explore the past view, an hypothesis is not established.

1.6 DEMARCATION OF THE FIELD OF STUDY

The target group for this study comprised manufacturing SMMEs within the Vaal Triangle Metropolitan Area (annexure B). The SMME can be defined in different ways, specifying any size standard to define small business is necessarily being arbitrary, seeing that people adopt different standards for different purposes. Legislators, for example, may exclude small firms from certain governmental regulations and may specify ten people as being the cut-off point. Moreover, a business may be defined as “small” when compared with larger firms, but “large” when compared with smaller ones.

For the purpose of this study the SMME can be determined using the following criteria:

- ◆ Number of employees
- ◆ Sales volume
- ◆ Asset size
- ◆ Insurance in force, and
- ◆ Volume of deposit

1.7 RESEARCH METHOD

1.7.1 Data Collection

The choice of an appropriate data collection method depends on how much data is required, the cost involved and the time factor. For the purpose of this study, a literature review, as well as empirical research, were conducted.

1.7.2 The Literature Study

To acquire a detailed knowledge of the theoretical and contemporary approaches in this respect, relevant literature on purchasing, materials and supply management were studied.

Extensive information was gleaned from both formal and informal publications, such as text books, journals, sponsored research projects, and articles in newspaper. Questionnaires and interviews were used to gather additional information.

1.7.3 Empirical Research

A preliminary qualitative study was conducted so as to enable the researcher to become familiar with the problem, while it is a useful method in compiling a questionnaire.

The qualitative data involved conducting interviews with the following,

- ◆ SMME owner managers
- ◆ Officers from SMME supporting structures

- ◆ Officers (from different firms) involved in empowerment programmes.

Initially broad questions regarding SMME support needs and competitiveness were asked. This was done to assist the researcher in narrowing down the options for questioning during the in-depth interview.

A questionnaire that supported and strengthened the validity of the study and efficiently developed ways to record information collected, was designed. Its content was evaluated on the basis of relevance and non-bias; questions were pilot-tested in order to ensure that the wording and questions would not be ambiguous or vague. Questionnaires were personally distributed to and collected from the respective respondents so as to eliminate any ambiguity and to effect any possible changes.

The target population constitutes 550 manufacturing SMMEs with metalworking and the non-metallic minerals sub-sector activities dominating as manufacturing activities. A survey of 110 (one fifth) manufacturing SMMEs was undertaken, and the response rate was 64%. According to Cooper and Emroy (1995:206), the absolute size of a sample is more important than if it is compared with the size of the population, what matters most, is the precision needed by the researcher.

The stratified random sampling method was used to obtain research participants. This increased the sample's statistical efficiency and provided adequate data for analysis. The data were analyzed by using the statistical analysis system (SAS).

1.8 STRUCTURE OF THE STUDY

CHAPTER ONE: INTRODUCTION AND SCOPE OF THE STUDY

This chapter deals with the background and scope of the study. It highlights the purpose of the study, the problem statement, research objectives, demarcation of the field of study and research hypothesis. The research methodology is also defined out in this chapter.

CHAPTER TWO: LEGISLATIVE FRAMEWORK PERTAINING TO PROCUREMENT POLICY AND SMME DEVELOPMENT

The focus in this chapter, is on procurement legislation aimed at the development of small, medium and micro enterprises. It also provides an overview on the government support programmes aimed at empowering SMMEs, as well as incentive schemes available from government departments.

CHAPTER THREE: AFFIRMATIVE PROCUREMENT

This chapter deals with the affirmative procurement. It focuses on the benefits, establishment, objections and the opportunities of affirmative procurement programmes. The main focus in this chapter, is on the role played by the private sector in promoting SMMEs.

CHAPTER FOUR: ANALYZING THE STRATEGIES FOR THE IMPLEMENTATION OF AFFIRMATIVE PROCUREMENT

The emphasis in this chapter is on Black Economic Empowerment Programme (BEEP), as implemented by big companies in developing SMMEs; whether it is based on socio-economic responsibilities or it is for business consideration?

CHAPTER FIVE: RESEARCH FINDINGS AND METHODOLOGY

This chapter describes the methodology used in this study and analyses the findings from the empirical research. The interpretation and evaluation of the research findings are undertaken. A description of the statistical tests used to analyze the research data and the findings of the study, are presented. Feedback on reliability, validity and practicality of the results are reported.

CHAPTER SIX: CONCLUSION AND RECOMMENDATION

This last chapter presents the conclusion drawn and the recommendations made.

1.9 LIST OF ACRONYMS

AA	: Affirmative Action
ABE	: Affirmable Business Enterprise
AP	: Affirmative Procurement
BEE	: Black Economic Empowerment
BEEP	: Black Economic Empowerment Programme
BOC	: Business Opportunity Centre

BON	: Business Opportunity Network
BSSA	: Business Skills South Africa
BuDS	: Business Service Centre
CSIR	: Council for Scientific and Industrial Research
CIDB	: Construction Industry Development Board
DPBE	: Disabled People Owned Business Enterprise
DPW	: Department of Public Works
DTI	: Department of Trade and Industry
GDP	: Gross Domestic Product
IDC	: Industrial Development Corporation
LSC	: Local Service Centre
NEI	: National Economic Initiative
NGO	: Non-Governmental Organization
NPI	: National Productivity Institute
PDE	: Previously Disadvantaged Enterprises
PDIs	: Previously Disadvantaged Individuals
PPPF Act	: Preferential Procurement Policy Framework Act
RDP	: Reconstruction and Development Programme
SABS	: South African Bureau of Standards
SAS	: Statistical Analysis System
SBDC	: Small Business Development Corporation
SBS	: Small Black Supplier
SMEC	: Steel-Mined-Energy Complex
SMEDP	: Small and Medium Enterprise Development Programme
SMMEs	: Small Medium and Micro Enterprises
SOE	: State Owned Enterprises
TAC	: Tender Advice Centre
USA	: United States of America
WBE	: Women Owned Business Enterprise

1.10 TERMINOLOGY

Affirmative Procurement	The act of buying goods and services from previously disadvantaged suppliers with the purpose of bringing them into the mainstream economy
Business linkages	A partnership between various SMMEs, support structures, parastatals, private sector to improve the competitiveness of the firms
Competitiveness	Ability to do as well as/or better than others
Contract	The agreement that results from the acceptance of a tender
Empowerment	The act of helping small businesses to grow
Gross Domestic Product	The total value of all final goods and services produced within the boundaries of South Africa within a year
Joint Venture	An association of persons for the purpose of combining their expertise, property, capital, efforts, skill and knowledge in an activity for the execution of a contract
Legislation	Action of making laws
Outsourcing	A contractual relationship between an external vendor and an enterprise in which the vendor assumes responsibility for one or more business functions of the enterprise
Previously Disadvantaged individuals	Those individuals who fall into population groups that had no franchise in national elections prior to the introduction of the 1994 constitution and the tricameral parliamentary system. It includes both women and the disabled.

Procurement	The act of buying goods and services for the firm
Rand Value	The total estimated value of a contract in Rand denomination which is calculated at the time of the tender invitation and includes all applicable taxes and excise duties
SMMEs	All businesses employing not more than 200 people with the annual turnover less than R40 million
Strategy	A means of accomplishing long-term goals
Subcontracting	Means the primary contractor's assigning or leasing or making out work to, or employing, another person to support such a primary contractor in the execution of part of a project in terms of the contract
Tender	A written offer or bid in a prescribed or stipulated form in response to an invitation by a buyer for the provision of services or goods

1.11 GENERAL

- ◆ The Harvard method of reference is used
- Tables and figures appear in relevant places in the thesis
- Where the word "Sources" (under Tables and Figures) are not indicated, it must be seen as "Own research"
- The Oxford Advanced Learners Dictionary of current English was used to define terms, definitions and concepts
- If the reference is made only to the year, emphasis is placed on the general impression of the author.

CHAPTER 2



2.1 INTRODUCTION

From the early 1950's, particularly in the 1960's, there was a systematic programme to reduce the scope of the SMMEs development, particularly in the central city areas which, would form the heartland of such development. This was associated with the dominance of the very large mining houses which began to conglomerate and create a major hold of the economy. This in turn, was linked to the growth of South African banks and their close association with the country's large enterprises. Consequently, the SMME sector that one would have expected to emerge more fully, was structurally restrained. The apartheid policymakers neglected the SMME economy and would actively discourage black-owned informal enterprises through negative or repressive measures (Rogerson, 2000:1).

The most striking historic feature of South African economy, apart from its racial domination, is the underdevelopment of SMMEs (Erwin, 2001). Recently it was indicated that small business development and expansion are integral ingredients for economic growth and job creation. That is why the government in South Africa places so much emphasis thereon, and why such a range of publicly funded institutions support SMMEs (Erwin, 2002; Rogerson, 2000A and Khoza, 1999).

The previous government had taken minimal steps to support SMMEs, there was only one activity to consciously promote this area: the Small

Business Development Corporation (SBDC). This problem was not one that the market was going to correct easily.

Improving productivity and economic growth and creating employment, are three issues which are vital for the enhancement of the standard of living of all South Africans. It is for this reason, that South Africa is embarking on a strategy to change the role of SMMEs (Mentoor, 1996).

The Department of Trade and Industry (DTI) is currently enabling the small business sector by offering the incentive across a matrix covering the whole life-cycle of business, from start-up to export growth, and not just start-ups, but growing existing businesses, with a strong affirmative action (AA) bias. There are incentives to help failing businesses, to assist companies to improve sector analyses, and to support consultancies to diagnose and remedy company problems. The DTI wants to "walk the streets" with its clients, while assisting black businesses, for instance, to grow out of the back yards into medium-sized companies to help develop business networks, and to use tendering and outsourcing to support the whole process (Reuters, 2000A:2).

Public Works has championed the Affirmative Procurement Programme of government as a key to the transformation of the built environment. The interim 10 Point Plan they embarked upon, was significant for two reasons. Firstly it increased the participation levels of the previously disadvantaged persons in the mainstream economy. Secondly, it served as a growing light for future procurement reforms and enabled such persons to facilitate the following.

- ◆ The development of small businesses, owned and operated by previously disadvantaged individuals

- ◆ Increase of employment opportunities
 - Empowerment of communities and individuals from the previously disadvantaged sectors of society
 - ◆ Achieving targeting by means of contract classification, general targeting (area bound)
- (Sokutu, 2001).

This was a follow-up on an institutional and legislative framework geared towards creating an enabling environment for growth, development and transformation. With the full backing of all stakeholders, the DPW has developed and championed legislation to enable the implementation of a comprehensive development strategy. Part of this legislation was enacted to establish, among others, the Construction Industry Development Board (CIDB) to promote industry growth, delivery and performance of clients and suppliers (DPW, 2001). Programmes like these are based on what the government is calling “think big on small enterprises” (Erwin, 2002).

2.2 PUBLIC PROCUREMENT

State procurement in South Africa has traditionally favoured the large, well established companies. Small emerging businesses, especially those from the disadvantaged sectors of our society, have been largely excluded from this process. In March 1997, the government released a Green Paper on Public Procurement. The stated aim of this document was to expose the government’s ideas on the subject to a process of public scrutiny and debate – resulting in the design and adoption of new and comprehensive procurement legislation. For the government, the Green Paper represented a milestone in the effort to utilize the state’s

purchasing power to attain specific socio-economic objectives – adding, thereby, a critical contribution to the transformation and democratization of society (RSA, 1997).

The activities of the public contracting entity may be regarded like that of any other rational consumer shopping around and evaluating the market in order to get the best value for money. This analysis is, however, too simplistic. Public authorities, other than private consumers, are obliged to effectively perform the duties assigned to them. These authorities represent the public interest and are entrusted with a responsibility to promote social welfare. Policy choices are adopted, which in turn are the product of a particular political ideology. Public procurement then becomes a method by which such policy choices are implemented by way of reforming legislation (Fernandez, 1996).

The development of a vibrant SMME sector could effectively assist in the amelioration of poverty, unemployment, inequality and other historical and social ills associated with South Africa's recent past. State procurement amounted to some 13% of the GDP and up to 30% of all Government expenditure. Central government procurement spending is around R 22 billion a year, while the provincial and local authorities total was R 34 billion in 1996. Channeling some of these funds to hitherto neglected SMMEs by way of state tenders, could be of great importance (RSA, 1997).

2.2.1 Defining the Beneficiaries of an Affirmative Procurement Programme

Previously Disadvantaged Individuals (PDIs) have been defined as '...those individuals falling into population groups that had no franchise in national elections prior to the introduction of the 1994

constitution and the tricameral parliamentary system. Other groups identified as potential beneficiaries of an AP programme, include women, the disabled, youth and entrepreneurs from rural areas (annexure C).

2.2.2 The Current Legislative and Institutional Environment

The Constitution

The equality clause in the Constitution Section 9(2) provides “ ...to promote the achievement of equality, legislative and other measures designed to protect or advance persons, or categories of persons, may be taken. “ Section 217(1) of the constitution states, that “ ...when an organ of state in the local sphere of government contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective. Section 217(2) states, that bodies, when implementing tendering policies, may provide for:

- ◆ categories of preference in the allocation of contracts; and
- ◆ the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination

Section 217(3) provides, that the national legislation must provide the framework within which the tendering policy must be implemented.

The Small Business Enabling Act

The promulgation of the National Small Business Enabling Act (Act 102 of 1996) demonstrates government commitment to supporting SMMEs. The Act seeks to establish a statutory framework within which government’s efforts to support and promote the development of the SMME sector, will be coordinated (annexure E).

2.2.3 Towards a Definition of Previously Disadvantaged Owned SMMEs

The government's affirmative procurement strategy (annexure C) focuses on those persons previously disadvantaged by unfair discrimination. Assuming that SMMEs within these groups are targeted, one would still need to define an SMME in order to implement any preference system.

The SMME sector is highly diverse, with structure, problems, growth potential and access to support, differing widely between segments. Firstly, these differences relate to size, ranging from survivalist to micro, small and medium enterprises. Secondly, some differences relate to the stages of growth of enterprises. Furthermore, sectoral distinctions may apply to SMMEs operating in different areas of the economy.

The growth strategy aimed at a review of small business support policies to address the claims of the poor to a fair package of basic needs, and hence seems to equate its plans to develop SMMEs with the objective of addressing the needs of the poor. In evidence too, is the emphasis by the DTI on the SMME sector as the core focus of its initiative. The government's specialist lending institution, Khula Enterprise Finance, for example, concentrates on addressing the financial needs of the SMME sector. Although there are pressing needs at the level of SMME in the informal sector, it is imperative that strategies to support small businesses benefits SMMEs across the spectrum.

2.3 THE IMPORTANCE OF SMALL BUSINESSES

An SMME does not fit into the sector that lends itself to accurate empirical analysis. In SA, the existence of a large informal sector further complicates the efforts aimed at determining the exact size and economic

significance of SMMEs. Taking it from different authors, it is possible to identify a number of reasons why small business matters.

2.3.1 Employment Creation

It is estimated, that the South African economy has shed more than a million jobs since 1990 (Msomi, 2000:1). According to the department of labour, the official unemployment rate for the country in October 1999, was 23.3% (Economic and Financial data for SA, 2001). The unofficial unemployment rate is, however, estimated at levels as high as 38% (Msomi, 2000:1). To compound the problem, the demand for semi-skilled labour in South Africa, as elsewhere in the world, has shown a consistent and drastic decline in the last decade (Comiteau *et al.*, 2000:24; Cull, 2000:11 and Gumede, 2001).

The SMME sector is widely regarded as the driving force in economic growth and job creation in both developed and developing countries (Lunsche & Barron, 1998:1; Levin, 1998:78 and Sunter, 2000:23).

There is a differing opinion on the role SMMEs play in employment creation. Rogerson (1999); Bloch & Kesper (2000) and King & Mc Grawth (1999) are of the opinion, that the contribution by existing SMMEs to employment growth, is expected to remain low, both because the majority of micro-enterprises lack the dynamism to grow beyond one person operations during their existence and because, in the late 1990's, even the more dynamic established enterprises have seemingly adopted a strategy of jobless growth.

The strongest rationale behind government policies in support of the SMMEs, is to be found in their relatively superior employment creation capability. The National Strategy for the Development and Promotion of

Small Business in South Africa (RSA, 1995B), sees SMMEs as important vehicle to address the challenges of job creation, economic growth and equity. A 95% total of all enterprises in SA are SMMEs, while micro and survivalist enterprises make up 70.2% of the total number of enterprises (Anon, 2003:1).

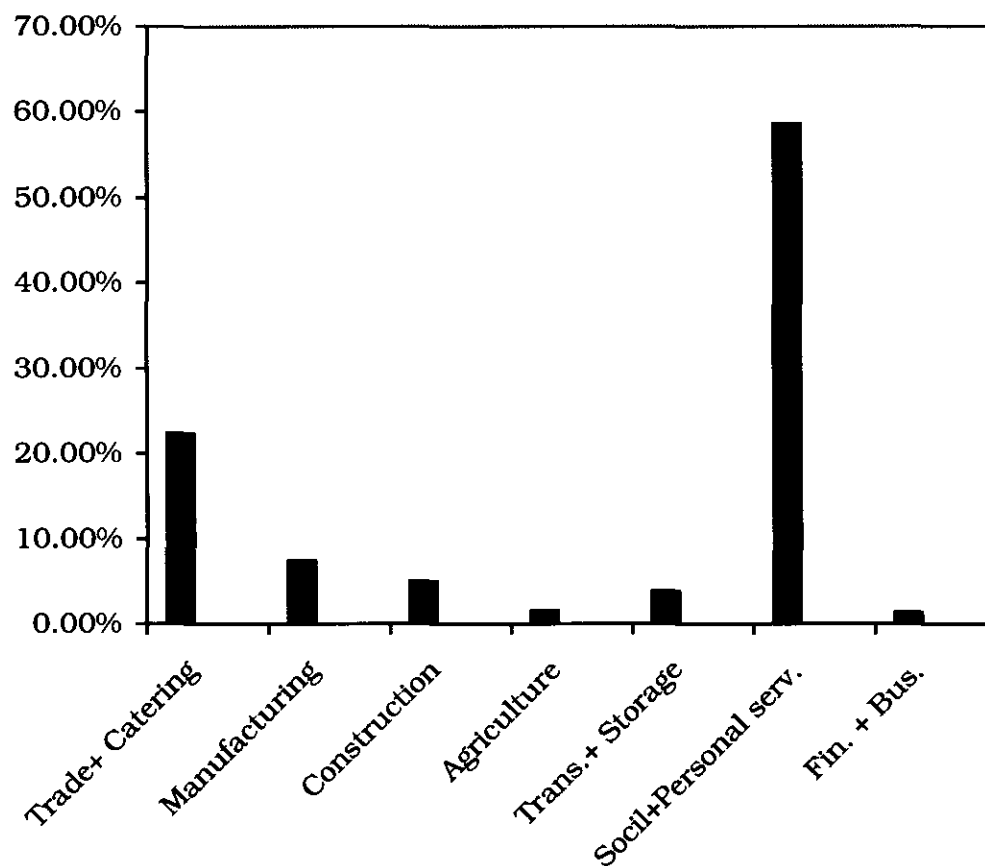
The capital large-scale sector can absorb only a small share of the expanding labour force. A significant growth of employment in SMMEs is essential to help absorb the large number of currently-unemployed and new workers entering the labour force. Lobelo (2001) suggests that the unemployment rate of 30% could be lowered, by ensuring that every third supplier is an SMME. This could be as a result of capital/labour ratios which are often a small fraction of those found in the corporate sector of the economy.

An indication of the important role of the SMME in contributing to unemployment, may be found in a number of indicators.

According to the White Paper on SMME development (RSA, 1995A), more than 7.2 million people are involved in the small business sector, which represented 138% of formal sector employment in 1994. For countries in sub-Saharan Africa, this ratio was as high as 215% in 1985. Research has indicated, that 12% of the adult population were involved with informal sector activities (Egleton, 1996). Figure 2.1 below, illustrates the composition of the informal sector in terms of the number of businesses by industry group.

Figure 2.1 on the next page

Figure 2.1: Informal Sector Businesses by Industry Group



Source: Egleton, 1996

To support what Rogerson (1999) and others are saying, currently the situation is that unemployment is rising, indicating that SMMEs are not able to compensate for job losses from large enterprises or to absorb enough new entrants to reduce unemployment.

Interestingly, SMMEs employ 53.9% of people in the private sector: up from 44% in 1995. Employment by SMMEs is growing much faster than the SMME contribution to GDP, which increased by only 2% between

1995 and 2000. This is indicative of the high labour absorption capacity of SMMEs (Anon, 2003:1).

2.3.2 Contribution to GDP

Worldwide it has become a truism, that the fastest growing economies are characterized by a high level of SMMEs activities. Italian family-owned firms add value to clothing and shoes, German widget-maker family firms support major vehicle industries. In Japan SMMEs produce half of all manufacturing output and 80% of industrial employment, In the US at present, 90% of new businesses are in the SMME sector.

In South Africa, however, things are different. The share of both total employment and output contributed by SMMEs is far lower. Indeed, large SA firms are responsible for 70-75 per cent of total manufacturing as indexed by employment, and 80 per cent as measured by gross output indicators (Kaplinsky & Manning, 1998). Government is increasingly aware of the problem, so that small business development is becoming a major focus of its attention (Reuters, 2000B). Currently SMMEs (excluding survivalist and micro enterprises) contributed 34.8% to GDP - up from 32.7% 5 years back. More than 50% of the total GDP contribution by the agriculture, forestry and fishing and construction sectors, is by SMMEs (Anon, 2003).

2.3.3 Provision of a Minimum Living Level

Although the debate for societal stability is far from resolved on the exact contribution that SMMEs make towards aggregate economic activity, the fact remains, that it provides a livelihood.

In terms of the strong emphasis that the government places on meeting basic human needs, the existence of a vibrant and large SMME sector contributes to the attainment of minimum development goals. It has also been argued, that the formal sector has contributed to the surprisingly large degree of socio-economic stability that has persisted since post-democratic elections in 1994. Despite slow delivery on different government empowerment programmes, the government has not been threatened by meaningful protest from a disillusioned mass electorate.

One of the reasons is simply that the extent of poverty and unemployment seems to have been overestimated, due to the existence of a relatively strong small business sector in previously disadvantaged communities.

2.4 THE ROLE OF THE GOVERNMENT IN ENCOURAGING SMALL BUSINESS

The role of government in South Africa is of critical importance in shaping the present and future of the SMME sector. A watershed shift has taken place since 1994 in the national policy environment surrounding small enterprises in South Africa. Post-apartheid South Africa has seen the emergence of a changed institutional and policy context, which governs the operations of the SMME economy.

The current legislation sets forth the national objectives for the SMME economy in South Africa. The goals proposed for the SMME economy, target the spectrum of SMME activities (RSA, 1995A). The primary objective, is to create an enabling environment for national, regional and local frameworks to stimulate economic growth through removing the obstacles and constraints that prevent the SMME from contributing to overall growth, to strengthen the cohesion between SMMEs, to overcome

their isolation by promoting the networking of SMMEs to build collective efficiency, to address development obstacles, and to take opportunities. The other objective is to level the playing field between large enterprise and the SMMEs and between rural and urban businesses. Lastly, the national strategy targets the goal of enhancing the capacity of small business to comply with the challenges of an internationally competitive economy.

As indicated in chapter 1, the government by way of the PPPF Act attempts to facilitate access to government contracts and procurement by suppliers from communities previously disadvantaged under the old regime, the latter which took minimal steps to support that sector of society. The new government began a process of changing the environment in which SMMEs could operate. In order to ensure the socio-economic transformation of SA, the government has developed a policy document: the Reconstruction and Development Programme (RDP). The other signal of government interest in the SMME sector, came with the March 2000 Budget. Certain categories of small businesses (those producing goods, and with employees) were eligible for lower tax rates of 15% on their first R100 000 of income, and 30% on larger amounts. In fact, however, since 1994 government's record on small business shows that development has not been a success (Erwin, 2002).

Although the big and better organized business sector may be able to progress steadily towards the envisaged economic growth path with limited external support, the same cannot be said about the small business sector (Mentoor, 1996:2). Visser (1995:3) maintains that the transformation of the small businesses would require concerted policies of a wide scope, as well as the deliberate creation of an enabling environment. The SMME sector has been ignored and disadvantaged in the past and for it to take its rightful place in the economy, it needs to be

helped and developed to its full potential. This development should form part of an integrated interdependent process and includes big businesses, multinationals and parastatals, with the SA government playing a facilitating role.

In order to ensure the provision of an enabling environment, the government has expressed its commitment to passing a number of enabling acts, for example the PPPF Act, No 5 of 2000 (annexure C). It is maintained, that this act could contribute to accelerated progress and lead to participation among all firms through legislating conditions and principles relating to set asides procedures, non-discriminatory public sector purchasing and incentives for big business sub-contracting to small enterprises. This act set out a preferential procurement policy where 20 of a 100 possible points for tenders for government contracts are allocated according to black empowerment and RDP objectives.

After the enactment of the national White Paper on Small Business (annexure E), DTI began a process of building a new institutional framework to service the needs of the SMME sector. The vision of the SMME development was to integrate small businesses into the core of South African economic life. Accordingly, the policy objective was to develop a new framework for SMME development, linked to the introduction of key intervention programmes. As a result, a new institutional infrastructure addresses the needs of South African SMMEs as a whole. The key actors are the following.

- ◆ Ntsika Enterprise Promotion Agency
- ◆ Khula Enterprise Finance
- Provincial SMME Desk

(Rogerson, 2000A).

Khula was set up to address problems of finance and concentrates on the following two areas.

- ◆ The provision of an underwriting or guarantee facility that will provide an impetus for the banking sector to go into retail lending into the SMME sector.
- ◆ The creation of a wholesaler that will lend on at reasonable rates to other retail financing institutions.

The level of lending by the banking sector into the SMME sector, was too low. Ntsika was set up in 1995 to assist SMMEs: it plays a central role in the new institutional structure for implementing support to SMMEs. Ntsika is the implementation agency for all non-entrepreneurial services. It facilitates and acts as a wholesaler of delivery programmes to support SMMEs. It is committed to developing a “thriving and vibrant SMME sector” and ensuring that “...small businesses are no longer confined to the margins of the economy and through its intervention, create an environment for important sectors of South African society, for example black people, women, rural, youth and the less able, to be empowered to play an important role in the economy of South Africa (Rogerson, 2000A:7).

In the nine provinces demarcated for the new South Africa, SMME desks are to be “...a one stop information unit”, which would speed-up and simplify communication channels with the government. Essentially, the role of these provincial SMME desks, is to function as coordinating bodies for SMME support programmes and activities at the provincial level.

Finance is an especially ticklish issue, given that on the whole, Blacks in South Africa were often legally prohibited from owning land and business in South Africa, and thus historically, lack access to what the formal banking sector is accustomed to regarding as collateral for loans. There is criticism of the banks' perceived failure to adjust to the special needs of Black SMMEs and innovative alternative forms of collateral and repayment terms. Nor are matters helped by banks closing local branches so as to improve global cost-effectiveness and meet competition by focusing on value transactions. Government is threatening legislation to force banks to take a more pro-active role.

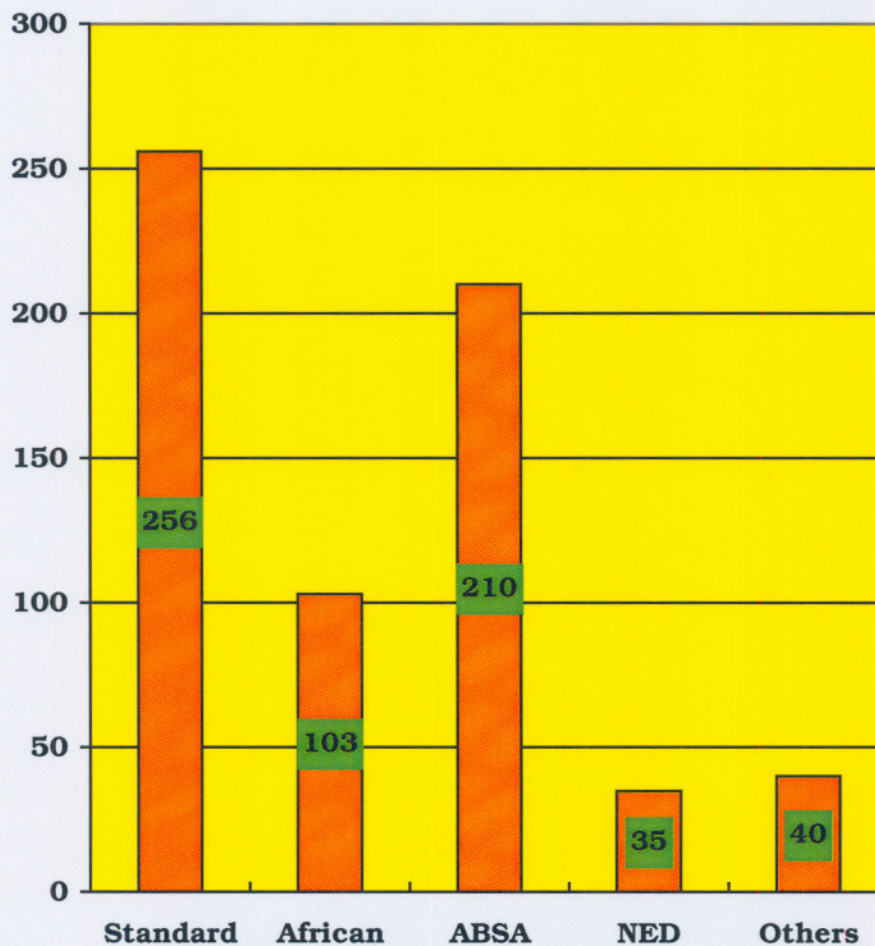
But government's high interest rates impose a further crippling burden on indebted small businesses. Others have pointed to recently enacted labour legislation as a key cost burden on small businesses. Already, by late 1999, President Mbeki had publicly conceded this argument, resulting in the amendment of legislation ranging from the Labour Relation Act to the Basic Conditions of Employment Act to lift the burden on businesses employing fewer than ten people, such as restrictions on overtime and costly requirements for dismissal and retrenchment procedures and expensive leave requirements.

DTI re-allocated R100m of rollover funds to increase the capitalization of the department's SMME financing arm, Khula, to R407m. The government has not done enough to be pro-active on behalf of small business, and have been debating the issue at national conferences on SMMEs. There are two new funding instruments for Khula: a technology venture capital fund, and one from government's National Empowerment Fund specifically focused on black small businesses (Khula, 2002).

2.4.1 Khula Bank Barometer

Figures 2.2 and 2.3 below indicate how the bank helps individual small businesses through the Khula Individual Guarantee Scheme.

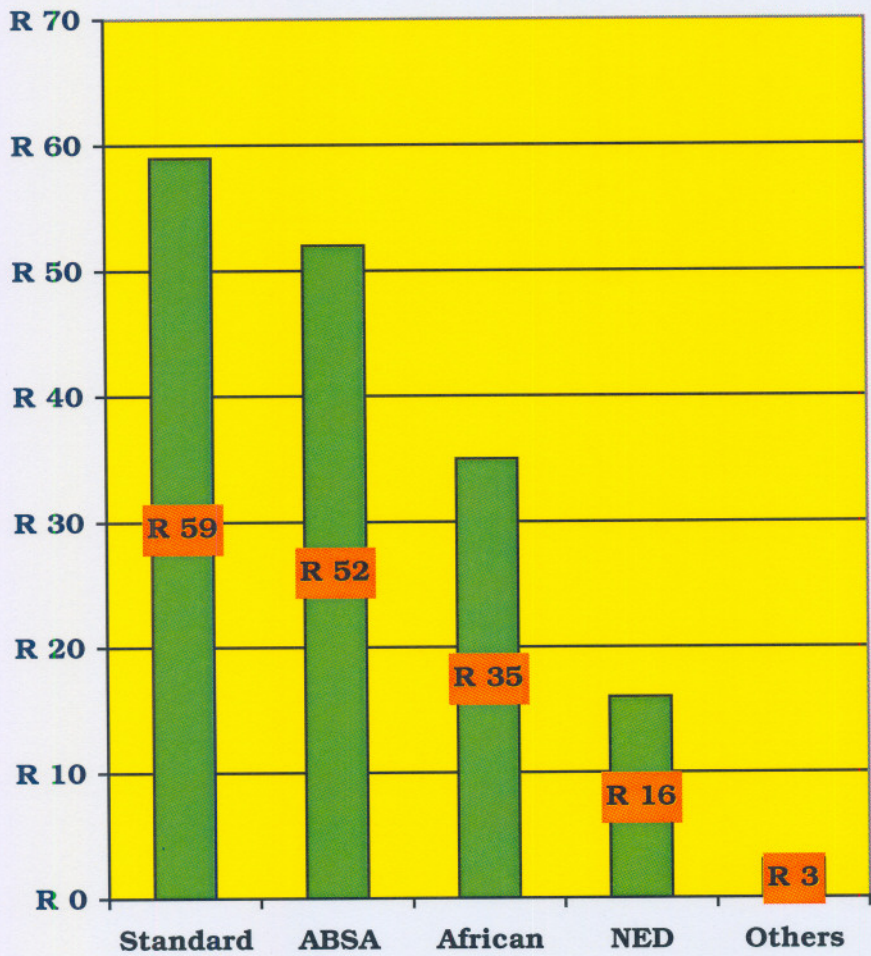
Figure 2.2: Number of Loans Guaranteed



Source: Ishmail, 2002

The above graph shows that Standard Bank, ABSA and Africa Bank, make the most frequent use of the Khula individual guarantee scheme. It shows the number of bank loans guaranteed at the respective banks during March 2001 and January 2002.

Figure 2.3: Amount of Rand Values Guaranteed



Source: Ishmail, 2002

This graph reflects the total Rand value (millions) of the loans guaranteed through Khula at the respective banks. Nedcor and FirstRand (FNB) play minor roles in the Khula guarantee scheme. Banks with dedicated small business units, are more involved in helping their small business clients to use the Khula guarantee scheme (Ishmail, 2002:9).

Attempting to go into retail lending directly, would not reach enough people. The institutions, however, that borrow from Khula have the capacity to reach large numbers of people, are more familiar with intricacies of the market and have a greater interest of serving the market. Khula is beginning to have some impact.

Khula's achievements was considerable, given its existence, the number of people it has reached and the money it has underwritten which by far exceeds the previous performance of any similar institution in the country. The establishment of the second institution, deliberately separated support per se from financial support.

Ntsika promotes mainly business support centers and government, three major efforts in getting out of the market, local business support centers (LBSCs) of which 93 are accredited across the country, manufacturing advice centers, and techno-entrepreneur programmes designed to concentrate on manufacturing support for SMMEs (Bukula, 1997:25).

The latter function through women's groups and the like. Given that Khula and Ntsika were set in motion in mid 1997, government support for the SMME sector is beginning to extend its net quite well. Government has also completed a thorough regulatory review of aspects of its own administration that has a negative impact on SMMEs. A host of areas have been highlighted, from taxation to municipal and licensing by-laws, from certain aspects of the Labour Relations Act, to a wide range of compliance requirements.

Government processed these through the appropriate departments and cabinet, to see whether it could make regulatory or legislative changes that would benefit the operation of SMMEs. Clearly, the government cannot do everything the small business sector demands. One of the

main challenges, is for the DTI to address the structural problems in the capital lending market.

The Industrial Development Corporation, allocates 75% of new business loans to SMMEs. DTI gives prominent attention to the support of small businesses. Strategies and policies in this area have suffered from implementation weaknesses and have not been as strategically aligned as DTI would like to see (Erwin, 2002).

During the past few years the DTI and its agencies had undertaken studies to assess the progress made with support policies for SMMEs. These agencies found, that while such policies helped to varying degrees, the overall outcome did not match the desired impact. Nothing more than transformation is needed to unlock the full potential of this sector. The policy objectives of DTI emphasize the following requirements.

- ◆ Increasing the number of SMMEs appreciably
- ◆ Reducing their failure rate
- ◆ Maximizing the number of jobs created by this sector
- ◆ Improving competitiveness
- ◆ Segmenting the sector to target government support measures, to meet specific needs of sub-categories, instead of adopting a short-hand approach.

(Erwin, 2002)

Reuters (2000A:2) indicated, that government has not put enough resources into small businesses in South Africa. Rising unemployment was not matched with rising state expenditure on job-creating small business development. There was a further problem, in that the unemployed generally lack the managerial skills to successfully run their own businesses. In addition, the legacy of the past, means that most

successful small business people were retrenched white males, with skills, training and collateral in a form the banks understand and with which they were comfortable. They generally enter into business in sectors they already know well and where they have contacts and networks to support them. Blacks for the most part, don't enjoy this exposure.

Although government has been serious about small business development, the problem is, that the whole country is not serious enough. In 1997-1999 SA shed jobs from the formal sector of the economy: This drives one point home: the country is not serious enough about the challenges facing the small business sector which is where jobs are created (Manning, 1993). SMMEs contribute 35% to SA's gross domestic product; and at a time when the public sector and big businesses are shedding jobs, they maintain real employment growth, especially in the manufacturing, agriculture and business service sectors (Anon, 2003).

Generally, it is evident that a new institutional infrastructure for an SMME development programme in post-apartheid South Africa, is in place. However, the path of transition has not been smooth in launching the implementation of the programmes proposed in the White Paper on Small Business (annexure B): the national government severely underestimated the following several vital institutional issues.

- ◆ It underestimated the problems of quickly establishing a set of new support institutions for small business development; in particular, there have been a number of problems in the early development and operation of Ntsika.

- ◆ The post-apartheid government overestimated the capacity of these new support institutions to establish and implement a wide range of new and ambitious policy initiatives.
- ◆ The government greatly underestimated the ability of the existing NGO network in South Africa, to become involved in the range of programmes proposed in both financial and non-financial support for SMMEs in South Africa. Such institutional constraints provide an important context for reviewing the major new policy initiatives (Bisseker, 1999:44 and Haffajee, 2000).

2.5 FACTORS THAT HINDER PROGRESS/DEVELOPMENT

Small business forms an integral part of the economy and exists within a dynamic environment. In an open economy, business entities are influenced by and have an influence on the variables in the business environment. The latter can be subdivided into the internal/micro and external environments, which in turn consists of macro and market variables (Marx *et al.*, 1998:38).

2.5.1 The Macro and Market Environments

The macro environment contains economic, socio-demographic, political, physical, international and technological factors over which management can exert no control. It is postulated, that the most macro environmental problems experienced, are economic in nature. In general, South African entrepreneurs view economic uncertainty, crime, corporate tax and labour legislation as the biggest threats facing the small business sector (Disgruntled Entrepreneurs, 1999:18 and Anon, 2000:14). The reality of

AIDS is also becoming a more serious problem facing South African SMMEs (Sunter & Whiteside, 2000:99 and Webb, 2000:16).

The market environment represents the interests/action of consumers, competitors, intermediaries and suppliers. Management has little or no control over market factors and success often depends on management's abilities to respond quickly to changing circumstances. An analysis of the role of competition is crucial for the survival of a small business. Insufficient demand for products/services and market imperfections are other frequently cited problem areas facing small businesses.

Some of the most common problems influencing success arising from the macro and market environments, are outlined in Table 2.1 below.

Table 2.1 on the next page

Table 2.1: Macro and Market Environmental: Issues Influencing Small Business Success

<p>Macro environment</p> <ul style="list-style-type: none">- State of the economy, i.e economic growth, interest rate, inflation, etc.- Compliance with legislation- Unavailability of resources due to natural disasters- AIDS- Crime- Government interference- Rapidly changing technology
<p>Market/competitive environment</p> <ul style="list-style-type: none">- Industry complexities, weaknesses, market imperfections- New competitors offering similar products at lower prices- Loss of major client- Low demand for products/services- Limited market size- Poor growth prospects- Low barriers to market entry- Major changes in the industry- Drop in the demand for a major product line

Source: Viviers *et al.*, 2001:4

2.5.2 The Internal Environment

Murphy (1996:25) summarizes internal causes of failure in three areas, namely management skills, management behaviour and functional knowledge. In a comprehensive study conducted by Ball & Shank (1995),

it was evident that small business owners placed the greatest importance on training needs in the functional areas of finance, accounting, management, marketing , strategic and long range planning.

Inexperience in the field of business (especially lack of technical knowledge) and inadequate managerial skills, are the most prominent reasons for failure, especially in the start-up phase. Once the business has been successfully established, an inability to make the entrepreneurial transition, frequently leads to the deterioration and eventual failure of the growing business. These issues are outlined in Table 2.2 below.

Table 2.2: Managerial Issues Influencing Small Business Success

<p>Management skills/attitudes</p> <ul style="list-style-type: none"> - Inexperience in the field of business or industry - Lack of managerial training - Inability to make entrepreneurial transition e.g. delegation - Inability to control growth - Generalist and not specialist - Failure to conduct self-evaluation - Wrong attitude
<p>Management actions/behaviour</p> <ul style="list-style-type: none"> - Inability to perform selected management tasks - Failure to look forward or set strategic goals - Slow to respond to environmental change - Reluctance to seek advice from qualified sources - Lack of management commitment/neglect - Entrepreneurial burnout

Source: Viviers et al., 2001:5

Research on the problems and constraints of SMMEs in Gauteng, points to several issues for policy intervention in the new South African environment. Overall, four clusters needed by emerging entrepreneurs: Access to finance and credit is the first one; inadequacies in the content and delivery of education and training, business infrastructure and service provision; and the critical question of expanding market opportunities (Rogerson, 1998:6-14).

Access to loans for working capital stands out as the priority issue. The formal finance system in South Africa has been a reluctant partner in support of developing SMMEs. As a result, the majority rely on personal savings, loans from family or friends, or informal credit sources. Despite the establishment of Khula, it is clear that the question of a desperate shortage of financial support for SMMEs, is still an unresolved issue. The nature and scale of existing finance support institutions are inadequate towards matching the needs in the micro-enterprise economy. Moreover, for women entrepreneurs in particular, special intervention to support groups or organizations of women entrepreneurs, appears essential (Lund & Skinner, 1999).

Financial management also is a crucial field within the internal environment of the enterprise that yields many potential obstacles to business success. Frequently, experienced financially related problems as set out in Table 2.3 below, are encountered.

Table 2.3 on the next page

Table 2.3: Financial Issues Influencing Small Business Success

Capital requirements <ul style="list-style-type: none">- Inadequate capital- Inadequate estimate of capital requirements
Bookkeeping <ul style="list-style-type: none">- No or inadequate bookkeeping- Insufficient knowledge of bookkeeping
Financial planning <ul style="list-style-type: none">- Failure to do financial planning- Inadequate tax plan- No provision for contingencies
Financial analysis and control <ul style="list-style-type: none">- Inadequate financial controls- Lack of regular management information- Failure to analyse information
Working capital management <ul style="list-style-type: none">- Poor credit management- Over-investment in inventory- Difficulties in obtaining supplier credit- Lack of inventory control
Income generation <ul style="list-style-type: none">- Incorrect cash flow estimates- Heavy operating expenses- Poor turnover- Insufficient profits- Unstable costing/pricing policy and strategy- Burdensome debt- High initial costs; set-up costs

**Table 2.3: Financial Issues Influencing Small Business Success
(continued)**

Other financial causes of failure

- Withdrawing too much cash for personal expenses
- Fraud/misuse of directorship

Source: Viviers *et al.*, 2001:6

The lack of adequate financing is the most serious constraint during the formation of a new venture. This problem manifests itself at a later stage, as the business requires additional inflows of capital to support expansion and growth. Inadequate bookkeeping leads to deficiencies in several other areas of financial management. Potgieter & Frank (1990:3) mention, that management competence is directly linked to the availability of the management information for decision-making. Issues relating to credit collection and extension, are particularly challenging for many small business owner managers. It is, therefore, imperative that owner managers equip themselves with the necessary financial skills to analyse and monitor financial activities.

A second important policy intervention focus relates to education and training for entrepreneurship and the imperative to improve human capital, as well as access to finance capital, for the successful development of growing micro-enterprise. A number of broad factors have been isolated as impacting upon enterprise expansion and on the potential for creating successful enterprises. A critical finding is, that the level of 'human capital' invested in the entrepreneur, has a positive impact on firm growth (Biggs & Srivasteva, 1996 and Manu, 1998). The conclusion of a recent wide ranging investigation across Africa was, that

“...what evidence there is, suggests that those who are successful entrepreneurs, are likely to have had more education and training than is provided by primary schooling”. McGrath & King (1999:13) argued, that those entrepreneurs with greater human capital, in terms of education and or vocational training, are better able to adapt their enterprises to the constantly changing business environments.

Surveys of small business failure, maintain that entrepreneurs often have good ideas and are competent people but “...they do not have a clue on how to run a business and have no underlying appreciation of business fundamentals” (Barron, 2000:1). Training programmes should thus equip small business owners with the necessary managerial skills in order for them to survive in today’s competitive environment.

In an era of globalization and heightened competition, there is a need for informal entrepreneurs to be “smart,” that is, to have the necessary entrepreneurial skills to compete (McGarth & King, 1996). Although South Africa has an abundance of entrepreneurs, the educational standards of existing entrepreneurs are often low, thus undermining their ability to adapt and compete. Moreover, as a result of the legacy of apartheid education, the majority of the population is, in general, neither socialized nor educated enough to become entrepreneurs, but are rather trained to enter the labor market as employees. The majority of informal entrepreneurs come from a background where their predecessors were marginalized and precluded by apartheid from ownership of property, businesses and the capacity to create wealth. A mass of new training programs for business skills have been initiated since 1994, in order to address the problems of entrepreneurs. However, the impact of these programs and of wider changes that have taken place in national education and training, will be felt only in the long-term.

In addition to education and training, issues of sector and firm location emerge prominently as key determinants of enterprise success (McPherson, 1996; Mead, 1994 and Liedholm & Mead, 1998). Significant issues of local comparative advantage also must be considered, for no universal sectoral growth patterns can be isolated. Locational issues are clearly important for a firm's success. A key conclusion is that, across a range of studies, those firms that benefit from agglomeration externalities, show better growth prospects than those operating as home-based enterprises (McPherson, 1996). This finding on the significance of agglomeration and location, is further reinforced by research on successful geographical clusters of enterprise in Africa (McCormick, 1997,1998,1999).

The research conducted on clustering of SMMEs points to the finding that "...spatially concentrated industrial clusters are able to provide an environment which facilitates technological learning" (Advani, 1997:4). Advani (1997:11) further argues, that clusters offer a critical technical support system for SMME development, in particular through a process of technological learning that facilitated in an enterprise being embedded in an information-rich environment. This occurs in two ways: the support enables firms located within an agglomeration, to benefit from technological externalities, and it increases the capacity for the collective provision of technical support.

An increasing vibrant literature examines the importance of clustering as a factor in promoting the success of manufacturing SMMEs in various parts of Africa (Schmitz, 1990; Ongile & McCormick, 1998 and Sverisson, 1997). It is clear, that operating in clusters offers several opportunities to small-scale producers to improve their performance and overcome obstacles to growth. Much of African research, particularly on clusters, offer important lessons for informing policy development on how to

support the emerging manufacturing economy in South Africa (Kesper, 1998).

Sawaya (1995:118) had undertaken a limited exploration of the determinants of success in a sample of emerging black-owned manufacturing SMMEs in the Western Cape. Among other conclusions, it was found, that the rate of success was highly correlated with the level of education attained by the owner.

A third policy focus relates to infrastructure provision and service support. Local research shows, that when publicly provided infrastructure is deficient, informal entrepreneurs may be forced to undertake significant expenditures to substitute or complement for these shortcomings. In many townships and informal settlements across Gauteng, the absence of basic infrastructure or lack of reliable services, such as electricity or telephones, makes sustainable business activities almost impossible (Todes & Watson, 1997: 43-60). In addition, access to suitable work premises is a further serious constraint. For the survivalist informal enterprise, key infrastructural needs are for well-located permanent markets or the planning of periodic markets to provide access to selling spaces for relatively immobile home-based enterprises. In addressing these needs for infrastructural improvement, the major responsibility often falls on the municipal or local government in South Africa. However, the financial crises of many local governments across South Africa, have reduced the prospects for successful local initiatives to augment the infrastructure for the groups of a growing micro enterprise.

The fourth fundamental obstacle that confronts the development of this sector economy, relates to the expansion of new market opportunities. As a result of the dominant position of existing largely white-owned

enterprises, the structural environment that confronts informal entrepreneurs, is largely relegated to a set of narrow economic spaces, with limited prospects for growth. For example, research on the furniture sector, shows that the limitations imposed on informal entrepreneurship by the collusive power and activities of large enterprise, particularly of large retailers, imposes severe constraints on the growth prospects of small furniture producers (Kaplinsky & Manning, 1998: 139-161).

Obstacles of a more general nature also do exist; however, this tends to frustrate the conducting of economic activities on a relatively small scale. The most important thing is, that these obstacles are more generic, applying both to the formal and informal small business sectors. This can be illustrated against the background of salient characteristics of especially the micro-business sector, which serves as an indication of the problems faced by the SMME sector.

Drawing from Engleton (1996), the major characteristics of small business activity may be summarized in Table 2.4. Arguably, some of these characteristics may represent a form of comparative advantage over businesses in the formal sector, particularly in regard to and non-compliance with regulations and ease of entry. Formal sector activities constitute obverse characteristics to the above, and a more detailed comparison clearly reveals limitations on the potential of SMMEs to significantly increase the scale of their operation.

Table 2.4 on the next page

Table 2.4: Characteristics of the Small Business Sector in South Africa

1	Ease of entry
2	Competitive markets
3	Micro-enterprises predominantly Black-owned
4	Low-skills base of operation
5	Extensive family involvement
6	Highly labour-intensive
7	Absence of financial equity
8	Small scale of operation
9	Unregulated environment
10	Reliance on indigenous resources

Source: Egleton, 1996

Of critical future importance in opening new potential market opportunities, is the fostering of greater business linkages between large enterprises and emerging enterprises. Overall, supportive linkage arrangements between large enterprises and informal enterprises are relatively few as a major "psychic distance" exists between (largely white-dominated) big business and (largely black-owned) emerging enterprise. This means, that the large enterprise in South Africa lacks a culture of cooperation with the small enterprise, as has occurred in Japan, Italy and Germany. Drawing upon the experience of industrial districts or clusters, linkage programs between small enterprises form other

potential basis for market expansion. However, with the interesting exception of an interacting cluster of clothing producers in the inner city of Johannesburg, progress with joint action and inter-firm linkage schemes among small enterprises in Gauteng has been very limited (Egleton, 1996).

The role of local government in supporting the South African informal entrepreneurs, must not be overlooked. In post-apartheid economic planning, considerable emphasis is placed on the need for local government to become more developmental in its operations and on the importance of local-level initiatives for economic development and poverty alleviation.

2.6 GOVERNMENT SUPPORT PROGRAMMES FOR EMPOWERMENT

Over the past three decades, numerous industrialized countries have instituted business service programmes designed to increase the knowledge recognition, transfer and assimilation capacity of SMMEs (Glasmeier, 1999:74). The core focus of these programmes for “manufacturing modernization” is upon improving the competitiveness of businesses through provision and support for real services (Feller *et al.*, 1996). In the case of the USA, the Manufacturing Extension Partnership Programme Support Center has been established, with general services provided to firms in specific geographic areas and, in some instances, secondarily to other sectors (Feller, 1997). The experience of support programmes in advanced industrialized countries has been much debated (Glasmeier, 1999). Malmberg & Maskell (1999:7) observe, that programmatic interventions to improve the performance of firms, especially SMMEs, have often been marked by a lack of appreciation of how businesses learn, causing them to underestimate the

difficulty of assisting businesses in changing their behaviour to become more strategic.

Literature on support structures in the developing world is relatively thin. The work of Pedersen & McCormick (1999) draws the attention to the general weak institutional support environment that exists throughout sub-Saharan Africa. Two important World Bank studies are of considerable relevance to SA. The first focuses on the bases of successful SMMEs in Colombian manufacturing (Cortes *et al.*, 1987). The second is a four-country comparative investigation of the factors affecting successful manufacturing small enterprises in Indonesia, Japan, Colombia and Korea (Levy *et al.*, 1994). Among the principal findings of the Colombian research, it was argued, that the major contribution of government policies was in terms of shaping a facilitative macro-environment. Most critical was the macro-economic environment of growth which helped towards expanding demand, thereby generating the savings to finance new firms, and which created positive business expectations (Cortes *et al.*, 1987). Despite the importance of growth and demand, it was concluded, that a well-conceived and successfully implemented public policy – one that provides access to credits and imports, vocational training, technical assistance and support of the market for second-hand equipment – should enhance the sector's performance enough to be worthwhile.

A healthy business and incentive environment is the main determinant of whether SMMEs will succeed. A liberalized private market place will not necessarily ensure industrial development; rather, for many firms, subsectors and countries, well-functioning collective support systems for marketing and technology are critical for success. The World Bank study argues, that broad-based collective technical support facilitates the

emergence of an information-rich environment for enterprises. Examples of such support are highlighted as follows.

- ◆ Sponsoring courses on specialized topics
- ◆ Facilitating the use of expert consultants, either directly by making available a consultant to a broad array of firms, or indirectly, by providing financial support for the use of consultants
- ◆ Promoting information-sharing among firms
- ◆ The four-country study argued, that those countries that already have strong-based collective support and that are moving into technologically more advanced activities should consider 'high-technology' support, albeit that they proceed with some caution (World Bank, 1993)

Overall, the above discussion emphasizes the importance of enterprise learning, facilitated by firms' being embedded in an information-rich environment, although a key channel for technical support for SMMEs is through buyer-supplier linkages, which will be discussed in the next chapter.

By broadening the range of service delivery models to include greater worker, SMME and community participation, government can help ensure that a broader grouping of the historically disadvantaged is empowered. The Preferential Procurement Policy Framework Act No. 5 of 2000 (annexure C), the 1997 Green Paper on Procurement (annexure D), and the Affirmative Procurement Policy set out a comprehensive scheme for increasing the participation of historically disadvantaged people and

enterprises in the activities of the public sector. The participation of these individuals could be enhanced through the following initiatives.

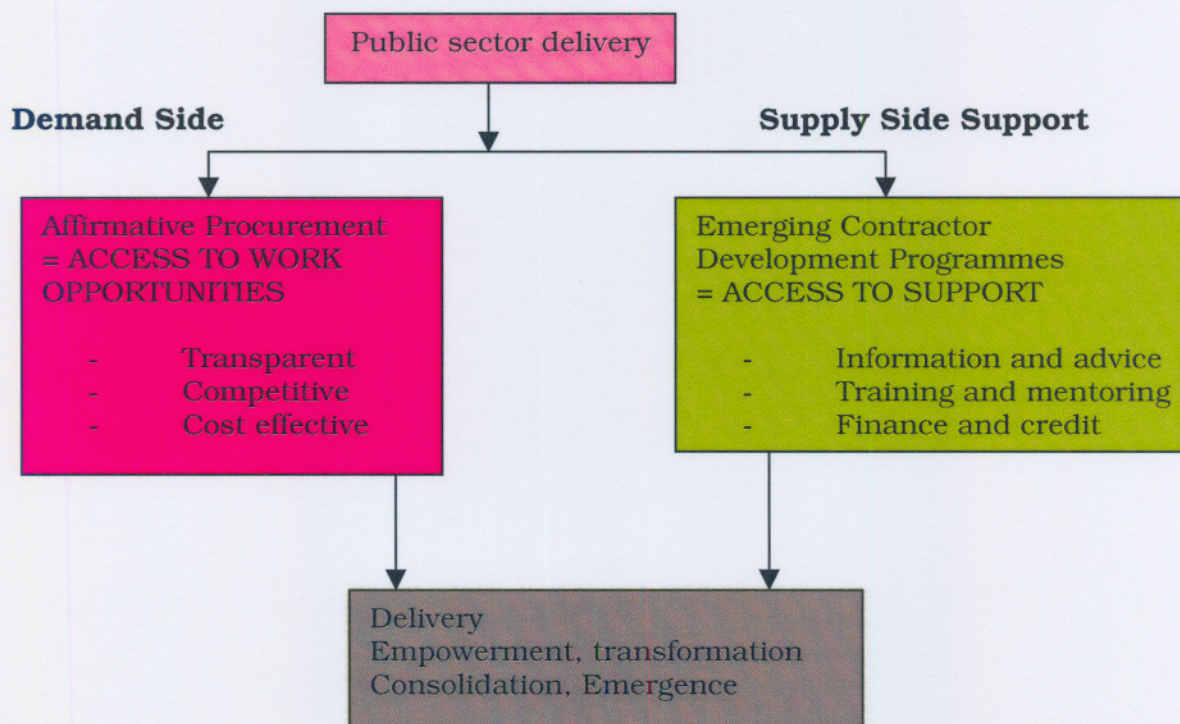
2.6.1 Best Practice Empowerment Initiative

The Department's (DPW) approach to empowerment, is based on:

- ◆ accelerated access to work opportunity, and
- ◆ access to support measures, including training.

Figure 2.4 below elucidates these empowerment/development approaches.

Figure 2.4: DPW's Development Approach



Source: Department of Public Works, 2001

2.7 SUPPORTING STRUCTURES FOR SMMEs

Since after the first democratic election in the country, economic empowerment and growth have been placed high on the government agenda. Facing problems of millions of unemployed and underemployed people across the country, the government has had to attend to job-creation and the generation of sustainable and equitable growth. SMMEs represent an important vehicle to address these challenges (RSA, 1995B:6). Throughout the world, SMMEs are playing a significant role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways (Marx *et al.*, 1998).

Stimulating SMMEs through an appropriate enabling environment, is part of an integrated strategy to the South African economy onto a higher road. The ultimate goal, is to make the SMME an equal partner in all the economic sectors, and to maximize the sector's contribution. In this rather transformation process, government is the facilitator and not an implementor (RSA, 1995B:8). While the government role was interventionist at the outset, with emphasis on support agencies, it scaled down systematically.

Historically, South Africa's small business sector has been neglected by government, dominated by big businesses, and suppressed as far as black owners and entrepreneurs were concerned (RSA, 1996:1). The situation started to change in the late 1980's until in 1990 towards getting a new national strategy for the promotion of small businesses. In the months following the release of the White Paper (RSA, 1995B) and the former president's Conference on small business in 1995, the Centre for Small Business Promotion has embarked on a campaign to shape and establish a national framework to support and deliver assistance to the small business sector. The drafting of the National Small Business

Enabling Act (annexure E) started in 1995 as a significant component of government strategy. The draft bill signaled a significant milestone in the history of the SMMEs. It represents government commitment to develop a growing, dynamic, and competitive SMME sector as an important partner in a multidimensional economy (RSA, 1996:1).

SMME success stories around the world are based mainly on the role played by support agencies, be they government, private or donor-driven. Foreign or local institutions offering credit, training, and marketing support, and facilitating technology transfer, have developed significant expertise over the years. Government accepted the challenge to absorb some of these lessons. It is committed to learning from the best practices developed in other countries and that are suitable to the South African strategy.

The White Paper (RSA, 1995B:9) proposes a national strategy for SMME support. It presents a framework for implementing agencies such as the Small Business Agency, the National Small Business Council and Local Service Centres. The development and function of these institutions and others, is explained briefly in the following paragraphs.

2.7.1 Business Opportunities Network

The Business Opportunities Network (BON) was established after a need was identified for the facilitation of business linkages between small, medium and micro enterprises in the private as well as the public sectors. As an accredited Tender Advice Centre (TAC), the BON forms a national core group of linkage organizations, the co-ordinated Ntsika Enterprise Promotion Agency.

2.7.1.1 Mission and objectives

The mission of BON is to create the condition for the empowerment of SMMEs through business linkages to facilitate:

- ◆ capacity building for SMMEs, and
- ◆ networking and coordinating all participants in the SMME development sector, with particular emphasis on business linkages.

These objectives are achieved through activities implemented in the Supply Office and TAC.

2.7.1.2 Supply office

The supply office facilitates business linkages and is actively involved in supply chain development. As such, it provides professional support services to buyers and suppliers. The supply office and its network partners source competitive suppliers for buyers in the public and private sector. It maintains and develops a meaningful, on-line database assessed SMME suppliers. The database can be accessible to buyers from major corporations, parastatals and government institutions.

An objective assessment is conducted by trained staff to identify training needs of the SMMEs. The assessment needs are addressed by internal and external staff who visit potential suppliers to determine their capability and training needs. After completion of the relevant training, the assessment can be repeated.

Supplier development programmes, training and counseling are offered, with particular emphasis on enterprises operated by PDI's. Regular

workshops, networking opportunities and information sessions focusing on business opportunities conducted to increase supplier capabilities, are included.

Training materials focusing on business linkages and supply chain developments, have been developed for corporate and public sector buyers. These interactive training materials are available in general and customized versions, to corporate and government departments.

2.7.1.3 Tender Advice Centre (TAC)

TAC assists SMMEs to access tender opportunities in the parastatal and public sectors.

Tender training, counselling and contract management services, are provided by trained staff of TAC.

Current Corporate Opportunities

- ◆ Links - Gives direct access to a host of other interesting websites
- ◆ SMME database- It is password-controlled. Existing members have to log in, while new SMMEs can register on-line. The information becomes directly available to other users, subject to verification.
- ◆ Newsletter – Up-to-date editions of the Link-update, as well as achieved newsletters are available.
- ◆ Networking partners - Referrals to services of other SMME support organizations.
- ◆ Events - Current events, workshops and training provided by BON and networking partners, are advertised.
- ◆ Linkage Initiative contains information on other similar programmes in Southren Africa (BON, 2000).

2.7.2 National Small Business Council (NSBC)

An intensive consultation and research program on small business had been conducted and was preceded by the White Paper and the President's Conference. It became clear, that the establishment of the NSBC would form a pivotal and integral component of the newly designed institutional framework to support development of small business in the country (RSA, 1995A:4). This had to address the fact that the SMME sector had previously been ignored in the policy and legislative debates surrounding the economic growth in South Africa. The NSBC is a statutory body and has the necessary powers to champion the cause of small business, both centrally and provincially (RSA, 1995B:2).

A representative council of a small business member organization exist. It articulates and advocates the needs of SMMEs, to government. This establishes a good partnership between government and the private sector. After the release of White Paper, and during the consultative phase, many workshops were held and delegates attended different meetings. From the outset it became clear, that the small business organization wanted to be heard, both at provincial and central government levels (RSA, 1996:4). The concept of a single organization representing the interests of SMMEs was also appealing, particularly to government, which needs to mediate between many competing interests. It was agreed, that the bulk of NSBC membership should represent local and provincial interests.

The NSBC was established in 1995 and in spite of some difficulties, the process has led to the emergence of a sense of unity among organizations, and the recognition of leadership qualities across organizational barriers.

2.7.3 Local Business Service Centres (LBSC)

LBSC is regarded as a key mechanism to support small businesses through the provision of information and advice, mentorship contracts, information on training, networking information about development opportunities, and facilitation of subcontracting contracts (Menston, 1995:75). They are locally based and locally controlled in order to meet and respond to local needs and requirements. It has been identified, that a fundamental paradigm shift is needed from a service-oriented approach to one in which the local authority becomes a key social agent. A more direct involvement in the social economic needs of its community, is required from local authorities. It is now accepted that access to high quality business support is a key requirement in South Africa's economic development (BuDS, 1995:4).

The challenge was not to set up new Business Development Services (BuDS), but to get commitment from existing centres to cooperate with each other and the BuDS (RSA, 1995B:3). BuDS' underlying objective is thus one of enabling and facilitating the creation of locally-led support. Its mission is to enable all would-be and existing SMME entrepreneurs to have easy access to high-quality business support services. The LBSC responds to the needs of all viable micro and small enterprises. An independent but complementary network of Manufacturing Technology Centres (MTCs) address the needs of small manufacturing enterprises. A third component, the information sharing network, was developed as a networking and inter-organizational communications systems to link centres together.

The set of accreditation criteria reflects the consensus view of representatives from existing NGOs and service providers, parastatals,

corporates, government and other interested parties (BuDS, 1995:6); the purpose of accreditation is to:

- ◆ provide national criteria and norms;
- ◆ obtain recognition for accredited LBSCs, thereby validating and facilitating payment, support and government funding to the LBSC's;
- ◆ develop a credible capacity-building LBSC programme which is performance-oriented and which can be supported by donor and government;
- ◆ ensure that LBSCs focus on their prime objectives and stated business;
- ◆ promote cost-effective control and management of LBSCs;
- ◆ promote high-quality services and training that are needs oriented and market-related; and
- ◆ Create an output-oriented culture for LBSCs.

The SMME developments are an earnest and honest attempt by government to make this a democratic process. Some errors have been and will still be made, as this process is associated with the learning curve that the transformation has to pass through.

2.8 DTI 2001/2002 INCENTIVE SCHEMES AIMED AT PROMOTING THE DEVELOPMENT OF SMME SECTOR

DTI, in its restructuring process 4-5 years ago, reassessed its role towards the development of SMMEs. As discussed in different sections above, it was indicated, that in South Africa the small business sector is underdeveloped as a percentage of overall economic activity. DTI sees its role in overall terms in this regard.

The outcomes sought, are on reduction in economic inequality, a growing share of the productive sectors of the economy owned by Blacks and ultimately, overall economic growth. A whole new range of incentives were announced to support their aims, through assistance for skills transfer and creating employment.

Incentive schemes aimed at promoting the development of SMMEs are as follows.

2.8.1 Emerging Entrepreneur Scheme

Objective: To increase access to finance for SMMEs through banks

Institution: Khula

Access Criteria: Accessible to independently owned SMMEs, with assets of less than R2m before financing. SMMEs must meet the bank's normal lending criteria

Description: To enable an entrepreneur to access funding from his/her bankers for the establishment, expansion or acquisition of a new or existing business. The

maximum indemnity is 60-70% and tire maximum facility is R75 000

2.8.2 Bridging Finance Scheme

Objective: Addressing the short-term financing needs of entrepreneurs who have secured firm contracts (except construction contracts) with government and/or the private sector.

Institution: IDC

Access Criteria: Entrepreneurs who have been awarded tenders by government

Entrepreneurs who have secured contracts for providing services/products to established blue chip companies

Entrepreneurs with an annual turnover greater than R1million

Minimum financing requirements of R500 000

Description: Short-term loans (maximum 18 months)

2.8.3 Small and Medium Enterprise Development Programme (SMEDP)

Objective: To create wealth, generate employment, develop entrepreneurship, promote empowerment, utilise local raw material, ensure sustainability of projects receiving incentives in the long run, reduce investment lost for small and medium investors.

Institution: DTI

Access Criteria: Available countrywide to local and foreign firms investing not more than R100m in land, buildings,

plant and equipment in new projects or expansion of existing projects.

Legal entities, as well as sole proprietors and partnerships (excluding Trusts) engaged in qualifying manufacturing, high value agricultural projects, etc., may apply.

Description: The provision of the incentive package are as follows.

An investment grant for two years on approved qualifying assets, calculated as follows.

First R5m investment-10% pa
Next R10m investment-6% pa
Next R15m investment-4% pa
Next R20m investment-3% pa
Next R25m investment 2% pa
Next R25m investment 1% pa

An additional investment payable in the third year based on the Human Resource remuneration expressed in terms of manufacturing cost, must be a minimum of 30%.

2.8.4 Standard Credit Guarantee Scheme

Objective: To increase access to finance for SMMEs through bank
Institution: Khula Enterprise Finance Limited
Access Criteria: Accessible to SMMEs that are independently owned, with assets of less than R2m before financing. SMMEs must meet the bank's normal lending criteria.

Description: To enable an entrepreneur to access funding from his/her bankers for the establishment, expansion or acquisition of a new or existing business. The maximum indemnity is 60-70%. The maximum facility is R600 000.

2.9 CONCLUSION

Although the government has stated its intentions to keep the small business environment as market-oriented and free from unnecessary legislation as possible, it is committed to providing an enabling framework. It is, therefore, imperative that big businesses establish voluntary affirmative programmes with policies and procedures which are both supportive of small (disadvantaged) businesses and consonant with sound purchasing policies. If they do not, programmes are bound to be imposed on them by outsiders who may not thoroughly understand the principles of sound purchasing, causing more problems than solutions. On the other hand small businesses should not expect handouts but should actively engage on a path of self-development. The next chapter focuses on affirmative purchasing, outlining how SMMEs could be supported by big businesses through business linkages and other empowerment strategies.

CHAPTER 3

3.1 INTRODUCTION

In any transition to democracy, small business development is highly desirable, if not essential, for creating a sustainable and growing economy. Small and medium sized businesses are seen as important elements of change in the process of transition to a market economy and supportive elements in the development of democracy and a strong civil society. The development of a sustainable small business sector has numerous obstacles, however; some obstacles are of a technical and others of an economic nature. These are formidable and have been analyzed extensively in the vast literature on transitional economies. Some obstacles, however, are grounded in human behaviors that are incompatible with a globally competitive market economy. These obstacles, which represent important challenges for human resource managers, are also difficult to overcome, but do not constitute a principal focus of study.

The development of small and medium sized firms is beneficial, perhaps even essential, in transition economies and indeed for a variety of reasons. First, the transition involves the dismantling of public enterprises, which is accompanied by the displacement of large numbers of workers, generating high levels of unemployment and often depressing real wages (at least in the short run). The development of SMME's provides a potentially critical employment option for economies undergoing a profound structural change. Second, the emergence of grass roots capitalism is not only consistent with, but also supportive of the decentralization of economic and political power. A viable small

business sector has the potential to redistribute income, as well as political power, in ways that spread material wealth and political influence over a broad spectrum of society. Third, small business and the entrepreneurial spirit are important sources of innovation and technological change, and an important engine of economic development. Much of the economic growth experienced by transition economies, stems from the better utilization of productive resources through institutional reforms and technology transfer, rather than from labor force growth or capital deepening (Robert, 2000:2-3).

Improving productivity and economic growth and creating employment, are three issues which are vital to the enhancement of the standard of living of all South Africans. It is for these reasons, that South Africa is currently embarking on a strategy to change the role of small, medium and micro enterprises.

Because of the extent of SMMEs in this country, they are important building blocks and sources of jobs in any economy (Hugo *et al.*, 1999). In the USA small businesses employ 57% of the private sector workforce and produce approximately 45% of the nation's gross national product (Helms & Renfrow, 1994); therefore, the support required, will be extensive. It would be essential to prioritize needs and to direct support programmes to specific segments (targeted businesses) of the SMME sector. The government cannot (as indicated earlier in chapter two) be expected to provide all the support required, and big businesses, as well as the small business sector, will have to accept the responsibility for some support and self-development.

There is pressure on large, financially strong enterprises to make a greater and more meaningful contribution to the country's economic

development and the economic empowerment of previously underprivileged groups.

Providing job opportunities for workers, paying tax and producing products to satisfy the market's need, are not enough. With the current spirit of development in the country, more is expected of enterprises. Enterprises are expected to create opportunities for the previously disadvantaged and to become actively involved in the socio-economic development of the country.

In order to ensure the socio-economic transformation of SA, the government has developed a policy document, the RDP, which has received widespread support. For the RDP to be effective, however, a 5% economic growth rate had to be achieved and between 200 000 and 500 000 sustainable non-agricultural employment opportunities had to be created each year (Visser, 1995:2). However this seemed to be impossible to achieve, with the small business sector having limited or no external support.

Visser (1995:3) maintains, that the transformation of the small business sector would require concerted policies of a wide scope, as well as the deliberate creation of an enabling environment. The SMME has been neglected and disadvantaged in the past and in order for it to take its rightful place in the economy, it needs to be helped and developed to its full potential.

Purchasing from small businesses is one area in which large enterprises can assist in the development of small business in general and, more specifically, contribute to the goals of the RDP of the government, particularly the following provisions of the programme.

- ◆ Inequalities in incomes and wealth must be alleviated and productive opportunities expanded, including support programmes for small and micro enterprises.
- ◆ Difficulties faced by small and micro enterprises in entering the manufacturing sectors and sub-sectors, must be dealt with, including making available supportive measures in terms of markets.
- ◆ Small businesses, particularly those owned and controlled by Black entrepreneurs, must form an integral part of the national economy. Micro producers should develop from a set of marginalized survival strategies into dynamic small enterprises that can provide a decent living for both employers and entrepreneurs.

This chapter discusses the rationale for private sector involvement in the development of the small business sector, business linkages between big and small businesses, as well as various development programmes.

3.2 SUBCONTRACTING

Government and major companies can promote entrepreneurship development by encouraging their traditional suppliers to subcontract some of their activities to previously disadvantaged SMMEs.

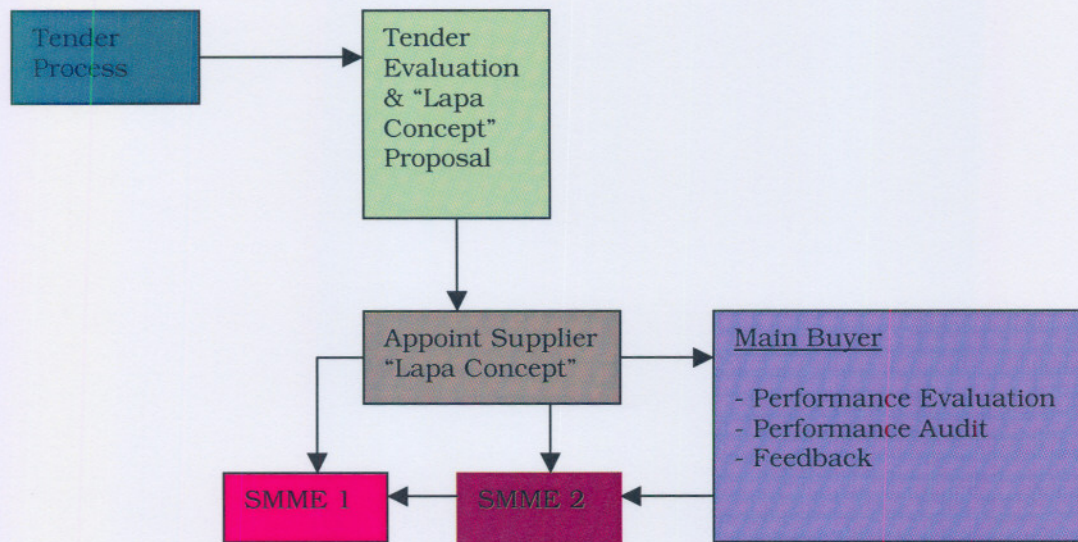
This subcontracting should not mean, that the major contractor or supplier is using subcontracting as a labour provider, as had been done previously in South Africa. Subcontracting is where a contract is entered into with another independent, usually smaller business enterprise for

the manufacturing of the part, according to specifications, which is used in the enterprise's final product (Hugo *et al.*, 1999:357; Dobler & Burt, 1996:316 and Bailey *et al.*, 1998:220). In the case of construction it will be a contractor who is to perform part of the whole project, for example, electrician or a plumber. Subcontractors, therefore, do not manufacture the final product, nor run the whole project, but only perform certain specific tasks within the entire project. The subcontracting relationship may also vary from an impersonal contract (in the case of an independent enterprise) to the provision of assistance (in the case of suppliers who are not independent but who have the potential) (Hugo *et al.*, 1999: 357).

The "Lapa Concept" (Figure 3.1 below), which is a strategic intervention of promoting and developing entrepreneurship, means that the main supplier should be awarded a contract based on supplying a master plan of how the development and transfer of skills to previously disadvantaged SMMEs is to be achieved. The "Lapa Concept" is basically the shielding, nurturing and sheltering of SMMEs to a stage that they can compete competitively on an open tender.

Figure 3.1 on the next page

Figure 3.1: The “Lapa Concept”



Source: Petje, 1999:122

The “Lapa Concept” requires the main supplier to train and develop previously disadvantaged SMMEs in areas in which they are lacking, for example, technical, quality, etc. The buying firm should hold the main supplier responsible for developing these entrepreneurs. This process should be closely monitored and evaluated, should provide for regular feedback and be audited as part of the supplier performance and possibility for future business, the evaluation criteria model is reflected in figure 3.2 below. The “Lapa Concept” will be ideal where skills and technology are to increase in the current and future participation of previously disadvantaged SMMEs in the tender process. The evaluation criteria model is reflected in Figure 3.2 below.

Figure 3.2 on the next page

Figure 3.2: The Evaluation Criteria Model

Set up and determine the weighting of each evaluation criterion

Compare the relative importance of each criterion eg.
 8-2 Very important
 7-3 Important
 6-4 Slightly important
 5-5 Equally important

Add the total horizontal lines together to get a total for each criterion

	CRITERIA		a	b	c	d	e	f	TOTAL	WEIGHT
A	Compliance to specification		6	6	5	6	6	6	29	0.20
B	Life Cycle Costing (LCC)		4	5	5	6	6	6	27	0.18
C	Quality		5	5	6	6	6	6	28	0.19
D	#Economic Empowerment		4	4	4	6	6	5	23	0.15
E	Commercial Conditions		4	4	4	4	6	4	20	0.13
F	Delivery		4	4	4	5	6	4	23	0.15
	TOTAL								150	1.00

Source: Petje, 1999

All weighting together should equal to 1
 Weightings are %

Black Economic Empowerment (BEE) in terms of the evaluation criteria score, is 23 points of 150, which means its relative importance is 15% in the evaluation criteria.

The company with significant programmes in its core business for subcontracting to Black SMMEs, will be selected to drive the “Lapa Concept”. This will enable the buying company an opportunity to monitor the transfer of skill, adherence to specification, quality control, life cycle costing and delivery, as set out in the contract or order.

3.3 EQUAL OPPORTUNITY AND AFFIRMATIVE ACTION

The issue of equal opportunity versus affirmative action, is a crucial one and will largely shape and determine the success of the business affirmative action programme for the development of small disadvantaged businesses. At stake here, is whether small businesses should be supported in an ordinary or extraordinary sense.

Proponents of equal opportunity believe that all vendors, irrespective of their size or ownership, should have the same chance of becoming suppliers of goods and services to an organization. It is based on equality, impartiality and other qualities which ethical purchasing considers as fair. These proponents, therefore, believe that social and economic goals can best be attained in a climate of equality rather than by protectionism. They believe, that protectionism leads to inefficiency of the buying firm, each time it agrees to pay a premium price, makes a quantity concession or compromises on specification requirements (Petje, 1999:61).

If protectionism should promote inefficiency, it can be argued, that protectionist purchasing procedures will also do injustice to small business in the long term. It should be remembered though, that equal opportunity as a strategy for small business development, ignores the fact that many participants in the competition for business are small,

inexperienced, underprivileged and undercapitalized. No matter how equal one tries to level the playing field, small business are still going to lose and if winning is important, one needs to look at another strategy.

Another strategy to follow, is that of affirmative action. Affirmative action in business contracting means doing something extraordinary in order to ensure that targeted firms will be included in the purchasing process. It implies that special, positive and creative steps should be taken to increase the potential of targeted small businesses to participate in a business's supply system and ultimately, in a free enterprise system. Without these special steps, these firms may never be able to enjoy the ultimate benefits of equal opportunity over the long run.

While it is true that equal opportunity should be the ultimate goal of any small business development programme, it pertains to hollow commitments that will achieve timely results. On the other hand, affirmative action programmes can achieve significant results if specified time frames for achieving goals are laid down. Morgan (1995:92) argues that "...if a buyer has a supplier to believe in, such a buyer will go the extra mile for that supplier and nobody sees it as a welfare, reverse discrimination, or unfair".

Research in the field of affirmative action in South Africa by Botha (1995), has pointed out, that the formal sector of the South African economy possesses a limited labour absorption capacity, which would restrict the effectiveness of affirmative action policies in the sphere of reorientating the racial profile of companies' workforce.

It was decided, that much emphasis would in future have to be placed on the issue of black business development if government's objective of upliftment of PDI's were to produce meaningful results.

Even excluding the racial issue, the formal economy of SA is imbalanced in terms of big versus small business. If the government and parastatals are included, big business generates 60% of the economic activity in the formal sector of the economy, leaving small businesses with 40%. In the U.S., it is reported, the roles are reversed where big business accounts for only 20% of economic activity. In the East the disparity is even more pronounced; in Japan it is reported that 90% of economic activity is generated by SMMEs (Egleton, 1996).

This difference in the structure of South African economy can be attributed directly to its history where for ideological reasons the state intervened to deny normal market access and economic development to 80% of the population.

Today the nation is facing the competitive disadvantage of this economic imbalance as it compete on the world stage and face nations whose economies produce products both cheaper and better than South Africa. The terms “unbundling”, “downsizing” and “outcontracting” have become the new jargon representing big business response to the problem.

3.4 BENEFITS OF THE AFFIRMATIVE ACTION PROGRAMMES

Benefits that accrue to a firm that operates a business affirmative action programme, can be viewed from two perspectives, namely social responsiveness, business and economics. Research has shown, that enterprises in the USA began purchasing programmes for small businesses as a result of government example, pressure from the government and underprivileged groups, a sense of social responsibility and on the grounds of business principles (Hugo *et al.*, 1999:355). The

current South African government is also encouraging purchasing from small businesses (annexure C).

Social responsibility is a demand placed on large enterprises, while the development of a business affirmative action programme demonstrates an awareness of and commitment to the disadvantaged segments of society, usually with numerous benefits since “ buying from minority community helps in selling to it” (Heinritz *et al.*, 1991:177). From business and economic perspectives, cooperation between big and small businesses can lead to the development of competent small entrepreneurs providing quality competitive products and services.

Communities with businesses which have affirmative action programmes, can experience the following benefits (Mentoor, 1996:5).

- ◆ Additional investment opportunities for residents
- ◆ New construction and renovation of commercial property
- ◆ Increased leasing and purchasing of equipment
- ◆ Increased employment opportunities
- ◆ The expansion of local tax

The following benefits could accrue to the business having a well-developed programme.

- ◆ A broader pool of suppliers
- ◆ Increased leverage and flexibility with suppliers
- ◆ Improved services (lead time and scheduling)
- ◆ Decreased transportation costs due to the proximity of suppliers

The business affirmative action programme can be useless to a firm if the policies on which they are based, do not integrate with other purchasing

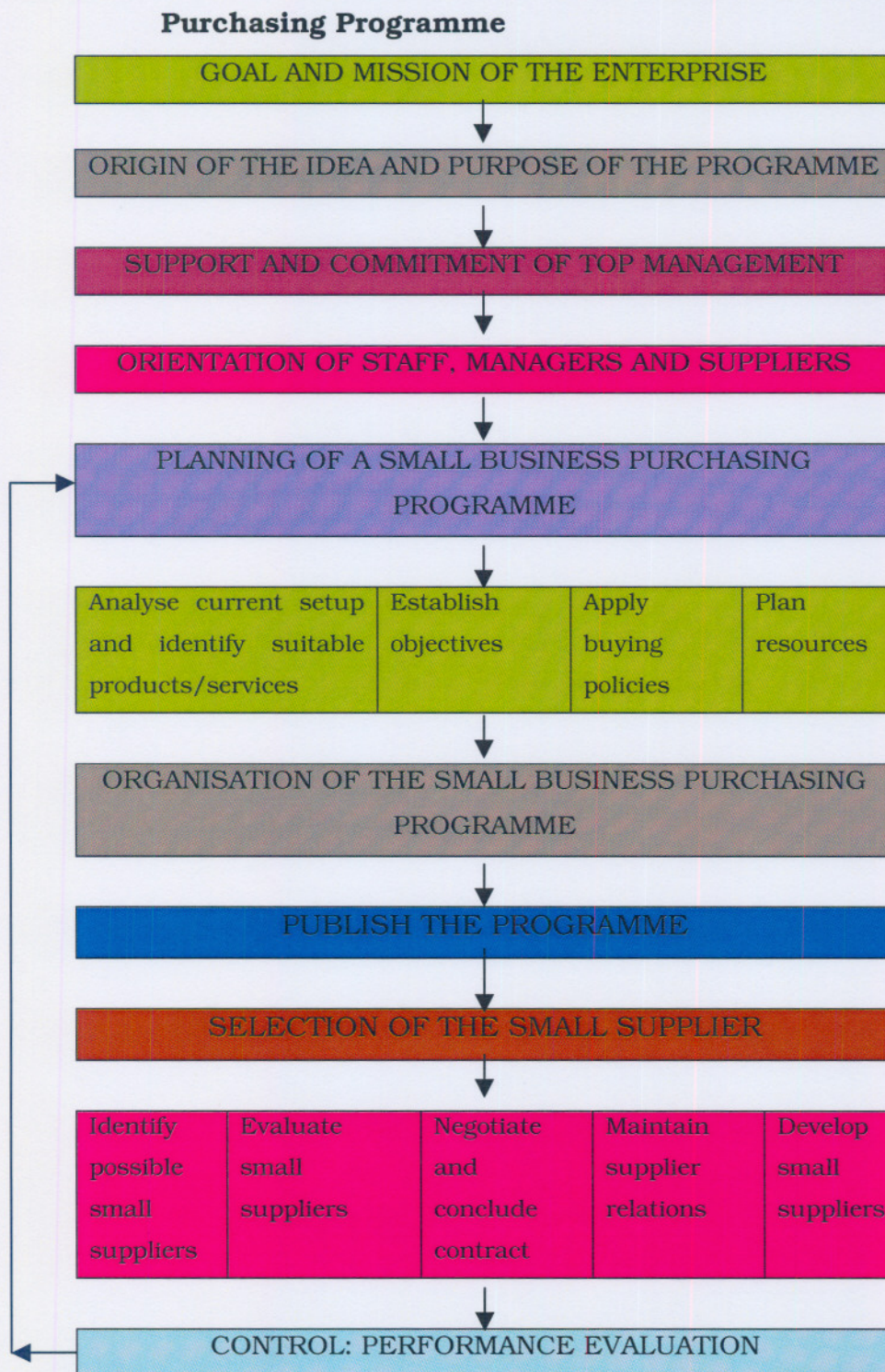
policies as well as the policies, of other functional areas such as production, marketing and financing. It will also not be successful if the full commitment of top management is not given.

3.5 SYSTEMATIC APPROACH TO UNDERTAKING AN AFFIRMATIVE PURCHASING PROGRAMME

If an organization decides to start making purchases from small businesses, there is, in fact, a major shift and there are “changes”, together with all the complications and resistance which “changes” bring about in an organization. Like any other “change” in an organization, affirmative procurement programmes should be undertaken and managed with great caution. Figure 3.3 suggests a systematic approach to undertaking and managing a small business purchasing programme.

Figure 3.3 on the next page

Figure 3.3: Systematic Approach to Managing a Small Business



Source: Hugo et al., 1999:362

3.5.1 The Goal of the Firm, the Origin of the Idea and the Purpose of the Programme

The introduction of a new programme or actions such as buying from small businesses, should always be justified and evaluated in terms of the firm's goal. For an affirmative procurement programme to succeed over the long term, it should be seen as an asset and not a liability. The starting point should, therefore be the development of small suppliers to the advantage of profitability for the firm, rather than social responsibility (Moore, 1993:143).

The idea of the small purchasing programme, usually originates in one of the following ways (Williams, 1990: 398-399).

- ◆ Liberal management attitude with concern about the social responsibility of the firm
- ◆ Pressure from the authorities or customers
- ◆ Corporate peer pressure
- ◆ A progressive purchasing division which identifies opportunities in the market

3.5.2 Commitment of Top Management

Programmes of this nature need the support of top management in order to be successful. Their commitment must be sincere, in writing and must form part of business policy

3.5.3 Orientation of Staff

Three important steps should be taken at the start of a small business programme (Williams, 1990: 392).

- ◆ Orienting the entire staff and obtaining their support
- ◆ Orienting the buyers, cultivating a sensitivity to their mission and clearing up conflicting objectives
- ◆ Contacting, communicating with, and visits to, other firms which already have similar programmes

3.5.4 Planning

The effective integration of small suppliers is possible only if the programme forms part of the firm's long-term or strategic planning. It should, therefore, be included in the firm's mission statement and long-term goals. Planning should include components such as establishing objectives, formulating policies, analyzing the current set-up in purchasing, identifying opportunities and planning resources. Moore & Stoneham (1991:179) and Moore (1993:144) observe, that like any other area of corporation, minority supplier programmes must utilize strategic planning.

The primary objective is to increase business awards to targeted small businesses, so that those businesses can enter the economic mainstream and eventually compete with all other businesses. The purchasing policies upon which these programmes are based, however, will to a large extent determine how quickly and effectively the primary objective will be achieved.

Affirmative procurement policies should be supportive of and consistent with the longer term goal of having an independent small business community. These policies should be consistent among themselves and harmonious with the normal policies of the firm. They should not be techniques which are employed for the temporary benefit of small business or the programme itself. They should be geared to the creation of equal opportunity, so that small business can compete in the long run, instead of spending a certain maximum amount of Rands on small business. Small business development should, therefore, be the reason for these policies.

3.5.5 Organization of the Affirmative Procurement Programme

The affirmative procurement programme is a commercially oriented programme and should not fall under the human resource division or the affirmative action committee. The small business purchasing division should be a specialist division within the purchasing division (Moore, 1993:144). Williams (1990:399) believes, that "...the minority business programme must be viewed as an integral part of the procurement programme with the purchasing department in the driving seat" helped with the advisory committee and the support group.

Four areas of responsibility can be delineated, although the size and the nature of the organization will dictate. The following could constitute these areas.

Programme coordinator

The coordinator should be a trained, dedicated and experienced specialist with a sound understanding of purchasing principles, social

responsibility, and small business development, reaching inward to buyers and users and able to handle the reporting and administrative duties. This ideally should be a full-time position.

Management's responsibility

Management's responsibility should be to plan, organize, direct and control the programme, as well as to provide an environment in which the programme can succeed. The latter includes making expectations clear and stipulating what the rewards for success are.

Buyers

These employees should have the direct responsibility of finding small business and allocating awards for them. Since business affirmative action is a relatively recent topic in SA and still effected in an informal way, buyers should be trained intensively. In particular, they should understand these new policies and procedures and learn to accept new viewpoints and duties.

User's responsibility

All users of goods and services should have the responsibility of providing support and cooperation for the programme. Users should also have the responsibility of suggesting small suppliers and should cooperate with the purchasing department.

The fixing of responsibility areas, also implies the setting of performance goals or targets of performance. It can be expected, that programmes having targets, would be more successful than those without it, as these targets could provide guidance, encouragement and motivation. These

programmes can also be used for measuring performance of the different responsibility areas.

Targets can be expressed as percentages of total purchases. This is obtained by dividing the Rand value of purchases by the Rand value of total purchases. It can also be expressed as the proportion of target suppliers to total suppliers, although this measure can be easily manipulated. Targets can also be set in terms of the Rand value of contracts or the number of contracts (Mentoor, 1996:17).

When setting targets, the following can be used as guidelines (Mooney, 1989).

- ◆ Look subjectively at historical performance and conditions under which it was obtained
- ◆ Look subjectively at future conditions and gauge their possible effect on future performance
- ◆ Confirm or adjust the new target, being as realistic as possible.

It may also be advisable to sub-divide targets. This could mean establishing targets for all acquisitions by the purchasing department or limited value acquisitions by user departments. There could also be targets for individual buyers within the purchasing department or targets for each major category of purchases such as suppliers and services, construction and raw materials.

The setting of targets provides the direction for action. However, targets also provide standards against which performance could be measured. These targets should, therefore, be reasonable, realistic and achievable,

particularly if, the business affirmative action programme is integrated into the firm's formal employee performance evaluation system. The responsible person should, therefore, be clear about which categories of purchases are subject to business affirmative action reporting. They should also understand their duties and responsibilities very clearly. Top management should, therefore send, a clear message to all those responsible that the firm is committed to affirmative action.

The performance monitoring process could include the following.

- ◆ Monthly reports from target setting areas
- ◆ Analysis of these reports
- ◆ Quarterly reports and analysis
- ◆ Appropriate action to encourage performance

3.5.6 Publishing the Programme

The programme must receive as much publicity as possible and should indicate its purpose, the products and services which are suitable for the programme and what is expected from suppliers, and should also extend an invitation to prospective suppliers.

3.5.7 Selecting Suppliers

Selecting suppliers can be divided into the following main phases.

- ◆ Tracing and identifying suitable small suppliers
- ◆ System investigation and assessment of identified suppliers
- ◆ Negotiation and conclusion of contract with suitable suppliers
- ◆ Maintaining good relations with suppliers

An integral phase of the selection of small suppliers is the development of the supplier (Hugo *et al.*, 1999:367).

Identification of small suppliers

Small suppliers can be traced through some of the usual channels, for example, knowledge of staff in other divisions of the firm.

Assessment of possible suppliers

The suppliers who have been identified, have to be investigated and analyzed so as to determine their suitability in terms of entrepreneurship, technical and management ability of the owners, the physical facilities, the condition and nature of the equipment, the quality control methods, capacity and financial position of the enterprise.

On assessment, small suppliers can be divided into the following three categories.

- ◆ Qualifying – These are independent suppliers and are capable of supplying certain products or services as part of the firm's daily business.
- ◆ Qualifiable – They are those who are able, or who have the potential to supply a given product or service, but require some form of assistance.
- ◆ Unqualifiable – They are not suitable for any contract for supplying products or services. They should be made aware of shortcomings.

Negotiating and entering into contract with suitable supplier

Contract will be concluded with suppliers who meet the criteria set. If the supplier is qualifiable, the purchasing firm should put more effort into development.

Maintaining supplier relations

A long-term relationship with small suppliers is essential because it often goes hand in hand with suppliers' development, and the benefits materialize over the long term. Poor communication with the associated prejudices, distrust and unrealistic expectations, has been identified as a significant problem, which detracts from the success of a small business procurement programme.

3.6 THE ROLE OF PRIVATE SECTOR SUPPORT

3.6.1 The Rationale for Private Sector Involvement

What could be the reasons for large enterprises to purchase from small businesses? The corporate private sector business has much to gain from increasing its involvement in the small business sector, not only from the perspective of corporate social responsibility towards previously disadvantaged communities, but also because of enlightened self-interest.

The other reason is the need to grow the local market and marketing strategies for the medium and long-term need in order to encompass the support of emerging small business as a wealth creator.

The source of supply has been easy in recent years with a stagnant economy. When economic growth comes as it seems to be the possibility, those companies which have invested in establishing alternative sources of supply, may well have a competitive advantage.

The latter rationale to some extent explains the surge of private sector interest in the activities of an SMME support organization. Another good reason is to be found in the changing structure of consumption patterns in SA. Despite the present potential for further growth, the purchasing power of the PDI's has increased significantly. Many product and service markets are dominated by black consumers and it makes sound business sense for companies supplying such goods to develop new channels of distribution for their products, providing linkage opportunities for new wholesalers and retailers (RSA, 1995C).

A further rationale for private sector involvement in supporting an SMME has come to the fore with the publication of the Ministry of Trade and Industry's White Paper on SMME development (annexure E). Government's guidelines for a small business development strategy, explicitly recognizes Black Economic Empowerment and public sector/private sector partnerships as two important principles underpinning such a strategy.

Involvement of white-owned businesses in the formal sector, with organizations specializing in support services for Black businesses will therefore, place them at a potential advantage vis-à-vis other companies, especially in regard to continued access to public sector procurement budgets. The latter may be effected either through a sympathetic general attitude towards the particular firm as a result of a pro-affirmative action stance, or through linkages and joint ventures with Black-owned business.

3.6.2 Business Linkages

During the 1980's and the period of international sanctions, the South African economy neither confronted international competition nor benefited from opportunities for exports or foreign domestic investment.

Past reliance on inherited resources, and particularly mineral resources, contributed to an industrial environment characterized by large capital intensive enterprises. These were predominantly engaged in mineral processing and employed semi-skilled labour, with little spill-over effect to associated support industries.

It was also characterized by the missing-middle syndrome in which a few large enterprises dominated most of the economic activity, and an unnecessary number of informal survivalist businesses served the rest. There was little development of SMME industry linking the two.

This inward-looking policy of protective barriers for domestic markets and incentives for development of capital intensive strategic industries, resulted in a less efficient and less productive economy. While public and private sector policies and programmes since 1994 have proved successful in reversing a long-term trend of little or no growth, much work remains to be done to build a strong domestic market and internationally competitive economy.

South Africa needs economic growth accompanied by significant increases in skills transfer to the previously disadvantaged, as well as greater income equity. Achieving equitable economic growth, requires the creation of a business environment that maximizes the positive synergies between government structures, parastatals, the private sector, organized labour and emerging SMMEs.

A significant and urgent component of this challenge, is the attainment of true and broad-based Black Economic Empowerment (BEE), where economic empowerment stems from linking SMMEs owned by Blacks into the formal economy and helping them to grow.

Where do we look to help us address these issues and achieve the needed levels of economic growth and equitable representation? One of the most competitive weapons in the South African arsenal, is the vibrancy and potential of the emerging entrepreneurial class, comprised of an increasing number of dynamic, innovative, and high growth SMMEs. Through the formation of business linkages, many of South Africa's leading companies are now tapping into this potential and are measurably benefiting from it.

The development of business links represent the most significant intervention by parastatals in the SMME sector and as such, has attracted much interest from small firms, existing providers of SMME services, politicians, academics and the media. Business links are intended to bring together the current fragmented support and advice infrastructure by rationalizing the variety of support providers and services with a single point of access for small firms with growth potential.

Each business link is a partnership between the various local agencies involved in providing support services to SMMEs. The aim is not to create another layer of support, but to bring together and develop the delivery of existing agencies' services. Business links, in theory, ensure that services are integrated and rationalized, so as to offer a coherent overall service.

Each business link provides a single point of access for business in its area to high quality advice, information, and other business support services (Stewart, 1998).

3.6.2.1 Business link objectives

Business links are not an end in themselves. They are part of broad strategy, shared by the national partners to improve the competitiveness of firms and help them to respond to the challenges. These are important issues to all companies, but they are particularly important issues for SMMEs. The rapid development of information and communications technology means, that such firms face, more than ever before, competitive challenges on an international scale. By the same token, these developments offer an unparalleled opportunity.

A common cause of failure among SMMEs is weakness in management skills and a significant proportion of business that fail, would have been successful if better information and advice had been available, or more readily accessible.

The need to help smaller firms to overcome these failures, has been widely recognized for some time. Government departments and a wide range of other bodies have all worked to develop advisory and information services to help these firms. Indeed, such services have already contributed substantially to improving competitive performance.

Overall, however, the net result has been a service that is patchy in terms of both geographical coverage and quality. The fragmentation of effort has led too often to an ineffective coordination of services and unproductive rivalry between many involved.

In responding to the need to improve national competitiveness, the national partners, with the encouragement and support of the government, come together to offer services through a single shop front, business links, and thereby increase the proportion of smaller firms taking advantage of the help that is on offer, as well as improving the quality of those services.

The specific objectives of a business link, describe the 'what' rather than 'how' of the change needed in business support services. This is set out in the following paragraph on improving business competitiveness

To improve the competitiveness of firms, especially those with from 10-200 employees, through increasing the use of business support services, whether subsidized or at a fully commercial rate, in the following ways.

- ◆ Providing a single point of access to the business support network and a framework in which the business support providers can work together to develop an integrated range of business support services to respond to local needs.
- ◆ Providing customer-focused services, with tailored support packages to meet the needs of each particular customer.
- ◆ Developing and implementing high-quality standards in both services and products (Stewart, 1998).

3.6.2.2 Current issues and future challenges

The network needs to address a number of emerging issues in order to consolidate its impact thus far. Since all business links are themselves in small companies, they are going through the typical development stages

any SMME has to negotiate in order for it to become established. In this context, the five distinct stages of an SMME development model developed by Scott & Bruce (1987), may be helpful to conceptualize the various stages of business link evolution. Table 3.1 shows the Scott and Bruce Model.

Table 3.1: Managerial Role and Style in the Five Stages of Small Business Growth

Stage	Top management role	Management style	Organizational structure
Inspection	Direct supervision	Entrepreneurial, individualistic	Unstructured
Survival	Supervised supervision	Entrepreneurial, administrative	Simple
Growth	Delegation/ coordination	Entrepreneurial/ coordinate	Functional, centralized
Expansion	Decentralized	Professional, administrative	Functional, decentralized
Maturity	Decentralized	Watchdog	Decentralized functional/ product

Source: Scott & Bruce, 1987

Scott and Bruce found that significant changes take place between each stage, particularly in the style of management and in the structure of the organization. Individual business links are at different development stages, according to their particular circumstances, largely because of varying degrees of local partner commitment, but it may be postulated,

that the whole network has arrived at stage 2, where survival is a defining theme. For example, most business links are developing distinctive income generation streams and establishing role-based management systems.

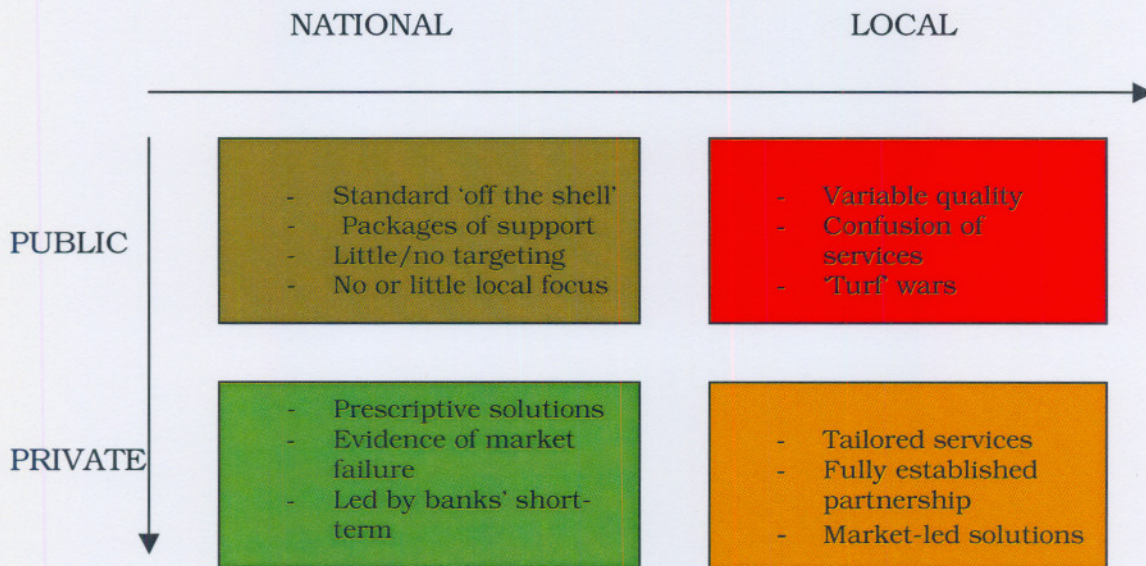
The major challenge for business links, is to change the prevailing culture of SMME support service providers to a more private sector and local orientation. This is mainly because the culture inherited by business links can be characterized in terms of an emphasis on national programmes funded by the public sector. At the local level, public sector involvement was characterized by the indifferent quality of services, long referral chains and a poor public profile (Green, 1992).

There is also the growing recognition, that the responsibility for improving SMME competitiveness, does not lie exclusively with the public sector. That is why, for example, there has been extensive consultation with business representatives to ensure business links reflect the entrepreneurial culture of the organizations they seek to help (Stewart, 1998).

Figure 3.4 shows the interaction of these two factors and shows why progress needs to be made along both dimensions in order to achieve greater business link impact.

Figure 3.4. on the next page

Figure 3.4: Dimensions of Business Link Development



Source: Stewart, 1998

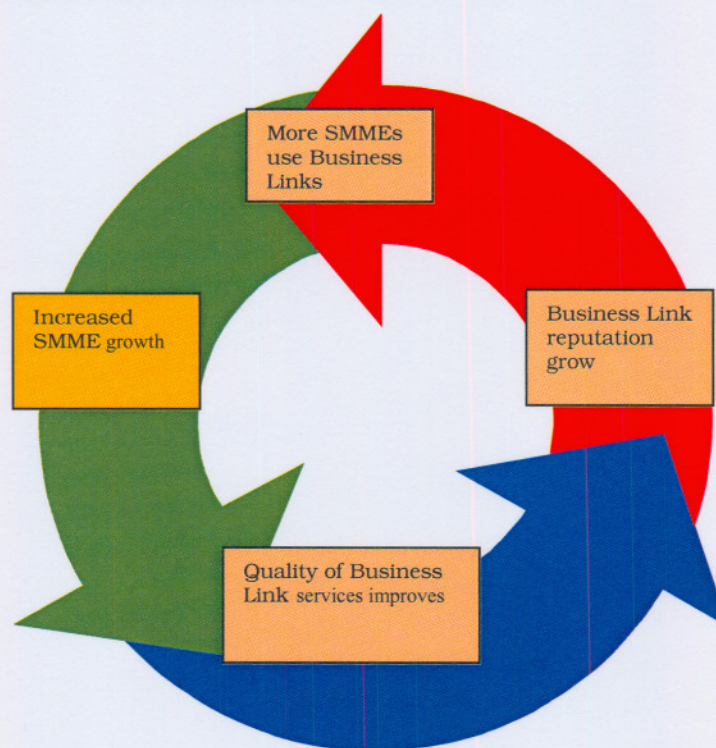
The foremost way that business links can advance along both these dimensions, is through the development of effective partnerships. The pooling of resources, application of combined energies and synergy that emerges through collaborative working, is significant, because the partnership as a whole can tackle directly the inefficiencies of competing agencies offering similar services.

Other approaches towards improving the SMME support structure, have been deemed ineffective, because the partnership element was missing. These include relying on the status quo, which featured a wide range of providers offering overlapping services of variable quality, which has been shown to exacerbate the gap between SMMEs and support service providers.

Before business links can be fully effective, they themselves need to develop their expertise, capacity and standing with their clients. There

are elements of virtuous circle in the SMME/business link relationship. As SMMEs use business links, they increase their own chances of successful growth, leading to the quality of business link services improving, which in turn boosts the reputation of business links, thus encouraging even more SMMEs to use business links. Figure 3.5 shows the SMME/business link virtuous circle.

Figure 3.5: The SMME/Business Link Virtuous Circle



Source: Stewart, 1998

3.6.2.3 The global trend towards business linkages

While there is no single strategy that will power the kind of productive growth required, the global trend towards developing linkages between large and small businesses, is a key ingredient in promoting job creation, skills acquisition and international competitiveness.

Business linkages can take on several forms. Whilst the most common linkage is the procurement of goods and services, the outsourcing of non-core business functions is frequently used as strategic tool. The term "business linkages" is an encompassing one, and has been used universally to describe various activities relating to co-operation between large and small enterprises. These may include assistance with finance that is linked to procurement contracts; subcontracting of specialized activities by large businesses; investment opportunities in viable small businesses by larger firms within the economic sector and new distribution channels for products (Mkele, 1992). In the South African context, and from the perspective of affirmative action, business linkages are mainly concerned with efforts to create business opportunities for emergent Black entrepreneurs through enlightened procurement and distribution policies.

The latter entails not only that large businesses are prepared to source goods and services from such suppliers, but also that they are prepared to play a constructive role in assisting a small entrepreneur to meet the requirements of his or her business contract.

Indeed, in an increasingly competitive global business environment, many top executives today find that it is more profitable to subcontract or outsource non-core business functions that were previously handled internally, thus concentrating on the firm's primary business. This trend offers an opportunity for linkages between large and small businesses, that produce substantial benefits to both sides.

Research into the origins of organized and collective efforts to assist emergent Black businesses through business linkages, found that initiatives such as the Matchmaker Services Programme of the mid-1980's has been successful in bringing together Black and White

businesses. The Matchmaker has managed to secure many contracts for small, Black-owned businesses.

Linking small business suppliers with globally competitive large business in commercial transactions, is a tool that also reinforces the rigorous of the marketplace to small firms. Properly managed and supported, business linkages increase the technological capacity and productivity of small businesses, create jobs, generate wealth, and increase the efficiency of large company buyers (Saffer, 2002:1).

Although many individual companies have adopted more enlightened procurement policies vis-à-vis Black businesses, the need for a more organized and concerted effort to stimulate such business linkages, was realized by the National Economic Initiative (NEI) shortly after its formation and has resulted in the establishment of three Business Opportunity Centres (BOCs) in Durban, Johannesburg and Pietermaritzburg. The BOCs have been recognized as potential accredited Local Service Centres (LSCs) by the new government, specializing in business linkages between large firms and emergent Black entrepreneurs.

The major principles and techniques that underpin the activities of the BOCs and that have been adopted by a number of procurement officers in the corporate sector, are the following.

On-going commitment

A policy of sourcing goods and services, particularly in the so-called “discretionary procurement categories”, from emergent entrepreneurs needs to become a permanent feature of a company’s procurement policy. As such, it requires the commitment of the procurement manager

and the executive management of the company. The overall objective of nurturing respect and sympathy for free enterprise principles amongst emergent Black entrepreneurs, may receive a severe blow, if the approach of large enterprises is not consistent. A practical element of commitment to business linkages, is to set annual objectives for a specified percentage of purchases that will be sourced from targeted emergent businesses.

Acceptance of opportunity costs

During the initial stages of a business linkage programme, the cost of doing business with targeted small firms could exceed the benefits derived from the programme. The most important cost implication which needs to be provided for, is the opportunity costs of doing business in a non-customary manner, and which is mostly equated with time sacrifices of personnel in the procurement division. This cost factor should ideally be viewed as part of the company's overall investment in affirmative action and a re-orientated culture, which may produce significant future dividends.

Amendments to procurement policies

In addition to the setting of annual targets for the value of sourcing from targeted businesses, a range of new procurement policies are necessary to give effect to the creation of sustained large-small business linkages.

- ◆ Firstly – it may be necessary to form a specialist division for small business communication within the procurement department.

- ◆ Secondly – the purchasing manager and staff involved with business linkage policies, should be exposed to an initiative

scheme for meeting minimum small business procurement targets.

- ◆ Thirdly – it is crucially important to select procurement staff who exactly knows and understand the small and informal business community and who are sensitive to the plight of disadvantaged communities in general.
- ◆ Fourthly – it is also often necessary to adopt a more flexible approach towards rigid contract requirements. In particular, it may be necessary to provide assistance in regard to the formal procedures involved with tendering, quotes and invoicing.
- ◆ Fifthly – it is advisable to commence with relatively small orders. A small supplier who finds a contract rejected on quality grounds, and who has spent all the firm's available resources on an order which is very large from a small business perspective, may find the firm's very existence threatened by such a cancellation.
- ◆ Sixthly - second-tier influencing.

A pro-active approach

Emergent businesses are very seldom listed in traditional business directories, and a pro-active approach towards affirmative action procurement is often necessary. A practical method to obtain information on the widest possible selection of small businesses that may be targeted for procurement contracts, is to visit these enterprises in their own environment. A further technique which may be considered in pro-actively assisting such entrepreneurs is, to utilize the buying power of the large firm to obtain materials for the small business at favourable

prices. A third method is to include affirmative action requirements in tenders allocated to large businesses. Lastly, it is useful to identify in-house activities that may be contracted out, for example, cleaning, gardening, car washing and small maintenance jobs.

Membership of a BOC

Although the replication of the BOC concept in all major urban areas in SA has not yet been implemented, many large companies have branches and associated business operations in the Gauteng and Durban areas. Membership of such an organization provides a large company with access to a variety of successful business linkage techniques that have already been developed, as well as information on emergent entrepreneurs that have been subjected to a screening process in regard to quality standards and their ability to handle orders of a particular size. The BOC addresses the problem issues of the linkage process and enables the corporate to share and minimize the opportunity cost.

It operates by offering a user-friendly facility for emerging and established small, medium and micro enterprises (SMMEs) wishing to enter the mainstream economy. In practical terms, it provides them with services in business information, counseling, advice and mentorship, as well as provides technical and management skills training.

The center currently has the following five main project activities.

- ◆ Its core activity, is the establishment of linkages between large established enterprises and emergent SMMEs. Acting as an

intermediary, the BOC facilitates purchasing relationships between SMMEs and corporate or public sector procurement managers.

- ◆ To facilitate this linkage process, the BOC continuously maintains and upgrades its database of SMMEs in Gauteng. The business categories include building and construction, services, manufacturing, transportation and distribution.
- ◆ The BOC is linked electronically through Trade Information Services (Pty) Ltd (TIS,) Trade Net, which transmits business opportunities from affiliated companies that subscribe to affirmative procurement principles. This project has facilitated accessibility to tendering opportunities for SMMEs, resulting in significant business going to previously marginalized enterprises.
- ◆ The BOCs capacity building process involves the continuous assessment of SMMEs on its database, to improve their capacity to perform as reliable partners in linkage contracts by meeting the required standards of quality, quantity, price and timeliness.
- ◆ To mobilize expertise and resources from all stakeholders, the BOC has entered into strategic alliances with other development agencies and institutions in order to facilitate training programmes, technology delivery, productivity, quality standards, financial controls and legal advice. The strategic alliance partners involved are the following.
 - ◆ Business Skills South Africa (BSSA)
 - South Africa Bureau of Standards (SABS)
 - ◆ The Council for Scientific and Industrial Research (CSIR)

- ◆ National Productivity Institute (NPI)
- ◆ Business Partners

(Egleton, 1996)

The BOC monitors and evaluates the success of its business linkage programme by the number of business contracts facilitated, the monetary value of the contracts secured, the number of permanent jobs created, the business relationships built between the companies involved in the way in which the small businesses are economically empowered (Ntsika, 2002:6).

The effectiveness of the BOC concept is not limited to a physical and functional facility that serves as an outlet for large businesses who are committed to assisting emergent entrepreneurs mainly through enlightened procurement policies. The BOCs have also managed to attract the attention of a large number of SMMEs, especially micro-enterprises, many of whom have seized the opportunities provided by linking large and small businesses and translating them into tangible benefits. A review of the size and nature of the business contracts awarded as a result of such linkages, reveals that they are relatively small in absolute terms, but that the employment creation potential in terms of the ratio between new jobs and turnover, is very large.

3.6.3 Support Needs for Competitiveness

Research conducted on the SMME economy of SA, found that enterprises were probed on their most significant needs or problems across a wide spectrum from plant layout, basic skills and computer applications to issues of environmental health and energy conservation. It is reported, that of 14 issues specifically researched as indicated in Table 3.2 below,

only three are of primary significance. The single most important issue, was that of market development, including exporting. This was mentioned as a problem by most SMMEs. The two other issues were those of access to finance and supervisory skills; management and team building were of only minor importance (Rogerson, 2001:284).

Beyond the three primary needs, secondary or more specialized needs can be discerned. This secondary layer relates to various issues which impacts upon the competitiveness of the enterprises. The following eight needs emerged.

- ◆ Technical skills
- ◆ Material failure and related issues
- ◆ Basic skills
- ◆ Plant layout/expansion planning
- ◆ Product development/design
- ◆ Quality assurance
- ◆ Business systems and energy costs
- ◆ Environmental health and computer application

In relation to these key needs and potential problem areas for the competitiveness of manufacturing SMMEs, it was further found, that the majority of the enterprises had received no form of assistance or business support during the previous four years. Of those firms that have received assistance, the private sector has been the major source. Given the introduction in SA of a range of state programmes designed to assist emerging SMMEs since 1995, it is notable, that even for this pertinent group of manufacturers the private sector was the major source of assistance. Where business assistance had been received, two topics dominated, namely supervisory and management skills and access to financing. Of note is, that very few firms obtained assistance for market

development, which was identified as the number one core need for most of the enterprises. Summary of significant needs of SMMEs is outlined in Table 3.2 below.

Table 3.2: Significant Needs or Problems of SMMEs

Main needs identified
Plant layout, expansion planning
Manufacturing process, set-up, scrap
Product development/design
Material failure and material-related issues
Computer applications (CAD/CAM, computer networks)
Business systems (planning, scheduling orders, inventory)
Quality assurance (ISO 9000, QS-9000)
Market development, exporting
Access to finance
Basic skills (reading, writing, maths, keyboard)
Technical skills (quality control, maintenance)
Supervisory skills, management, team-building skills
Energy costs, conservation
Environmental, health, and safety compliance

Source: Rogerson, 2001

3.7 PROBLEMS WITH SMALL BUSINESS PURCHASING PROGRAMMES

Small business purchasing programmes often have limited success because of the complex relationship between the parties, poor

communication, expectations that are too high, negative attitudes and prejudice.

3.7.1 Communication

Interpersonal communication seems to be the main obstacle for the success of the programme, more importantly in underdeveloped parts of the population. Together with poor communication go prejudice, mistrust and expectations which cannot be met. The problem in SA might be more serious, because most purchasers in large enterprises are White men who are accustomed to (previously favoured) strong suppliers of the same gender and race and who have limited exposure to and little understanding of small businesses and underdeveloped entrepreneurs.

The parties often accuse each other of opportunism. Small suppliers accuse the purchasers of false promises relating to contracts, loans, and technical assistance. Purchasers accuse suppliers of insisting on being given a contract simply because they are from disadvantaged groups.

3.7.2 Availability

The availability of small suppliers who qualify is highly limited. Because of the exclusion of women and Blacks from the mainstream of the economy and the low expectations people had of these groups in the past, few women or Blacks considered an own business as an option. The entrepreneurship of White men could also not be developed to its full potential, because of their high position and greater financial benefits available to them in the corporate world and civil service. Therefore, enterprises with purchasing programmes have to search aggressively for entrepreneurs.

3.7.3 Transaction Costs

The costs of tracing and developing small suppliers, is high in terms of time, effort, money and poor quality deliveries.

3.7.4 Conflicting Policies Influencing the Purchaser

Many enterprises are following the tendency to reduce the number of suppliers and to develop long term relations with reliable ones. On the one hand, purchasers have to eliminate suppliers and limit numbers, but on the other hand, they have to search for as many small suppliers as possible. Although the long-term relations are not in conflict with small suppliers, the qualification “reliable” causes conflict. It is an acceptable business practice to establish long-term relations with suppliers who are financially strong and have performed well over a given period.

3.7.5 Objections and Attitudes of Purchasers

Small business purchasing programmes are often not welcomed by purchasers because of some of the following objections.

- ◆ It costs the enterprise more than any advantages it may gain. Development costs are initially high, but when a small supplier has been developed and has the ability and the capacity to deliver the desired number of products, the price should be lower than that of large suppliers, because overheads are less.

- ◆ Small suppliers have an attitude of “...the purchasing enterprise owes us something”. Potential suppliers should be made aware that they will have to compete on an equal footing with other suppliers.

- ◆ Most small business procurement programmes are focused on developing underdeveloped businesses and discriminate against other small businesses. This boils down to the argument about whether affirmative action is justified and whether it is not discrimination in reverse.
- ◆ The purchaser does not have the time to trace and develop small suppliers.
- ◆ Poor performance on the part of small suppliers may cause the enterprise's activities or production to be interrupted.

3.8 CONCLUSION

The essence of affirmative procurement is the taking of special, positive and creative steps. This does not mean that firms should pay more or settle for less. All firms, to be effective, should consider value of prime importance. Value embraces not only price and quality, but also a firm's ability to support disadvantaged small business in order to generate fully productive members in its pool of suppliers. It is for this reason, that many firms have embarked on programmes of supplier development. The next chapter focuses on an analysis of strategies for the implementation of the procurement programme with emphasis on Black Economic Empowerment.

CHAPTER 4

ANALYSING THE STRATEGIES FOR THE IMPLEMENTATION OF AFFIRMATIVE PROCUREMENT

4.1 INTRODUCTION

As indicated in preceding chapters, South Africa needs economic growth, accompanied by significant increases in skills transfer to the previously disadvantaged, as well as a greater income equity. Achieving equitable economic growth, requires the creation of a business environment that maximizes the positive synergies between government structures, parastatals, the private sector, organized labour, and emerging small, medium and micro enterprises (SMMEs).

A significant and urgent component of this challenge, is the attainment of true and broad-based Black Economic Empowerment (BEE), where economic empowerment stems from linking black SMMEs into the formal economy and helping them to grow.

A recent survey of large corporations, shows that BEE has reached the boardroom. Most now agree that the issues of social equity, skills development and economic integration of the previously disadvantaged, are paramount to their company's and South Africa's future. Furthermore, BEE is increasingly seen as an imperative to political stability, social security and economic growth (Saffer, 2002).

4.2 CORPORATIONS RESPOND TO THE CALL

Large domestic and multinational corporations are seeking assistance in the design and/or implementation of a BEE strategy. While the

motivating factor for some is social consciousness, the vast majority are reacting to social, political and legislative pressures. Firms that rely on government or parastatal contracts, are often the first to feel a distinct drop in competitiveness. Alternative steps taken to adjust or to reposition themselves in the market include:

- finding a Black Empowerment joint venture partner;
- incorporating Previously Disadvantaged Enterprises (PDEs) into their consortiums on particular tender submissions; and
- outsourcing non-core goods and services to PDEs.

Of these, establishing more proactive affirmative procurement linkages is by far the most common. Another corporate survey highlighted the following as the greatest challenges /needs relating to such a programme.

- Limited knowledge of, and access to, emerging Black businesses
- The need for a directory of qualified black SMMEs
- ◆ Limited skills in designing realistic and achievable affirmative procurement strategies
- ◆ Confusing acronyms and inconsistent definitions (e.g. PDIs)
- Lack of a comprehensive approach to performance measurement and internal reporting
- Need for external support in supplier development (capacity building, training, technical assistance, mentoring, after-care)

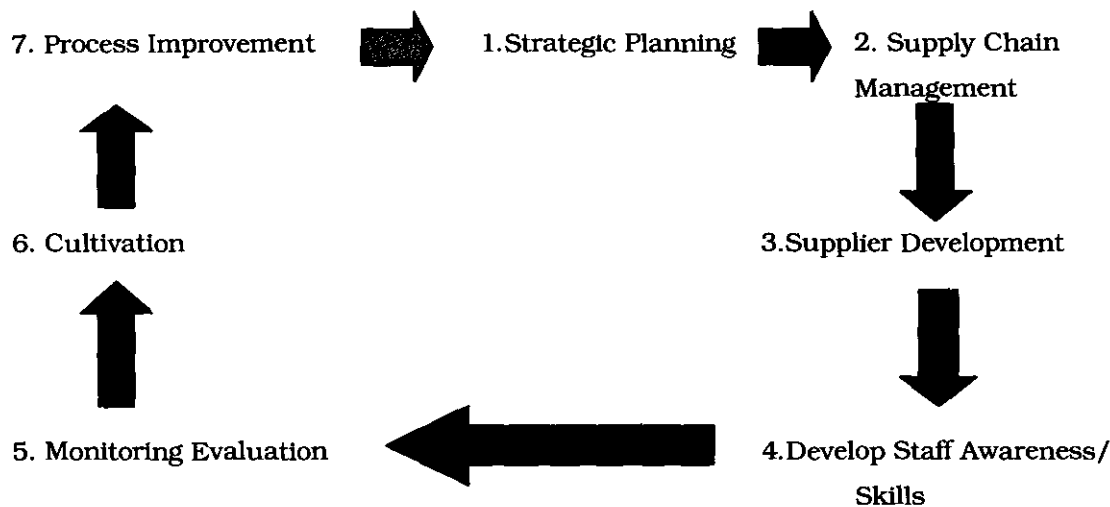
- ◆ The need for an internal change in attitude and perspective towards BEE (Mentoor, 1996:2).

Working with both sides of a potential transaction, the main requirements are to gain the trust of the participants. Identify exact expectations from both parties, provide technical assistance and support where necessary, and ultimately reduce the real and perceived risk of the parties involved. In most cases, both have had disappointing previous experience, which again emphasizes the need for a mentality shift.

As illustrated in Figure 4.1 below, the affirmative linkage process is broken down into seven critical steps. Although comprised of an interactive process, each step has its own objective and set of performance criteria. Some firms need assistance only in one or two areas. The realization, however, that all requisites to a successful and sustainable programme, is critical.

Figure 4.1 on the next page

Figure 4.1: Factors in Affirmative Linkages



Source: Saffer, 2002

Key success factors

Drawing from research and experience with business linkage initiative throughout South and Southern Africa, a checklist of key success factors that are believed to be critical to any affirmative linkage programme, could be established.

The question could, among others, be asked if the company has -

- ◆ expressed commitment from Board and CEO;
- ◆ a clearly written BEE strategy with stated goals, objectives, targets, budgets, and timeframes;
- ◆ an accompanying set of policies and procedures to ensure attainment of goals and objectives;
- ◆ an internal communications campaign to ensure common understanding and compliance;

- ◆ an enforcement (incentive and penalty) mechanism which rewards progress towards the stated goals and objectives;
 - ◆ an accurate, efficient and regular performance monitoring and evaluation system;
 - ◆ procurement managers who understand the differences and requirements in building relationships and rapport with PDEs (e.g. drafting terms of reference, negotiating, payment provisions and support structures);
 - ◆ a supplier development programme, which includes training, mentoring and aftercare;
 - ◆ a useable, credible and verifiable database of PDE suppliers;
 - ◆ access to the wide range of government and donor-funded initiatives providing technical and financial assistance to PDEs?
- (Morgan, 1995)

4.3 REVIEW OF FIRMS IMPLEMENTING SMME PURCHASING PROGRAMMES

With these key issues, aspects, challenges mentioned earlier, attention can now be given to the review of different companies' procurement programmes. The emphasis is on how they adjust or reposition themselves in the market in order to tackle these issues and challenges. This will be done in terms of actual cases and background information, which include the framework within which the policy can be implemented, the organization of BEE suppliers, and situations on how to deal with the effective management of this programme.

It should be emphasized, however, that these cases consist only of broad guidelines as to how companies manage their BEE programme while these do not provide a situation to managing complex issues and situations that might be experienced in different environments.

4.3.1 Case Study: Organization A

The purpose is, to set forth the policy of the organization with respect to Black Economic Empowerment as the basis for a programme of procurement from previously disadvantaged communities, including SMMEs.

4.3.1.1 Scope

The programme encompass SMMEs from previously disadvantaged communities in South Africa and large suppliers with sophisticated financial, technical and managerial capacities.

4.3.1.2 Strategic intervention

As a contributor to the regional economy, the organization has a moral responsibility to support the involvement of disadvantaged communities in the main stream of economic activities, and to utilize SMMEs whenever possible. According to Petje (1999), certain strategic intervention principles can be applied.

The procurement department develops a list of suppliers by product category for each operational region or zone which is revised continually.

The following procedural activities are important.

- ◆ SMME suppliers are advised prior to tenders being issued in their product category.

- Tenders are not restricted to suppliers on the list, however. Any other suppliers may respond to the tenders.
- ◆ Facilitating access to the organization's procurement activities by SMME suppliers.
- A policy exists of giving recognition to large business that supports SMME suppliers and implements acceptable Black Economic Empowerment policies.
- ◆ Encouraging the establishment of the value-adding joint ventures, both directly and between traditional suppliers and SMME suppliers, giving the latter access to the latest technologies and knowledge.
- Assisting potential suppliers to the organization in creating and expanding their capacity to supply.
- ◆ Proactively creating a bias in the adjudication process, resulting in increasing the proportion of business being awarded to SMME suppliers.
- ◆ Relaxing procurement commercial terms and conditions, as well as procedures where necessary, so as to allow for SMME suppliers to do business with the organization, an example would be relaxing payment conditions to SMME suppliers in order to assist them with cash flows.

- ◆ In the pursuit of creating opportunities for SMME suppliers, the organization considers price preference as a means of capacity building to them.
- ◆ Where appropriate, contracts are split into smaller components, for instance per region or item so as to enable SMME suppliers to participate.
- ◆ In appropriate circumstances, the organization set BEEP participation preconditions to a tender. These include, but are not limited to specifying to the potential supplier the rand value or percentage of the tender that should be fulfilled by the participation of suppliers.
- ◆ Setting of the specification in the organization is reviewed in order to ensure that they are set only for functional requirements.
- ◆ Where appropriate, tenders are set aside in part or in whole for the exclusive participation of SMME suppliers.

4.3.1.3 Weighting of criteria as part of the evaluation of tenders

There is no fixed weighting attached in the evaluation of tenders, however, notwithstanding this, the minimum weighting for a BEE programme is 10% on all contracts valued at R5 million and below, and 5% for all contracts valued more than R5 million. These minimum weightings are adjusted from time to time by the procurement department, in consultation with relevant sourcing departments. The overriding principle is, that where there is a high probability of available

SMME suppliers, the weighting will be set higher so as to ensure bias towards such suppliers.

In determining the weighting to be attached to a BEE programme in the evaluation of tenders, the following factors are to be considered.

- ◆ The availability of SMME suppliers in the various industry classifications and professions which are ready, willing and able to provide products and expertise on the particular tender, as defined in the procurement department's database of SMME suppliers.
- ◆ The levels of participation by SMME suppliers in past contracts awarded by the company.
- ◆ The tender/bid specifications.
- ◆ Unique technical support, including the level of high-level specialists.
- ◆ The BEE programme annual goals.
- ◆ Any other relevant factors.

(Lobelo, 2001)

4.3.1.4 Development programme

The object of the programme, is to direct the company's efforts to identify, develop and support SMME suppliers in the supplying of goods to the organization.

SMME suppliers which qualify as SMME suppliers, may benefit from the SMME development programme. The support includes, in appropriate circumstances, the following (Hugo *et al.*, 1999).

Price preference

A price preference may be considered by the organization when comparing quotations. The criteria of determining the price preference, are set out in the tables below.

Set-asides

Where appropriate set-asides may be set in part or in whole.

Payment cycles

A short payment cycle of not more than 10 working days after receipt of a valid invoice and proof of delivery or applicable documentation

Skills and Technology transfer

Training in areas such as finance, quality, technical and production.

Tender advice

Assistance in the tendering process designed to increase the capacity of SMME suppliers in doing business with the organization, is given.

4.3.1.5 Criteria for determining appropriate price preference

The organization considers price preference as a means of capacity building to SMME suppliers. Only Black SMME suppliers are eligible for consideration for a price preference in determining an appropriate price preference.

Contracts up to R5 million

The maximum price preference is 10% for contracts valued as up to R5 million and are awarded as follows (see Table 4.1 and 4.2 below).

Table 4.1 Price Preference for Contracts up to R5 million

Category	Price Preference
Black ownership of business entity exceeding 50%	4%
Black management control	2.5%
Black female ownership exceeding 50%	2.5%
2% of workforce disabled	1%
TOTAL	10%

Source: Anon, 2002

Contracts valued more than R5 million but below R25 million

The maximum price preference is 5% for contracts valued at more than R5 million but less than R25 million and is awarded as follows.

Table 4.2 on the next page

Table 4.2: Price Preference for Contracts valued at more than R5 million and less than R25 million

Category	Price Preference
Black ownership of business entity exceeding 50%	2%
Black management control	1.5%
Black female ownership exceeding 50%	1%
2% of workforce disabled	0.5%
TOTAL	5%

Source: Anon, 2002

Contracts valued more than R25 million

No price preference will be considered for contracts valued at more than R25 million. However, price matching with traditional suppliers, is considered.

4.3.2 Case Study: Organization B

4.3.2.1 Scope

The policy is aimed at maximizing purchases from Black Empowering suppliers. The purpose of such a policy is to promote entrepreneurship in disadvantaged communities and to give Black businesses access to the mainstream of business opportunities (Maelane, 2001).

While supporting Black suppliers in any sector of the economy, the organization concentrate its developmental efforts on black suppliers in the manufacturing, construction and mining/extraction sectors of the economy and on professional consulting services.

The directive forms the basis for a programme of procurement from Black suppliers implemented and managed by the organization. The programmes are commercially oriented, and as such must be differentiated from other organizations' programmes for BEE which have a social upliftment orientation.

The primary task of the procurement function in the organization remains unchanged, i.e. to find reliable, cost-effective suppliers for the enterprise.

4.3.2.2 Management commitment

The organization's management board and its senior managers as individuals, should be deeply committed to the direction given by them in this directive (Hugo *et al.*, 1999). The executive directors and senior general managers personally set the targets for purchases from SMME Suppliers and oversee the programmes implemented in each organization's group in order to ensure success. These executives also ensure that those involved in the programmes, have the needed human, financial and other resources. The success of the Black/SMME supplier Procurement Programme constitutes an important part of respective performance compacts.

4.3.2.3 Organization of the SMME supplier function

Management and co-ordination

The responsibility at corporate level for the management and co-ordination of corporate resources and of interfaces with the outside world, aimed at maximising the award of business to Black empowering suppliers, vests in the manager of the corporate commercial function within the organization.

Group and regional personnel

The responsibility at group level for the organisation of group resources and of interfaces with the outside world, aimed at maximising the award of business to black empowering suppliers, vests in the group executive director.

The group executive appoint or nominate a full-time group Black supplier manager, functionally responsible to the corporate Black supplier manager, to execute the group black supplier procurement programme as set out in the handbook for procurement from Black/SMME suppliers by the organization.

The handbook is augmented or superseded by business unit directives and procedures or handbooks, which must at least conform to the requirements of the directive.

The executive director also ensures that personnel responsible for the SMME supplier procurement programme with functional or line responsibility to the Black/SMME supplier manager, are deployed throughout the areas of activity of the group. These liaise closely with the local procurement functions.

Resources

Adequate funds and human resources are budgeted for and allocated to the SMME supplier procurement programme.

Performance measurement and reporting

The executive directors ensure that SMME supplier procurement is included in the performance appraisal of all affected personnel (procurement and operational).

Performance measurement and reporting requirements are set out in the handbook and in directives from management from time to time. The flow of information and reports are co-ordinated by the respective SMME supplier managers.

Key Performance Indicators are the following.

- ◆ Amount spent procuring goods or services from Black/SMME empowering suppliers.
- ◆ Expenditure on the SMME supplier procurement programme.

- ♦ Ratio between expenditure on the SMME supplier procurement programme and the amount spent procuring goods or services from Black/SMME empowering suppliers. A decreasing ratio over time would indicate good performance.
- ♦ The percentage of Black/SMME empowering suppliers who obtain repeat contracts.

Progress and performance in respect of the SMME supplier procurement programme, is fed back to personnel (Eskom Corporate Directives, 1999).

4.3.2.4 Supplier evaluation

When applying for registration as suppliers and when tendering to the organization, suppliers provide a statement of their ownership/control and internal BEE programme, which is used in supplier assessment and in assessing tenders along with technical and commercial offerings.

Any changes to the make-up of the tenderer or to their BEE Programme which occur after the tender closing date and time not taken into consideration, even if these were under consideration at the time of tendering.

Areas that receive specific attention are as follows.

- ♦ Black Ownership
- ♦ Black Management
- ♦ Skills transferred to Blacks/SMMEs
- ♦ Purchasing from Black empowering suppliers
- ♦ Other BEE Initiatives (RSA, 2000)

Small suppliers may request that the organization measure them according to the points system as set out in Table 4.3 below, rather than by the 50% ownership requirement, but this should be at the organization's own discretion.

The rating must be updated with every tender received, and used in evaluating the tenders, taking economic value to the organization and the economy at large into consideration.

The rating is also used in formal supplier performance appraisal meetings.

Table 4.3: Black Empowering Supplier Rating Criteria for Supplier and Tender Evaluation

CRITERIA	1 POINT	2 POINTS	3 POINTS
Ownership	10% - 19.9%	20% - 50%	> 50%
Management	10% - 19.9%	20% - 50%	> 50%
Skills Transferred	10% - 19.9%	20% - 50%	> 50%
BEE Procurement	5.0% - 9.9%	10% - 20%	>50%
Other BEE initiatives	Use discretion	Use discretion	Use discretion

Source: Own research

4.3.2.5 Black/SMME supplier procurement programme

The Black/SMME supplier procurement programme has a subsection devoted to Small Black Suppliers, which lends support to all SBSs and provides additional development aid to selected SBSs.

Support programme

Suppliers which qualify for classification as “small”, may benefit from SMME supplier support and development programme.

The organization support such SMMEs by:

- setting aside for SMMEs certain tenders in part or in whole;
- negotiating with SMMEs only using estimated costs as basis;
- ◆ permitting price-matching for a set-aside portion of certain tenders as stipulated in the enquiry;
- ◆ providing Tender Advice Centres or similar functions to provide assistance with tendering; and
- arranging for expedited payment to small and start-up Black suppliers, without deduction of settlement discount.

(Eskom Corporate Directives, 1999)

Support and development programme

Where the organization deems it necessary, the corporate and group supplier managers and other supplier development functions provide developmental assistance, primarily to Black/SMME suppliers in the manufacturing, construction and mining/extraction industries. This assistance is limited to previously disadvantaged suppliers.

A Black supplier must be 100% owned and managed by Black persons in

order to qualify for such additional developmental assistance. Development assistance is given for a period of not more than two years.

The developmental assistance is at the organization's discretion and may encompass, amongst others, the following:

- ♦ Giving advice and guidance, and arranging for training in areas such as quality, financial, procurement, marketing and production management.
- ♦ Assisting with negotiating financing arrangements with financial institutions.
- ♦ Assisting with negotiations to obtain materials at competitive prices from suppliers, or alternatively, to get free-issue materials from the organization.
- ♦ Supplying industrial/production engineering assistance to improve productivity.
- ♦ Assisting with strategy setting in order to ensure that the supplier develops fully and does not build dependency on the organization for its survival. Hugo *et al.* (1999:360) mentioned that SMME procurement programmes make small suppliers dependent on the enterprise rather than rendering them independent. Bailey *et al.* (1998:153) argued that this problem is not unique to small business procurement programmes; many small and large businesses are dependent on enterprises which buy their product. A good policy is to make small suppliers aware of such a danger and, once they are established, not to take up much of their capacity, and to help them to find other markets and to diversify

and find markets for other products.

Progression of SMME suppliers

Development assistance cannot be given to any SMME supplier for more than two years. If such supplier reaches the turnover threshold during the two-year development period, it will automatically be reregistered as a non-SMME supplier and lose all additional benefits afforded to small suppliers. To preclude any hardship, a transitional period of not longer than six months may be negotiated with the corporate or group Black supplier manager (Lindsey, 1990; Badenhorst, 1995).

If an enterprise no longer qualifies for support as a Black empowering supplier, due to the changed parameters set out, a time period for conformance or a phasing-out period may be negotiated with the organization. The period should not exceed six months or extend past the two-year development limit.

4.3.3 Case Study: Organization C

4.3.3.1 Scope

In order to promote Black Economic Empowerment within this organization, it was decided to adopt the government's 10 point procurement plan (The government of South Africa, through the Public Works Department came out with interim strategies to redress the imbalances that existed in the government tendering system. In 1995 the Public Works Department published a "Ten Point Plan" to address the historical imbalances in the interim (RSA, 1995B). This Plan's primary objective was to utilize the government purchasing power in the

development of SMMEs. It was directed at eliminating the obstacles that adversely affected the SMMEs, especially owned by Blacks, in supplying goods and services to the government), as depicted below:

- ◆ Access to tendering information
- ◆ Tender advice centres
- ◆ Reviewing procurement procedure for contracts less than R7 500
- ◆ Waiving of security/sureties
- ◆ Break-out procurement (packaging into smaller contracts)
- ◆ Early payment cycles
- ◆ Simplification of tender submission requirements
- ◆ Appointment of a procurement ombudsperson
- ◆ Classification of building and engineering contracts.

The 10 point plan developed by government, has been adopted to suit the organization's environment and to accommodate its own particular needs and goals (RSA, 1997). Some of these points will be discussed briefly.

Access to tendering information

Apart from the normal advertising mediums such as newspapers, the organization also advertises its tender information at no fewer than 25

institutions, which promotes easier access to suppliers and contractors from the previously disadvantaged communities.

Tender Advice Centres

BEE Managers are appointed in most of the major organizations' divisions and business units from whom prospective BEE/SMME suppliers and contractors can seek assistance with regard to the organizations' tendering procedures. Furthermore, tender briefing sessions or compulsory site meetings are arranged for all major tenders where BEE's are likely to be interested. At these briefing sessions or site meetings prospective tenderers are taken through the tender documents and are familiarized with the organization's requirements, the tender conditions, site conditions, scope of work, etc. Tender documents also indicate names and telephone numbers of contact persons regarding any uncertainties which may arise at the completion of the tender documents.

Relaxed procurement procedures for lower value contracts

The organization introduced two simplified standard contract documents (the Petty Contract and the Minor Works Contract), which may be used for projects of lower value and lower risk potential, to create entry levels for BEE/SMME contractors. As these suppliers develop and grow, they are gradually subjected to the larger projects where more comprehensive contract documents are used.

Waiver of securities/sureties

Depending on the scope of the work and the risks involved, the organization may decide to do away with, or relax the customary guarantee, deposit or retention money requirements.

Early payment cycles

Depending on the BEE enterprise's level of upliftment, the organization may decide to make special internal arrangements with regard to payment, e.g. weekly payments, payments not later than 15 days after date of invoice or delivery, or the cashing of cheques by non-account holders in consultation with the organization's bankers.

Preferences/targeting

The organization decided to give preference to suppliers/contractors from the previously disadvantaged communities. To this end, it introduced a BEE policy which is so designed, to create entry levels for PDI's to enter the mainstream economy. Other than government's policy which mainly focuses on shareholding or ownership, the organization also considers factors such as sub-contracting and joint ventures, employment equity, skills transfer and the SMME/BEE's own support of fellow SMME/BEE's for its own procurement requirements.

4.3.3.2 Requirements for a BEE supplier

The following seven criteria, also adopted from the government's procurement reform initiatives, determine whether a business enterprise

is regarded as a BEE in the true sense of the word (ABE – an Affirmable Business Enterprise) from the organization's point of view.

Legal entity

The organization prefers to do business with properly registered business enterprises.

The enterprise must be registered with the Department of Inland Revenue

The organization decided to partake in the government's BEE programme and to redress the imbalances of the past by creating opportunities for previously disadvantaged communities to enter the mainstream economy. Such enterprises must, however, also indicate their willingness to contribute to the economy and the prosperity and growth of the country as a whole.

Independent and continuing enterprise for profit

It must be a going concern who in the market is to provide a commodity or service and at a profit.

Provides a commercially useful function

The organization is dependent on external providers of goods and services, who may be positioned anywhere in the supply chain. For example, one might supply the raw material, another enterprise the manufacturing, and a third the packaging, transport and distribution.

At least two-thirds owned by one or more PDI's

It is accepted, that if two-thirds of a business is owned by members of the previously disadvantaged communities, those individuals would be able, by means of their majority vote, to sway business decisions towards their own goals and values.

Managed and controlled by one or more PDI's

The organization places a high premium on this dimension as a selection criterion.

4.3.3.3 Requirements for an established business enterprise: (Non BEE/SMME)

Since established businesses who have been advantaged by the previous dispensation, might want to contribute in their own way to redress the imbalances of the past, the organization also gives preference to established businesses who share its values, and who for example contribute in their own way in one or more of the following, or similar mechanisms.

- ◆ Subcontracting portions of the contract to BEE/SMME enterprises
- ◆ Obtaining materials, supplies and services from SMMEs e.g. fuel, transport and distribution, clothing, stationery, printing, etc.
- ◆ Obtaining manufactured articles from SMME manufacturers

- ◆ Engaging professional, technical or managerial service providers from previously disadvantaged communities
- ◆ Obtaining bonds and insurance from SMMEs
- ◆ Entering into joint venture partnerships with one or more SMMEs
- ◆ Implementing skills transfer programs with BEEs/SMMEs
- ◆ Administering employment equity programs at all levels of employment, including those in the management environment
- ◆ Implementing external and in-house training programs aimed at uplifting own staff from the previously disadvantaged communities

4.3.3.4 Meeting targets

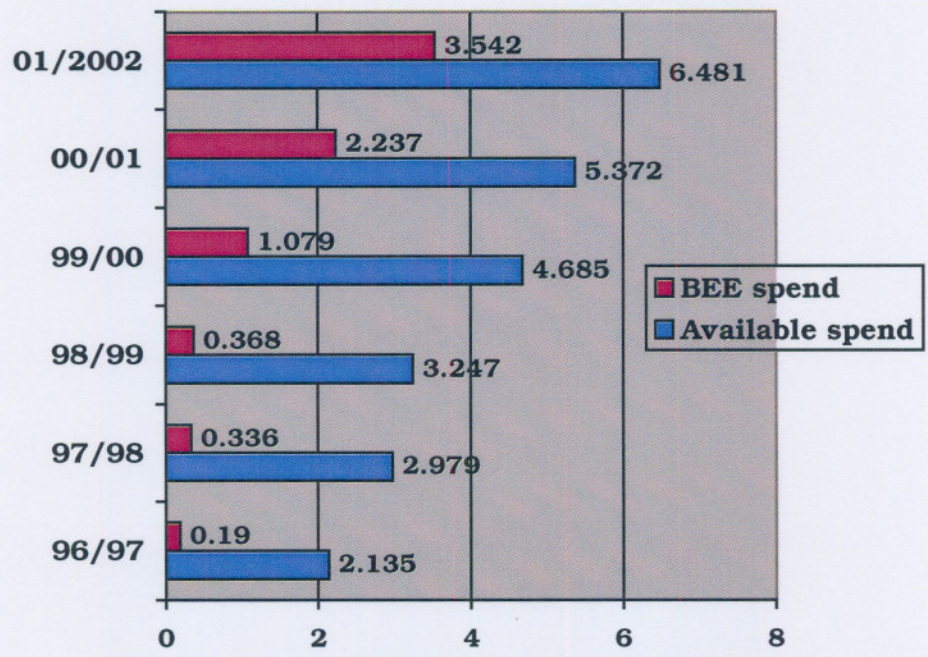
This organization has not only succeeded in attaining the BEE targets set by its shareholder (government), but has also substantially exceeded it. It started positioning its BEE programme soon after the election of April 1994. It was very clear from the outset that the focus was on the empowerment of businesses from the previously disadvantaged communities (Mkhwanazi, 2002).

The organization publicly committed itself to reach the target of 50% of available discretionary spend to BEE by the year 2005. This target was achieved during the financial year, 2002. However, this is a moving target as it is adjusted annually as the organization “grows” the size of available business, ie. discretionary spend; this is done by creating joint

ventures with local and international suppliers in areas where BEE enterprises did not previously exist.

Figure 4.2 illustrates how the BEE and discretionary spending has increased over the past number of years.

Figure 4.2 BEE and Discretionary Spending



Source: Mkhwanazi, 2002

The organization did away with the old single tender board and created no less than 12 different divisional tender boards, each with its own independent chairperson. Since the inception of these separate tender boards, Organization C has seen an increased SMME/BEE participation in its procurement. Purchasing from BEE/SMMEs increased from R190 million during the 96/97 financial year to R3.54 billion during the financial year, 1 April 2001 to 31 March 2002.

It has been the organization's experience throughout these years, that if its strong mission for empowerment is to be effectively driven, its procurement policies should have a very strong component emphasizing support for SMMEs and BEE development. Not only should policies be developed, but they should be properly executed and monitored. This policy development and monitoring are done through the organization's Group Tendering and Policy office.

The focus of procurement has indeed shifted from the paying of an automatic premium based on preference claims to continuous investigation and accreditation of potential suppliers. BEE participation in particular, is now being measured on genuine participation of PDIs in respect of aspects such as shareholding, coupled with financial decision-making and operations. Established businesses are further more encouraged to embrace SMMEs by means of joint-venture initiatives, sub-contracting, skills transfers, etc., while the organization often resorts to " set-asides" and unbundling of larger jobs which are particularly suited for the SMME/BEE.

BEE and procurement forums have also been set up to serve as centers for networking where procurement and BEE officials from the various organization's businesses, meet to discuss ways of promoting access to the organization's projects.

In addition to group targets, the organization also sets business unit goals. This helps to spread the available expenditure evenly and also helps to open up new opportunities for BEEs/SMMEs still trying to make breakthroughs into new areas.

BEE is the key to survival, in that it helps to create new suppliers as well as new consumers of the organization's services and goods, and that is why the organization views SMME/BEE growth as a strategic tool by which to grow their market share, sustain capitalism, eliminate poverty and hopefully, contribute positively to the lives of all South Africans. The organization acknowledges the sustained support of its valued established suppliers from across the procurement spectrum and it lauds the genuine efforts of some to play their part in the BEE initiative.

To ensure the protection and guidance of emerging SMMEs, the organization's divisions, business units and subsidiaries, as part of supporting the procurement policy, appointed "BEE Managers" whose sole job it is to facilitate business with SMMEs and BEE companies. The organization believes this should not be seen as a trend in the South African industry, but rather as a tool for the country to correct the inherited economic imbalances along racial lines.

They set targets for all its divisions and businesses in respect of each targeted group for empowerment. Having reached its 50% target in terms of BEE for the past financial year, its BEE focus area will now be:

- ◆ targeting those areas/sectors of the economy where spending is low or non-existent; and
- ◆ ensuring empowerment of the additional groups identified by the shareholder (government) in terms of the new framework document issued by the department of Public Enterprises, namely: Women Owned Business Enterprises (WBE), Disabled People-owned Business Enterprise (DPBE) and SMMEs in general.

The organization feels that the country needs more entrepreneurs, and in order to create this, it is committed towards supporting SMME. The total value of business awarded to the BEE/SMMEs alone, amounts, to approximately R568.75 million.

They assure all contenders for its business, that although certain bias is allowed in favour of a BEE enterprise, in accordance with government policy and constitution, this (preference) can easily be offset to promote a genuine BEE. This in turn can be achieved by virtue of Black shareholding, employment equity, skills transfer, joint venture, subcontracting, social investments, etc. Tenders are evaluated on numerous criteria, which include BEE as explained above, coupled with risk, quality, delivery, previous performance and locality.

4.4 CONCLUSION

Firms are not only pushed by social and legislative pressure to implement affirmative procurement programmes but they view it as an important tool for competitiveness. Most regard the issues of social equity, skills development and economic integration of previously disadvantaged people/businesses as paramount to South Africa's future. It is of critical importance that empowerment programmes should be seen not only as a trend in the South African industry but rather as a tool for the country to correct economic imbalances. The next chapter focuses on research findings.

CHAPTER 5

RESEARCH METHODOLOGY AND FINDINGS

5.1 INTRODUCTION

The aim of this chapter is to identify the methodology used in this research study, to provide a better and adequate insight of the basic methodological techniques, its application and what purpose it served towards acquiring the relevant data.

This chapter describes aspects and concepts such as population size, sampling, the data collection method, validity and reliability of the research study and statistical analysis. Research findings are also interpreted in this chapter.

A central part of research activity is, according to Churchill (1992:102), to develop an effective research strategy and plan. Churchill (1992:108) and Chisnall (1992:23) define research design as a framework or plan of a study that is used as a guide in ensuring that the information obtained, is relevant to the research problem. Struwig (1991:157) notes, that a properly planned research project, designed according to empirical requirements, should ensure that the purpose and objectives of a study are achieved.

Research methods refer to the systematic, focused and orderly collection of data for the purpose of obtaining information from it, to solve the research problems or questions (Ghauri *et al.*, 1995:83). The methods are different from those of the data collection technique.

Methods comprise data collection through a historical review and analysis, surveys, field experiments and case studies, while techniques comprise the step-by-step procedure followed to gather and analyze data to search for answers to the research questions. These are concerned more with how to do things, than with what to do or why to do it (Benett, 1986; Jankowitz, 1991). Research methodology can also be evaluated and interpreted according to the nature, scope and volume of particular research methods applied, which in turn, form part of the logic behind the methods that are applied within the research methodological field of study.

5.2 RESEARCH DESIGN

The research design is the overall plan according to which the researcher obtains the participants and collects information from these (Welman & Kruger, 1991). The focus is on the role of the participants, with a view to reaching conclusions about the research problem.

5.2.1 Problem Definition and Structure

Empirical research is conducted in order to find answers to research questions. According to Ghauri *et al.* (1991:26), choice of the research design is the overall strategic choice made with the purpose of coming up with an approach that allows for answering the research problem in the best possible way-within the given constraints. A research design should be effective in producing the wanted information within the constraints laid upon the researcher.

Choice of the research design can be conceived as the overall strategy to obtain the information wanted. These choices influence the subsequent

research activities, such as what data should be collected and how it should be collected. Data method will be discussed at a later stage.

The nature and problem of this particular study are clearly stated and defined in Chapter 1. The Vaal Triangle Area has long been considered South Africa's, "power house" hosting production plants of major players of the steel-minerals-energy complex (SMEC) such as ISCOR and SASOL, and their small subcontractors. Nevertheless, the once vibrant economy of the Vaal Triangle is currently struggling to adjust to the consequences of global competition. In particular the need to become internationally competitive as well as several government regulations (annexure C) provoked these large corporations to restructure, with the consequence of direct job losses in the Vaal region. These led authorities to adopt procurement programmes embracing SMMEs. These SMMEs find themselves suddenly exposed to lower demand levels, both in the regional and national markets and are subjected to increased pressure towards improving quality to international competitors. The purpose of this study is, therefore, to provide information to supporting structures of SMMEs about networking strategies, and to the procurement industry about the needs of/and roles played by SMMEs to the general economy of this region.

5.2.2 Objectives

5.2.2.1 Primary objective

The fundamental objective of this study, is to promote a mutual relationship through the procurement profession in the private and public sectors to embrace social investment as a common vision to redirect the economy towards one which is stable, which nurtures

empowerment and increases competitiveness of the SMMEs. (Refer to chapter 1, section 1.4.1)

5.2.2.2 Secondary objectives are to -

- ◆ promote locally owned businesses;
- ◆ build capacity for SMME's;
- ◆ improve service delivery and quality through interaction of both big and small, medium and micro enterprises; and
- ◆ ensure the implementation of procurement programmes.

(Refer to chapter 1, section 1.4.2)

5.3 POPULATION AND SAMPLING TYPES

Welman & Kruger (1999:46) defines, population as the study object which could be individuals, groups, organizations, human products and events, or the conditions to which they are exposed (i.e. a total group that eligible to participate in research). Population size, according to Ghauri *et al.* (1991:73) and Kothari (1995:69), is commonly denoted by N: if for example the size for the population is 550, then it is written as N=550

The size of the population usually makes it impractical and uneconomical to involve all the members of the population in a research project. It is, therefore, imperative to rely on the data obtained for a sample of the population. The size of the sample is indicated by n.

The population in this study constitute 550 manufacturing SMMEs with metalworking and the non-metallic minerals sub-sector dominating as manufacturing activities.

5.3.1 Sampling Frame

It is also known as the "Source List", from which samples are to be drawn. It contains the names of all items of the population (Kothari, 1995:69). Cooper & Schindler (1998:204) explain the sample frame as the listing of elements or units from which the actual sample will be drawn, While Welman & Kruger (1999:49) provided a descriptive dimension of sample a frame as a complete list on which each unit of analysis is listed only once. Unless a sampling frame is borne in mind, it is, in fact, impossible to judge the representativeness of the obtained sample property. The sample should, however, be representative of the sampling frame, which ideally is the same as the population, but which often differs due to practical problems relating to the availability of information.

The compilation of a satisfactory sampling frame presents problems in large scale survey research. Frequently, a list which is comprehensive and accurate for a particular population at a particular point in time, is simply not available. Some firms close up as a result of bankruptcy and some move to different localities, while some become more established and move out of this SMME bracket.

It is possible that biases could exist between the various viewpoints of the members within the population under investigation. However, it is assumed that the viewpoints of the population units within the boundaries of this specific research study. The sample frame used in the study, consists of all small manufacturing enterprises within the Vaal Triangle Metropolitan Area.

5.3.2 Sample Size

This refers to the number of items to be selected from a population to constitute a sample (Kothari, 1995; Lockhart & Russo, 1994). The size of the sample should neither be excessively large nor too small. It should be optimum, an optimum sample is one which fulfills the requirements of efficiency, is representative, reliable and flexible. A survey of 110 (one fifth) manufacturing SMMEs was undertaken. According to Cooper & Emroy (1995:206) the absolute size of a sample is more important than its size compared to the population, what matters most, is the precision needed by the researcher.

While deciding the size of the sample, the researcher determined the desired precision as also being an acceptable confidence level for the estimate. The size of the population variance was also taken into consideration and the parameters of interest in this study were kept in view. In determining the sample design, one must consider the question of the specific population parameters which are of interest. For instance, the researcher was interested in estimating the proportion of manufacturing SMMEs in the population, but a need also exist for information from other sectors.

Cooper & Schindler (1998:25) also identify the following principles and consideration to be taken into account when determining the desirable sample size.

- When determining the size of the sample, it is important to bear in mind the size of the population. In general, it holds that the smaller the population, the relatively larger the sample should be in order to ensure satisfactory results.

- ◆ The desired sample size does not depend on the size of the population only, but also on variables. As a general rule, the larger the variance of the variable, the larger the sample required.
- If each stratum of a highly heterogeneous population is relatively homogeneous, a relatively smaller stratified sample than that required for a random sample, may be sufficient. If the strata differ in size and heterogeneity, the next step will be to adjust the size if the respective samples are taken from them accordingly. The smaller and/or the more heterogeneous the stratum, the relatively larger the sample drawn from it should be;
- ◆ In determining sample size, it is important to bear in mind that the number of units of analysis from which usable data may be obtained, must be smaller than the number originally drawn. It may not be possible to trace several individuals; others may refuse to participate in the research, while still more may not provide all the necessary information or may not complete their questionnaires, so that their information may be discarded. Therefore, it is usually advisable to draw a larger sample than the one for which complete data are eventually desired.

5.3.3 Sampling Method

The stratified random sampling method was used to obtain research participants. This increased the sample's statistical efficiency and provided adequate data for analysis.

5.3.4 Response Rate

Seventy (70) SMME owner-managers of one-hundred and ten manufacturing SMMEs responded by completing and returning the questionnaires.

According to Fink (1998:87) all studies aim at a high response rate, however, no standard exists to assist the literature reviewer in deciding whether the aim has been achieved and, if not, the effect on the particular study's outcomes.

The response rate can be calculated by applying the following formula.

$$\text{Response rate} = \frac{\text{Number who responded}}{\text{Number eligible to respond}}$$

The response rate in this study is, therefore, 63.63%

5.4 DATA COLLECTION METHOD

5.4.1 Preliminary Study

As indicated in Chapter 1, a preliminary qualitative study was conducted and this helped in compiling the research questionnaires. The purpose of the preliminary study according to Welman & Kruger (1999:146), is to -

- ◆ detect possible flaws in the measurement procedure (such as ambiguous instructions, inadequate time limits, etc;

- identify unclear or unambiguously formulated items. Not only should the actual questions be put to the participants, but they should be asked to indicate how they interpreted the formulated questions; and
- ◆ allow the researcher to identify non-verbal behaviour.

The qualitative data involved conducting interviews with SMME owner-managers, officers from SMME supporting structures, such as Khula and Ntsika enterprise representatives, officers involved in empowerment programmes from different firms. Broad questions were asked. Respondents were also requested to comment on the clarity of the particular questions asked. It was found, that some of the questions were ambiguous. They were however, clarified during the main survey.

5.4.2 Questionnaire Design

Ghuri *et al.* (1995:58) briefly defines questionnaires as a data collection method and Parasuraman (1991:363) defines it as a set of questions designed to generate data necessary towards accomplishing a research project's objectives. Generally speaking a questionnaire is an aid of which the main objective is to the collection of data in an interview and other research methods.

Successful questionnaires take the respondent through the interview in such a way, that he or she finds it easy to give accurate answers to the questions. According to Hague (1993:41), there are eight rules that guide the framing of the questionnaire these are, in a nutshell to think about -

- the objectives of the survey;
- ◆ how the interview will be carried out;

- ◆ the knowledge and the interest of the respondents;
- ◆ the introduction;
- ◆ the order of the questions;
- ◆ the types of the questions;
- ◆ about the possible answers at the same time as thinking about the questions; and
- ◆ how the data will be processed.

When designing the questionnaire the researcher must ensure that questions are carefully constructed, because if they are not properly defined, then the survey is bound to fail. This requires the researcher to be aware of the following requirements.

General form

The general form of the questionnaire could be either structured or unstructured. Structured questionnaires are those in which there are definite, concrete and pre-determined questions. The questions are presented with exactly the same wording and in the same order to all respondents. Resort is taken to this sort of standardization in order to ensure that all respondents reply to the same set of questions.

The form of the questions may be either closed (i.e. the “yes” or “no” types), or open (i.e. inviting free response) but the nature should be stated in advance and not stated during questioning. Structured questionnaires may also have fixed alternative questions in which the response of the informants is limited to stated alternatives. Thus, a highly structured questionnaire, is one in which all questions and answers are specified and the comments in the respondent’s words are confined to the minimum. When these characteristics are not present in a questionnaire, it can be termed as its being either an unstructured or a

non-structured questionnaire. Structured questionnaires are simple to administer and relatively inexpensive to analyze.

Question sequence

In order to make questionnaire effective and to ensure quality to the replies received, a researcher should pay attention to the question sequence when preparing the questionnaire. A proper sequence of questions reduces considerably the chances of individual questions being misunderstood. The sequence must be clear and smoothly moving, meaning thereby, that the relation of one question to the other should be readily apparent to the respondent, with questions that are easiest to answer being put at the beginning. The first few questions are particularly important, because they are likely to influence the attitude of the respondent and in seeking his cooperation. The opening questions should be interesting.

The following types of opening questions are in general to be avoided.

- Questions that put too great a strain on the memory or intellect of the respondent
- Questions of a personal character
- Questions related to personal wealth

Question formulation and wording

It is important to the researcher to note, that each question is absolutely clear, for any sort of misunderstanding can do irreparable harm to a survey. Questions are impartial and do not give a biased picture of the true state of affairs. They are constructed with a view to their forming a

logical part of a well thought out tabulation plan. In general, all questions should meet the following requirements.

- ◆ They are easily understood
- ◆ The questions are simple, i.e. convey one thought at a time
- ◆ They are concrete and conform to the respondent's way of thinking

Most of the questions are multiple choice questions, with a few open-end questions. Reasons why many multiple choice questions are set, are that they are easy to handle, simple to answer, and quick and relatively inexpensive to analyze. They are most amendable to statistical analysis.

5.4.3 Measurement scale

Measurement is a process of mapping aspects of a domain onto another aspect of a range, according to some rule of correspondence. In measurement, a clear distinction is made between different classification of measurement scales, The following should be noted in this respect.

Nominal scale

It is simply a system of assigning number symbols to events in order to label them. It indicates no order or distance relationship and has no arithmetic origin. A nominal scale simply describes differences between things by assigning them to categories.

Ordinal scale

It places events in order, but there is no attempt to make the intervals of the scale equal in terms of some rule. The use of an ordinal scale implies

a statement of “ greater than” or “less than”, without our being able to state how much greater or less.

Interval scale

The intervals are adjusted in terms of some rule established as a basis for making the units equal. The units are equal only in so far as one accepts the assumptions on which the rule is based.

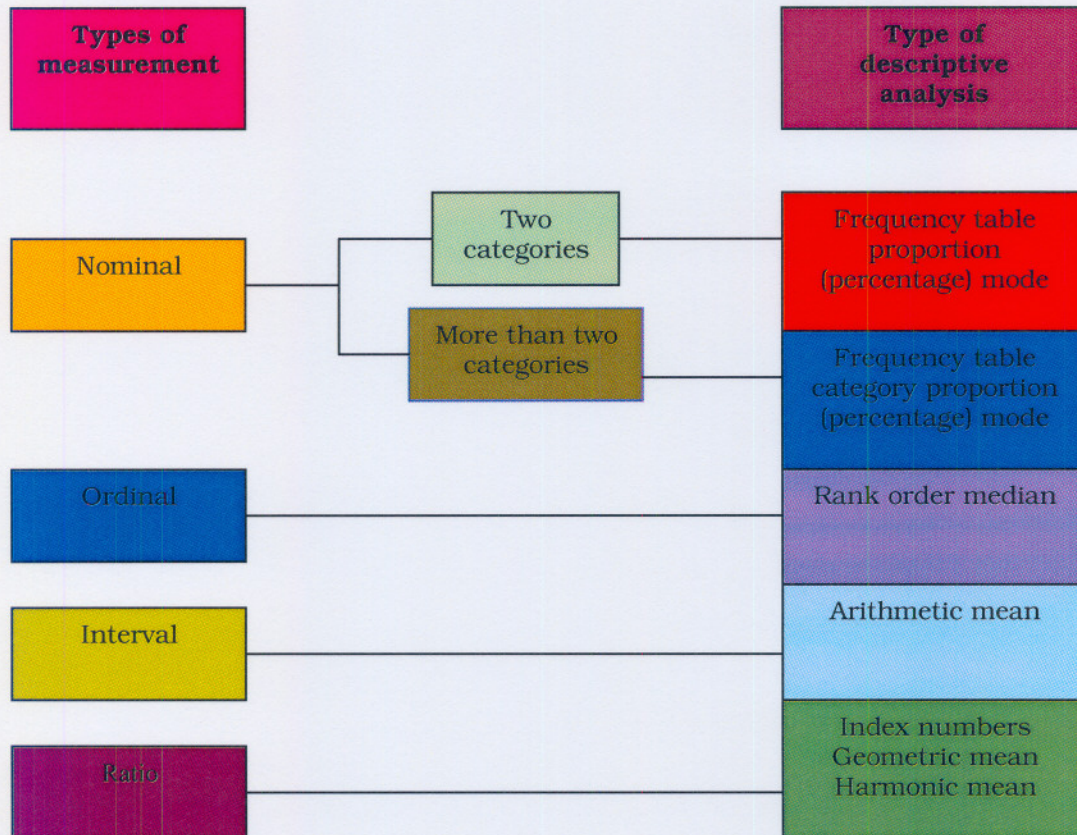
Ratio scale

It has an absolute or true zero of measurement. It represents the actual amounts of variables. It relates to the measurement of physical dimensions, such as weight, height, distance, etc. Generally, all statistical techniques are usable with ratio scales and all manipulations carried out with real numbers, can also be carried out with ratio scale values (Kothari, 1995:87).

Figure 5.1 and Table 5.1 below clearly illustrate the various scale types used during the application of descriptive statistics.

Figure 5.1 on the next page

Figure 5.1: Descriptive Statistics Permissible With Different Types of Measurement



Source: Zikmund, 2000:437

Table 5.1 on the next page

Table 5.1: Scale types

Type of scale	Numerical Operation	Descriptive Statistics
Nominal	Counting	Frequency in each category Percentage in each category Mode
Ordinal	Rank ordering	Median Range Percentage ranking
Interval	Arithmetic operation on intervals between numbers	Mean Standard deviation Variance
Ratio	Arithmetic operation on actual quantities	Geometric mean Coefficient of variation

Source: Zikmund, 2000:278

Note: All statistics appropriate for lower-order scales (nominal is the lowest), are appropriate for higher-order scales (ratio is the highest).

5.4.4 Processing and Analysis of Data

After collection the data have to be processed and analyzed in accordance with the outline as laid down for the purpose at the time of developing the research plan. This is important towards ensuring that all relevant data for making contemplated comparison and analysis are available.

Technically speaking, processing implies editing, coding, classification and tabulation of collected data so that they are amendable to analysis. Analysis according to Kothari (1995:151), refers to the computation of certain measures along with searching for patterns of relationship that exist among data groups.

Processing operations defined

- ◆ Editing

It is the process of examining the collected raw data in order to detect errors and omissions and to correct these when possible

- ◆ Coding

It refers to the process of assigning numerals or other symbols to answers so that responses can be put into a limited number of categories or classes.

- ◆ Classification

It is the process of arranging data in groups or classes on the basis of common characteristics.

- ◆ Tabulation

When massed data have been assembled, it becomes necessary for the researcher to arrange the same in some kind of concise and logical order. This procedure is referred to as tabulation. Tabulation is essential because of the following reasons.

- ◆ It conserves space and reduces explanatory and descriptive statements to a minimum
- ◆ It facilitates the process of comparison
- ◆ It facilitates the summation of items and the detection of errors and omissions
- ◆ It provides a basis for various statistical computations

Types of analysis

Analysis may be categorized as descriptive analysis and inferential analysis (inferential analysis is often known as statistical analysis). Descriptive analysis is largely the study of distribution of one variable (Cooper & Schindler, 2001:450) Inferential statistics are also known as sampling statistics, and are mainly concerned with the following two major types of problems.

- ◆ The estimation of population parameters
- ◆ The testing of a research problem

The important statistical measures used to summarize the survey/research data, are

- ◆ measures of central tendency or statistical average;
- ◆ measures of dispersion;
- ◆ measures of asymmetry (skewness);
- ◆ measures of relationship; and
- ◆ other measures.

Measures of Central Tendency

These measures tell us the point about which items have a tendency to cluster. Such a measure is considered as the most representative figure for the entire mass of data. Mean, median and mode are the most popular averages.

Mean, as the most common measure of central tendency may be defined as the value obtained by dividing the total of the values of various given items in a series by the total number of items. It is calculated as follows.

$$\text{Mean (or } \bar{X}) = \frac{\sum X_i}{n} = \frac{X_1 + X_2 + \dots + X_n}{n}$$

Where \bar{X} = the symbol used for mean (pronounced as X bar)

Σ = symbol for summation

X_i = value of the i th item $X, i = 1, 2, \dots, n$

n = total number of items

Median is the value of the middle item of series when it is arranged in ascending or descending order of magnitude. It divides the series into two halves; in one half all items are less than median, in the other half all items have values higher than median. It is calculated as follows:

$$\text{Median (M)} = \text{Value of } \left(\frac{n+1}{2} \right)^{\text{th}} \text{ item}$$

Mode in a distribution, is that item around which there is maximum concentration.

Measures of dispersion

These measures are used to measure the scatter. The following are important measures of dispersion.

♦ Range

It is the simplest possible measure of dispersion and is defined as the difference between the values of the extreme items of a series. Thus:

Range = (Highest value of an item in a series) – (Lowest value of an item in a series)

♦ Mean deviation

It is the average of difference of the values of items from some average of the series. Mean deviation is computed as follows.

Mean deviation = $\frac{\sum \{X_i - \bar{X}\}}{n}$, if deviations, $\{X_i - M\}$, are obtained from
from mean ($\delta\bar{X}$) arithmetic average

where δ = symbol for mean deviation (pronounced as delta)

X_i = i th values of the variable X

n = number of items

\bar{X} = Arithmetic average

M = Median

Z = Mode

♦ Standard deviation

It is the most widely used measure of dispersion of a series and is commonly denoted by the symbol ' σ ' (pronounced as sigma). Standard deviation is defined as the square-root of the average squares of deviations, when such deviations for the values of individual items in a series are obtained from the arithmetic average. It is calculated as follows:

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum (X_i - \bar{X})^2}{n}}$$

Measures of asymmetry (skewness)

It is a measure of asymmetry and shows the manner in which the items are clustered around the average. In a symmetrical distribution, the items show a perfect balance on either side of the mode, but in a skew distribution, the balance is thrown in one side.

Measures of relationship

In this section the search for a relationship between two and more variables is established. Cooper & Emroy (1995:447) state, that the most widely used non-parametric test of significance, is the Chi-square test of significance. The Chi-square test of significance seeks to answer whether there is a relationship between the two variables or whether this relationship has occurred by chance. Cooper & Emroy (1995:451) explains, that the Chi-square test is appropriate for a situation in which a test of differences between samples is required.

When this method is applied or used, the following are involved.

- ◆ Calculating a statistic (called the Chi-square statistic) that summarizes the difference between the two sets of data.
- ◆ Determining the degrees of freedom associated with a data set.
- ◆ Using these values and a table of the Chi-Square distribution so as to determine whether the calculated Chi-square statistic falls within the range which may easily have occurred by chance, as a result of sampling variation.

(Boyd *et al.*, 1981:432-438)

In this research, the 0.05 level of significance will be employed. Thus, if $p > 0.05$, it means that the Chi-square value is below that necessary for

achieving the 0.05 level of significance. If the p-value is > 0.05 it indicates, that there is no statistical significant difference between the variables and if p-value is < 0.05 , then there is a relationship between different variables in the population (Cooper & Emroy, 1995:446).

Other measures

◆ Index numbers

It is defined as a number which is used to measure the level of a given phenomenon as compared to the level of the same phenomenon at the same standard date.

◆ Time series analysis

Series of successive observation of given phenomenon over a period of time, are referred to as time series.

5.4.5 Validity and Reliability in Measurement

5.4.5.1 Validity

Ghauri *et al.* (1995:46) reports, that for a study to be meaningful, it is necessary to use reliable and valid measures of the variables being studied. The measures in this study would indicate questions in the questionnaire.

According to Cooper & Schindler (2001:211), validity is the extent to which the difference found with measuring tools reflect true difference among the respondents being tested.

According to Ghauri *et al.* (1995:49), the following types of validity can be identified,

- ◆ Internal validity

It refers to the extent to which we can infer that a causal relationship exists between two (or more) variables.

- Statistical conclusion validity

In order to prove a causal relationship (or a covariation), it must also be statistically significant.

- External validity

This relates to the extent to which findings can be generalized to particular persons, settings and times, as well as across types of persons, settings and times.

According to Cooper & Schindler (2001:213), validity can also include the following types. (Table 5.2 below outlines the summary of validity estimates).

- Criterion-Related validity

It reflects the success of measures used for the prediction or estimation. With this type of validity, the criterion may be a construct that one would logically expect to be associated with the new measure. Thus to establish the validity, the new measure should “converge” with other similar measures. A measure of a theoretical concept has convergent validity when it is highly correlated with different measures of similar constructs.

◆ Construct validity

It can be defined as the extent to which an operationalization measures the concepts which it purports to measure. Construct validity is necessary for meaningful and interpretable research findings and can be assessed in the following ways.

Face validity – it tells us to what extent the measure used seems to be a reasonable measure of what it purports to measure. A simple test for face validity is, to ask for the opinion of others acquainted with the actual topic.

Convergent validity – it tells us to what extent multiple measures and/or multiple methods yield similar (comparable) results. Correlational techniques are often used to assess convergent validity.

Divergent validity – it tells us to what extent a construct is distinguishable from other constructs.

Establishing construct validity, occurs during the statistical analysis of the data. In construct validity, the empirical evidence is consistent with the theoretical logic about the concept. To achieve construct validity, the researcher must have already determined the meaning of the measure by establishing what basic researchers call “convergent validity” and “discriminant validity”.

◆ Content validity

The content validity of a measuring instrument (the composite of measurement scales) is the extent to which it provides adequate coverage of the investigative questions guiding the study. If the instrument

contains a representative sample of the universe of the subject matter of interest, then content validity is good.

◆ Concurrent validity

It refers to the classification of criterion validity, whereby a new measure correlates with a criterion measure taken at the same time.

◆ Predictive validity

It refers to a classification of criterion validity whereby a new measure predicts a future event or correlates with a criterion measure administered at a later time. Table 5.2 (on page 161 below) presents the summary of validity estimates, as discussed above.

5.4.5.2 Reliability

Reliability and validity are major contributing factors for any research data. Kinnear & Taylor (1992:232) refers the reliability as the extent to which the measurement process is free from random error and that it is concerned with consistency, accuracy and predictability of the research findings. According to Ghauri *et al.* (1995) reliability refers to stability of the measure.

Two types of reliability are mentioned by Bryman & Cramer (1990:70), namely internal reliability and external reliability. External reliability is the most common and refers to the degree of consistency of a measure over time.

There are four commonly used strategies to assess reliability (See Table 5.3 on page 162 below).

- ◆ The test-retest method
- The alternate method
- The split-half method
- ◆ The internal consistency method

Table 5.2: Summary of Validity Estimates

Type	What is measured	Method
Content	Degree to which content of the items adequately represents the universe of all relevant items under study	Judgmental or panel evaluation, with content validity ratio
Criterion-related	Degree to which the predictor is adequate in capturing the relevant aspects of the criterion	Correlation
Concurrent	Description of the present; criterion data are available at same time as predictor scores	
Predictive	Prediction of the future; criterion data are measured after the passage of time	
Construct	Answers the question, "What accounts for the variance in the measure?" Attempts to identify the underlying construct(s) being measured and determines how well the test represents it (them)	Judgmental Correlation of proposed test with established one Convergent discrimination techniques Factor analysis Multitrate-multimethod analysis

Source: Cooper & Schindler, 2001:211

Table 5.3: Summary of Reliability Estimates

Type	Coefficient	What is measured	Methods
Test-retest	Stability	Reliability of a test or instrument inferred from examinee scores. Same test is administered twice to same subject over an interval of less than six months	Correlation
Parallel forms	Equivalence	Degree to which alternate forms of the same measure produce same or similar results. Administered simultaneously with a delay. Interrater estimates of similarity of judges' observations or scores	Correlation
Split-half KR20 Cronbach's alpha	Internal consistency	Degree to which instrument items are homogenous and reflect the same underlying construct(s)	Specialized correlational formulas

Source: Cooper & Schindler, 2001:216

In this study the internal consistency method is employed by calculating Cronbach's Alpha, to test the internal reliability of sections B and C of the questionnaire. Table 5.4 below indicates such alphas.

Table 5.4 on the next page

Table 5.4: Cronbach's Alpha for Section B and C of the Questionnaire

Question	Alpha	Average Alpha
B9	0.814	
B10	0.852	
B11	0.801	
B12	0.791	
B13	0.834	
B14	0.812	
B15	0.762	
B16	0.857	
B - ALPHA		0.815
C17	0.789	
C18	0.891	
C19	0.822	
C - ALPHA		0.834
Total		0.824

Source: Own research

The value of alpha depends on the number of items that make up the scale and the correlation in between (Frude, 1993:196). The overall value of alpha for Section B is 0.815 and that of C, is 0.834. Brymer & Cramer (1990:71) suggest the Cronbach's alpha greater than 0.8 to indicate internal reliability. To measure external reliability, would mean using the test-retest method and this could be very costly for this study.

5.4.6 The Importance of Validity and Reliability for Research

Martins *et al.* (1996:104) indicate, that the researcher must establish ways of collecting data that are both valid and reliable.

In many cases, instruments for collecting data can be checked for validity and reliability before they are actually put to use in a study. This is true, for example, of written tests, electronic and mechanical hardware, and rating scales. Often, reports contain descriptions of such

verification, including figures that display precisely how close the research tools come to theoretically perfect validity and reliability.

It is important to remember that standards of validity and reliability cannot be applied as simple absolutes. Given the complex nature of many research questions, reviewers often must ask, “ How much lack of confidence in the consistent truthfulness of the study is tolerable?” The resultant answer will be determined by many factors, but everyone, reviewers, editors, researchers, and readers – knows what is ideal. The researcher should come as close to producing reliably valid results as human skills and effort can be devised (Orna & Stevens, 1995:176).

5.5 RESEARCH FINDINGS

The preceding chapters have provided the theoretical background for this empirical research. The process of conducting the empirical research, has already been outlined. All the findings are related in tabular form and where possible, graphical illustrations have been made in order to enable a proper understanding of the findings.

The research questionnaire is divided into the following three different sections which enable the researcher to achieve the objectives set.

Section A: Business profile

Section B: Support services

Section C: Tendering

SECTION A: BUSINESS PROFILE

Question 1: What is your gender?

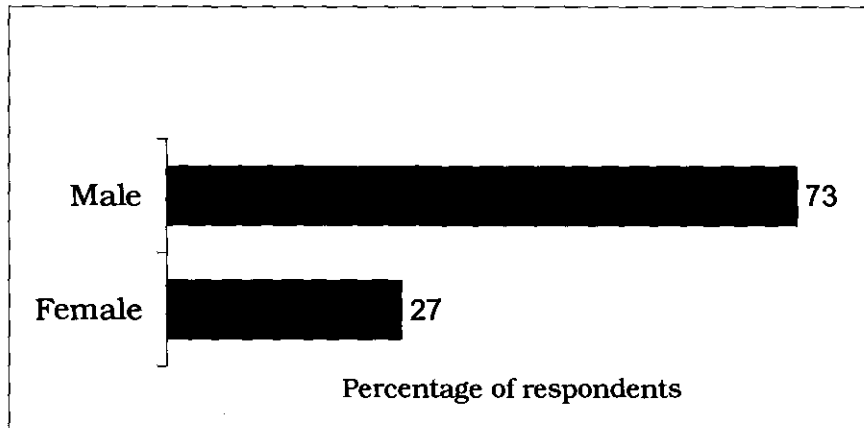
Table 5.5: Gender

Variable	Frequency	Percent	Cumulative frequency	Cumulative percent
Male	51	72.86	51	72.86
Female	19	27.14	70	100.00

Source: Own research

Table 5.5 above and Figure 5.2 below indicate, that most of the SMMEs in this study are dominated by males; 72.86% of owner managers are males.

Figure 5.2: Gender



Source: Own research

As indicated in Table 5.6 and Figure 5.3 below, 47.14% of owner-managers have secondary education and 35.71% have diplomas. Most

business people in this study are functionally literate. Only a small percentage have primary education. This information is important in determining the impact of education in the success or failure of SMMEs in this industry.

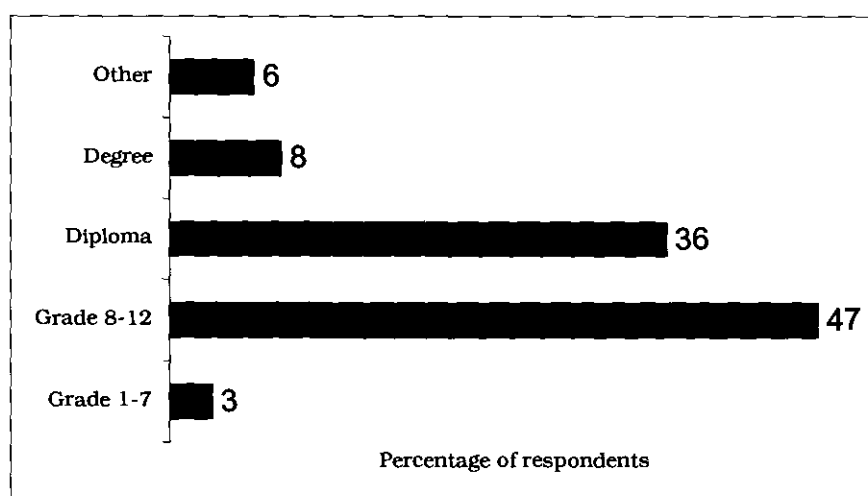
Question 2: What is the highest level of your education?

Table 5.6: The Level of Education

Variable	Frequency	Percent	Cumulative frequency	Cumulative percent
Grade 1-7	2	2.86	2	2.86
Grade 8-12	33	47.14	35	50
Diploma	25	35.71	60	85.71
Degree	6	8.57	66	94.29
Other	4	5.71	70	100.00

Source: own research

Figure 5.3: Level of Education



Source: Own research

Question 3: What form of ownership is your business?

Table 5.7: Form of Ownership

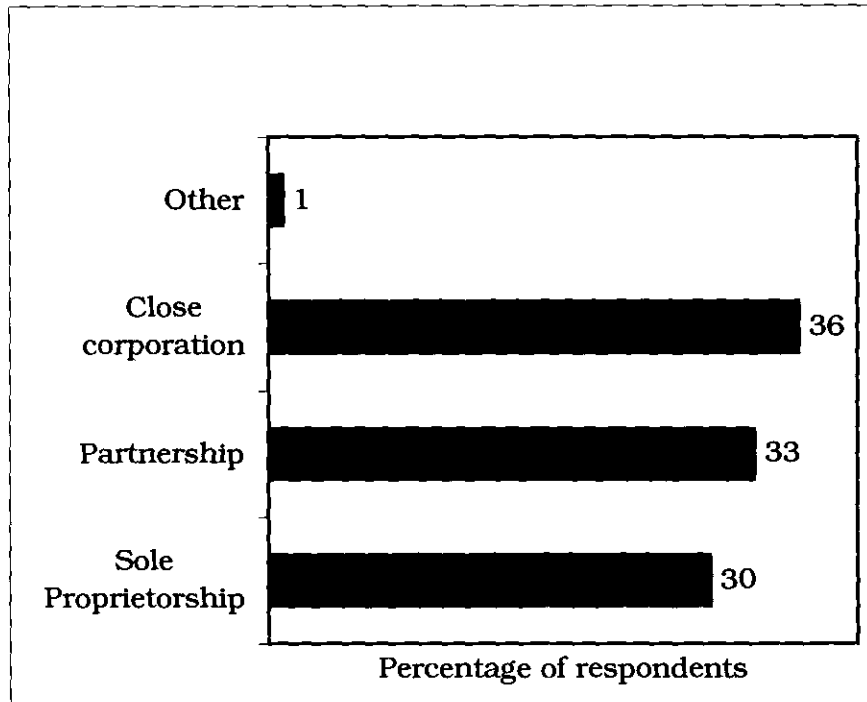
Variable	Frequency	Percent	Cumulative frequency	Cumulative percent
Sole Proprietorship	21	30.00	21	30.00
Partnership	23	32.86	44	62.86
Close Corporation	25	35.71	69	98.57
Other	1	1.43	70	100

Source: Own Source

From Table 5.7 above and Figure 5.4 below, it is clear that 30.00% of the respondents operate as sole proprietors, 32.86% as partnerships and 35.71% as close corporations. This could be attributed to the fact that legal formalities required for the establishment of these forms of ownership, are simple or non-existent. These forms of ownership are justified by the number of employees, about 86% employ 20 people at most and 84.29% have an annual turnover of less than R 1m. Tables 5.8 and 5.9 below illustrate the number of employees and the annual turnover respectively.

Figure 5.4 on the next page

Figure 5.4: Forms of Ownership



Source: Own research

Question 4: What is the estimated number of employees?

Table 5.8: The Total Number of Employees

Variable	Frequency	Percent	Cumulative frequency	Cumulative percent
1-5	39	55.71	39	55.71
6-20	22	31.43	61	87.14
21-50	7	10.00	68	97.14
51-200	2	2.86	70	100.00

Source: Own research

Question 5: What is the estimated annual turnover?

Table 5.9: The Estimated Annual Turnover

Variable	Frequency	Percent	Cumulative frequency	Cumulative percent
< R 1m	59	84.29	59	84.29
< R 4m	9	12.86	68	97.14
< R 10m	2	2.86	70	100.00
< R 40m	0	0	70	100.00

Source: Own source

Question 6: Is your business registered for Tax/UIF purposes?

Table 5.10: Business Registered for Tax

Variable	Frequency	Percent	Cumulative frequency	Cumulative percent
Yes	50	71.43	50	71.43
No	20	28.57	70	100.00

Source: Own source

From Table 5.10 above, it is clear that 28.57% of SMMEs in this study, are not registered for taxation. This could be because they operate to cover for their basic needs or perhaps they lack information. This is a clear indication that only the minority of owner-managers operate in the informal sector.

Question 7: Where is your business situated?

Table 5.11: The Location of the Business

Variable	Frequency	Percent	Cumulative frequency	Cumulative percent
Informal Settlement	14	21.21	14	21.21
Formal settlement	52	78.79	66	100.00

Source: Own research

From Table 5.11, it is encouraging to find, that 78.79% of firms are located in a formal settlement, this would mean, that they have an access to the basic infrastructure and other necessary services.

Question 8: In which manufacturing activity is your business involved?

Table 5.12 and Figure 5.5 below show that the activities dominating this sector are: clothing & textiles (22.03%), metal & allied (16.95%) and automotive (15.25%). The influence on steel could emanate from companies such as Iscor, the Food Can and Consolidated Wire Industry, etc. Other activities include footwear & leather (11.86%), arts & craft (10.17%), chemicals & plastic (10.17%), furniture (8.47%) and machinery & equipment (5.08%).

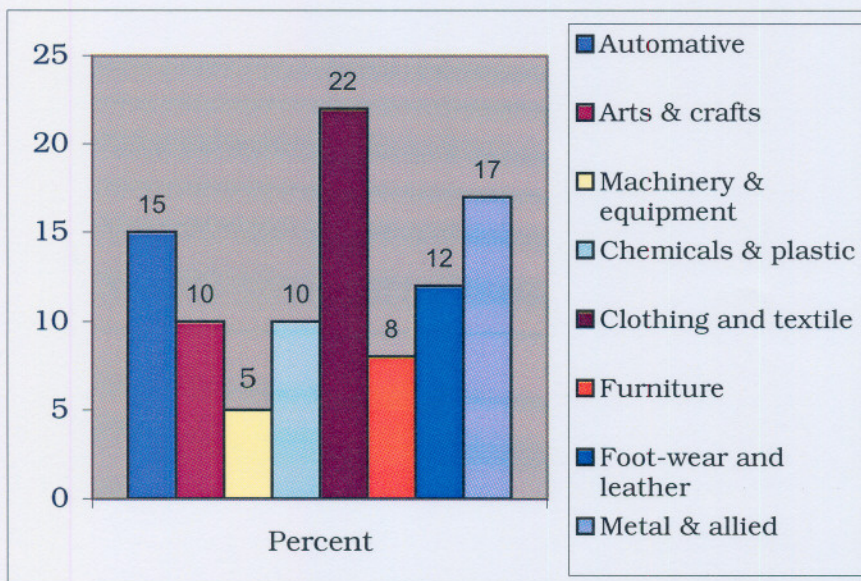
Table 5.12 on the next page

Table 5.12: The Manufacturing Activity of the Business

Variable	Frequency	Percent	Cumulative frequency	Cumulative percent
Automotive	9	15.25	2	2.85
Arts & crafts	6	10.17	5	7.13
Machinery & equipment	3	5.08	8	11.41
Chemicals & plastic	6	10.17	9	12.83
Clothing and Textile	13	22.03	30	42.83
Furniture	5	8.47	31	44.25
Foot-wear and leather	7	11.86	39	55.67
Metal and allied	10	16.96	70	100.00

Source: Own research

Figure 5.5: Business Manufacturing Activity



Source: Own research

SECTION B: INFORMATION ON SUPPORT SERVICES

Question 9: Do you have any information about the following support structures?

Table 5.13: Information About SMME Support Structures

Statement	% Yes	% No
Khula enterprise finance	41.43	58.57
Ntsika enterprise	31.43	68.57
Provincial SMME desk	20.00	80.00
Manufacturing Advisory Center	34.29	65.71

Source: Own Source

It is discouraging to find, that on average 68.21% of the respondents do not have knowledge of different SMME's support structures such as Khula, Ntsika and MACvaal, to name but the few. This could be the reason why local SMMEs have limited/no participation in a tendering process, as indicated in Table 5.23.

Question 10: What are the factors that hinder progress/development?

From Table 5.14 below, it is clear that 55.71% of the respondents consider financial support as an obstacle for development and 52.86% attribute market opportunities to a factor hindering progress. A small percentage of respondents regard education (22.86%) and infrastructure (24.29%) as minor problems, this is true, taking into account the fact that most businesses are situated in a formal settlement and owner-managers

are relatively literate. Experiencing problems with education, could be attributed to an irrelevant field of study and having infrastructural problems could be because respondents are situated in informal settlements, as indicated in Table 5.11.

Table 5.14: Factors that Hinder Progress/Development

Statement	% agree	% disagree
Lack of infrastructure	24.29	75.71
Lack of financial support	55.71	44.29
Lack of education	22.86	77.14
Lack of service provision	20.00	80.00
Lack of market opportunity	52.86	47.14
Lack of management skills	22.86	77.14

Source: Own research

Question 11:How do you improve employee and management skills?

Table 5.15: Improvement of Management Skills

Statement	% agree	% disagree
Attending sponsored courses on specialized topics	44.29	55.71
Making use of expert consultants	27.14	72.86
Information-sharing among firms	50.00	50.00

Source: Own research

Table 5.15 above shows, that 50.00% of the respondents share information amongst themselves in relation of improving their

managerial skills, 44.29% attend sponsored courses on specialized topics, while 27.14% improve their management skills by making use of expert consultants.

Question 12: What are firms' support needs?

Table 5.16: Firms' Support Needs

Statement	% agree	% disagree
Advisory services	40.00	60.00
Technological support	35.71	64.29
Information support	38.57	61.43
Assistance in setting quality and product standards	44.29	55.71
Computer application	20.00	80.00

Source: Own research

Firms were probed in relation of their most significant support needs, ranging from advisory services to computer application. Table 5.16 above shows the two most important issues as being advisory services (40%) and assistance in setting quality and product standards (44.29%).

An important point to note, is that 66.18% of respondents are receiving support for their needs, and mainly from the private sector. The statistics are reflected in Tables 5.17 and 5.18 below.

Question 13: Do you receive support as far as the firm's needs are concerned?

Table 5.17: Provision of the Firms' Support Needs

Variable	Frequency	Percent	Cumulative frequency	Cumulative percent
Yes	45	66.18	45	66.18
No	23	33.82	68	100

Note: Frequency missing = 2

Source: Own research

Question 14: Who provide support for your needs?

Table 5.18 Sectors that Provide Support for SMMEs

Variable	Frequency	Percent	Cumulative frequency	Cumulative percent
Private sector	32	53.33	32	53.33
Public sector	22	36.67	54	90.00
SMMEs service provider	6	10.00	60	10.00

Note: Frequency missing = 10

Source: Own research

Question 15: Do you have any business linkages with SMME support structures?

As indicated in Table 5.19 below, 75.71% of the respondents reported, that they do not have any form of business linkages, this would mean

that the support that SMMEs get from the private sector, could be attributed to social responsibility.

Table 5.19: Business Linkages

Variable	Frequency	Percent	Cumulative frequency	Cumulative percent
Yes	17	24.29	17	24.29
No	53	75.71	70	100.00

Source: Own research

Question 16: Are business linkages useful?

Table 5.20: Usefulness of Business Linkages

Variable	Frequency	Percent	Cumulative frequency	Cumulative percent
Yes	24	37.50	24	37.50
No	40	62.50	64	100.00

Note: Frequency missing = 6

Source: Own research

From Table 5.20 above, it is evident that 62.50% of the respondents who stated that they do have linkages in Table 5.19 do not find business linkages useful.

SECTION C: TENDERING

Question 17: What is your opinion with regard to information in a tender bulletin?

Table 5.21: Information in a Tender Bulletin

Statement	% agreed	% disagreed
Product or service specifications are clear and concise	72.86	27.14
Time for submission is adequate	57.14	42.86
Ease of compliance with specification	50.72	49.28
Ease of meeting delivery dates	60.87	39.13

Note: Frequency missing = 1

Source: own research

From Table 5.21 above, it is clear that 72.86% of the respondents agree, that product specifications are clear and concise, while 57.14% are relatively satisfied with the time available for submission, and 49.28% have difficulty in complying with specifications. A total of 60.87% prove to be competitive in relation of delivery schedule.

Question 18: What motivates you to tender?

Table 5.22 below, shows the following findings as reported.

- A total of 14.29% were encouraged by groupings of goods/services for awards, while 85.71% were not motivated by the groupings.

- ◆ A total of 47.14% were encouraged by the size of tender in quantities and Rand value, while 52.86% do not take quantities and Rand value as motivating factors.
- ◆ A total of 87.14% were not motivated by the criteria used.
- ◆ A total of 81.43% of respondents were not encouraged by the cost of preparing tender.
- ◆ Terms and conditions of tender documents is not a motivating factor, because 74.29% of the respondents responded negatively.
- ◆ “Payment terms” seems to be the only motivating factor, as 55.71% responded positively to this factor.
- Possible profit is not a consideration, only 38.57% of the respondents are motivated by profit.

Table 5.22: Factors Motivating Decision to Tender

Statement	% agreed	% disagreed
The grouping of goods/service for award	14.29	85.71
The size of tender in quantities and rand value	47.14	52.86
Criteria for evaluating tenders	12.86	87.14
Cost of preparing tenders	18.57	81.43
Terms and conditions of tender documents	25.71	74.29
Payment terms	55.71	44.29
Possible profits	38.57	61.43

Source: Own source

Question 19: What limits your participation in a tendering process?

The statements below were given to respondents in order to indicate which of these factors limit their participation in the tendering process. Percentages of those who agreed and disagreed, are indicated in Table 5.23 below.

Table 5.23: Factors Limiting Participation in a Tendering Process

Statement	% agreed	% disagreed
Competition	54.29	45.71
Inadequate profit margin	21.43	78.57
Selection criteria	32.86	67.14
Specifications are difficult to comply with	20.00	80.00
Financial guarantees are cumbersome	35.71	64.29
Costs of tendering	28.57	71.43
Inadequate tender information	32.86	67.14
Terminology used	25.71	74.29
Specifications are not clear	24.29	75.71
Time to tender is too short	28.57	71.43

Source: Own research

5.6 CORRELATION RESULTS

The Chi-square test is used to compare different categories of business profile with regard to factors that hinder progress, as well as factors limiting participation of the tender process.

In each case a table of relevant statistics is presented, followed by an interpretation in terms of the research objectives.

Business profile variables include the following.

- ◆ Form of business ownership
- ◆ Type of business activity

Factors hindering progress, include a lack of -

- ◆ infrastructure
- ◆ financial support
- ◆ education
- ◆ service provision
- ◆ market opportunities
- ◆ management skills

Factors limiting participation in the tendering process, include the following.

- ◆ Competition
- ◆ Inadequate profit margin
- ◆ Selection criteria used
- ◆ Specification that are difficult to comply
- ◆ Cumbersome financial guarantees
- ◆ Tendering costs
- ◆ Inadequate tender information
- ◆ Terminology used
- ◆ Short time of tendering

Table 5.24: Form of Ownership/Business Activity by Lack of Infrastructure

Variable	% Yes	% No	Statistic Chi-square
Form of ownership			0.26
Sole Proprietorship	8.57	21.43	
Partnership	11.43	21.43	
Close Corporation	4.29	31.43	
Manufacturing Activity			0.17
Automotive	3.39	11.86	
Arts & crafts	3.39	6.78	
Machinery & Equipment	0.00	5.08	
Chemicals & plastic	0.00	10.17	
Clothing and textile	8.47	13.56	
Furniture	0.00	8.47	
Footwear and leather	0.00	11.86	
Metal and allied	6.78	10.17	

Source: own research

Table 5.24 above, indicates that the Chi-square test of significance has the p value of > 0.05 , this leads to conclusion, that there is no statistically significant difference between the business categories. Most forms of ownership agree, that lack of infrastructure is not a major problem to the success of the business.

In terms of business activity, similar results can be made about the impact of infrastructure on business development.

Table 5.25: Form of Ownership/Business Activity by Lack of Financial Support

Variable	% Yes	% No	Statistic Chi-square
Form of ownership			0.27
Sole Proprietorship	20.00	10.00	
Partnership	14.29	18.57	
Close Corporation	21.43	14.29	
Manufacturing Activity			0.51
Automotive	10.17	5.08	
Arts & crafts	1.69	8.47	
Machinery & Equipment	1.69	3.39	
Chemicals & plastic	5.08	5.08	
Clothing and textile	13.56	8.47	
Furniture	3.39	5.08	
Footwear and leather	8.47	3.39	
Metal and allied	10.17	6.78	

Source: Own research

As indicated in the Table 5.25 above, 20% of Sole Proprietorship, 14.29% of Partnership and 21.43.% of Close Corporation, have equal degrees of difficulty with financial support. In terms of business activity, those that dominate the industry (i.e automotive, clothing and textile, footwear and leather, as well as metal and allied) are also experiencing the same degree of difficulty as far as funds are concerned. The Chi-square test of significance as reflected by p value of > 0.05 , leads to the conclusion, that there is no significant statistical difference between the variables; form of ownership/business activity and lack of financial support.

Table 5.26: Form of Ownership/Business Activity by Lack of Education

Variable	% Yes	% No	Statistic Chi-square
Form of ownership			0.39
Sole Proprietorship	5.71	24.29	
Partnership	11.43	21.43	
Close Corporation	5.71	30.00	
Manufacturing Activity			0.87
Automotive	5.08	10.17	
Arts & crafts	1.69	8.47	
Machinery & Equipment	1.69	3.39	
Chemicals & plastic	0.00	10.17	
Clothing and textile	6.78	15.25	
Furniture	1.69	6.78	
Footwear and leather	3.39	8.47	
Metal and allied	5.08	11.86	

Source: Own research

A total of 24.29% of sole proprietors and 21.43% of partnerships, disagree that education hinders progress/development, also those that dominate the industry (e.g. 10.17% of automotive, 11.86% of metal and allied) answer negatively to education.

It is true, as indicated in Table 5.6 that most owner-managers possess secondary education qualifications and diplomas. The computerized Chi-square test indicates the p value of > 0.05 , this shows, that there is no significant statistical difference between the variables.

Table 5.27: Form of Ownership/ Business Activity by Provision of Services

Variable	% Yes	% No	Statistic Chi-square
Form of ownership			0.49
Sole Proprietorship	5.71	24.29	
Partnership	10.00	22.86	
Close Corporation	2.86	32.86	
Manufacturing Activity			0.66
Automotive	3.39	11.86	
Arts & crafts	1.69	8.47	
Machinery & Equipment	0.00	5.08	
Chemicals & plastic	1.69	8.47	
Clothing and textile	8.47	13.56	
Furniture	0.00	8.47	
Footwear and leather	1.69	10.17	
Metal and allied	3.39	13.56	

Source: Own source

For many SMME managers the provision of services has never been a problem that hinders progress. Only 5.71% of sole proprietors, 10% of partnership and 2.86% of close corporations, agreed that the degree of service has a negative impact on business development. A total of 11.86% automotive, 13.56% of clothing and textile, and 13.56% of metal and allied, disagree that service provision is a hindering factor.

The Chi-square test indicates the p value of > 0.05 . It leads to the conclusion, that there is no significant statistical difference between variables.

Table 5.28: Forms of Ownership/Business Activity by Market Opportunities

Variable	% Yes	% No	Statistic Chi-square
Form of ownership			0.10
Sole Proprietorship	18.57	11.43	
Partnership	11.43	21.43	
Close Corporation	22.86	12.86	
Manufacturing Activity			0.82
Automotive	8.47	6.78	
Arts & crafts	3.39	6.78	
Machinery & Equipment	3.39	1.69	
Chemicals & plastic	3.39	6.78	
Clothing and textile	13.56	8.47	
Furniture	5.08	3.39	
Footwear and leather	8.47	3.39	
Metal and allied	8.47	8.47	

Source: Own source

From the data in Table 5.28 above, the Chi-square test of significance as reflected by the value $p > 0.05$, leads to the conclusion, that there is no statistical significance between the form of ownership/business profile and lack of market opportunity. A total of 18.57% sole

proprietorship, 11.43% of partnerships and 22.86% of close corporation agree, that market opportunities is one of the factors hindering progress.

The same can be said in relation of firms engaged in different activities. All of them responded positively to this question.

Table 5.29: Forms of Ownership/Business Activity by Management Skills

Variable	% Yes	% No	Statistic Chi-square
Form of ownership			0.95
Sole Proprietorship	7.14	22.86	
Partnership	7.14	25.71	
Close Corporation	8.57	27.14	
Manufacturing Activity			0.96
Automotive	3.39	11.86	
Arts & crafts	1.69	8.47	
Machinery & Equipment	1.69	3.39	
Chemicals & plastic	1.69	8.47	
Clothing and textile	5.08	16.95	
Furniture	0.00	8.47	
Footwear and leather	1.69	10.17	
Metal and allied	3.39	13.56	

Source: Own research

The computerized Chi-square test as calculated in Table 5.29 above shows the value $p > 0.05$. This is an indication, that there is no significant statistical difference between the variables.

A total of 22.86% of sole proprietors, 25.71% of partnership and 27.14% of close corporations, do not agree that management skills have an effect on business development. This is because the level of education owner-managers have. A total of 11.86% of automotive, 16.95% of clothing and textile, and 13.56% of metal and allied, are of the opinion, that management skills is not a problem.

Table 5.30: Form of Ownership/Business Activity by Competition

Variable	% Yes	% No	Statistic Chi-square
Form of ownership			0.11
Sole Proprietorship	10.00	20.00	
Partnership	20.00	12.86	
Close Corporation	22.86	12.86	
Manufacturing Activity			0.61
Automotive	11.86	3.39	
Arts & crafts	5.08	5.08	
Machinery & Equipment	3.39	1.69	
Chemicals & plastic	8.47	1.69	
Clothing and textile	11.86	10.17	
Furniture	5.08	3.39	
Footwear and leather	5.08	6.78	
Metal and allied	6.78	10.17	

Source: Own research

As indicated in the above table, the Chi-square test of significance, as reflected in the value $p > 0.05$, leads to the conclusion, that there is no statistically significant difference between the variables. A total of 10% of

sole proprietorship, 20% of partnership and 22.86% of close corporation agree, that competition is the factor that limits participation in a tendering process.

In terms of business activity (11.86%), clothing and textile, 11.86% of automative and 6.78% of metal and allied, experience problems with competition.

Table 5.31: Form of Ownership/Business Activity by Inadequate Profit Margin

Variable	% Yes	% No	Statistic Chi-square
Form of ownership			0.25
Sole Proprietorship	5.71	24.29	
Partnership	11.43	21.43	
Close Corporation	4.29	31.43	
Manufacturing Activity			0.19
Automative	1.69	13.56	
Arts & crafts	5.08	5.08	
Machinery & Equipment	0.00	5.08	
Chemicals & plastic	3.39	6.78	
Clothing and textile	6.78	15.25	
Furniture	0.00	8.47	
Footwear and leather	0.00	11.86	
Metal and allied	6.78	10.17	

Source: Own research

Table 5.31 above shows that 5.71% of sole proprietorship are of the opinion, that an inadequate profit margin, is a limiting factor in relation

of participation of the tender process. A total of 11.43% of partnerships also have problems with profit, whilst 4.29% of close corporation believe, that an inadequate profit margin exist.

On the other hand, a very small percentage of businesses in terms of activity criteria agree, that an inadequate profit margin is a limiting factor in a tendering process. In terms of the Chi-square test, as reflected by the value $p > 0.05$, leads to the conclusion, that there is no statistically significant difference between the variables.

Table 5.32: Form of Ownership/Business Activity by Selection Criteria Used

Variable	% Yes	% No	Statistic Chi-square
Form of ownership			0.76
Sole Proprietorship	10.00	20.00	
Partnership	12.86	20.00	
Close Corporation	28.00	72.00	
Manufacturing Activity			0.35
Automotive	8.47	6.78	
Arts & crafts	1.69	8.47	
Machinery & Equipment	3.39	1.69	
Chemicals & plastic	1.69	8.47	
Clothing and textile	6.78	15.25	
Furniture	1.69	6.78	
Footwear and leather	1.69	10.17	
Metal and allied	8.47	8.47	

Source: Own research

The Chi-square test of significance, as reflected by the value $p > 0.05$ leads to the conclusion, that there is no statistically significant difference between the variables, form of ownership, business activity and selection criteria used.

A total of 10% of sole proprietorship, 12.86% of partnership and 28% of close corporation agree, that selection criteria used, always constitute a problem that limits the participation in a tendering process.

A total of 8.47% of automotive, 6.78% of clothing and textile, and 8.47% of metal and allied regard unfair selection criteria as a factor that limits participation.

Table 5.33: Form of Ownership/Business Activity by Specifications

Variable	% Yes	% No	Statistic Chi-square
Form of ownership			0.79
Sole Proprietorship	5.71	24.29	
Partnership	8.57	24.29	
Close Corporation	5.71	30.00	
Manufacturing Activity			0.76
Automotive	1.69	13.56	
Arts & crafts	1.69	8.47	
Machinery & Equipment	1.69	3.39	
Chemicals & plastic	3.39	6.78	
Clothing and textile	6.78	15.25	
Furniture	1.69	6.78	
Footwear and leather	0.00	11.86	
Metal and allied	3.39	13.56	

Source: Own research

The computerized Chi-square test in the above table, reflects the calculated value $p > 0.05$. This is an indication, that there is no relationship between variables.

A total of 5.71% of sole proprietorship, 8.57% of partnerships and 5.71% of close corporations consider unclear specifications as a factor limiting participation in a tender process. On the other hand most, of the firms in terms of business activity criteria, do not agree to the fact that specification is a problem.

Table 5.34: Form of Ownership/Business Activity by Financial Guarantees

Variable	% Yes	% No	Statistic Chi-square
Form of ownership			0.84
Sole Proprietorship	10.00	20.00	
Partnership	11.43	21.43	
Close Corporation	14.29	21.43	
Manufacturing Activity			0.07
Automotive	3.39	11.86	
Arts & crafts	0.00	10.17	
Machinery & Equipment	3.39	1.69	
Chemicals & plastic	6.78	3.39	
Clothing and textile	5.08	19.95	
Furniture	3.39	5.08	
Footwear and leather	8.47	3.39	
Metal and allied	8.47	8.47	

Source: Own research

From the above table, the Chi-square test of significance as reflected by the value $p > 0.05$ leads to the conclusion that there is no statistically significance between variables.

A total of 10% of sole proprietorship, 11.43% of partnerships and 14.29% of close corporations believe, that financial guarantees are cumbersome; this as a result limits participation in the tendering process.

In terms of business activity criteria, 6.78% of chemicals, 5.08% of clothing and textile, 8.47% of footwear and leather and 8.47% of metal and allied, also believe, that financial guarantees are cumbersome.

Table 5.35: Forms of Ownership/Business Activity by Costs of Tendering

Variable	% Yes	% No	Statistic Chi-square
Form of ownership			0.36
Sole Proprietorship	8.57	21.43	
Partnership	7.14	25.71	
Close Corporation	11.43	24.29	
Manufacturing Activity			0.41
Automotive	5.08	10.17	
Arts & crafts	1.69	8.47	
Machinery & Equipment	3.39	1.69	
Chemicals & plastic	3.39	6.78	
Clothing and textile	10.17	11.86	
Furniture	1.69	6.78	
Footwear and leather	1.69	10.17	
Metal and allied	1.69	15.25	

Source: Own research

The Chi-square test of significance, as reflected by the value $p > 0.05$ above, leads to the conclusion, that there is no statistical significance between the variables.

A total of 8.57% of sole proprietorship, 7.14% of partnerships and 11.43% of close corporations all agree, that the tendering costs have a significant effect on the tendering process. The same opinion is shared by different businesses involved in different manufacturing activities: 5.08% of automotive, 10.17% of clothing and textile.

Table 5.36: Forms of Ownership/Business Activity by Inadequate Tender Information

Variable	% Yes	% No	Statistic Chi-square
Form of ownership			0.36
Sole Proprietorship	10.00	20.00	
Partnership	7.14	25.71	
Close Corporation	15.71	20.00	
Manufacturing Activity			0.75
Automotive	3.39	11.86	
Arts & crafts	1.69	8.47	
Machinery & Equipment	1.69	3.39	
Chemicals & plastic	3.39	6.78	
Clothing and textile	6.78	15.25	
Furniture	5.08	3.39	
Footwear and leather	1.69	10.17	
Metal and allied	6.78	10.17	

Source: Own research

As indicated in the table above, the Chi-square test of significance, as reflected by the value $p > 0.05$, leads to the conclusion that there is no statistically significant difference between the business categories.

Different forms of ownership 10% of sole proprietorship, 7.14% of partnership and 15.71% close corporation experience the same degree of difficulty in obtaining tender information.

A total of 3.39% of automotive, 6.78% of clothing and textile, as well as 6.78% metal and allied, believe that tender information is inadequate.

Table 5.37: Form of Ownership/Business Activity by Terminology Used

Variable	% Yes	% No	Statistic Chi-square
Form of ownership			0.16
Sole Proprietorship	7.14	22.86	
Partnership	11.43	21.43	
Close Corporation	5.71	30.00	
Manufacturing Activity			0.75
Automotive	3.39	11.86	
Arts & crafts	0.00	10.17	
Machinery & Equipment	1.69	3.39	
Chemicals & plastic	3.39	6.78	
Clothing and textile	6.78	15.25	
Furniture	1.69	6.78	
Footwear and leather	1.69	10.17	
Metal and allied	6.78	10.17	

Source: Own research

According to the chi-square test of significance in table above, the value $p > 0.05$ indicates, that there is no statistically significant relationship between different variables.

A total of 7.14% of sole proprietorship, 11.43% of partnership and 5.71% of close corporation, have problems in understanding terminology used in a tender bulletin. A total of 6.78% both clothing and textile, as well as metal and allied, believe, that terminology used, is problematic.

Table 5.38: Form of Ownership/Business Activity by Tendering Time

Variable	% Yes	% No	Statistic Chi-square
Form of ownership			0.78
Sole Proprietorship	7.14	22.86	
Partnership	11.43	21.43	
Close Corporation	10.00	25.71	
Manufacturing Activity			0.75
Automotive	1.69	13.56	
Arts & crafts	3.39	6.78	
Machinery & Equipment	3.39	1.69	
Chemicals & plastic	3.39	6.78	
Clothing and textile	6.78	15.25	
Furniture	1.69	6.78	
Footwear and leather	3.39	8.47	
Metal and allied	6.78	10.17	

Source: Own research

As indicated in the table above, the Chi-square test of significance reflects the value of $p > 0.05$; this is an indication, that there is no statistically significant relationship between different variables.

A total of 7.14% of sole proprietorship, 11.43% of partnerships and 10% of close corporations have the same problem level in relation of time allowed for tendering.

A total of 1.69% of automotive and furniture, 3.39% of arts and crafts, of machinery and equipment, of chemicals and plastic, of footwear and leather, 6.78% of clothing and textile, as well as of metal and allied, agree, that they are not given enough time to prepare tender documents.

5.7 CONCLUSION

This chapter outlines the research procedures used to obtain the necessary information for the study. Preliminary data analysis was conducted, this familiarizes the researcher with the problem.

All data necessary for the research, were collected by means of distributing questionnaires to respondents and the results were presented in tabular form and where possible, with graphs for easy reading and understanding. The descriptive analysis consists of frequency distributions of the responses to all sections of the questionnaire.

The researcher is satisfied with the response rate of 63.63%. This rate is considered sufficient to regard this study to be valid and reliable. An overall conclusion of the empirical result, is that the procurement profession is an important instrument to direct the economy towards one

which is stable, which nurtures empowerment and which improves competitiveness of manufacturing SMMEs.

The final chapter will discuss the achievement of the primary and secondary objectives in this study, make recommendations and suggest possible related future research studies.

CHAPTER 6



6.1 INTRODUCTION

In this chapter the focus is on the conclusions reached and the presenting of recommendations that could benefit the SMME economy and the procurement industry.

The literature study covers, among others, issues relating to public procurement, legislative framework pertaining to procurement policies, and affirmative procurement. The final step constitutes a review of the implementation of procurement programmes by different firms.

6.2 LITERATURE STUDY

In recent years, the economies of most countries have gone through structural changes, these changes were caused by transition process (i.e. transition from one socio-economic condition to another). A socio-economic shift from central economic planning to an open market system, has led to changes in institutional behaviour, behaviour of businesses and people (Grbac, 2001:1). In South Africa, the globalization of markets caused firms to continually search for ways to remain competitive. In such an environment, procurement has emerged as a critical area for a firm to achieve its strategic goals.

The major challenge facing the formal industrial sector (both private and public) in regard to their procurement policies, is how to embrace the unique aspect of the South African economy, without compromising on high delivery criteria for goods and services.

Small manufacturing enterprises in, the VTMA are operating on the fringes of the mainstream economy, dominated by large players. It is important but very difficult for these businesses to break into the major markets.

Therefore, the general goal should then be to foster a synergistic relationship between the public and private sectors in order to embrace social investment as a common vision towards directing the economy towards one which is stable, which nurtures empowerment and which improves competitiveness.

In chapter two the commitment of the government in support of SMMEs has been articulated. The release of the Green Paper on Public Procurement (annexure D) exposed the government's ideas on the subject to a public scrutiny and debate. This resulted in the design and the adoption of new and comprehensive procurement legislation (annexure C). The promulgation of the National Small Business Enabling Act (annexure E) also demonstrated such commitment by the government. The government through this legislation contributed to accelerated progress and led to participation among all firms, through legislating conditions and principles relating to set-asides procedures, non-discriminatory public sector purchasing and incentives for big companies sub-contracting to SMMEs.

This chapter also touches on an important issue of government support programmes for empowerment. Operational empowerment describes the variety of processes related to active, hands-on participation in industries affected by State Owned Enterprises (SOE) restructuring. These range from more meaningful access to state regulated activities, training and skills development, affirmative action in management, to

entrepreneurial opportunities through outsourcing, partnerships, procurement and easier access to financing.

There is the realization amongst a group of business leaders, human resource managers and small business practitioners, that the redressal of socio-economic inequalities in South Africa constitute the largest challenge facing our society. It is also realized, that political emancipation and subsequent government involvement in the spheres of reconstruction and development, would have to be supplemented by the private sector involvement, if this process was to gain momentum in the short to the long term.

Chapter three discusses the rationale for private sector involvement in the development of the small business sector through affirmative procurement programmes. Affirmative procurement is an element of empowerment and competitiveness, in that it ensures a competitive diversity of suppliers reflective of South African demographics. Its value added role is to be seen in its contribution in relation of goods and service inputs for the business's own final products and services. Business links also form part of this chapter.

Chapter four focuses on a review of the implementation of SMME procurement programmes. A major emphasis is on Black Economic Empowerment (BEE). Economic empowerment is a broad concept, which includes meaningful business ownership, rural development, access to finance and most significantly, affirmative procurement.

A recent survey of large corporations shows, that BEE has reached the boardroom. Most now agree that the issue of social equity, skills development and economic integration of the previously disadvantaged, are paramount to their company's and South Africa's future.

Furthermore, BEE is increasingly seen as being imperative to economic growth (Saffer, 2002).

6.3 ACHIEVEMENT OF THE RESEARCH OBJECTIVES

In the first chapter, the specific objectives of this study were identified. With the literature study and empirical research conducted in previous chapters, we can now determine in what way the objectives have been met.

6.3.1 Primary Objective

The primary objective of this study, is to promote a mutual relationship through procurement between the private and public sectors towards embracing social investment as a common vision to direct our economy towards one which promotes stability, which nurtures empowerment and which improves competitiveness of manufacturing SMMEs. Towards the achievement of this objective, the researcher has conducted the empirical study. An empirical research process was outlined in the previous chapter and a comprehensible questionnaire was used to collect data from the respondents.

The first section of the questionnaire is aimed at determining the business profile of different SMMEs. Section B refers to support services. It provides the researcher with the information required to determine the factors that hinder the development of these enterprises, support needs and the extent of business links. Section C is aimed at determining information on tendering.

The findings of the study are adequately reflected in chapter five. Of relevance to report with regard to section A, is that owner-managers are

functionally literate, 47% of the respondents have a secondary education and 35% have a diploma. This is also confirmed by the lower percentage (23%) of the respondents that indicated, that education is not a problem for the success of the business.

One important area of relevance, is with regard to the manufacturing activities of the respondents. A total of 15% are involved in automotive, 22% clothing and textile, 17% of metal and allied, 12% of footwear and leather, 10% of arts and crafts, 10% of chemical and plastic, 8% of furniture and 5% of machinery and equipment.

Section B (Table 5.14) indicates that financial support and market opportunities appear to be the most important factors that hinder the development of businesses. This is confirmed by the fact, that most of the respondents, as reflected in Table 5.13, indicated, that they do not have information about SMME support structures, such as Khula enterprise finance, Ntsika enterprise, Manufacturing advisory centers, etc. As discussed in chapter two, these support structures can provide a much needed support in areas of finance, access to market, technology, networking, etc. The summary of firms' support needs, is reflected in Table 5.13. The fact that the majority of the respondents (76%, as reflected in Table 5.19) do not have business linkages, is another reason why development is slow or non-existent.

Section C focuses on the tendering process. This section enabled the researcher to determine the respondents' attitude/opinion with regard to the way tenders are prepared. Most respondents do not have problems with regard to information in a tender bulletin. A total of 73% agree, that specifications are clear and concise, 57% aver, that they are given enough time for submitting tenders, 50% state, that specifications are

easily complied with and 61% have no problems with the delivery schedule.

Table 5.23 indicates, that the degree of competition in the market is an important factor limiting participation in a tendering process. This is followed the by financial guarantee, which is cumbersome and also the selection criteria used.

6.3.2 Secondary Objectives

Different secondary objectives are outlined in chapter 1 of this study in order to ensure the attainment of the primary objective.

In chapter two a detailed analysis of legislation aimed at promoting locally owned SMMEs is provided. The Government, by way of its legislation and policy framework, is trying to empower previously disadvantaged communities. The PPPF Act is designed to facilitate access to government contracts and procurement by suppliers from communities previously disadvantaged under the old regime. In addition, the National Small Business Enabling Act demonstrates the government's commitment to supporting SMMEs.

The last part of chapter two provides a detailed analysis of support programmes designed to increase supplier capabilities. The core focus of these programmes, is upon improving the competitiveness of businesses through provision and support for real services.

The third objective was to evaluate, from literature, how to improve service delivery and quality through interaction of both big and small enterprises. The focus of chapter three is on affirmative procurement. AP contributes to the value-add on goods and service inputs for the

businesses' own final products and services, and assists with the transfer of skills and technology to previously disadvantaged individuals through joint ventures, outsourcing and subcontracting.

The last objective was to investigate the implementation of procurement programmes. The focus on chapter four was, therefore, on Black Economic Empowerment, since this was the relevant and important issue in the area of this study. BEE helps to achieve economic growth by creating a business environment that maximizes positive synergies between parastatals, the private sector and emerging SMMEs. A detailed analysis/review is made about the implementation of procurement programmes in this chapter.

This literature study is considered sufficient to meet different objectives of this study.

6.4 RECOMMENDATIONS

The major thrust of this study is, that the SMME sector and manufacturing SMMEs in particular, operate on the fringes of the mainstream economy and breaking into the major markets, is always difficult for these businesses. The only possible way to help these entities to grow from often incompetent to dynamic, established, more competent and exporting enterprises, is for big companies to start procurement programmes aimed at supporting suppliers from previously disadvantaged communities.

In line with the statement of the problem and the conclusions drawn from the empirical research conducted, the following recommendations can, therefore, be made.

- ◆ As a result of a lack of financial support and a proper infrastructure, some of the requirements set by both private and public sector companies to procure from SMMEs are difficult to comply with. It is, therefore imperative that procurement programmes be developed in order to ensure that some procurement is from SMMEs in general and from Black Economic Empowerment suppliers in particular. Alternatively, certain procurement initiatives should be designed and adopted, so as to bring SMMEs preferably those owned by previously disadvantaged individuals, into the mainstream economy.

These initiatives could include, amongst others, the following:

- ◆ setting of targets;
 - ◆ revision of price preferences;
 - ◆ provision of tendering assistance to increase capacity of targeted suppliers;
 - setting of strategies to ensure that suppliers do not become dependent;
 - ◆ appointment of a procurement ombudsman; and
 - ◆ break-out procurement.
-
- ◆ The rapid development of information and communications technology, means that SMMEs face competitive challenges more than before. To help them get into shape to meet these challenges, Business Links will provide business with the right sort of help.
 - ◆ Of critical future importance in opening new potential market opportunities, is the fostering of greater business linkages between large enterprises and emerging enterprises.

- In order to improve the manufacturing base and to enhance the competitiveness of the SMME economy, an important area of support is through the extension of some form of manufacturing advice or support system. Manufacturing Advisory Centers can assist manufacturing SMMEs to achieve a degree of production flexibility, management expertise and the capacity to identify and meet the needs of the market.
- To ensure the success of affirmative procurement programmes, there should be some form of intervention aimed at creating a conducive environment for its implementation. This intervention should take the following.

Policy intervention

An effective procurement/supply chain policy should be developed and should cover the following:

- ◆ a certification and de-certification process for PDI suppliers;
- ◆ measurement of performance;
- ◆ roles and responsibilities allocated;
- ◆ assessing who will benefit and who will be excluded.

Strategic intervention

- ◆ Relaxation of the purchasing process, for example, early invoice payments, waiving of onerous terms and conditions, revision of functional specifications.
- ◆ Setting BEE as one of the important evaluation criteria for the awarding of contracts.

- ◆ Breaking up major contracts to make them accessible to top BEE suppliers and even setting contract components aside, exclusively for such suppliers.

6.5 LIMITATIONS OF THE OF STUDY AND FURTHER RESEARCH

The study has the following limitations/shortcomings.

- ◆ The scope of the study is limited to manufacturing SMMEs within the Vaal Metropolitan Area. It does not cover small business in general and South Africa as a whole.
- ◆ No distinction is made between SMMEs that operate in the formal and the informal sectors.
- ◆ The total number of non-response, could have an impact on the accuracy of the results.

The following opportunities for future research in this field of study are two-fold.

- ◆ An investigation of Affirmative Procurement as a business imperative.
- ◆ A comparative study, with a clear distinction between SMMEs operating in the formal and the informal sectors.

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ANNEXURE A

QUESTIONNAIRE

02 June 2003

**Please complete questionnaire before
26 June 2003**

**DEPARTMENT OF BUSINESS MANAGEMENT
RESEARCH QUESTIONNAIRE**

To whom it may concern

This questionnaire is aimed at collecting data necessary to enhance the validity of the doctorate research study, undertaken to investigate if procurement has an impact on the empowerment and competitiveness of manufacturing Small, Medium and Micro Enterprises (SMMEs). The information collected, will be treated with the highest degree of confidentiality and for academic purposes only.

Your response and full participation will be highly appreciated.

Thanking you in advance.

.....
ER Mahlasela

Vaal Triangle Technikon
Tel. No: (016) 950 9868 W
Cell: 082 749 7773

Instructions for completion

- Please answer all relevant questions regarding Business Profile (Sec.A), Support Services (Sec.B) and Tendering (Sec.C).
- Where asked for comments, keep answers short and precise.
- Make a "Tick" or "Cross" in the space provided.

- Other (Specify).....

SECTION B: INFORMATION ON SUPPORT SERVICES

9. Do you have any information about the following? Tick "Yes" or "No"

	Yes	No
- Khula enterprise finance	<input type="checkbox"/>	<input type="checkbox"/>
- Ntsika enterprise	<input type="checkbox"/>	<input type="checkbox"/>
- Provincial SMME desk	<input type="checkbox"/>	<input type="checkbox"/>
- Manufacturing Advisory Center Vaal (MACVaal)	<input type="checkbox"/>	<input type="checkbox"/>
- Others (please specify)		

10. What are the factors that hinder progress/development of your business? (Tick "agree" or "disagree")

	Agree	Disagree
- Lack of infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
- Lack of financial support	<input type="checkbox"/>	<input type="checkbox"/>
- Lack of education	<input type="checkbox"/>	<input type="checkbox"/>
- Lack of service provision	<input type="checkbox"/>	<input type="checkbox"/>
- Lack of market opportunities	<input type="checkbox"/>	<input type="checkbox"/>
- Lack of management skills	<input type="checkbox"/>	<input type="checkbox"/>
- Other (please specify)		
.....		

11. How do you improve employee and management skills? Tick "agree" or "disagree"

	Agree	Disagree
- Attending sponsored courses on specialized topics	<input type="checkbox"/>	<input type="checkbox"/>
- Making use of expert consultants	<input type="checkbox"/>	<input type="checkbox"/>
- Information-sharing among firms	<input type="checkbox"/>	<input type="checkbox"/>
- Other (please specify)		

Agree Disagree

12. What are the firm's support needs?

- | | | |
|---|--------------------------|--------------------------|
| - Advisory services | <input type="checkbox"/> | <input type="checkbox"/> |
| - Technology support | <input type="checkbox"/> | <input type="checkbox"/> |
| - Information support | <input type="checkbox"/> | <input type="checkbox"/> |
| - Assistance in setting quality and product standards | <input type="checkbox"/> | <input type="checkbox"/> |
| - Computer application | <input type="checkbox"/> | <input type="checkbox"/> |
| - Other (please specify) | | |

13. Do you receive any support as far as the firm's needs are concerned?

Yes	No
-----	----

14. Who provides support for your needs? Choose one or more

Private sector	Public sector	SMMEs service providers
----------------	---------------	-------------------------

15. Do you have any business linkages with SMME support structures?
eg. business opportunity center, manufacturing advisory center, etc.

Yes	No
-----	----

16. Are business linkages useful?

Yes	No
-----	----

SECTION C: TENDERING

NB. Tick "agree" or "disagree"

17. What is your opinion with regard to information in the tender bulletin?

Agree Disagree

- | | | |
|---|--------------------------|--------------------------|
| - Product or service specifications are clear and concise | <input type="checkbox"/> | <input type="checkbox"/> |
| - Time available for submission is adequate | <input type="checkbox"/> | <input type="checkbox"/> |
| - Ease of compliance with specification | <input type="checkbox"/> | <input type="checkbox"/> |
| - Ease of meeting delivery dates as stipulated | <input type="checkbox"/> | <input type="checkbox"/> |

Agree Disagree

18. What motivates you to tender?

- | | | |
|---|--------------------------|--------------------------|
| - The groupings of goods/services for award | <input type="checkbox"/> | <input type="checkbox"/> |
| - The size of tender in quantities and rand value | <input type="checkbox"/> | <input type="checkbox"/> |
| - Criteria for evaluating tenders | <input type="checkbox"/> | <input type="checkbox"/> |
| - Cost of preparing tender | <input type="checkbox"/> | <input type="checkbox"/> |
| - Terms and conditions of tender documents | <input type="checkbox"/> | <input type="checkbox"/> |
| - Payment terms | <input type="checkbox"/> | <input type="checkbox"/> |
| - Possible profit | <input type="checkbox"/> | <input type="checkbox"/> |
| - Other (please specify) | | |

19. What limits your participation in a tendering process?

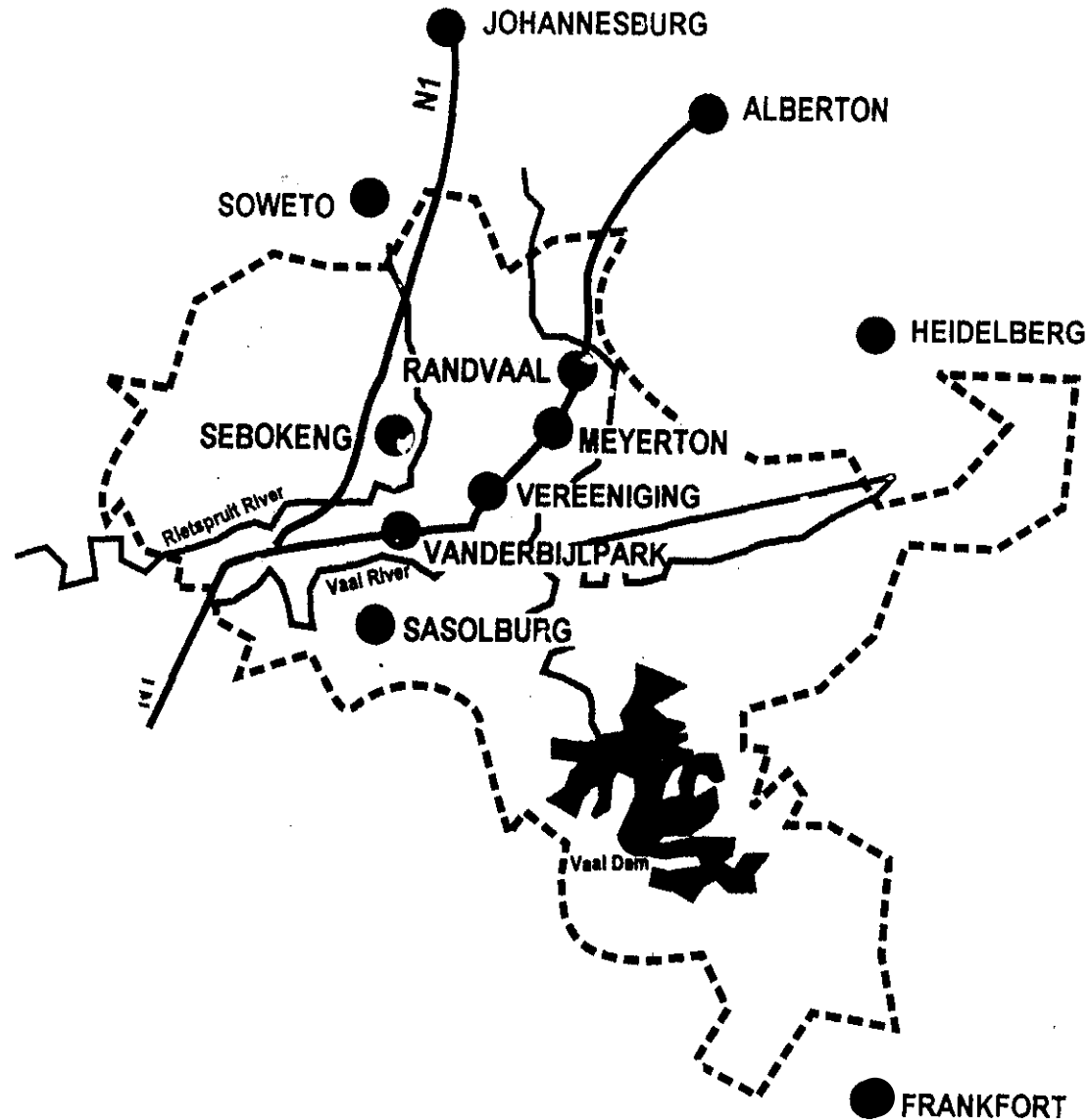
- | | | |
|---|--------------------------|--------------------------|
| - Competition | <input type="checkbox"/> | <input type="checkbox"/> |
| - Inadequate profit margin | <input type="checkbox"/> | <input type="checkbox"/> |
| - Selection criteria used | <input type="checkbox"/> | <input type="checkbox"/> |
| - Specifications are difficult to comply with | <input type="checkbox"/> | <input type="checkbox"/> |
| - Financial guarantees are cumbersome | <input type="checkbox"/> | <input type="checkbox"/> |
| - Costs of tendering | <input type="checkbox"/> | <input type="checkbox"/> |
| - Inadequate tender information | <input type="checkbox"/> | <input type="checkbox"/> |
| - Terminology used | <input type="checkbox"/> | <input type="checkbox"/> |
| - Specifications are not clear | <input type="checkbox"/> | <input type="checkbox"/> |
| - Time to tender is too short | <input type="checkbox"/> | <input type="checkbox"/> |
| - Other (please specify) | | |

ANNEXURE B

LOCALITY MAP

Vaal Triangle & Northern Free State

The Study Area



Legend:

----- The Study Area

ANNEXURE C

**PREFERENTIAL
PROCUREMENT POLICY
FRAMEWORK ACT NO. 5
OF 2000**

**Acts / Constitutional Law / PREFERENTIAL PROCUREMENT POLICY
FRAMEWORK ACT NO. 5 OF 2000**

**PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT
NO. 5 OF 2000**

[ASSENTED TO 2 FEBRUARY, 2000]
[DATE OF COMMENCEMENT: 3 FEBRUARY, 2000]

(English text signed by the President)

ACT

To give effect to section 217 (3) of the Constitution by providing a framework for the implementation of the procurement policy contemplated in section 217 (2) of the Constitution; and to provide for matters connected therewith.

ARRANGEMENT OF SECTIONS

1. Definitions
2. Framework for implementation of preferential procurement policy
3. Exemption
4. Transitional provision
5. Regulations
6. Short title

**Acts / Constitutional Law / PREFERENTIAL PROCUREMENT POLICY
FRAMEWORK ACT NO. 5 OF 2000 / 1. Definitions.-In this Act, unless the context
indicates otherwise-**

1. **Definitions.-In this Act, unless the context indicates otherwise-**

**Acts / Constitutional Law / PREFERENTIAL PROCUREMENT POLICY FRAMEWORK
ACT NO. 5 OF 2000 / 1. Definitions.-In this Act, unless the context indicates
otherwise- / "acceptable tender" means any tender which, in all respects, complies
with the specifications and conditions of tender as set out in the tender document;**

"acceptable tender" means any tender which, in all respects, complies with the specifications and conditions of tender as set out in the tender document;

**Acts / Constitutional Law / PREFERENTIAL PROCUREMENT POLICY
FRAMEWORK ACT NO. 5 OF 2000 / 1. Definitions.-In this Act, unless the context
indicates otherwise- / "Minister" means the Minister of Finance;**

"Minister" means the Minister of Finance;

**Acts / Constitutional Law / PREFERENTIAL PROCUREMENT POLICY
FRAMEWORK ACT NO. 5 OF 2000 / 1. Definitions.-In this Act, unless the context
indicates otherwise- / "organ of state" means-**

"organ of state" means-

- (a) a national or provincial department as defined in the Public Finance Management Act, 1999 (Act No. 1 of 1999);
- (b) a municipality as contemplated in the Constitution;
- (c) a constitutional institution defined in the Public Finance Management Act, 1999 (Act No. 1 of 1999) ;
- (d) Parliament;
- (e) a provincial legislature;
- (f) any other institution or category of institutions included in the definition of "organ of state" in section 239 of the Constitution and recognised by the Minister by notice in the *Government Gazette* as an institution or category of institutions to which this Act applies;

**Acts / Constitutional Law / PREFERENTIAL PROCUREMENT POLICY
FRAMEWORK ACT NO. 5 OF 2000 / 1. Definitions.-In this Act, unless the context
indicates otherwise- / "preferential procurement policy" means a procurement
policy contemplated in section 217 (2) of the Constitution;**

"preferential procurement policy" means a procurement policy contemplated in section 217 (2) of the Constitution;

**Acts / Constitutional Law / PREFERENTIAL PROCUREMENT POLICY
FRAMEWORK ACT NO. 5 OF 2000 / 1. Definitions.-In this Act, unless the context
indicates otherwise- / "prescribed" means prescribed by regulation made under
section 5;**

"prescribed" means prescribed by regulation made under section 5;

**Acts / Constitutional Law / PREFERENTIAL PROCUREMENT POLICY
FRAMEWORK ACT NO. 5 OF 2000 / 1. Definitions.-In this Act, unless the**

context indicates otherwise-- / "this Act" includes any regulations made under section 5.

"this Act" includes any regulations made under section 5.

Acts / Constitutional Law / PREFERENTIAL PROCUREMENT POLICY

FRAMEWORK ACT NO. 5 OF 2000 / 2. Framework for implementation of preferential procurement policy.-(1) An organ of state must determine its preferential procurement policy and implement it within the following framework:

2. Framework for implementation of preferential procurement policy.-(1) An organ of state must determine its preferential procurement policy and implement it within the following framework:

- (a) A preference point system must be followed;

- (b)
 - (i) for contracts with a Rand value above a prescribed amount a maximum of 10 points may be allocated for specific goals as contemplated in paragraph (d) provided that the lowest acceptable tender scores 90 points for price;
 - (ii) for contracts with a Rand value equal to or below a prescribed amount a maximum of 20 points may be allocated for specific goals as contemplated in paragraph (d) provided that the lowest acceptable tender scores 80 points for price;

- (c) any other acceptable tenders which are higher in price must score fewer points, on a pro rata basis, calculated on their tender prices in relation to the lowest acceptable tender, in accordance with a prescribed formula;

- (d) the specific goals may include
 - (i) contracting with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender or disability;
 - (ii) implementing the programmes of the Reconstruction and Development Programme as published in *Government Gazette* No. 16085 dated 23 November 1994;

- (e) any specific goal for which a point may be awarded, must be clearly specified in the invitation to submit a tender;

- (f) the contract must be awarded to the tenderer who scores the highest points, unless objective criteria in addition to those contemplated in paragraphs (d) and (e) justify the award to another tenderer; and

- (g) any contract awarded on account of false information furnished by the tenderer in order to secure preference in terms of this Act, may be cancelled at the sole discretion of the organ of state without prejudice to any other remedies the organ of state may

have.

(2) Any goals contemplated in subsection (1) (e) must be measurable, quantifiable and monitored for compliance.

Acts / Constitutional Law / PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT NO. 5 OF 2000 / 3. Exemption.-The Minister may, on request, exempt an organ of state from any or all the provisions of this Act if-

3. Exemption.-The Minister may, on request, exempt an organ of state from any or all the provisions of this Act if-

- (a) it is in the interests of national security;
- (b) the likely tenderers are international suppliers; or
- (c) it is in the public interest.

Acts / Constitutional Law / PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT NO. 5 OF 2000 / 4. Transitional provision.-Any procurement process implemented under a preferential procurement policy where the invitation to tender was advertised before the commencement of this Act, must be finalised as if this Act had not come into operation.

4. Transitional provision.-Any procurement process implemented under a preferential procurement policy where the invitation to tender was advertised before the commencement of this Act, must be finalised as if this Act had not come into operation.

Acts / Constitutional Law / PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT NO. 5 OF 2000 / 5. Regulations.-(1) The Minister may make regulations regarding any matter that may be necessary or expedient to prescribe in order to achieve the objects of this Act.

5. Regulations.-(1) The Minister may make regulations regarding any matter that may be necessary or expedient to prescribe in order to achieve the objects of this Act.

(2) Draft regulations must be published for public comment in the *Government Gazette* and every *Provincial Gazette* before promulgation.

Acts / Constitutional Law / PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT NO. 5 OF 2000 / 6. Short title.-This Act is called the Preferential Procurement Policy Framework Act, 2000.

6. Short title.-This Act is called the Preferential Procurement Policy Framework Act, 2000.

**PREFERENTIAL PROCUREMENT REGULATIONS, 2001
PERTAINING TO THE PREFERENTIAL PROCUREMENT POLICY
FRAMEWORK ACT: NO 5 OF 2000**

Contents

PART ONE DEFINITIONS AND APPLICATION

- 1 Definitions
- 2 Application

**PART TWO PREFERENCE POINT SYSTEM, EVALUATION OF
TENDERS, AWARDING OF TENDERS NOT SCORING
HIGHEST POINTS, CANCELLATION AND RE-INVITATION
OF TENDERS**

- 3 The 80/20 preference point system
- 4 The 90/10 preference point system
- 5 The 80/20 preference point system for the sale and letting of assets
- 6 The 90/10 preference point system for the sale and letting of assets
- 7 Stipulation of preference point system to be used
- 8 Evaluation of tenders on functionality and price
- 9 Award of contract to tender not scoring the highest number of points
- 10 Cancellation and re-invitation of tenders

**PART THREE DUTY TO PLAN, GENERAL CONDITIONS, PRINCIPLES,
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- 11 Duty to plan for invitation of tenders
- 12 General conditions
- 13 Principles
- 14 Declarations
- 15 Penalties
- 16 Tax clearance certificate
- 17 Specific goals
- 18 Short Title

REGULATIONS

The Minister of Finance has, in terms of section 5 of the Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000), made the regulations contained in the Schedule.

SCHEDULE

PART ONE

DEFINITIONS AND APPLICATION

Definitions

1. In these regulations, unless the context indicates otherwise, a word or expression to which a meaning has been assigned in the Act bears the same meaning, and-
 - (a) **“Act”** means the Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000);
 - (b) **“Agent”** means a person mandated by another person (“the principal”) to do business for and on behalf of, or to represent in a business transaction, the principal, and thereby acquire rights for the principal against an organ of state and incur obligations binding the principal in favour of an organ of state;
 - (c) **“Comparative price”** means the price after the factors of a non-firm price and all unconditional discounts that can be utilised have been taken into consideration;
 - (d) **“Consortium or Joint Venture”** means an association of persons for the purpose of combining their expertise, property, capital, efforts, skill and knowledge in an activity for the execution of a contract;
 - (e) **“Contract”** means the agreement that results from the acceptance of a tender by an organ of state;
 - (f) **“Disability”** means, in respect of a person, a permanent impairment of a physical, intellectual, or sensory function, which results in restricted, or lack of, ability to perform an activity in the manner, or within the range, considered normal for a human being;

- (g) **"Firm price"** is the price that is only subject to adjustments in accordance with the actual increase or decrease resulting from the change, imposition, or abolition of customs or excise duty and any other duty, levy, or tax which, in terms of a law or regulation is binding on the contractor and demonstrably has an influence on the price of any supplies, or the rendering costs of any service, for the execution of the contract;
- (h) **"Historically Disadvantaged Individual (HDI)"** means a South African citizen –
- (1) who, due to the apartheid policy that had been in place, had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983 (Act No 110 of 1983) or the Constitution of the Republic of South Africa, 1993 (Act No 200 of 1993) ("the Interim Constitution"); and / or
 - (2) who is a female; and / or
 - (3) who has a disability:
- Provided that a person who obtained South African citizenship on or after the coming into effect of the Interim Constitution, is deemed not to be an HDI;
- (i) **"Management"** in relation to an enterprise or business, means an activity inclusive of control and performed on a daily basis, by any person who is a principal executive officer of the company, by whatever name that person may be designated, and whether or not that person is a director;
- (j) **Non-firm prices"** means all prices other than "firm" prices;
- (k) **"Person"** includes reference to a juristic person;
- (l) **"Rand value"** means the total estimated value of a contract in Rand denomination which is calculated at the time of tender invitations and includes all applicable taxes and excise duties;

- (m) **“Small, Medium and Micro Enterprises (SMMEs)”** bears the same meaning assigned to this expression in the National Small Business Act, 1996 (Act No102 of 1996);
- (n) **“Sub-Contracting”** means the primary contractor's assigning or leasing or making out work to, or employing, another person to support such primary contractor in the execution of part of a project in terms of the contract;
- (o) **“Tender”** means a written offer or bid in a prescribed or stipulated form in response to an invitation by an organ of state for the provision of services or goods;
- (p) **“Trust”** means the arrangement through which the property of one person is made over or bequeathed to a trustee to administer such property for the benefit of another person;
- (q) **“Trustee”** means any person, including the founder of a trust, to whom property is bequeathed in order for such property to be administered for the benefit of another person.

Application

- 2.(1) Despite anything to the contrary contained in any law, these regulations apply to organs of state as contemplated in section 1(iii) of the Act.
- (2) An organ of state contemplated in sub-regulation (1) must, unless the Minister of Finance has directed otherwise, only apply a preferential procurement system which is in accordance with the Act and these regulations.
- (3) An organ of state may deviate from the framework contemplated in section 2 of the Act in respect of a pre-determined tariff based professional appointments.

R500 000:

$$P_s = 90 \left(1 - \frac{P_t - P_{\min}}{P_{\min}} \right)$$

Where

P_s = Points scored for price of tender under consideration

P_t = Rand value of tender under consideration

P_{min} = Rand value of lowest acceptable tender

- (2) A maximum of 10 points may be awarded to a tenderer for being an HDI and / or subcontracting with an HDI and / or achieving any of the specified goals stipulated in regulation 17.
- (3) The points scored by a tenderer in respect of the goals contemplated in sub-regulation (2) must be added to the points scored for price.
- (4) Only the tender with the highest number of points scored may be selected.

The 80/20 preference point system for the sale and letting of assets.

- 5.(1) The following formula must be used to calculate the points for price in respect of tenders with a Rand value equal to, or above R 30 000 and up to a Rand value of R500 000 and which relate to the sale and letting of assets. Organs of State may, however, apply this formula for sales and letting of assets with a rand value less than R30 000, if and when appropriate:

$$P_s = 80 \left(1 + \frac{P_t - P_h}{P_h} \right)$$

Where

P_s = Points scored for price of tender under consideration

P_t = Rand value of tender under consideration

P_h = Rand value of highest acceptable tender

- (2) A maximum of 20 points may be awarded to a tenderer for being an HDI and / or subcontracting with an HDI and / or achieving any of the specified goals stipulated in regulation 17.
- (3) The points scored by a tenderer in respect of the goals contemplated in sub-regulation (2) must be added to the points scored for price.
- (4) Only the tender with the highest number of points scored may be selected.

The 90/10 preference point system for the sale and letting of assets

- 6.(1) The following formula must be used to calculate the points for price in respect of tenders with a Rand value above R500 000 and which relate to the sale and letting of assets:

$$P_s = 90 \left(1 + \frac{P_t - P_h}{P_h} \right)$$

Where

- P_s = Points scored for price of tender under consideration
 P_t = Rand value of tender under consideration
 P_h = Rand value of highest acceptable tender

- (2) A maximum of 10 points may be awarded to a tenderer for being an HDI and / or subcontracting with an HDI and / or achieving any of the specified goals stipulated in regulation 17.
- (3) The points scored by a tenderer in respect of the goals contemplated in sub-regulation (2) must be added to the points scored for price.
- (4) Only the tender with the highest number of points scored may be selected.

Stipulation of preference point system to be used

7. An organ of state must, in the tender documents, stipulate the preference point system which will be applied in the adjudication of tenders.

Evaluation of tenders on functionality and price

- 8.(1) An organ of state must, in the tender documents, indicate if, in respect of a particular tender invitation, tenders will be evaluated on functionality and price.
- (2) The total combined points allowed for functionality and price may, in respect of tenders with an estimated Rand value equal to, or below, R500 000, not exceed 80 points.
- (3) The total combined points allowed for functionality and price may, in respect of tenders with an estimated Rand value above R500 000, not exceed 90 points.

- (8) A Consortium or Joint Venture may, based on the percentage of the contract value managed or executed by their HDI members, be entitled to equity ownership in respect of an HDI.
- (9) The number of points scored for a Consortium or Joint Venture must be added to the number of points scored for achieving specified goals.
- (10) The points contemplated in sub-regulation (9) must be added to the points scored for price, in order to establish the total number of points scored.
- (11) Subject to regulations 9 and 10, the contract must be awarded to the tender which scores the highest points.
- (12) A person awarded a contract as a result of preference for contracting with, or providing equity ownership to, an HDI, may not subcontract more than 25% of the value of the contract to a person who is not an HDI or does not qualify for such preference.

Declarations

14. A tenderer must, in the stipulated manner, declare that-
 - (a) the information provided is true and correct;
 - (b) the signatory to the tender document is duly authorised;
and
 - (c) documentary proof regarding any tendering issue will, when required, be submitted to the satisfaction of the relevant organ of state.

Penalties

- 15.(1) An organ of state must, upon detecting that a preference in terms of the Act and these regulations has been obtained on a fraudulent basis, or any specified goals are not attained in the performance of the contract, act against the person awarded the contract.
- (2) An organ of state may, in addition to any other remedy it may have against the person contemplated in sub-regulations (1)-
 - (a) recover all costs, losses or damages it has incurred or suffered as a result of that person's conduct;

- (b) cancel the contract and claim any damages which it has suffered as a result of having to make less favourable arrangements due to such cancellation;
- (c) impose a financial penalty more severe than the theoretical financial preference associated with the claim which was made in the tender, and
- (d) restrict the contractor, its shareholders and directors from obtaining business from any organ of state for a period not exceeding 10 years.

Tax clearance certificate

16. No contract may be awarded to a person who has failed to submit an original Tax Clearance Certificate from the South African Revenue Service ("SARS") certifying that the taxes of that person to be in order or that suitable arrangements have been made with SARS.

Specific goals

- 17.(1) The tendering conditions may stipulate that specific goals, as contemplated in section 2(1)(d)(ii) of the Act, be attained.
- (2) The stipulation contemplated in sub-regulations (1) must include the method to be used to calculate the points scored for achieving specific goals.
 - (3) Over and above the awarding of preference points in favour of HDIs, the following activities may be regarded as a contribution towards achieving the goals of the RDP (published in *Government Gazette* No. 16085 dated 23 November 1994):
 - (a) The promotion of South African owned enterprises;
 - (b) The promotion of export orientated production to create jobs;
 - (c) The promotion of SMMEs;
 - (d) The creation of new jobs or the intensification of labour absorption;

- (e) The promotion of enterprises located in a specific province for work to be done or services to be rendered in that province;
 - (f) The promotion of enterprises located in a specific region for work to be done or services to be rendered in that region;
 - (g) The promotion of enterprises located in a specific municipal area for work to be done or services to be rendered in that municipal area;
 - (h) The promotion of enterprises located in rural areas;
 - (i) The empowerment of the work force by standardising the level of skill and knowledge of workers;
 - (j) The development of human resources, including by assisting in tertiary and other advanced training programmes, in line with key indicators such as percentage of wage bill spent on education and training and improvement of management skills; and
 - (k) The upliftment of communities through, but not limited to, housing, transport, schools, infrastructure donations, and charity organisations.
- (4) Specific goals must be measurable and quantifiable and organs of state must monitor the execution of the contract for compliance with such goals.

Short title

18. These regulations are called the Preferential Procurement Regulations, 2001.

**T A MANUEL, MP
MINISTER OF FINANCE**

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ANNEXURE D

**GREEN PAPER ON PUBLIC
SECTOR PROCUREMENT
REFORM IN SOUTH
AFRICA**

GREEN PAPER ON PUBLIC SECTOR PROCUREMENT REFORM IN SOUTH AFRICA

An initiative of the Ministry of Finance and the Ministry of Public Works

April 1997

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MESSAGE FROM THE MINISTER OF FINANCE

As the largest buyer in the country, government has a responsibility to ensure that its procurement policy supports its overall economic objectives, and serves as an instrument for attaining those objectives.

One of the key elements in Government's strategy for employment creation and income generation is the promotion of small, medium and micro enterprises (SMME's). In the past, the tendering system favoured larger, established companies, and it was very difficult (if not impossible) for newly established businesses to enter the public tendering system.

Government therefore embarked on a reform process to make the tendering system more easily accessible to small, medium and micro enterprises. This process has resulted in a Green Paper on Public Procurement Reform.

At the same time, this Green Paper is a step towards greater policy co-ordination across the different levels and departments of government.

This Green Paper is a discussion document which contains various proposals aimed at achieving objectives of good governance, developing and utilising the country's human resources potential to the full, and encouraging a well developed and competitive business sector. It is being released so that anyone who so wishes can forward their comments to the Department.

I wish to record my appreciation to the Department of Public Works, and also to the World Bank for financial assistance and guidance with the reform process and preparation of this Green Paper.

MR TREVOR A MANUEL, MP
MINISTER OF FINANCE

MESSAGE FROM THE MINISTER OF PUBLIC WORKS

The development of this Green Paper represents a significant milestone in the transformation of public sector procurement in South Africa.

The appropriate orientation of public sector procurement would enable the State to use its purchasing power to attain specified socio-economic objectives. Within the South African context, public sector procurement can make a critical contribution to the transformation and democratisation of South African society. In striving for the above, Government must also ensure that such a procurement policy subscribes to international best practice and reinforces the principles of good governance.

This Green Paper attempts to address these issues, and proposes strategies that blend international best practise with South African specificities. The presentation of new concepts such as an affirmative procurement policy, life cycle costing, value for money and appropriate risk management strategies indicate Government's commitment to the development of a procurement system that responds to the needs of South African society.

The development of this Green Paper has also highlighted the creative potential that is unleashed when government departments operate in a collaborative fashion.

The proposals contained in this Paper have wide ranging and far reaching implications for all stakeholders engaging in the public sector procurement process. I therefore urge all interested parties to consider the issues raised in the Green Paper so that our collective inputs contribute to a procurement system that all South Africans can be proud of.

JEFF RADEBE, MP
MINISTER OF PUBLIC WORKS

PROCUREMENT REFORM: THE PROCESS

The process of procurement reform commenced with interaction within Government. On 24 January 1995, a Government Forum comprising representatives from various State and Provincial user departments was established in order to arrive at a consensus position as to what restructuring is necessary and what is possible in the short and medium term.

Since the initiation of the procurement reform process, certain documents have been released which impact on the procurement reform proposals, and influence some of the recommendations. These include:

- The new constitution.
- Growth, Employment and Redistribution: a macro-economic strategy.
- National Small Business Enabling Act

The proposals which have been developed in this Green Paper have been based on aims and objectives which have been broadly agreed to by various National and Provincial organs of State. However, consultation with all stakeholders in the process is of primary concern to the Government and, as such, a Green Paper on procurement reform has been developed as a discussion document on the proposals and principles

which underlie procurement reform.

The Government hopes that the release of its preliminary policy and principle statements will draw the constructive discussion and input of all stakeholders and interested parties in order to facilitate the development of the best possible procurement policy.

EXECUTIVE SUMMARY

The Government of South Africa is committed to good governance and the elevation of previously marginalised communities. Total procurement by the different Organs of State is estimated at R56 billion. This amount calls for strict control through good financial governance.

The Constitution of our country prescribes that procurement for any organ of State should be dealt with through a system that is fair, competitive, transparent and cost effective. The Constitution also allows for the implementation of procurement policies providing for categories of preference in the allocation of contracts and the protection, or advancement, of persons, or categories of persons, disadvantaged by unfair discrimination. It is therefore clear that the public sector procurement system can be used to attain certain socio-economic objectives. This will, however, not be achieved without adhering to sound financial management, which inter alia includes the principles of value for money, good financial control, eliminating and countering corruption and ensuring that all contractors have a "good standing" insofar as their tax and service charge obligations are concerned.

The Government realises the importance of the small, medium and micro enterprises (SMME's) as part of the macro economic development of South Africa. In the past, the tendering system favoured the larger and more established businesses, and it was very difficult for any new and upcoming tenderer to enter into the public sector procurement system. The Ministries of Finance and Public Works embarked on the reform of the public sector procurement system to make the tendering system easily accessible to the SMME's. The emphasis is on the development and stimulation of the SMME sector and using the procurement system as an instrument to achieve certain socio-economic objectives without forfeiting the principles of good financial management.

Good Governance

Proposals on good governance include aspects such as value for money, good financial control, countering corruption, meeting tax and service charge obligations and adhering to prescribed labour practices.

A National Procurement Framework needs to be drafted to establish uniformity in tender procedures, policies and control measures. Such a framework should be administered by a Procurement Compliance Office. It is the intention of the Procurement Compliance Office to be pro-active in nature and to establish preventative and control measures on a regular basis.

Socio-Economic Objectives

Socio-economic objectives through the procurement system includes access to tendering information and the simplification of tender documents, breakout procurement, awarding of tenders in terms of a development objective mechanism, drafting of an affirmative SMME participation programme, promoting employment-intensive practices, affirming marginalised sectors of society in construction projects and the development of an affirmative procurement policy.

Other aspects which are dealt with, include inter alia international competition, stimulation of local economies, labour issues, guarantees and training. Emphasis is also laid upon the development of human resources.

The Green Paper, at this stage, contains proposals which should not be regarded as policy. The Green Paper is published for comments and the Ministries of Finance and Public Works welcome any comment, criticism or concern on the proposals made. The objective is to establish a public sector procurement system that will meet the needs of the people of South Africa and will ensure development towards a better South Africa for all its citizens.

ANNEXURE E

**NATIONAL SMALL
BUSINESS ACT NO. 102 OF
1996**

NO. 102 OF 1996: NATIONAL SMALL BUSINESS ACT, 1996.

PRESIDENT'S OFFICE

No. 1901.

27 November 1996

NO. 102 OF 1996: NATIONAL SMALL BUSINESS ACT, 1996.

It is hereby notified that the President has assented to the following Act which is hereby published for general information:-

ACT

To provide for the establishment of the National Small Business Council and the Ntsika Enterprise Promotion Agency; and to provide guidelines for organs of state in order to promote small business in the Republic; and to provide for matters incidental thereto.

(Afrikaans text signed by the President.)

(Assented to 12 November 1996.)

BE IT ENACTED by the Parliament of the Republic of South Africa, as follows:-

CHAPTER I

Definitions

1. In this Act, unless the context otherwise indicates-

(i) "Agency" means the Ntsika Enterprise Promotion Agency established by section 9; (i)

(ii) "Board" means the Board of Directors of the Agency contemplated in

section 11; (iii)

(iii) "Chief Executive Officer" means the Chief Executive Officer of the Agency appointed as contemplated in section II (1)(b); (vi)

(iv) "constitution of the Agency" means the constitution of the Agency contemplated in section 13 and adopted in terms of section 16(1); (ix)

(v) "constitution of the Council" means the constitution of the Council contemplated in section 4 and adopted as contemplated in section 8(3); (x)

(vi) "Council" means the National Small Business Council established by section 2; (xv)

(vii) "Director-General" means the Director-General of the Department of Trade and Industry, or an officer of that Department designated by that Director-General; (iv)

(viii) "Minister" means the Minister of Trade and Industry; (xi)

(ix) "National Co-ordinator" means the National Co-ordinator of the Council appointed as contemplated in section 6(1); (xiii)

(x) "National Small Business Support Strategy" means the national policy in respect of small business support as published by the Minister in the Gazette, and includes the policy as stated in the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (Notice No. 213 of 1995, published in Gazette No. 16317 of 28 March 1995); (xii)

(xi) "prescribed" means prescribed by regulation; (xvii)

(xii) "provincial council" means a provincial small business council for small business established under the constitution of the Council; (xiv)

(xiii) "regulation" means any regulation made under this Act; (xvi)

(xiv) "service provider" means any public or private entity providing support services to small business; (ii)

(xv) "small business" means a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in column I of the Schedule and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Schedule opposite the smallest relevant size or class as mentioned in column 2 of the Schedule; (vii)

(xvi) "small business organisation" means any entity, whether or not incorporated or registered under any law, which consists mainly of persons carrying on small business concerns in any economic sector, or which has been established for the purpose of promoting the interests of or representing small business concerns, and includes any federation consisting wholly or partly of such association, and also any branch of such organisation; (viii)

(xvii) "this Act" includes the regulations. (v)

CHAPTER 2

National Small Business Council

Establishment of National Small Business Council

2. The National Small Business Council is hereby established as a juristic person.

Functions of Council

3. (1) The functions of the Council are to-

(a) represent and promote the interests of small business, with emphasis on those entities contemplated in the National Small Business Support Strategy; and

(b) advise the national, provincial and local spheres of government on social and economic policy that promotes the development of small business;

(2) The Council may exercise such powers and must perform such duties as are reasonably necessary for or incidental to the performance of the functions mentioned in subsection (1).

(3) The Council must perform its functions in accordance with this Act and its constitution.

Constitution of Council

4. Subject to this Act and the National Small Business Support Strategy, the constitution of the Council must, among others, provide for-

(a) the composition of the Council consisting of-

(i) 18 members of which each provincial council elects two members from their number; and

(ii) if the members referred to in subparagraph (i) so elect, five members appointed in an expert or representative capacity;

(b) a provincial council for each province consisting of members elected by small business organisations that meet the criteria set out in the constitution;

(c) subject to this Act, and in order to achieve the objects contemplated in section 3, the powers and duties of the Council and the provincial councils;

- (d) criteria for the appointment and procedures for the election of the members referred to in paragraphs (a) and (b);
- (e) the appointment of any alternate member to act during the absence or incapacity of a member of the Council or a provincial council;
- (f) the election of office bearers of the Council and provincial councils, their functions, and the circumstances and manner in which they may be removed from office;
- (g) a two year tenure for members of the Council and provincial councils;
- (h) the circumstances and manner in which membership of the Council and provincial councils may be terminated and procedures for the filling of vacancies;
- (i) the establishment and functioning of committees, including a management committee for the Council and provincial councils;
- (j) the co-opting as a member of any person to assist the Council, a provincial council or any committee in the consideration of any particular matter;
- (k) the rules for the convening and conducting of meetings of the Council and provincial councils, including the quorum required for and the minutes to be kept of those meetings;
- (l) the voting rights of the different members and the manner in which decisions are to be taken by the Council and provincial councils;
- (m) the provision of administrative personnel employed by the Council to assist provincial councils in the performance of their functions;
- (n) subject to section 7(2), the banking and investment of funds by the Council and provincial councils;

- (o) the determination through arbitration of any dispute concerning the interpretation or application of the constitution of the Council;
- (p) the delegation of powers and assignment of duties to members, committees and employees, provided that-
 - (i) the Council or a provincial council may not be divested of any power or duty by virtue of the delegation or assignment; and
 - (ii) the Council or a provincial council, as the case may be, may vary or set aside any decision made under any delegation or in terms of any assignment;
- (q) a procedure for amending the constitution of the Council.

Remuneration of members, alternate members and co-opted members of Council and provincial councils

5. (1) The Minister, with the concurrence of the Minister of Finance, determines the salaries, allowances and conditions of service of members, alternate members and co-opted members of the Council and provincial councils who are not in the full-time service of the State.

(2) The salaries, allowances and conditions of service of the persons referred to in subsection (1) may differ according to the different offices held by them, the different functions performed by them, or whether they serve in a full-time or part-time capacity.

(3) Persons referred to in subsection (1) who are in the service of the State may not receive additional remuneration for serving on the Council or any provincial council, but may be reimbursed for expenses incurred in the performance of their functions in such last-mentioned service.

Staff of Council

6. (1) Work incidental to the performance of the functions of the Council is performed by a National Co-ordinator, who must be appointed by the Minister,

after consultation with the Council.

(2) The National Co-ordinator may be assisted by-

(a) persons appointed by the Council;

(b) officers in the public service seconded to the service of the Council in terms of any law regulating such secondment.

(3) The conditions of service, remuneration and service benefits of the National Co-ordinator and the personnel appointed by the Council must be determined by the Council, with the concurrence of the Minister and the Minister of Finance.

(4) If the National Co-ordinator is for any reason unable to perform his or her functions, the Council may designate a person in its service to act as national coordinator until the National Co-ordinator is able to resume office.

Finances of Council

7. (1) The funds of the Council consist of-

(a) money appropriated by Parliament;

(b) grants, donations and bequests made to the Council;

(c) money lawfully obtained by the Council from any other source, but loans raised by the Council are subject to approval of both the Minister and the Minister of Finance.

(2) All money received by the Council must be deposited in a banking account in the name of the Council with a bank established under the Banks Act, 1990 (Act No. 94 of 1990), or a mutual bank established under the Mutual Banks Act, 1993 (Act No. 124 of 1993).

(3) The financial year of the Council begins on 1 April and ends on 31 March of the following year.

(4) The National Co-ordinator is the accounting officer of the Council and must ensure that-

- (a) proper record of all the financial transactions, assets and liabilities of the Council are kept; and
- (b) as soon as possible, but not later than three months after the end of a financial year, accounts reflecting the income and expenditure of the Council and a balance sheet of the assets and liabilities of the Council as at the end of that financial year are prepared.

(5) The accounts and balance sheet referred to in subsection (4)(b) must be audited by the Auditor-General.

Transitional provisions in respect of Council

8. (1) For the purposes of this section, but subject to this Act, the council of the "National Small Business Council", an association incorporated under section 21 of the Companies Act, 1973 (Act No. 61 of 1973), and with the registration number of 96/08177/08, is deemed to constitute the Council.

(2) The Director-General must-

- (a) as soon as practicable convene a meeting of the Council;
- (b) determine the procedures for the meeting; and
- (c) chair that meeting.

(3) The purpose of the meeting and any subsequent meeting which may be necessary is to define a procedure for the adoption of the constitution by a representative body as contemplated in section 4(a)(i).

(4) On the adoption of the constitution of the Council-

- (a) all assets, liabilities, rights and obligations of the association

referred to in subsection (1) pass to the Council; and

(b) anything done by or on behalf of the said association is deemed to have been done by the Council, subject to this Act.

(5) The Director-General must as soon as practicable after the adoption of the constitution of the Council in writing notify the Registrar of Companies and the Registrar of Deeds thereof and of the relevant provisions of this section.

(6) On receipt of the notification contemplated in subsection (5)-

(a) the Registrar of Companies must deregister the association referred to in subsection (1); and

(b) the Registrar of Deeds must make the necessary entries and endorsements in respect of any register and document in the registration office, or document submitted to that Registrar.

(7) No transfer duties, stamp duties, fees or taxes have to be paid for the purposes of this section.

(8) The Council constituted as contemplated in subsection (1) dissolves immediately before the first meeting of the Council constituted as contemplated in section 4(a)(i).

(9) The first meeting referred to in subsection (8) must be held within one year after the commencement of this Act.

CHAPTER 3

Ntsika Enterprise Promotion Agency

Establishment of Ntsika Enterprise Promotion Agency

9. The Ntsika Enterprise Promotion Agency is hereby established as a juristic person.

Functions of Agency

10. (1) The main functions of the Agency are-

- (a) to expand, co-ordinate and monitor the provision of training, advice, counselling and any other non-financial services to small business in accordance with the National Small Business Support Strategy;
- (b) to provide financial support to service providers that provide the services contemplated in paragraph (a);
- (c) to consult with any organ of government, the Council or a service provider in order to-
 - (i) facilitate the provision of business advice and counselling services to small business;
 - (ii) facilitate access by small business to raw material and other products;
 - (iii) facilitate international and national market access for products and services of small business; and
 - (iv) generally, strengthen the capacity of-
 - (aa) service providers to support small business; and
 - (bb) small business to compete successfully in the economy; and
- (d) to formulate and co-ordinate a national programme of policy research, collection and dissemination of information concerning small business.

(2) Other functions of the Agency are-

- (a) to investigate, at the request of the Director-General, the effect of existing and proposed legislation on small business, and to report to

the Director-General thereon;

(b) to provide information and analysis on the implementation of the National Small Business Support Strategy to organs of government-

(c) to make recommendations to organs of government on existing and proposed policy affecting small business; and

(d) to improve the general understanding of the public regarding small business' contribution to the South African economic growth, job creation and welfare.

(3) The Agency must perform its functions in accordance with this Act and its constitution.

Board of Directors of Agency

11. (1) The Agency is managed and controlled by a Board of Directors consisting of-

(a) no fewer than seven, and no more than 15 persons, appointed by the Minister;

(b) the Chief Executive Officer appointed by the Minister on the recommendation of the Board; and

(c) if the Board so elects, no more than five persons, appointed by the Board in an expert or representative capacity.

(2) The directors of the Board must be persons who-

(a) have experience in business or administration; or

(b) on account of their training or experience-

(i) are knowledgeable about trade, industry, finance or the economy; or

- (ii) have legal knowledge of matters pertaining to small business; or
- (c) have experience of matters connected with, and of problems experienced by, small business or any small business enterprise; and
- (d) comply with other criteria which the Minister may prescribe.

(3) (a) The Minister must, by notice in the Gazette and in two newspapers which have general circulation throughout the national territory, invite nominations for directors to the Board referred to in subsection (1)(a) and (b).

(b) The directors referred to in subsection (1)(a) and (b) must be appointed by the Minister from nominations received from small business organisations, service providers and any other person involved in small business promotion and support.

(c) The Minister may, in terms of the criteria referred to in subsection (2), appoint persons-

- (i) other than those nominated, if sufficient persons who meet the criteria are not nominated; or

- (ii) if there are insufficient nominations lodged within the period specified in the notice.

(4) For each director of the Board, other than the Chairperson and the Chief Executive Officer, the Minister may appoint an alternate director, who may attend and vote at meetings of the Board on behalf of a director if that director is unable to attend.

(5) All members of the Board, except the Chief Executive Officer, must serve in a part-time capacity.

(6) (a) The Minister, with the concurrence of the Minister of Finance, determines the remuneration and allowances of directors, alternate directors and co-opted directors of the Board who are not in the full-time service of the

State.

(b) Persons referred to in paragraph (a) who are in the service of the State may not receive additional remuneration or allowances for serving on the Board, but may be reimbursed for expenses incurred in the performance of their functions in such last-mentioned service.

Rights and responsibilities of Board

12. The Board will have all of the rights and responsibilities consistent with those which are normally accorded to a board of directors in terms of the Companies Act, 1973 (Act No. 61 of 1973), and that are consistent with this Act.

Constitution of Agency

13. Subject to this Act and the National Small Business Support Strategy, the constitution of the Agency must, among others, provide for-

- (a) the appointment of the additional directors of the Board referred to in section 11 (1)(c);
- (b) the tenure of directors of the Board;
- (c) the circumstances and manner in which directorship is terminated and the procedures for replacing directors.
- (d) the election of office-bearers, their functions, and the circumstances and manner in which they may be removed from office;
- (e) the rules for the convening and conducting of meetings of the Board, including the quorum required for and the minutes to be kept of those meetings;
- (f) the voting rights of the different directors and the manner in which decisions are to be made;

- (g) the establishment of any division of the Agency to perform specialised functions;
- (h) the establishment and functioning of committees, including a management committee;
- (i) the co-opting as a member of any person to assist the Agency or any committee in the consideration of any particular matter;
- (j) the preparation by the Board, for approval by the Minister, of an annual business plan in terms of which the activities of the Agency is annually planned;
- (k) subject to section 15(2), the banking and investment of funds by the Board;
- (l) provisions to regulate the manner in which, and procedures whereby, expertise from any person is obtained in order to further the objects of the Agency;
- (m) the determination through arbitration of any dispute concerning the interpretation of the constitution of the Agency;
- (n) the delegation of powers and assignment of duties to directors, committees and employees, provided that the Board may-
 - (i) not be divested of any power or duty by virtue of the delegation or assignment; and
 - (ii) vary or set aside any decision made under any delegation or in terms of any assignment;
- (o) a procedure for amending the constitution.

Staff of Agency

14. (1) Work incidental to the performance of the functions of the Agency

is performed by a Chief Executive Officer appointed as contemplated in section 11(1)(b).

(2) The Chief Executive Officer may be assisted by-

(a) persons appointed by the Board;

(b) officers in the public service seconded to the service of the Agency in terms of any law regulating such secondment.

(3) The conditions of service, remuneration and service benefits of the Chief Executive Officer and the personnel appointed by the Board must be determined by the Board, with the concurrence of the Minister and the Minister of Finance.

(4) If the Chief Executive Officer is for any reason unable to perform his or her functions, the Board may designate a person in the service of the Agency to act as chief executive officer until the Chief Executive Officer is able to resume office.

Finances of Agency

15. (1) The funds of the Agency consist of-

(a) money appropriated by Parliament;

(b) grants, donations and bequests made to the Agency;

(c) money lawfully obtained by the Agency from any other source, but loans raised by the Agency are subject to approval of both the Minister and the Minister of Finance.

(2) All money received by the Agency must be deposited in a banking account in the name of the Agency with a bank established under the Banks Act, 1990 (Act No. 94 of 1990), or a mutual bank established under the Mutual Banks Act, 1993 (Act No. 124 of 1993).

(3) The financial year of the Agency begins on 1 April and ends on 31 March of the following year.

(4) The Chief Executive Officer is the accounting officer of the Agency and must ensure that-

(a) proper record of all the financial transactions, assets and liabilities of the Agency are kept; and

(b) as soon as possible, but not later than three months after the end of a financial year, accounts reflecting the income and expenditure of the Agency and a balance sheet of the assets and liabilities of the Agency as at the end of that financial year are prepared.

(5) The accounts and balance sheet referred to in subsection (4)(b) must be audited by the Auditor-General.

Drafting and adoption of constitution of Agency

16. (1) The Director-General must as soon as practicable after the appointment of the directors of the Agency contemplated in section 11(1)(a) and (b), and thereafter as often as may be necessary, convene a meeting of those directors in order to draft and adopt the constitution of the Agency.

(2) The Director-General must determine the procedures for the meeting contemplated in subsection (1) and must chair that meeting.

Transitional provisions in respect of Agency

17. (1) On the adoption of the constitution of the Agency in terms of section 16(1)-

(a) all assets, liabilities, rights and obligations of "Ntsika Enterprise Promotion Agency", an association incorporated under section 21 of the Companies Act, 1973 (Act No. 61 of 1973), and with the registration number of 95/02675/08, pass to the Agency; and

(b) anything done by or on behalf of the said association is deemed to have been done by the Agency, subject to this Act.

(2) The Director-General must as soon as practicable after the adoption of the constitution of the Agency in writing notify the Registrar of Companies and the Registrar of Deeds thereof and of the provisions of this section.

(3) On receipt of the notification contemplated in subsection (2)-

(a) the Registrar of Companies must deregister the association referred to in subsection (1); and

(b) the Registrar of Deeds must make the necessary entries and endorsements in respect of any register and document in the registration office, or document submitted to that Registrar.

(4) No transfer duties, stamp duties, fees or taxes have to be paid for the purposes of this section.

CHAPTER 4

General Provisions

Determination of guidelines

18. (1) The Minister may, by notice in the Gazette, publish guidelines for organs of state in national, provincial and local spheres of government to promote small business and the National Small Business Support Strategy.

(2) The guidelines referred to in subsection (1) may include guidelines on-

(a) procedures for consultation with the Department of Trade and Industry on all proposed legislation identified by the Minister under subsection (3);

(b) the assessment of the effect and application of legislation on small business;

- (c) co-ordination between organs of state in order to promote the consistent application of the National Small Business Support Strategy;
- (d) procedures for consultation with small business organisations, trade unions and other representative organisations;
- (e) the review of the effect of existing legislation on small business and the National Small Business Support Strategy.

(3) The Minister may, by notice in the Gazette, identify the type of legislation that may have an effect on small business and the National Small Business Support Strategy and in respect of which the consultations contemplated in subsection (2)(a) and (d) may be conducted.

Reports

19. (1) (a) As soon as practicable after the end of every financial year the Council and the Agency must each compile a report on their respective activities during that year.

(b) These reports, the respective constitutions, as well as the respective audited annual financial statements, must be submitted to the Minister, who must table them in Parliament.

(2) The Council and the Agency must furnish the Minister with any such other reports as the Minister may request.

(3) Entities designated by the Director-General, must in co-operation with the Director-General annually compile a review, called the Annual Review of Small Business, which must cover areas defined by the Minister or the Director-General, and areas including-

- (a) particulars of the work performed by the Agency and Council and of progress achieved in furtherance of the objects of the National Small Business Support Strategy;

(b) summaries of any findings or recommendations of the Director-General in respect of legislation, proposed legislation and administrative practices which restrict the small business sector;

(c) an outline of new developments and trends in regard to the small business sector in South Africa;

(d) reports on the growth and decline of small business according to sector, size and region;

(e) a statistical analysis of the contribution of the small business sector to the economy, to export promotion, to rural development and to the level of incorporation of marginalised groups into the economy.

(3) The Director-General must submit the Annual Review of Small Business to the Minister before the end of February of each year and the Minister must table it in Parliament.

Regulations and amendment of Schedule

20. (1) The Minister may make regulations regarding-

(a) any matter which in terms of this Act is required or permitted to be prescribed; and

(b) generally, any other matter which may be necessary or expedient to prescribe in order to achieve the objects of this Act.

(2) The Minister may, in order to achieve the objects of this Act, by notice in the Gazette amend the Schedule to account for inflation, macro-economic shifts in the economy, any legislation affecting small business, and any other matter which could have an effect on the functionality of the Schedule.

Repeal of laws

21. (1) Subject to subsection (2), the Small Business Development Act, 1981 (Act No. 112 of 1981), the Small Business Development Amendment Act, 1984 (Act