The Role of Business Linkages on the Growth of Small and Medium Sized Enterprises in South Africa

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ABSTRACT

Small and Medium Sized Enterprises in South have been recognised as a vehicle for economic development and a means to uplift previously disadvantaged populations. Despite support from both government and nongovernmental organisations, these organisations do not seem to live up to expectations by growing in size and consequently creating much needed employment.

This study is an exploration into the role that business linkages play on the growth of SMEs in South Africa. It seeks to find out if by being incorporated into the supply chain of a large organisation, small and medium size enterprises are able to grow in terms of number of customers, revenue, and ultimately number of employees.

Based on qualitative and quantitative data obtained from a sample of eight SME’s and three large corporations, and supported with interviews from four experts in the field of business linkages and SME development, this study argues that even though business linkages contribute to increases in revenue, in the number of customers, and in the number of employees an SME has, they are not the major determinants of growth of an SME. Other factors such as new product development, private ownership and the entrepreneur’s orientation account for the growth of SMEs.

Given this finding, the study concludes by bringing to attention the implications to SMEs, to the large corporations, to the government and other agencies aimed at promoting the growth of SMEs in South Africa.

Keywords: Small Businesses, Small Business Development, Business Linkages, SME Growth, Enterprise Development
1 INTRODUCTION

1.1 Research Area and Problem

In recent times there has been a shift in economic activity from large firms to smaller ones. There is ample evidence of this provided in the United States in the list of Fortune 500 firms. Between 1970 and 1980 the employment share of these large firms dropped from 20% in 1970 to 8.5% in 1999 (Carlsson, 1999). Small businesses are seen, more than ever before, as vehicles for innovation and entrepreneurship rather than a social good. Recent evidence even suggests that entrepreneurship is a vital factor for economic growth (Thurik & Wennekers, 2004). The same trend is prevalent in South Africa where the small business sector employs between 50-60% of the work force (Department of Trade and Industry, 2004).

In 1994, the South African government identified the important role of small and medium sized enterprises in poverty alleviation and in the creation of employment. The SME sector has a key role in South Africa’s socio-economic transition. In particular, SMEs are seen as a means to tackle the problem of high unemployment in South Africa as “they have a high labour-absorptive capacity” (Kesper, 2005: 175). SMEs are also perceived as a means to redress the inequalities brought about by Apartheid in terms of patterns of economic ownership and restricted career opportunities for black employees. Finally, SMEs are perceived as having a significant contribution to black economic empowerment in that the majority of SMEs are reported to be initiated, owned or controlled by those members of society who were discriminated against in South Africa’s past (Kesper, 2005).

Government agencies such as the Small Enterprise Development Agency (SEDA) and Khula Enterprise Finance are designed to help small business owners improve their skills and get access to finance. The South African government encourages the creation of small businesses and other entrepreneurial ventures through programmes such as Broad Based Black Economic Empowerment. Large sums of money have been spent by government on small businesses through various initiatives. As an example, a partnership between Khula Enterprise Finance and Business Partners put up a R150 million fund for small businesses. There was a commitment in the Financial Services Charter to spend R5 billion on small enterprises in South Africa in 2008(IDC, 2008).
Despite the focus on the small business sector, the failure rate among new ventures remains high. The Global Entrepreneurship Monitor report of 2009 estimates the failure rate of new ventures to stand between 70% and 80% (Global Entrepreneurship Monitor Report 2009). The few firms which survive have low growth rates in terms of turnover and number of employees. These low growth rates can be attributed to the common and widely researched problems faced by most small and medium sized enterprises. These problems include: financial issues, production and operational issues, human resource issues and no access to markets (Cant & Ligthem, 2002).

In the 1995 White Paper on National Strategy for Development and Promotion of Small Business in South Africa, the government assigns the SME sector a key role in South Africa’s socio-economic transition (RSA, 1995:10). SME’s were seen as a means to redress the problem of high unemployment. However, the unemployment rate in South Africa is currently estimated at 30.5% (Statistics SA, 2009) and the contribution of SMEs to national employment in South Africa still remains quite low. One of the reasons for this is that the majority of SMEs in South Africa are the survivalist or micro firms with little signs of growth. The medium sized enterprises which create the most employment are in the minority in South Africa. Furthermore, even some established medium sized enterprises have adopted a strategy of ‘jobless growth’ (Rogerson, 1999). This means that sometimes even though turnover might be rising, the number of employees might not increase. As an example, manufacturing firms which need to increase their production capacity often do so by streamlining or reorganising their operations. SME owners or managers further argue that the labour laws in South Africa do not allow firms to react flexibly to market changes (Kesper, 2005). Furthermore the quality and sustainability of some of the employment created by SMEs has been questioned as wages seem to be low for both the owners and their employees. (Department of Trade and Industry, 1995)

With increasing globalization, more firms are becoming multinational and are setting up operations in developing countries which are rich in mineral resources (Jenkins, Akhalkatsi, Roberts, & Gardiner, 2007). African countries use government policy aimed at increasing the levels of foreign direct investment (FDI) as a means of improving their economies and the levels of development of
their countries. As reported in The Economist (March 1993), there is now shared belief that that multinationals are an important element in a country’s development strategy. Blomstrom, Lipsey and Zejan (1992) suggest that FDI encourages increases in technical know-how, in management expertise, in efficiency and enables access to new markets that might otherwise be less readily available to developing economies (Blomstein, Lipsey, & Zejan, 1992). As a result, “governments all round the world and especially in developing countries are queuing up to attract multinationals” (The Economist, 1993: 41). In 2005 FDI in Africa reached 334 billion US dollars. Even though FDI has an important role to play in poverty alleviation, the UNCTAD (2006) has highlighted the fact that it is most effective when the FDI brings about linkages in the economy.

Despite shared belief that FDI is a means of alleviating poverty and encouraging growth of local SME’s, some researchers believe that the value of FDI in developing countries is often overstated. This, they argue, is because FDI in these countries is usually tied to political or donor objectives which might instead weaken the local companies and their ability to compete in global markets (Padayachee, 1997). Moreover, large companies in developing regions of the world are often faced with a “poorly developed local economy characterized by bad infrastructure, fledgling financial markets, and a poor business and regulatory environment” (International Finance Corporation, 2007: 8). While it is a challenge for these large corporations to find local SMEs with the potential to meet stringent safety, technical, quality, and delivery standards, the large corporations with large annual procurement budgets provide an immense opportunity for the SMEs to grow. By working with large corporations SMEs could build their capacity and competitiveness.

Other researchers propose that due to globalisation, some well intended environmental or sustainability standards can represent a significant barrier to entry or a challenge for small scale enterprises in developing countries (Perez-Aleman & Sandilands, 2008). Thus, Perez-Aleman & Sandilands identify increasingly strict environment laws and production standards as a significant challenge to small and medium sized enterprises.

Despite these difficulties related to local procurement, some of the large firms still source locally. In the 10th annual survey of CEOs conducted by PricewaterhouseCoopers for the World Economic
Forums, 35% of the CEOs indicated that more than 10% of their value chains were sourced from, or located in, low-cost countries (Jenkins, Akhalkatsi, Roberts, & Gardiner, 2007).

Just as with the multinational corporations, large local corporations face similar challenges of product quality and reliability when dealing with SMEs (Rogerson, 2006). Several donor funded programmes have used supply-sided measures such as improving the regulatory environment or improving access to finance to promote SMEs. Since 1990, however, more attention has been focused on promoting inter-firm linkages. Organisations such as the United Nations Industrial Development Organisation (UNIDO) and the United States Agency for International Development (USAID) support mutually beneficial linkage projects between firms (Stanton & Polatajko, 2001). Business linkages have been identified by organisations such as the United Nations Conference for Trade and Development (UNCTAD) and the International Financial Corporation (IFC) as a means to solve some of the problems faced by small and medium sized enterprises. The Mozambique Aluminium (MOZAL) project in Mozambique, which we would be referring to during the course of this study, is a good example of how a business linkage helps both the community and the organisations involved.

The aspect of business linkages has been studied in several forms and in several other countries. In the United States, it was found that SMEs benefited from being linked to multinational corporations by the transfer of technology and the training of suppliers. The study also found that these linkages enhanced the productivity of the SMEs (Asiedu & Freeman, 2007). In examining the impact of supplier-buyer linkages between multinational corporations (MNCs) and local electronic manufacturers, Jun Yeup Kim and Le-Yin Zhang found that local economic development was fostered in the Qingdao region in China. They further proposed that business linkages can also be a means of exposing SMEs to the international market (Jun Yeup & Le-Yin, 2008). In a critique of three South African inter-firm linkages, findings indicate that these linkages expose emerging businesses to market conditions, and can provide access to process technology training, low cost raw materials, creative finance, and new markets. The small business thus ‘learns by doing’ and also ‘learns while earning’ (Toomey, 1998).

According to Brush and Vanderwerf (1992) SME growth is the most appropriate indicator of performance and is closely associated with the overall firms’s survival. The study is an exploratory study into the role that business linkages play in the growth of SMEs in South Africa. By
interviewing the partners involved in a sample of business linkage relationships, the study will add to the body of knowledge in the field of business linkages in the South African context.

The study will be useful to Local Business Development Services (LBDS) and other organisations such as the South African International Business Linkage and the South African National Business Initiative (SANBI) all of which seek to facilitate and promote business linkages. This shall be done by presenting the challenges faced by both the SMEs and the large corporations in the business linkage relationship and by presenting what both parties consider as critical elements in that relationship. These challenges and critical elements collected from current business linkage relationships will enable these agencies and other NGOs involved in the promotion of business linkages, to better plan and arbitrate future linkages.

The companies (both large and small) involved in this study also stand to benefit from any resulting recommendations.
1.2 Central Hypothesis

The central hypothesis of this study is that business linkages are beneficial to both the small enterprises and the large enterprises involved. Business linkages can help the large corporations reduce their costs and enable the small enterprise increase its sales (by increasing its number of customers) and subsequently its number of employees. These increases in sales and in number of employees are usually used as measures for growth Pasanen (2007).

1.3 Research Questions and Scope

1.3.1 Research Questions

Apart from the hypothesis above, this study seeks to explore and possibly answer the following broad questions:

- Are the local SME’s ready and reliable enough to be linked or partnered with large multinationals?
- What steps can be taken in order to upgrade the SMEs to a level where they can be in a position to competently supply multinational corporations?
- What are the critical factors necessary for a business linkage to be effective?
- What are the challenges faced by the parties involved in trying to implement business linkages in the South African context?

In addition to these broad questions, the study also seeks to the following more specific questions:

- Do business linkages help SMEs increase the number of customers?
- Do business linkages result to an improvement in the skill levels of SME owners or managers through a transfer of skills from the large corporation to the SME?
- Do business linkages contribute to higher employment in the SMEs?
- Do Business linkages contribute to increases in revenue in the SME?
1.3.2 Scope

There are several forms of linkages. A linkage might be amongst small enterprises which come together in the form of a cooperative. This is sometimes called a ‘horizontal business linkage’. Enterprises usually get into horizontal linkages to reap the benefits of bulk buying and group leasing of equipment. Another form of linkage is one in which a large corporation uses small and medium sized enterprises as distributors or retailers of its product and it is sometimes called a ‘forward linkage’ (Stanton & Polatajko, 2001).

However, for the purpose of this study, we will focus on the business linkages between large corporations and small and medium sized enterprises. More specifically, the study shall focus on ‘backward business linkages’ where the small firm is incorporated into the supply chain of the larger ones.

1.4 Research Assumptions

In carrying out this study, the researcher assumes the existence of business linkages between small and large corporations in South Africa. These companies will be used as a means for data collection and analysis.

It is also assumed that the large corporations are interested in business linkages and are willing to be partners in business linkages.

Finally, the researcher assumes that data on this subject exists and that this data is easily available and is reliable.
1.5 Research Ethics

All information gathered from participants (both the small and large enterprises) in this research will be classified as confidential and will be used for academic purposes only. Before conducting any interviews or before collecting any data from any of the companies, confidentiality agreements were signed by the researcher.

Ethical issues are particularly important in qualitative and exploratory research such as this. The most important ethical issues to be considered are harm to participants, lack of informed consent, and deception (Bryman, 2008). Furthermore, due the qualitative nature of the data, might be more difficult to maintain anonymity.

To counter the problem of deception and lack of informed consent, before interviews, letters of consent were signed by the interviewees. As Henning (2004) suggests, all participants in the research were informed of the purpose of the study and given a brief summary.

In order to protect the identity of the interviewees, letters and numbers have been used to name the respondents in the course of the study.
2 LITERATURE REVIEW

2.1 Discussion

The definition of a small business varies, in terms of the number of employees and turnover, from one country to another. In South Africa an SME is defined as a “separate entity owned by one or more people and having between 2 to 250 employees” (The Department of Trade and Industry, 2002). These small enterprises are further classified into three groups. The survivalist enterprises are usually one-person micro enterprises and operate mostly in the informal sector. Micro-enterprises are those that employ between one and four people and can be found both in the formal sector and the informal sector. The small enterprises employ between five and 20 people and finally the medium enterprises operate in the formal sector and have numbers varying between 20 and 200 depending on the sector (The Department of Trade and Industry, 2002). The small business sector in South Africa is very important because it employs between 50% and 60% of the labour force. However, this proportion is estimated to be more when the informal sector of small businesses is included. (The Department of Trade and Industry, 2004).

The South African government recognizes the important role of small and medium sized enterprises in economic development and as such initiatives, such as Black Economic Empowerment (BEE) preferential procurement policies, Small Enterprise Development Agency (SEDA), Accelerated Growth Initiative of South Africa (ASGISA), the Usobomvu Youth Fund and Khula Enterprise Finance were set up to encourage the growth of new and existing SMEs. However, the effectiveness of these tools has been questioned. A survey done by African Response on the small businesses in the Gauteng region, found that only 8% of these businesses use such government support mechanisms. Also, BEE awareness is very low amongst the entrepreneurs in the rural regions (African Response Survey, 2006). The South African National Business Initiative (SANBI) suggests from studies conducted that most large corporations in South Africa are focused more on BEE compliance rather than on strategic investments in SMEs (African Response Survey, 2006). Rogerson, (2004) further argues that there is a major difference in the impact of these programmes in urban and rural areas (Rogerson, 2004).
Cooperatives have been established in the past to enable SMEs pool their resources for increased benefit. A cooperative is defined as “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise” (Wanyama, Develtere, & Pollet, 2008: 18)

There has also been studies into the importance of networking. Ngoc & Thang (2009) observed that different levels of networking had different impact on bank financing in SMEs. Networking, they argued, is extremely important in emerging economies due to the absence of effective market institutions. Networks then play the important role of spreading knowledge about a firm’s existence and its practices. They found that networking, by helping SMEs improve their legitimacy is believed to improve their accessibility to bank loans. However, networking also exposes SMEs to other external sources of finance and thus reduces their need for bank loans. The most important part of the research was that different networks serve different purposes. While networks with customers have the effect of increasing the need for bank finance, strong networks with suppliers have the opposite effect of reducing the need for bank finance (Ngoc & Thang, 2009). Business linkages, in effect, entail developing a strong network between the supplier and the customer.

In recent times, there has been increasing focus on creating relationships not only among the small enterprises in the form of cooperative societies but also between SMEs and larger ones. According to the UNCTAD, ‘Business Linkage’ is a term used to define the incorporation of small business into larger ones either via their supply chains, or via their sales and distribution network (UNCTAD, 2006). The term 'business linkages' is more commonly used to refer to mutually beneficial commercial relationships between independent profit-oriented enterprises. In a business linkage, all parties involved emerge as winners. Greison et al (1997) propose that “business linkages are a normal aspect of business life in market-oriented economies, and a flexible tool that can be used to support a variety of development processes in low-income countries” (Grierson, Mead, & Moyo, 1997: 304). In a study of business linkages in Zimbabwe, Grierson et al (1997) noticed that there were various forms of business linkages. The most familiar is sub-contracting, where one business enters into a contract with a separate business to provide a product or service. They also noted that sub-contracting arrangements were expanding rapidly in both developing and transition economies, often through a
process known as 'unbundling'. ‘Unbundling’ takes place when a vertically integrated enterprise chooses to purchase products or services from others, rather than produce in-house. The strategy of inter-firm linkages, most often through subcontracting, has been used successfully in Taiwan, Indonesia, Malaysia and Brazil. Such linkages are usually government supported and provide incentives for both large and small businesses to work together productively (Toomey, 1998). A second form of business linkage arises through franchising, whereby a franchiser licenses a separate enterprise - the franchisee - to use its brand name to market a product or service created by the franchise. A third type of linkage arrangement involves networking among enterprises specialising in different aspects of a production process, without any single enterprise dominating the production and distribution chain (Grierson, Mead, & Moyo, 1997).

Jenkins et al (2007) in an IFC report on the opportunities and challenges of business linkages, suggest that business linkages which go beyond the value chain of an enterprise could be formed. They, on the other hand, suggested four kinds of linkages. The most popular types of linkages were ‘Value Chain SME Development Linkage Programmes where it is crucial that the SME have the capacity to meet the needs of the larger firms. A good example of this is SAB Miller in Uganda who source sorghum locally from a cooperative of 8000 small farmers. This is quite similar to the unbundling or subcontracting mentioned by Grierson et al.

Sometimes, however, companies engaged in ‘Beyond the Value Chain’ SME Development and Linkage Programmes. Companies engaged in large infrastructure projects or mining activities usually practice linkages beyond their value chains. They do this for public relations or corporate social responsibility reasons, such as demonstrating their commitment to the community and thereby strengthening their license to operate, or mitigating social risks from the viewpoint of investors. Also, companies may support ‘beyond the value chain’ SME development and linkages in order to reduce dependence in the local economy and soften the blow when they leave. This is especially true for mining companies. A company restructuring or privatizing may support such activities to compensate for massive job cuts inside the company. Companies can also choose to support such activities for the enhanced stability and opportunity that a vibrant local economy offers over the longer term (Jenkins, Akhalkatsi, Roberts, & Gardiner, 2007).
Firms could also be involved in ‘strengthening the enabling environment’ for business linkages. Large corporations sometimes promote the growth and development of organisations that help build the social and economic assets and infrastructure on which SMEs depend. These include schools and vocational training institutes, local non-profit or profit making business service providers, credit bureaus, entrepreneurship organisations, small business associations and chambers of commerce (Jenkins et al, 2007). Large firms are starting to explore channels for dialogue on the kinds of policies, programmes, and regulations that affect SMEs’ ability to incorporate, grow, and form linkages with larger firms. A good example of this is the South African National Business Initiative (SANBI) which is a coalition of over 140 local and multinational companies. This organisation of forward-thinking South African and overseas companies is committed to realizing the vision of a thriving South African society, with a market economy that functions for the benefit of all. Such an organisation as the SANBI is crucial in strengthening and promoting an environment which is conducive for linkages (NBI, 2009).

The last approach proposed by Jenkins et al is a ‘Hybrid Approach’ which might involve all three methods mentioned above and usually has several parties involved (Jenkins, Akhalkatsi, Roberts, & Gardiner, 2007).

2.1.1 The Partners involved in a Business Linkage:

The IFC has identified several important partners in the setting up and rolling out of business linkages. These are: the Company who is principally the lead sponsor of the programme, the Development Institution, which is in charge of designing the programme as well as monitoring and evaluating programme results, and finally the Local Business Organisation which provides a database of SME’s and raises awareness of the program using its SME network. (International Financial Corporation, 2007).

Ashley & Haysom (2006) stress the need for an external facilitator because of the inherent distrust of private sector firms. This is especially important during the early stages of a Business Linkage relationship. In South Africa, NGOs and other Developmental agencies in South Africa seem to have filled that role. However, they conclude by saying that the challenge is for the external facilitator not
to be a permanent member of a relationship as this might become costly for both the large corporation and the SME.

According to Mather (2005) the government is a very important partner in business linkages because through policies and legislation, it is able to create an environment that encourages linkages between large corporations and smaller ones. Though legislature, the government can encourage linkages in specific sectors of an economy such as with the AgriBEE in South Africa (Mather, 2005).

### 2.1.2 The Benefits of Business Linkages:

Different studies have highlighted different reasons for business linkages. Grierson et al. (1997) propose three motives for business linkages. There are humanitarian and political motives for business linkages but most importantly, they argue, business linkages make good business sense. Buying from disadvantaged suppliers is sometimes motivated by a sense of religious, social, or community responsibility. This is observed in large corporations such as Anglo American which are often involved in setting up small philanthropic organisations.

Political motives exist in countries like South Africa where national policies such as the Black Economic Empowerment encourage preferential procurement from previously disadvantaged groups and ensure greater economic participation (Toomey, 1998). Business-linkages programmes are, thus, a good response to this complexity of political forces. They allow and encourage specialisation, cost-minimisation, and efficiency, and they offer many opportunities for broadening benefit distribution.

The MOZAL business linkage experience was a successful endeavour and resulted in benefits. It successfully contributed to building the capacities of 45 local SMEs. By 2007, MOZAL spent $17 million with 250 Mozambican companies monthly. Local purchasing from MOZLINK-affiliated companies increased from $5 million in 2001 to $13 million in 2005. The MOZLINK study found out that SME performance in key areas of quality, management, maintenance, and safety had
improved by 20 percent on average. As a result of this linkage, the Mozambican Business Network was formed to encourage interaction between SMEs (International Finance Organisation, 2007).

Using the MOZAL experience, the IFC proposes that in a business linkage the SME, the large corporation and the local community all benefit. (Jenkins et al, 2007). In a study done in the Manicaland Business Linkage Project in Eastern Zimbabwe, Greirson et al confirm the benefits of business linkages to all parties involved; in this case the buyer, the supplier and the community. Possible benefits to the SME include: increased employment and wealth creation by local firms, acceleration of knowledge transfer and technology upgrading, enhanced skills, standards and capacity, access to new domestic and/or foreign market, attraction of additional foreign direct investment in ‘cluster’ effects, more diversified client and market structures, more stable relationships to buyer or producer organisations, risk-sharing through joint funding and/or operations, facilitation of access to finance, opportunities to innovate and upgrade, and increased competitiveness.

Even though international experience shows that generic training is less effective in promoting small business than is linking business training to actual market-demands, (Toomey, 1998) there is still some scepticism on the ability of business linkages to aid in the transfer of skills to SMEs. It was generally argued that in most linkages, suppliers are constrained only to service activities where the opportunities for the use of improved technology are severely limited and levels of income are destined to remain low (Kesper, 2005). In an exploratory study of the state of linkages in South Africa, Mead (1998) suggests that this is not always the case. Some of the subcontracts observed went beyond services into manufacturing process sometimes including manufacturing activities that are of central importance to the quality and price of the final product sold by the large enterprise. Furthermore, Mead argues, it is a mistake to assume that services are always restricted to activities involving low levels of technology and income. Some very dynamic companies, including some office cleaning, catering, and construction-related activities, supply services in ways that use modern techniques and generate substantial incomes both for owners and workers in the enterprise. In addition, employment in some of these service-based linkage suppliers has been growing very rapidly.
A study of 30 SME food processors in South Africa came up with mixed findings. On one hand, supermarket sourcing practices represent a significant obstacle to growth for the SMEs but on the other hand, these complex retail systems also offer opportunities for growth for the SMEs (Mather, 2005). Mather’s paper suggests that Business linkage relationships all have the potential to be mutually beneficial but it is important that they be managed correctly.

Benefits to the large corporation include: reduced procurement, production and distribution costs, improved productivity, increased opportunities for corporate responsibility combined with profitability, enhanced reputation and local license to operate, improved integration in new overseas markets, increased ability to reach consumers at the base of the economic pyramid, proactive in dealing with downsizing, reduction of foreign exchange needs through import substitution, increased flexibility in making design and production changes due to proximity of local suppliers, reduced environmental impacts from long-distance shipping and compliance with government local content requirements (Jenkins et al, 2007).

In a study of Business Linkages in the Tourism sector in South Africa, Ashley & Haysom (2006), found that by involving local SMEs in their supply chains, corporations in the tourism sector improved their customer satisfaction and increased their market appeal.

The benefits of the business linkage to the community include: stimulation of economic activity and enhanced local economic development, increased employment and production, long-term increase in local or regional competitiveness, added local purchasing power, access to more affordable, reliable, or better quality products and services, increased participation of large-scale companies in local business and community development, balance of payment benefits when products are exported and/or substituted for imports and the development of local business service providers catering to SMEs (Jenkins et al, 2007).
A report by the UNCTAD in 2006 identified that business linkages are especially useful because they help SMEs by facilitating their access to finance. This is done mostly by the large corporations which act as guarantors for suppliers taking out loans from banks by introducing special credit facilities and advance payment mechanisms in support of SMEs, by providing advice on the information needs of capital providers and by practicing advanced and prompt payments in favour of the SMEs (UNCTAD, 2006).

2.1.3 Critical Success Factors for an Effective Linkage

According to the IFC, there are key success factors towards setting up and maintaining a successful business linkage. Jenkins et al (2006), group these factors as either being strategic or operational. Strategic factors include corporate commitment, programme strategy and focus on SME development. Corporate commitment requires that the large enterprise be committed to the project and, as such, incentives of their staff members should be aligned towards local procurement and SME development. A clearly spelt out programme strategy for procurement, finance, management and the monitoring is also vital. The large enterprise, apart from focusing on cost reduction, should have as driving force the desire to make the SME world class. Operational factors include having a committee with representatives from all partners, and most importantly, having mentors to support them (Jenkins, Akhalkatsi, Roberts, & Gardiner, 2007). The GEM report of 2008 attributes the poor sustainability of start-ups in South Africa, in comparison with other countries in the GEM sample, to the lack of policy interventions aimed at supporting and mentoring entrepreneurs through the difficult process of firm birth. The report suggests that support offered to SMEs should be more than just a generic business plan (GEM report 2008)

The UNCTAD identifies four major policy areas that are necessary for building linkages. Two of them are related to the FDI area and two are related to the SME area. The two policies related to the FDI area are: improving the investment climate and strategically attracting FDI (UNCTAD, 2006). Strategic attraction of FDI, however, is not always easy. In South Africa, for example, efforts have been made to target FDI in specific sectors and to encourage domestic economic activities around these strategic firms. With the exception of the Motor Industry Development Programme the results
have been rather modest (Robbins, 2005). The two policies on the SME side are: strengthening the local absorptive capacity and developing domestic SME suppliers.

It is also critical that the economic environment is enabling towards emerging SMEs. Administrative and regulatory burdens weigh more heavily on SMEs and ensure that they remain in the informal sector, where they will find it difficult if not impossible to access partners, finance and global markets. Sometimes, these administrative burdens might be from the large corporation (Toomey, 1998).

Apart from these policies, Jenkins et al also argue that SME owners must have a desire to succeed and a commitment to continuous learning. Small businesses should analyse their strengths and weaknesses, and set forth strategies to enhance their comparative advantages. The SMEs must be able and willing to transform themselves according to the needs arising in the partnership. Linkages are more successful if the SMEs can contribute specific assets to the TNC partners, for example familiarity with local politics and government regulations, knowledge of local markets (Jenkins, Akhalkatsi, Roberts, & Gardiner, 2007). Other researchers have also mentioned the entrepreneurs approach or orientation as an important factor in the growth of SMEs (Pasanen, 2007).

Mead (1998) argues that the most important factor is for the business linkage to be treated as an economic venture and not some other philanthropic gesture. An attitude of charity on the part of the buyer, or an attitude of ‘rights to special treatment’ on the part of the supplier, can quickly divert the endeavor, converting it into a charitable activity which distracts people from the principal focus which is the promotion of sustainable, market-based linkages. This kind of attitude also hinders the spread of the idea that business linkages can be a commercially rewarding way of organising business behavior (Ashley & Haysom, 2006).

Where the motivation for the contract is based on community service, there is less likely to be transfer of skills from the large to the small enterprise. In contrast, where the principal motivation is commercial, the buyer has an incentive to serve as mentor to suppliers thereby helping them improve
their efficiency and productivity (Mead, 1998). Ashley & Haylom (2006) seem to support this point by arguing that philanthropic donations as an approach to corporate Social Responsibility have a negative impact because most of the projects fail or are not able to sustain themselves. More importantly, instead of empowering the previously disadvantaged communities it creates dependence and promotes paternalism.

In cases where the Business Linkage relationship is done under Enterprise Development, the Ruffing (2006) suggests that the large corporation only hold minority stakes of up to 20 per cent with a clear exit strategy.

2.1.4 Challenges Faced in Business Linkage Relationships

Despite the benefits that ensue, there are several challenges involved in the process of business linkage relationships. Grierson et al (1997) identify the imbalance of power between buyer and seller, government regulations, union demands and limited access to linkage opportunities as the main challenges to linkages in Africa. They argue that much still needs to be learned about how to cost-effectively capture the benefits and minimise the risks of business linkages (Grierson, Mead, & Moyo, 1997).

Many large firms are, in principle, interested in developing relationships with local SMEs. However, such relationships can be costly to form and maintain, and as a result, they rarely develop easily or smoothly. A large firm’s tendency to form linkages depends on the costs and benefits involved, government incentives and requirements and the availability of qualified SMEs. The latter is often a key obstacle because SMEs may have limited access to market information and financing, may lack management skills or production expertise, or may be unable to match product quality requirements and may be unable to scale up quickly (International Financial Organisation, 2007).
In a study in Uganda, Zake et al (2005) found that managers in multinational corporations were often sceptical about cooperating with SMEs. This was due to unreliability, poor quality and in some cases lack of business licenses and tax identification numbers. As a result, these multinationals preferred to import or to purchase from other multinationals in the same country rather than investing in local SME linkages.

Sometimes, failure of a business linkage programme stems from the lack of drive from the entrepreneur. When those who implemented the MOZLINK programme tried to understand why certain companies were not successful in the programme, they found that the main reason was a lack of drive from the entrepreneur. This led them to focus more on the drive of the entrepreneur during selection for the next round of SMEs (International Finance Corporation, 2007).

Evidence suggests that many SMEs want to remain independent and in control of their operations. Smaller firms are usually reluctant to cooperate with international partners, particularly large organisations, that they fear will ‘acquire’ their intellectual property and then dump them. This may pose particular issues in some fast-moving sectors where long-term survival of an SME depends on full or partial acquisition by a larger firm that can provide specialists resources but where the owners are reluctant to give up control (EIM, 2005).

Another concern is that the network links with larger firms may not be as symbiotic as some might suggest. The individual SME may become dependent on resources controlled by other (larger) firms (O’Farrell et al., 1998) and the SME will thus stand at a disadvantage. In South Africa, for example, a few large supermarket chains control food sales. The local farmers or food processors therefore have very little bargaining power against these chains. Retailer buying practices such as extended payment terms, rebates and discounts usually make the linkage relationship between the SME farmers and food processors and the retailers difficult. Mather’s (2005) study of 30 SME food processors found that only four of them were involved in linkage relationships with large supermarket. Despite the difficulty, the rest preferred to sell in informal markets. Thus, a major challenge in business linkages is to ensure a fair balance of power and mutually beneficial contracts.
Jenkins et al. group the challenges present in business linkage relationships as operational, reputational and systematic in nature.

**Operational Challenges include:**

1. *Securing internal commitment within the large firm.* However, to counter this Jenkins et al propose having strict procurement policies, redefining performance and incentive measures and instilling a culture of long term thinking. Ashley & Haysom (2006) also propose appointing a champion in the large corporation to lead the project. Sometimes, they argue, aligning bonuses and compensation of managers in line with the quality of the linkage relationships also helps to secure commitment.

2. *Obtaining reliable and actionable information.* These could be countered by having a dedicated department or staff, using networks, and developing a reliable supplier database.

3. *Measuring the impact of the program.*

**Reputational and Relationship Management Challenges include:**

1. *Managing expectations.* This can be countered by having well spelt out social responsibility agreements.

2. *Reducing dependence.* This can be countered by improving the diversification of the SMEs, by introducing peer networking among SMEs.

**Systematic Risk Challenges include:**

1. *Building SME skills and capacity.* This can be countered by offering training modules to the SMEs, providing best practice guidelines, enterprise centres and peer networking.

2. *Improving SME access to finance.* Finance is a major stumbling block in the growth and development of SMEs. Without adequate finance SMEs cannot tender for contracts with large corporations. Some of the measures taken by other large corporations to overcome this challenge include: joint financing mechanisms, links with commercial banks, non-traditional forms of collateral.
2.2 The State of Business Linkages in South Africa

Business linkages, defined as any commercial interaction between different profit-oriented enterprises, develop naturally in any well-functioning market economy. They occur as enterprises seek the most economical and efficient way of sourcing the skills, materials, and services needed to produce commercial goods and services for their customers (Polatajko, 2001). Due to South Africa’s political and economic past, however, these linkages do not yet occur naturally. In 1993 The World Bank acknowledged that SMEs in South Africa will be stimulated through the establishment of links with large corporations. However, their study also revealed that South Africa did not have the necessary environment to encourage and sustain such links (World bank, 1993).

Since the democratisation of South Africa in 1994, SME development has been a critical focus of the National Government (Rogerson, 2004). There is increasing effort on the part of government to find ways of incorporating SMEs into the formal economy. The Department of Trade and Industry tries to enhance market access for small enterprises (Rogerson, 2008). The South African government has seen SME development especially those owned by the previously disadvantaged as a means of redressing some of the inequalities of the past (Rogerson, 2004).

Even though there has always been focus on SME development, literature on SME growth and development in South Africa suggests that this has evolved through several phases. Toomey (1998) suggested there are has been an evolution in the types of linkages in South Africa. Previously, large corporations focused on Corporate Social Responsibility. However, this form of investment in communities has been criticised for its motives, for the fact that it creates dependence instead of empowerment and for the fact that the large corporation keeps control over the SME (Toomey, 1998). Haysom & Ashley (2008) have called for a shift from this philanthropic form of investment to a more economically viable beneficial relationship. These conventional social investment approaches, they argue, are not up to the challenge of effectively alleviating poverty. There has to be a change of mindset from doing good to finding a win-win situation in which companies actually profit by doing good (Ashley & Haysom, 2006).
This form of philanthropic donations seemed to have evolved to a more beneficial kind of partnership known as ‘Enterprise Development’ (Toomey, 1998). Private companies still seek to empower SMEs but more recently this relationship is based on mutually beneficial partnerships. To foster SME development, large corporations now have Enterprise Development under which they invest in SMEs which in turn supply them with some goods or services. As far back as 1989, Anglo and De Beers started their small and Medium Enterprise Initiative (SMEI). In July 1998, this was spilt up and each company formed their own initiative (Luiz, 2002). The private sector in South Africa has invested a lot in enterprise development. In 2006, Anglo Coal spent about R1.7 billion in BEE procurement from 418 suppliers while Khumba Iron Ore in 2007 spent R1.308million in BEE procurement from 308 suppliers (Luiz, 2002).

South African legislation has a major role to play in Enterprise Development and consequently in business linkages in South Africa. Enterprise development makes up 10% of BEE points (Woolley, 2005). As such large corporations are encouraged to seek out and help local SMEs. Given that different sectors have issues specific to them, there is specific BEE legislature for some sectors such as Agriculture (AgriBEE), tourism (Tourism BEE charter). Apart from creating legislature that favours enterprise development, the government also has agencies to help overcome the challenges faced by SME’s. Government agencies such as Small enterprise Development Agency (SEDA), Tourism Enterprise Program (TEP), Usumbomvu Youth Fund (UYF), Khula Enterprise Finance, National Empowerment Fund (NEF), all encourage SME growth (The Department of Trade and Industry, 2009).

Apart from the government agencies that help SMEs solve some of their basic problems there is the existence of organizations such as the South African International Business Linkage (SAIBL) and the National Business Initiative (NBI) to help facilitate linkages between SMEs and large corporates. SAIBL is a business linkage programme building the competitiveness of black enterprises, and linking them to domestic and international markets, in sustainable business relationships (SAIBL, 2009). Through its Enterprise Linkage Initiative (ELI) the SAIBL supports the efforts of corporations in the development of black enterprises and suppliers. ELI is a corporate led movement for sustainable, mutually-beneficial, transformational linkages between large corporations and
competitive BEE enterprises. The purpose of this programme is to increase the number and depth of business linkages between large corporations and South African BEE enterprises by supporting supply chain managers, by identifying, developing and sustaining linkage opportunities. A similar organisation is the National Business Initiative (NBI) which was formed in 1995 to help foster a sustainable business environment (NBI, 2009). The NBI believes that business cannot thrive in a society that fails and as such it seeks to develop communities/society through linkages.

According to the NBI business linkages in South Africa have usually taken three different forms. There is the form of direct facilitation in which case the large corporation uses its own resources to facilitate business linkages. The large corporation in this case identifies suitable SMEs, provides them with management and technical support and in some cases helps them get access to finance. The Telkom capacity building program targeted at SMEs in the ICT sector is a good example of direct facilitation. Secondly, there might be indirect facilitation where large enterprises collectively establish finance institutions which in turn facilitate business linkages. Lastly, there also exist independent facilitating organisations such as the Small Business Project (SBP) who have facilitated more than 1 million linkages between 1998 and 2003 (NBI, 2009).

Several studies have been carried out on some business linkage relationships in South Africa. Mead in 1998 carried out a study of six business linkage partnerships in the Northern Province and in KwaZulu Natal. Mead’s study identified that linkages in South Africa occur either because they make good business sense, because of community service, or because of the wish to shift to a production pattern that enables a corporation to escape payment of taxes, or evade the impact of rules and regulations, usually imposed by government agencies. While the last of these motivations is true in many cases, the study found that a number of small enterprises paid all relevant taxes and fees while employing workers who were members of unions and were covered by the standard labour benefits. These enterprises were generally the most efficient of the small enterprises, and the ones that were growing most rapidly. Most importantly, Mead’s study concluded that both the suppliers (small enterprises) and the buyers (large enterprises) want to do more to increase the level of linkages.
The retail sector is a very important sector in the South African economy. In 2007 retail trade contributed 15.5% of GDP and 14.1% of employment (BER, 2009). In the last 20 years, South Africa’s retail sector has changed from a fragmented and diverse structure of small and medium-sized shops to a domination of a few large supermarket chains. Given the concentration of food sales through these retail outlets, most small and medium scale food growers or processors depend on these chains for the sale of their product. This changing landscape of the retail sector, though it provides better quality and a greater variety to the customers, does not have as positive an effect on some small and medium scale farmers and food processors (Mather, 2005). Retailers in South Africa have strict requirements as to volumes, quality, food safety, consistency and year round supply that make it difficult for small producers to become their suppliers. Supermarket chains tend to favour established and larger producers who can comply with their requirements. As such there is an increasing danger that small producers, and especially black farmers who are now entering commercial agriculture after years of exclusion, could once again be excluded and marginalised (Louw, Vermeulen, Kirsten, & Madevu, 2007). Much of the emerging research on these changes in emerging economies in Latin America, Asia and Africa suggests that, with a few exceptions, small and medium scale enterprises are increasingly marginalised in supermarket controlled value chains (Mather, 2005).

Louw et al. used a case study of the retailer SPAR to argue that business linkages can benefit both the retailer and the small farmer. For the retailer, it ensures that smaller quantities of produce are delivered to the supermarket more often, assuring that it is fresh. By injecting capital into the local community the retailer helps promote infrastructural development that can attract more investors to the area and in turn create a larger market for the supermarket (Louw, Vermeulen, Kirsten, & Madevu, 2007). The retailer, however, faces the challenge of having to deal with large numbers of small farmers (instead of a few large suppliers) and this might lead to administrative pressure and higher transaction costs. Louw’s study was however, conducted on franchise SPAR stores who had some flexibility in their procurement.
Mather (2005), in a study of 30 SME food producers found that even though the SMEs were usually price and quality competitive, they believed that they were not paid the true price for their produce since the large supermarkets yield high bargaining power. As such, only 4 out of the 30 SMEs in the study were listed suppliers with large supermarket retailers. The small farmers and food processors in this study also cited retailer supply demands and the system of listing suppliers as a key hindrance to growth. (Mather, 2005)

The Louw et al study, on the other hand, found that the small scale farmer benefited from improved prices as a result of better coordination of deliveries and better quality of the produce thanks to skills gained from training workshops. However, Louw et al acknowledged that poor technical farming and business skills of the growers, the poor communication between growers, and high costs of transport might leave the farmers vulnerable to opportunistic behaviour by the retailers. The problem of power imbalance in South Africa is a deep rooted problem. Most often the buyers especially in the retail sector wield an enormous amount of power (Mead, 1998). To counter this problem Mead suggests having several buyers (that is, increasing the number of customers) and educating larger corporations on the importance of treating suppliers fairly. Mather (2005) suggest that even though the aspect of ‘listing’ suppliers might be a hindrance to small food processors, there is an opportunity for them to supply in franchise stores which have more flexible procurement practices.

Amidst the debates around SME development and value chains, the tourism sector is of particular interest. The Bureau of Economic Research (BER) estimated that about 9,728,860 tourists visited South Africa in 2008 (BER, 2009). This makes the tourism sector quite important and it is anticipated that it will become one of the key drivers (Kirsten & Rogerson, 2002). Based on the conclusion that the tourism sector was South Africa’s best chance for rapid job creation, the Business Trust made the decision to adopt “a single sector approach to pursuing its objective of expanding job opportunities” (Business Trust 2001,: 18).
As such the Tourism Enterprise Programme (known since April 2008 as the Tourism Enterprise Partnership, TEP) was set up as a public-private sector initiative to focus on helping SMEs in the tourism industry. Its goals are to foster trade and investment flows, as well as technology transfer between established tourism operators and small enterprises (Upstart Business Strategies 2004). The TEP seeks to identify, facilitate and ultimately foster commercially viable business transactions among tourism enterprises and other related buyer, supplier, partner and investor firms and corporations linked to the tourism sector. As of 2004, the TEP had helped approximately 2,000 SMEs grow their aggregate revenues by over R1 billion (Rogerson, 2008). Despite the success of the TEP as an institution, it was observed that to be sustainable, the TEP needs a predictable, reliable and regular source of funding (Rogerson, 2008). The Tourism Black Economic Empowerment (BEE) Charter (DTI, 2003) provides the overall framework and principles for Broad Based BEE within tourism. Its primary objective is to empower black South Africans within the tourism industry and to make the tourism sector more accessible, relevant and beneficial to black South Africans.

In their study, Kirsten and Rogerson did interviews with 12 large tourism Corporations in South Africa and they found that these companies engaged in business linkages for reasons such as cost cutting, international best practice, local social stability, product differentiation and government policy. Haysom & Ashley (2008: 32) argue that these informal tourism enterprises which “occupy the bottom rung on the ladder of tourism enterprises” can make a huge difference in alleviating poverty and improving their communities (Haysom & Ashley, 2008). Outsourcing opportunities in tourism are identified in a host of activities, including food supply, handicrafts, laundry services, furniture production, transport services and guiding (Kirsten & Rogerson, 2002).

In the tourism sector, the challenges facing both the large corporation and the SME in a business linkage seem to mirror those in all other sectors. In their study, Haysom & Ashley (2008) found that quality and reliability where are a major hindrance for the large corporation while on the SME side access to Finance. The explicit strategy is to work on enhancing the quality and quantity of farmers supply, encourage demand by engaging chefs and hotels in a ‘buy local’ programme, and to improve how the market links producers and buyers, in terms of pricing, ordering, insurance and transport.
To conclude, the existing literature highlights that business linkages, though challenging, are a win-win relationship. Correctly managed, business linkages are an important aspect in the growth of SMEs in South Africa and consequently in the South African economy as a whole. They are also seen as a way of linking the formal and the informal economies of South Africa (ref) While BEE regulation serves to stimulate for linkages between large corporations and SME’s, it is important that both parties treat their relationship as a supplier-buyer relationship rather than formality. This study will explore the area of business linkages in order to come up with new findings or to confirm the findings of similar studies mentioned by questioning SME owners and by analysing the data on their employment and revenue figures.
3 RESEARCH METHODOLOGY

3.1 Research Approach and Strategy

To establish the role of business linkages in the growth of SMEs in South Africa, we used an inductive approach. We used themes that emerge from the data to make inferences about the role of business linkages in South Africa. This approach was chosen because it is best suited for our research which seeks to explore the phenomena of business linkages rather than proving or disproving some theory (Sackmann, 1992). Patton (2002) also proposes that qualitative methods are particularly well-suited to exploration, discovery and inductive logic. Such inductive designs begin with specific observations and build toward general patterns.

More specifically, qualitative interviewing was used to gather the themes from which inferences shall be made. This method of qualitative interviewing, according to Bryman (2008) is the one of the most prominent qualitative research methods. Other reasons for using qualitative interviewing were:

1. It is useful in this kind of study which seeks to reveal business relationships which might be hard to quantify.

2. Qualitative interviews account for the complexity of trade behaviours based on the actual experiences of respondents.

3. Qualitative interviews reveal interrelationships among multifaceted dimensions of business interactions.

4. Qualitative interviews provide a context and views that cannot be discerned in quantitative data and as such allows the qualitative researcher to identify recurring patterns of behaviour that participants may be unable to recognize (Patton, 2002).

In the course of these interviews, however, some quantitative data on employment figures, percentage in revenue and number of customers was also gathered. By gathering both qualitative and quantitative data, our findings and evaluation are enriched (Patton, 2002). The open ended comments will provide a way for the respondents to contextualise their statistical facts.
3.2 Research Design, Data Collection Methods and Research Instruments

3.2.1 Research Design

The research will have a cross-sectional design as data will be collected from more than one enterprise. The cross sectional research design is appropriate for this study because it allows us to “collect a body of quantitative and quantifiable data” in connection with the multiple variables we want to examine (Bryman & Bell, 2003).

3.2.2 Data Collection Methods

Primary literature such as the South African Legislation, DTI documents, DTI policies and annual reviews and secondary literature such as academic articles and books were also used as a means of gathering data. We shall also use previous but fairly recent case studies in the field of linkages to inform our research. This will serve to complement the quantity and quality of our data and thus make the study more reliable.

Data on employment statistics, turnover and number of clients collected from the SMEs and data on procurement spending collected from the large corporations will be used as the basis for quantitative analysis. These variables are similar to those used by Mead in his 1998 exploratory study of business linkages in South Africa. This data will be collected during the course of our interviews.
3.2.3 Research Instruments

The main research instrument will be interviews. Semi structured interviews will be used to gather information from the SMEs, the large corporations as well as the some business development agencies such as SEDA. The interviews were semi structured in the sense that while there were some fixed questions, the interviewees could answer them in any manner they liked and usually their responses provided a lead to another question.

We interviewed academics in the field of entrepreneurship and enterprise development from the Sustainability Institute, officials from other SME development agencies such as the SAIBL or the NBI, some SME entrepreneurs as well as managers from big companies. These semi structured interviews will allow us to get uniform and comparable data across all organisations interviewed but will also give allowance for the interviewees to express their thoughts thus providing additional and useful information (Bryman & Bell, 2003).

The interview questions were sent to the respondents two or three days before the interview date along with a brief explanation of our research. This enabled the respondents to get any data needed and to fully understand the context of our questioning (Bryman, 2007).

The research will use the same variables used by the IFC in trying to ascertain the impact of the MOZLINK program.

In the local SME we shall ask questions relating to;

- Change in employment;
- Change in the quantity of contracts;
- Change in the size of contracts;
- Change in turnover;
- Change in the number of client companies (to demonstrate reduced dependency on the lead company over time).

In the large corporations the questions asked shall be relating to;
During our interviews with the Think-Tanks in the field we shall ask questions around:

- The role their institution plays in business linkages,
- What they consider the critical elements in business linkage relationship,
- The challenges in business linkages and how these challenges could be overcome,
- Their views on the motivations for business linkage relationships.

As such there were three sets of interview questions for the large corporation, the SME and to the experts in the field. Appendices 1to3 have samples of the interview questions to all these three groups. However, the actual interviews sometimes varied depending on the focus the interviewee gave an answer.
3.3 Sampling

The population for this study was large corporations who procured goods from SMEs and SME’s which supplied either a good or service to a large organisation.

Qualitative researchers tend to select a few participants who can best shed light on the “phenomenon under investigation” (Leedy & Ormrod 2005: 95). Our sample was obtained using a convenient and snowball sampling method. Given the qualitative nature of the study and the fact that we used interviews, we could only interview corporations in our network or to whom we had been introduced. Even though this poses a limitation to the study, the fact that the corporations chosen were from different industries helps annul the negative effect of convenient sampling. The snowball approach in this case permitted us to be referred to other organizations and as such gain access to the corporations which we might otherwise not have (Leedey & Ormrod, 2005).

Using a convenient sampling method, we sent out requests for interviews to 5 managers of large corporations. Out of those five, three of them agreed to do the interviews, giving us a response rate of 60%. Using our snowball sampling, we were able to interview 6 SMEs which were suppliers to these three large corporations.

Again, through convenience sampling, we sent out requests for interviews to 6 experts in the field of business linkages and/or SME development. Four out of these agreed to take part in the research giving us a response rate of 66%. Through some of these experts, we got introduced to two other SMEs thus bringing the total number of SMEs interviewed to 8.

The large corporations in our sample belonged to the Retail, Tourism and Manufacturing industry while the SMEs in our sample belonged to the Agriculture, Textile, Tourism, Recruitment, and mining industries. This ensured that our sample was more representative of the South African context.

The ages of the companies also varied to ensure the reliability and validity of the research. The ages of the SMEs in our sample range from 2 years to 13 years while the ages of the large corporations in our sample range from 6 to more than 70 years. Thus, what this sample lacks due to its relatively small size, (8 SMEs, 3 large corporations and 4 experts), it makes up for due to diversity in age and
industrial sector. The table below shows the SMEs in our sample and the large corporations for which they were suppliers.

<table>
<thead>
<tr>
<th>SME</th>
<th>1</th>
<th>2</th>
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<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
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</thead>
<tbody>
<tr>
<td>LARGE CORPORATION</td>
<td>A</td>
<td>A</td>
<td>B</td>
<td>B</td>
<td>N/A</td>
<td>N/A</td>
<td>C</td>
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</tbody>
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3.4 Data Analysis Methods

For the qualitative data obtained from the interviews, the main method of analysis will be an analytic induction approach. The qualitative and exploratory nature of this study makes this method suitable (Bryman & Bell, 2003). Common themes shall be identified from the interviews and then the meaning and possible implications of these discussed.

Due to its ease of use some qualitative content analysis on the interviews will be done. Henning (2004) suggests that its ease of use makes it a preferred choice for most researchers as opposed to the use of primary or secondary codes. Content analysis will be carried out to find out about the hows and the whys. This is line with Leedy & Ormrod (2005) who suggest that the researcher should get multiple and varying perspectives on an issue and make concerted effort to look for evidence that contradicts the hypothesis. This shall involve identifying common themes from the interview.

From the data gathered, quantitative variables such as employment figures, revenue, local procurement and number of customers will be analysed. Some descriptive statistics will be done on the quantitative data along with other quantitative methods such as regressions and correlations where applicable. This will ensure that meaningful conclusions are drawn from the data (Bryman & Bell, 2003).

This research will also make comparisons of the companies before and after the linkage programme was implemented.

However, the results obtained from these quantitative methods are highly dependent on the quality of the data obtained from the companies. Our study relies on the accuracy of the numbers obtained from the SMEs and the large corporation in order to make reasonable findings.
4 RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

4.1 Findings from the SMEs

In this section, we summarise some of the questions asked to the SMEs in tables and histograms. Given that we used semi structured interviews, the tables simply give a summary of the questions in the interview. Where necessary, specific explanations offered by the respondents are included in order to contextualise the response.

The table on Appendix 4 gives a summary of the findings from our interviews with the SMEs. It details SME age, employee statistics and number of customers. Numerical figures have been used instead of the SME names to maintain anonymity.

4.1.1 Age Distribution and Industry Sectors of SMEs

Given that most SMEs in South Africa fail within the first two years of existence, it was important that our sample cover a wide range of age groups. The ages of the companies in this study ranged from 2 to 13. Although it was not possible to secure interviews with SMEs from all industrial sectors, the sample has a fair representation of SMEs from important sectors such as Agriculture, Tourism, Mining and Forestry.

Fig 4.1.1 Age Distribution and Industry Sectors of SMEs
4.1.2 Number of Linkage Years

Four (3, 4, 5 and 8) out of the eight SMEs had contracts with the large corporation right from the start of their business. Of these four, interviews with SMEs 4 and 5 revealed that they were initiated by the large hotel chain as part of its tourism enterprise development program.

Apart from SME 7 who developed a business linkage 5 years after its creation, the other SMEs (1, 2 and 6) all started having contracts with the large corporation either one or two years after the start of their business.

Fig 4.1.2 Linkage Years and Age of SMEs
4.1.3 Linkages, SMEs and their Customer Base

Fig 4.1.3. Growth in the Number Customers

One of the reasons SMEs do not grow is their dependency on the large corporations with whom they have contracts or their inability to grow their customer base (Jenkins et al, 2007). In gathering data we asked the respondents the number of customers they had at the creation of their business and the number of customers they had at the time that the interview was done.

Fig 1.3 above shows that seven out of the eight SMEs in the sample had managed to grow their customer base. SME 2 however had to stop providing services to other customers to be able to have enough capacity to supply the large corporation it is linked with. This SME manager also told us that even though he now suppliers to the large corporation only, he has a "higher and more reliable revenue stream" (Interview Notes, November 2009).

On the surface SME 3, which provides gardening services, seemed to have grown its customer base dramatically. However, the SME owner admits that these numbers represents people to whom he provides gardening services once or twice and are not necessarily customers who provide a steady source of income.

SME 4 through its contact with the main large corporation has been able to get in touch with and be linked to three other large organisations (Interview Notes, 2009).
SME 7 in the mining industry has grown in customer base from 20 customers to 80 customers over its 13 years of existence.

### 4.1.4 Linkages, SMEs and Employment

![Change in Employment](image)

**Fig. 4.1.4 Change in Employment**

From Fig 1.4 above, six (1, 4, 5, 6, 7 and 8) out of the eight SMEs in the sample had an increase in employment.

However, two of them either did not show any increase or actually showed a drop in the number of employees. In speaking to the manager of SME 3, he attributes this decrease in head count despite a growing customer base to the fact that he has better equipment and does not need as many people for the gardening services he provides. Furthermore, the ninety customers he has are not permanent and usually do not require his services all at the same time.
4.1.5 Linkages, SMEs and Training

The table of Appendix 5 shows the SMEs behavior toward training.

Knowledge is the most important factor in sustaining a competitive advantage and promoting economic growth (Fingleton, Igliori, & Moore, 2004). Previous studies have highlighted lack of skills as a major hindrance to SME growth and development (McGrath, 2005). This study seeks to analyse the role that business linkages have in training and development of SME owners and/or managers.

All SMEs in our sample attend some form of training. In five cases the SMEs attended training organised by a government agency (SEDA, MERSETA and SA Forestry). Both SMEs who attended trainings organised by the large corporation had always had contracts with these large corporation from the onset of their business. This goes to show that large corporations can have a positive impact in improving the skills of SMEs.

Another interesting trend is the fact that six out of these eight SMEs heard about the trainings either via networks or via word of mouth. Only two learnt of training opportunities from the internet or from newspapers. This trend seems to confirm studies by Ngoc & Nguyen (2009) which argue that a good social network increases a firms standing, and makes it gain access to various resources including information.

Given that 50% of startups fail in their first year and another 80% in the first three years of business, (GEM 2009) training is seen as an important tool to redress this trend. It is equally important because it helps firms not only survive the first few years but to grow. The GEM report also highlights the fact that even in cases where the entrepreneurs have some technical skills, managerial skills are lacking. As such, training should be balanced between technical and management skills, opportunity identification and a need for achievement (Ladzani & Van Vuuren, 2002). Business linkages thus help SME owners improve their skills by providing them with training.
4.1.6 Linkages, SMEs and Debt

The table on Appendix 6 relates to debt in the SMEs. It compares how much debt the SMEs had at its creation to its current debt levels (if any) after its relationship with the large corporation. The reasons given on the table are those given to us by the entrepreneur.

Access to finance has been regarded as one of the most challenging problems SMEs face (Rogerson, 2006). As, Ngoc & Thang (2009) found in their study, networking with suppliers have the effect of reducing the need for bank loans while close ties with customers have a tendency to increase the need for bank loans. They further argue that having a strong network improved the legitimacy of the firm thereby making it easier to it to obtain bank loans.

Our interviews revealed that four out of eight SMEs used debt to finance their business in the beginning while the others relied on equity and/or government funding. The sources of the debt were bank loans, business partners or loans from the large corporation.

Of the two corporations which had debt, one currently has no debt while the other has seen an increase in the amount of debt it holds due to more business transactions.

Five of the SMEs told us that they had regular payments from the large corporation i.e. 30days. SME 5, however, got paid after 15 or 7 days by some customers. Cash flow management was highlighted by 3 out of the 8 SMEs as critical elements and/or challenges in a business linkage relationship. Thus having regular 30 day payments was a critical element for them. A steady cash flow helped them reduce the need for bank overdrafts.
4.1.7  **Linkages, SMEs and Revenue Streams**

Similarly to the IFC study, we asked SMEs about the large corporation’s contribution to their monthly revenue and about the time they spent on this large client. Appendix 9.7 compares how much time the SME spent catering to the needs of the large corporation vis-à-vis the percentage contribution to revenue.

From the summary table, getting a contract with the large corporation brought about in an increase in revenue for all the SMEs in the sample. In order to draw more meaningful conclusions, we asked the SMEs about the amount of time (in an 8 hour working day) they spent catering for the Large Corporation and the contribution that this corporation made to its revenue.

Four out of the eight SMEs have at least 40% extra capacity and all these SMEs also have at least 3 customers other than the large corporation.

SME 6 spends only 5% of its time catering for the large corporation and this relationship contributes to 50% of its revenue. In its 2 years of existence this SME has seen its customer base grow from 2 to 20 and its number of employees grows from 1 to 4.

4.1.8  **Critical Elements and Challenges in Their Relationship with the Large Corporation**

All SMEs were asked what elements they considered critical in their dealings with the large corporation. The table on Appendix 8 summarises the findings of from the interviews.

From the interviews with the SME managers, communication, good quality and timely delivery came up most often as critical elements in their relationship with the large corporation. Other factors such as personal involvement and honesty also emerged. The interviews with the think tanks in this field also highlighted these aspects as critical in any business linkage relationship. While these elements vary per sector, there are some which cut across all sectors such as quality and reliability.

Cash flow came up most often both as a critical element and as a challenge.
4.2 Findings from Large Corporations

In this section we summarise the findings from the semi structured interviews done with managers in the large corporations. The table on Appendix 9 represents a summary of the major themes gathered during those interviews. During our analysis and discussion reference will be made to the interviews in order to contextualise the responses.

4.2.1 Age and Industry Sectors of Large Corporations

To ensure reliability and validity of the research, the large corporations in the sample were from 3 different sectors; Manufacturing, Retail and Tourism. Also, these corporations have been operating in South Africa between 10 and 70 years.
4.2.2 Large Corporations, Local Procurement and Procurement from SMEs.

All the corporations procure goods locally and have always done so since their inception in South Africa. Currently all these corporations procure at least 90% of their goods locally.

For the corporation in the tourism sector, about 75% of its local procurement is spent on SMEs. This shows that the tourism sector has a high potential to contribute towards SME development. Though significant, this ability is however, dependent on variables such as the location of the project, the policy intentions of the investment and the level of support available to the entrepreneurs (Kirsten & Rogerson, 2002).

On the contrary, even though the firm in the retail sector sources most of its goods locally, only a small portion of this is from SMEs. This is because, their requirements for volumes all across the country is limiting for most SMEs. Even though we did not obtain numbers because they were confidential company documents, the manager from the retail organisation highlighted that it might not be “meaningful to compare purchases from SMEs to all local purchases”. This is because, some goods, such as chicken, have huge sales across the country but are expensive to produce and as such most SMEs would not compete in that sphere. Most of the SMEs from which they source provide support services rather than goods for their retail outlets. Kesper (2005) had mentioned that most linkages occur in cleaning, security and other such support services rather than in the core business activities of the large corporation.

Fig 4.2.2 Local and SME procurement

All the corporations procure goods locally and have always done so since their inception in South Africa. Currently all these corporations procure at least 90% of their goods locally.

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From interviews with large company C in the manufacturing sector, they currently have 3800 suppliers of which 1500 fall into the SME category. While the biggest local contract is to the value of R140 million, the biggest contract to an SME is only to the value of R40 million. This follows the trend highlighted by the retail corporation that sometimes the size of the market creates the need for high set up costs which is limiting to SMEs.

### 4.2.3 Large Corporations and Reasons for sourcing from SMEs

<table>
<thead>
<tr>
<th>Large Corporation</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reasons for sourcing from SMEs?</td>
<td>Some SMEs have a compelling product offer</td>
<td>Realised that the supply chain had the potential to make a bigger impact than CSR donations.</td>
<td>Service delivery</td>
</tr>
<tr>
<td></td>
<td>Part of their values</td>
<td>Encouraging sustainable tourism is part of the company values</td>
<td>Strong partnership</td>
</tr>
<tr>
<td></td>
<td>BEE compliance</td>
<td></td>
<td>Cost and quality competitive</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>BEE compliance</td>
</tr>
</tbody>
</table>

Table 4.2.3 Reasons for Sourcing from SMEs
The large companies had different reasons for sourcing from SMEs. For large manufacturing company C, SMEs are more flexible and are able to provide better service delivery. They also cite a “strong partnership’ with the SME owners, as another reason for sourcing from SMEs. This seems to confirm Rogerson’s (2000) study on successful clothing SMEs in The Witwatersrand that forging strong personal ties with business partners helps in getting repeat business.

The company in the retail sector identified sourcing from SMEs as part of its objectives to become a sustainable business. Sourcing from SMEs “embodies their values to have a role in transformation”. Large company C also views procurement from SMEs as a means to be BEE compliant. This is in line with Grierson et al (1997) who suggest that companies in developing countries engage in business linkages for humanitarian and political motives. However, Ashley & Haysom (2006), argue that even though linkage relationships are commercial relationships, some of them are motivated by a drive towards sustainable development, towards transformation, and a desire to uplift the communities in which they operate.

Another reason was that of a compelling product or service that the SME offered. One of our experts also mentioned that whether purchasing from another large corporation or from an SME “cost and quality” were always crucial.

The third company in our sample, the tourism company, engaged in sourcing from local SMEs as a means to practice pro poor tourism and uplift the environment in which they operate. They realised that with about R300 million amount of procurement spend, incorporating local SMEs into their supply chain will outweigh any CSR or philanthropic donations. However, in doing this, Company B realized savings. However, by using a local laundry service, this large hotel chain did not only create employment for 11 people, but also saved R117, 000 per year on laundry (Interview notes, November 2009)
4.2.4 Large Corporations and Critical elements in a Business Linkage Relationship

<table>
<thead>
<tr>
<th>Large Corporation</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Critical elements</td>
<td>Quality</td>
<td>Quality</td>
<td>Service delivery</td>
</tr>
<tr>
<td></td>
<td>Volume</td>
<td>Timeliness</td>
<td>Strong partnership</td>
</tr>
<tr>
<td></td>
<td>Be regulatory compliant</td>
<td>Having a reference</td>
<td>Cost competitiveness</td>
</tr>
<tr>
<td></td>
<td>Having a track record</td>
<td></td>
<td>met quality specifications</td>
</tr>
</tbody>
</table>

Table 4.2.4 Critical Elements in a Business Linkage Relationship

The table above shows represents the themes gathered from the interviews with the managers of the large corporations.

All the large corporations considered quality, volumes and reliability as critical elements when dealing with SMEs. Other elements such as cost competitiveness, being regulatory compliant were also mentioned. The fact that the SME must build and maintain strong partnership was also considered important.

Another critical element that came up in our interviews with the experts in the field was the fact that the business linkage relationship should not be treated like a philanthropic venture. Even when the SME was supported by the enterprise development program of the large organisation, it was important that the SME owner contribute a large part towards equity. Large manufacturing company C, in its enterprise development programmes owns not more than 40% of shares and usually exists after three years.

“The knowledge of opportunity” is very important in business linkages. One of experts interviewed confirmed this finding by highlighting the fact that sometimes SMEs were not aware of the existing
opportunities. As seen from Appendix 4, five out the 8 SMEs interviewed had heard of the linkage opportunity from previous employers or through their networks. Only three had replied to an advert or placed a bid on a call to tender.

4.2.5 Large corporation and Challenges in a Business Linkage Relationship

Appendix 10 shows the challenges that the large corporations face while dealing with SMEs and also highlights ways in which these corporations seek to overcome those challenges.

For the retail company, geographical challenges were very important when sourcing from an SME. However, this issue was less of a challenge when it came to supplying goods or services to their support functions.

For the large corporation in the tourism industry the initial phases of the linkage relationship had problems. Finding time to select the right SME to work with, and then finding more time to provide support to this SME was prohibitive.

Quality was another important challenge in the tourism sector. As our respondent said “we have different perceptions of quality”. As such it was important that the SME understand what was required. This came up in the interview with the large manufacturing corporation who said it was critical that the SME meet specifications.
4.3 Research Analysis

In our analysis, correlations and regressions were used to determine the relationship that a business linkage has with employment, revenue, number of customers and as such answer our research questions. The correlations were done at a 99% confidence interval. Even though 95% can be used on a fairly large sample size, we used a 99% confidence interval to compensate for the small sample size in our study thereby ensuring reliability (Lind, Marchal, & Wathen, 2008). Anything above the test statistic of 0.41 showed a significant correlation. Appendix 7 has a list of the correlations done amongst the variables.

A regression analysis was also done on age, the number of linkage years, current number of employees and current number of customers to determine if there is a causal relationship between these variables.

The analysis also seeks to answer the research questions.

4.3.1 Age and linkage Years

As highlighted in Appendix 12, a correlation of 0.938 with a significance of .002 shows that there is a strong correlation between the age of the SMEs and the number of linkage years. It seems evident that the higher the age of an SME, the longer the number of linkage years. However, this strong correlation could also be analysed to mean that that SMEs who have been in existence for long find it easier to start and keep linkage relationships.

From the interviews with the large corporations, it was highlighted that sometimes having a track record was a critical element considered in a business relationship. As highlighted by large corporation A;

“For support services we usually consider SMEs without a track record, put them under our enterprise development program and monitor them closely. However, for goods or services destined for our retail outlets, having a track record is of utmost importance”
There is a moderate negative relationship of -0.358 between the age of an SME and the amount of time it spends on the large corporation. This implies that the older the SME the less time it spends taking care of the needs of the large corporation. As it gains experience working with the large corporation, the SME workers improve their skills, become more effective and as such spend less time.

### 4.3.2 SME age, linkages and employment

The correlation between age, employees at the start of the business, the current number of employees, and the linkage years reveals an interesting trend.

0.715 reveals a strong positive relationship between the age of an SME and its current number of employees. 0.629 also reveals a strong positive relationship between the number of linkage years and the current number of employees. This proves to an extent that the business linkage, especially when it lasts for a long time positively affects the rate of employment in an SME.

When compared to the employment numbers at the start of business, the percentage increases (Appendix 4) in head count for SMEs 1, 4, 5, 6 and 7 seem large. In absolute numbers the number of jobs created is still quite negligible. This is in line with Kesper’s (2005) finding that the contribution to employment growth of already established SMEs is expected to remain low. This is because most SMEs have adopted the strategy of jobless growth. Moreover, to increase productivity, some firms especially in the manufacturing or construction sectors might chose to improve on the machinery rather than employ more people. This is the case of SME 3 who has fewer employees despite a growing customer base.

However, the employment benefits of business linkages should not be viewed only in terms of absolute numbers but in also in terms of the fact that it creates employment for the local people and tremendously improves their livelihoods (Pasanen, 2007). As reported by the manager of SME 3,

“A position was advertised for people who had been previously unemployed and I responded to it”.
Given that this SME now employs seven other previously unemployed people, it shows that though small, linkages do have a positive impact on employment of SMEs. What is even more interesting is the fact that its employment numbers have grown consistently over the years. In its first year it started just with two people. By the third year there were six people and currently it employs eight people.

To further test the strength of this relationship between linkages and employment, a regression analysis was done between current number of employees and linkage years. The output in appendix 8 reveals low coefficient of 0.0801. This shows that though, there is a strong relationship between the number of linkage years and employment, the change in employment cannot be confidently explained by the number of linkage years.

### 4.3.3 SMEs, linkages and the customer base

The correlation table (Appendix 12) shows a strong positive relationship of 0.915 between the number of customers at the start of the business and the current number of customers that an SME has. Kesper, 2005, argued that the firms which are more inclined to growth are the medium enterprises rather than the micro or survivalist firms. Our findings reveal that those with a higher number of customers at the start of their business were able to increase their customer base much faster.

On the other hand, there is a moderately positive relationship of 0.341 between the age of an SME and its current number of customers. This goes to show that while the number of years an SME has been existing might influence the number of customers it has, it does not fully account for increases in employment. The regression analysis (Appendix 13) confirmed this finding. The low coefficient of 0.004 confirms the fact that the age of an SME and the number of years it has been in a business linkage relationship account very little for the change in its customer base. Researchers like Peterson & Rajan (1994), however, argue that networking with customers can increase a firm’s general legitimacy. By being recognised as suppliers of the large corporations, SME’s see their reputations improve and as such find it easier to attract new customers.
The study shows that the age of an SME is not the only determinant to the number of customers it has. Other factors such as quality, cost, and service delivery account for the ability of the SME to attract and retain customers. Liesch & Knight (1999) however attribute the ability of an SME to be competitive to its flexibility and cost competitiveness. Because it has fewer overheads, fewer divisions, it is able to remain flexible to the specific needs of the customer.

The manager of the SME who provided laundry services to the large hotel chain said that even though there were pre arranged dates for pick up and drop off of laundry, it was important that during a peak season, he be able to change his timetable to suit this new situation. This shows that flexibility is an important element for an SME to be considered competitive.

The strong negative relationship of -0.429 between the time spent on the Large enterprise and the current number of employees suggests that, if the SME spends less time on the large corporation, it might have more time to successfully attract new customers. According to Jenkins et al (2007) the ability of an SME to attract and retain other customers measures the extent to which a business linkage has been effective. It was important for SMEs to have other customers so as not to become dependent.

### 4.3.4 SMEs Linkages and Revenue

In trying to assess the role of business linkages, we also asked the SMEs in our sample by what percentage they estimated their revenues to have grown due to the contracts they have with the large corporation. The table on Appendix 7 captures this information. For the four SMEs who had contracts with the large corporation from the start, this question was not valid as all the revenue they now made came from the large corporation.

SMEs 1 and 2 saw their revenue double as a result of their linkage relationships. SME 6 experienced a 50% increase in its revenue while SME 7 experienced a 15% increase in its revenue.

Over time some of these SMEs have also seen the value of their contracts with the large corporation increase. SME 1 and 7 have experienced a 100% and a 20% increase in their size of their contracts.
due to additional goods or services they supply. SMEs 2 and 3 have seen their size of their contracts grow by 15% and 30% respectively and this is because it even though they still supply the same goods or services, the demand for these have increased.

For SME 4 and 5, the managers told us that even though there was a slight increase in the value of contracts, it was more like an adjustment for inflation or higher costs of living. They still provided the same service to the SME.

Our findings indicate that business linkages contribute to growth in revenue of SMEs either by an increase in the quantity of the goods or services they supply, a supply of new goods and services or both. Through the analysis of the data, the model was developed to illustrate the options through which an SME might grow its revenue.

<table>
<thead>
<tr>
<th>VOLUME REVENUE GROWTH STAGE</th>
<th>IDEAL (VOLUME + DIVERSIFICATION) REVENUE GROWTH STAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Supply same goods and services.</td>
<td>✓ Supply other goods and services (Diversification).</td>
</tr>
<tr>
<td>✓ Increase in quantity of goods and services</td>
<td>✓ Increase in quantity of goods and services</td>
</tr>
<tr>
<td>✓ Revenue growth</td>
<td>✓ Revenue growth.</td>
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<table>
<thead>
<tr>
<th>START OF LINKAGE RELATIONSHIP</th>
<th>DIVERSIFICATION REVENUE GROWTH STAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>✓ Supply other goods and services</td>
</tr>
<tr>
<td></td>
<td>✓ Same quantity of goods and goods and services</td>
</tr>
<tr>
<td></td>
<td>✓ Revenue growth</td>
</tr>
</tbody>
</table>

**Fig 4.34. Methods of Revenue Growth in Business Linkage Relationships.**
Previous studies have highlighted the positive effect that a business linkage has on the revenue of an SME. From the correlation table in Appendix 7, there is a strong negative correlation of -0.501 between the large corporation’s percentage contribution to revenue and the age of the SME. This negative correlation indicates that the older the SME, the more customers it is able to have and as such the less it depends on the large corporation for revenue.

There is also a strong negative correlation of -0.435 between the large corporation’s percentage contribution to revenue and its current number of customers which again shows that the more customers an SM has the less it relies on the large corporation for its monthly revenue.

The moderate negative correlation of -0.364 between percentage contribution to revenue and number of linkage years also suggests that as the business linkage relationship grows, the SME is able to grow its customer base and thus get new sources of revenue.

4.3.5 Readiness and Reliability of SMEs for Effective Business linkage Relationships?

Findings from our research shows that the ability of an SME to supply a large corporation depends firstly on the sector in which the large corporation operates and secondly on the size of the large corporation. One of our respondents, large company A, is a retailer in the South African market. As such its volumes requirements exclude most SMEs. Thus in the retail sector and for certain commodities such as chicken, an SME might not be ready and reliable enough to supply a large retailer due to the amount of startup capital needed for a poultry, the volumes required for all stores across the country and also specific requirements on organic feeding.

However, in the retail sector, and with all other sectors, there is a tremendous opportunity for SMEs to supply support services. One Of the SMEs in the study provided recruitment services to the large corporation. Another SME provided gardening services while yet another provided laundry services to several large hotels and restaurants. Using SMEs for the supply of support goods provides a learning experience for both the SME and the large corporation. This finding is in line with Kesper
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(2005) who suggested that most linkages occur in activities that are too far away from the core activities of the large corporation.

SME 1, however, supplied large corporation A with fresh herbs in its retail outlets which are its core business. But again, the quantity of these herbs was relatively small and so could be reliably supplied by an SME.

The interviews with experts in the field also revealed some situation as to the readiness and reliability of SMES. Words such as quality, timely delivery had different meaning to the large corporations and the SMEs. Our expert in the tourism sector revealed that sometimes SMEs did not fully appreciate the impact that “a few hours delay on a delivery of fresh produce might have on a large hotel owner”.

SMEs 2 and 3 & 4 which supplied to large corporations A (retail) and B (Tourism), all provided support services. SMEs 7 & 8 had linkages with Large corporation C (Manufacturing) and supplied goods and services pertaining to its core activities. These SME’s however received training, mentorship, and partial equity funding from the large corporation.

Therefore, linkages should consider the industry sector, the size of the SME and the specific needs of the large organisation. The manufacturing company has been in a linkage relationship with certain SMEs for more than fifteen years. Also, it accorded a R40 million contract to an SME. This shows that in the right context, and with adequate support, SMEs are ready and reliable enough to be linked to large corporations. Vertical linkages can also be a strong stimulus for ‘horizontal’ linkages, where small enterprises work together to increase their capacity to access markets, for example through shared production of large orders, collective purchasing or group leasing equipment (Small Business Project, August 2009).

4.3.6 Upgrading SMEs to a position of competence for Business Linkage Relationships

The SMEs can be partnered with other large enterprises i.e. given joint contracts. From our interviews, one of the SMEs of the large retailer had previously supplied goods to that large
corporation but under another supplier. In another of the business linkage relationships we studied, an SME faced the possibility of losing a contract because he did not have the necessary safety accreditations. To go round this problem, the large corporation asked this SME to partner with another of their suppliers who had all the necessary accreditation.

*The use of a grading system:* Because large corporations are usually sceptical of the reliability of SMEs it makes sense to start off giving them small contracts and then as the SMEs gain experience and build trust, to increase the value of the contracts. In other cases, the SME will be able to get referrals and thus contracts with other large corporations. The Construction Industry Development Board (CIDB) currently uses this grading system in the award of contracts.

In all interviews done with the three large corporations we interviewed, the managers acknowledged that they used a grading system to help SMEs improve their services. Also, the other 2 SMES (5 & 6) which we interviewed without interviewing the large corporations they worked with also admitted that the size of their contracts had improved over time. However, one of these SMEs who did recruiting admitted that sometimes fluctuations in size of contracts was also due to external factors such as business and economic climate.

*Enterprise Development* is a very important factor in making SMEs reliable. Enterprise development provides mentorship, coaching and helps SMEs develop their managerial skills.

The use of “excess capacity’ was another way of developing SMEs. This involved sending staff from the large corporations during off peak periods to help the SMEs in the specific area where they are weak.

### 4.3.7 Critical Factors for an Effective Business Linkage

The relationship should be a sound business relationship and not seen as a charity. Two out of four of the experts interviewed mentioned this element. While it is important that the large corporation view the SME as a supplier and not as a charity, it is equally important that the SME be run by someone independent of the large corporation. This is in line with previous studies by Jenkins et al (2007),
Mead (1998) and Haysom & Ashley (2006), which all considered a Linkage relationship as a sound business partnership rather than philanthropy.

The Knowledge of Opportunity came up in the interviews as another critical element. From our data, 6 out of the 8 SMEs came to know of linkage opportunity through their networks (former employers, SMEs needed to be aware of the existence of opportunities in large organisation. Stanton & Polatajko (2001) have highlighted this difficulty when they argued that business linkages do not occur in most developing countries because of the awareness of potential business partners and very little public marketing or research institutions. Large corporations needed to be aware of what goods or the SMEs could offer. By organising and inviting SMEs to open door events, large corporations could start some form of dialogue and information sharing.

Large corporations should be aware that sometimes their requirements are limiting for SMEs and where possible should change these so that they are more inclusive of SMEs. Placing orders in hundreds instead of in thousands can create an opportunity for an SME.

Having a compelling product or service is critical. Two out of the eight SMEs interviewed took the initiative and proposed their product to the large corporation. Because it was a compelling product, a linkage relationship was formed. The existence of preferential procurement policies does not erase competition and so SMEs still have to find ways of differentiating their offering.

4.3.8 Challenges faced by parties involved in a Business Linkage Relationship

Quality requirements: All corporations mentioned quality as a principal issue when dealing with SME. The interview with an expert in the tourism sector supports this allegation. The main reason for this might be because SMEs might not be quite aware of the needs of the large corporation especially in a field such as tourism. Quality was a challenge to the SME because not meeting these quality requirements meant the stop of a contract.
The hassle of dealing with several small suppliers. Time and financial costs are needed in dealing with suppliers. Having several small suppliers means even more time and money spent. Large corporations prefer to deal with a few larger suppliers.

Cash Flow: Even though cash flow is usually mentioned as a critical element and as a challenge for small businesses, only 3 out of the 8 SMEs mentioned cash flow and timely payments as major challenges or critical elements. This might be due to the fact that the SMEs in our sample all received regular 30 days payments or sometimes even less as is the case with SME 5. The fact that these SMEs attended regular training might be another reason why cash flow was not mentioned very often. An SME with a good cash flow was also important to the large corporation because as the manager from the large manufacturing corporation pointed out, it was important that the “SME have enough capacity to quickly scale up if needed but should have enough cash flow to be able to go through the down turns” (Interview Notes, 2009).

Corporate Red Tape was another important challenge for these SMEs. Sometimes, as from our interview with SME 5, this could take the form of an organisation where each department was a silos. As such dealing with different departments in the same organisation became similar to dealing with different organisations with varying requirements.

Corporate red tape in some cases took the form of policies and procedures. The “dreaded 2 P’s” was brought to our attention by one of the interviewed experts who said that sometimes requirements and regulations could be limiting to SMEs especially newly formed SMEs.

The size of contracts from large corporations could be a challenge to SMEs. Larger contract sizes necessitate higher amounts of working capital which an SME might not afford.
4.3.9 Overcoming the Challenges in Business Linkage Relationships

The use of tripartite linkages: Sometimes, SMEs can partner to bid for a large contract. Sometimes, the large corporations can use one of their bugger suppliers to source from an SME. This was the case with the large hotel company which appointed a bigger supplier as a mentor for an SME.

Using “excess capacity” in the large organisation was recognised by our large corporations as a means to help SMEs develop. Excess capacity in this case referred to employee’s extra time during low periods. The large retail company developed a scheme with its employees whereby they could spend a few hours every month helping the SME with cash flow management and planning.

A two way educational process involving the large corporation and the SME. This process is to educate either party on the needs and the critical elements of the other.

4.4 Discussion

Existing literature highlights the importance of business linkages as a means for SMEs to gain access to markets, to grow their revenues, to improve their capacity to create employment, to improve their credit worthiness amongst banks and other financial institutions, to learn new skills, and ultimately as a means to grow (Jenkins et al, 2007).
The data gathered from the SMEs in this study seems to suggest that as a result of their contracts with large corporations, they have been able to grow their revenues, attract new customers and employ more people. However, a more in depth analysis of the numbers by using regressions revealed that the change in employment and in the customer base could not be accounted for by the linkage relationship alone. Davidsson & Wiklund, (2000) suggests that there is not much well founded knowledge on the causes and process of growth. However, a study by Nham and Takahashi (2004) revealed that variables such as new product development, private ownership, smaller sizes help to small and medium sized enterprises grow. They also found that the more competition a firm faced, the lower its market share and consequently the lower its growth rates.

Our study asked the SMEs sampled if they had supplied additional goods or services to the large corporation. Out of the eight SMEs interviewed, only SMEs 1 and 7 said they had provided additional goods and services to the large corporation. It is also worth noting that these SMEs have grown their employment from 15 to 25 for SME 1 and from 5 to 28 for SME 7. Also, these SMEs have grown their customer base from 0 to 5 for SME 1 and from 20 to 80 for SME 7.

This issue of private ownership could be compared to the issue of shareholding in the case of enterprise development. Sometimes the large corporations in this study invested in the SME under their enterprise development schemes. However, the large corporation always held a maximum of 40% equity shares with an embedded exit strategy. This ensured that the SME was still largely owned by the entrepreneur.

Another study by Moreno and Casillas (2008), sought to show how entrepreneurial orientation (measured by innovativeness, risk taking, and proactiveness) affected growth of an entrepreneurial venture. The interviews with experts in the field of SME development and business linkages revealed that it was critical that the entrepreneur have a ‘drive’ and ‘willingness’ to make the business linkage work.

Nham and Takahashi (2004), also found that the ‘external environment’ could influence the growth of a firm. By external environment, they referred to legislative policy and/or trade laws. These external factors sometimes affected growth of a firm by affecting any of the other factors that led to growth.
The above literature on growth of firms and the output of our regression shows that business linkages are not the sole determinant of growth in SMEs. While a business linkage provides a market for an SME and the opportunity to gain experience in dealing with large corporations, in the face of competition an SME has to differentiate itself by offering a unique product or service. Without this, a business linkage might simply serve to enable the SME survive rather than grow.

4.5 Research Reliability and Validity

Selecting a sample of business linkage relationships from several industries makes the sample more representative and thus increases the transferability of the study (Guba and Lincoln 1994)

One large corporation and two SMEs in our sample were located in the Gauteng region. Choosing SMEs and large corporations in different locations ensured better representation in the sample and thus better reliability of the findings.

The correlations and regressions used to analyse the numbers ensures that any conclusions drawn from the data is significant. Correlation analysis is a technique to measure the association between two variables (Lind, Marchal, & Wathen, 2008). Using these methods will ensure that the qualitative analysis done from material gathered in our interviews is supported by quantitative analysis.
5 LIMITATIONS OF THE STUDY

Due to their confidentiality policies in some of the companies, we were not able to get detailed numerical data on procurement spending. By using percentages instead of actual numbers still allowed for analysis trends or patterns.

There is, in some cases, an overlap between initiatives directed at SME support and BEE initiatives done under enterprise development. There is also an overlap in the literature between business linkages and sustainable development. It is therefore not easy to establish the real role of linkages in SME development.

The relatively small sample size in this study poses a limitation. However, the fact that the study used both quantitative and qualitative methods improves on its reliability.

This study is done in the context of SMEs in South Africa. The findings and implications cannot be generalised to other African regions or other emerging markets.
6 RESEARCH CONCLUSIONS

The primary purpose of this research was to determine the role that business linkages have on growth of small and medium sized enterprises in South Africa. The measures of growth in this study were revenue, the number of customers and the number of employees the SME had. The study also aimed at exploring the current state of linkages in South Africa. For this reason quantitative and qualitative data was gathered and analysed. From the SMEs we gathered data on employment, on revenue and on number of customers. From the large corporation we gathered data on percentage spend on local procurement and percentage spend on SME procurement. Correlations and regressions were used to analyse the quantitative data while content analysis was used to analyse the qualitative data.

Our findings reveal a weak positive relationship of 0.244 between the number of linkage years and the number of customers a firm currently has. This shows that being in the business linkage relationship does not necessarily enable an SME attract new customers. However, the strong negative correlation of -0.429 between time spent on the large corporation and the number of customers show that the less time an SME spends on the needs of the large corporation with which it is in a business linkage relationship, the more time it might have to win new customers. Thus, while linkages provide an SME with some form of ‘social legitimacy’ (Ngoc & Thang, 2009) which might in turn makes it easier for a firm to attract customers, they do not directly account for growth in the customer base. This finding is confirmed by a low coefficient of 0.004 on the ANOVA table.

A strong negative correlation of 0.501 between the age of a business and the percentage contribution of the large corporation to its revenue shows that older SMEs are less dependent on the large corporations for their revenue. The moderate relationship of -0.364 between the number of linkage years and the percentage contribution further confirms this finding. This shows that linkages might be beneficial to newly formed SMEs because they might provide much needed access to market and enable them survive them the first two critical years. Growth in revenue and ultimately growth of the SME beyond this point is not dependent on the business linkage relationship.

A correlation of 0.629 reveals that there is a strong positive relationship between the number of linkage years and the number of employees a firm currently has. However, a weak coefficient of 0.08
on the ANOVA shows that the linkage relationship accounts for very little of the change in the number of employees. Our study also reveals that the SMEs who seemed to have grown the most (SMEs 1 and 7) are not necessarily those who had been in the business linkage relationship for long but those which had been able to supply additional goods or services either to the large corporation with which they were in a business linkage relationship or other customers.

Therefore, a business linkage is not the direct cause of growth in an SME but rather might provide an opportunity for the SME to develop in other areas that are necessary for growth. These areas include having a compelling product or service, having an independent and growth oriented leadership (Nham & Takahashi, 2004).

Business linkages are thus not a direct source of growth but an enabler of growth. However, for a business linkage to effectively play its role some critical success factors were necessary. The most important of these gathered during the course of our interviews was the fact that the relationship must be regarded by all parties involved as a purely commercial venture. This finding that was highlighted by all experts interviewed confirms Haysom’s (2006) view that a shift from the mindset of philanthropy was necessary.

Even though its role as an enabler to growth has been identified by previous research (Mead, 1998), and despite the resources spent by government and other non governmental agencies, some challenges still remain. The most important of these is the knowledge of information. SMEs often lacked information about opportunities for linkages; large corporations did not have knowledge of local SME suppliers they could use. To overcome this problem some large corporations hold open days to which they invite SMEs.

This study also found that while some most SMEs have the technical competence but are lacking when it comes to meeting the strict volume requirements of large corporations. However, through ‘tripartite linkages’ (Interview Notes, 2009) SMEs can be partnered with a larger suppliers until they are able to ‘stand on their own feet’. This was the case with SME 2 who initially supplied goods to Large Corporation A through a larger supplier until it was adequately equipped to do so on its own.
Given the important role that SMEs have in the South African economy, this study has implications for agencies (both government and nongovernmental) that seek to promote the growth SMEs through business linkages, for the large corporations and finally for the small and medium enterprises. The most important implication for agencies is the fact that business linkages alone do not lead to growth in SMEs. They provide much needed access to market, and help the SME improve its knowledge and skills. However, growth of an enterprise is determined by having a compelling product or service (Nham & Thakahashi, 2004). This means that SMEs need to get training on the identification of business opportunities.

For large corporations, it is important that they treat business linkages with SMEs as a commercial relationship (Haysom, 2006). Despite the fact that some support is provided to the SME, contracts should be signed and possibly renewed regularly to ensure that the SME does not take this relationship for granted. Most business linkages occur as part of the large corporation’s enterprise development initiative. These relationships should have contracts embedded with reasonable exit strategies for the large corporation.
7 FUTURE RESEARCH

The corporations used in this study cut across several industrial sectors. As such detailed analysis of a particular sector was not done. It might be beneficial for future research to focus on doing a more detailed analysis of linkages in a particular sector.

In carrying out this study, enterprise development seemed to have come up quite often. It might be interesting to do an in-depth comparative study of linkage relationships in the case of enterprise development and those which are standard supplier-buyer interactions.

Our findings seem to support Kesper’s (2005) allegations that most linkages occur in support activities. A study could be done to analyse linkages in core operating activities of firms. Furthermore, a comparative study could be done of linkages done in core operating activities as opposed to those done in support services.

Finally, our findings suggest that business linkages alone do not account for growth registered in SMEs. An in depth study could be done on high growth SMEs so as to determine the factors affecting growth.
8 REFERENCES AND BIBLIOGRAPHY


9 APPENDICES

9.1 Appendix 1: Interview Questions for the Small Business Owners and/or Managers.

1. Name of Business and Industry Sector.
2. How long has the business existed and give us a brief history of the business.
3. Had you always had contracts with the large corporation from the creation of the business?
4. If not, when did you start having contracts with the large corporation?
5. How did you learn about the need for a supplier of the good or service?
6. With how many large corporations do you have contracts?
7. Apart from the large corporation, how many other customers did you have at the creation of your business?
8. Apart from the large corporation, how many customers do you have now?
9. What percentage of your monthly revenue does the large organization contribute towards?
10. How much of your time per day do you spend catering to your large customer?
11. How often do you renew your contract with the large corporation?
12. Apart from that initial service, have you provided additional goods or services to the large organizations?
13. What is the % increase in value from the old contract and the new one?
14. How many employees did you have at the beginning of your business?
15. How many do you have now?
16. Has there been an increase in its value of the contract with the large corporation or has it stayed the same?
17. Do you attend workshops and training to make your business better?

18. If so, by who are those trainings organized?

19. How do you get information about those trainings, or workshops?

20. How often does the large corporation visit your premises?

21. How was your business funded in the beginning i.e. was it equity, or debt?

22. If debt was the debt from a bank or from another source such as venture capital, angel investors or business partners?

23. Did you have any difficulty obtaining that debt? N/A

24. Currently, do you still have debt?

25. Has the quantity of the debt increased, decreased or remained the same?

26. Give a brief reason why?

27. What elements do you consider critical in the relationship between your business and that of the large organization.

28. What are the challenges you face in your dealings with the large organisation?
9.2 Appendix 2: Interview Questions with the Large Corporation

1. Company name and Industrial sector
2. For how long has the organisation been operating in South Africa?
3. Has the organisation always procured goods locally?
4. If not, when did it begin to procure goods locally?
5. How many local suppliers does this company have?
6. What % is this number of all your suppliers?
7. How many of your local suppliers fall into the category of small and medium sized enterprises? I.e. having less than 150 employees?
8. How did you come in contact with these small companies?
9. What are the selection criteria for choosing the SMEs?
10. What is the highest value of a local procurement contract (To both big and small enterprises)?
11. What is the highest value of a procurement contract to a small enterprise?
12. Does the value of contracts to SMEs increase over time?
13. If so how is the decision to increase the value of these contracts made?
14. Do you have any preferential payment terms for local and small enterprises?
15. What kind of assistance, if any, do you offer to the small businesses to enable them meet all the terms of the contracts?
16. Do you have the possibility of getting this good/ or service from another source or is this company the only place where you could get it?
17. If you have choice, why do you choose to source from this particular small enterprise?
18. For how long have you been procuring from this small enterprise?
19. What element or what elements do you consider a must when procuring from small businesses?
20. What are the challenges present in your relationship with this small supplier?
21. What ways do you seek to address those challenges?
22. Does this corporation do some form of Enterprise Development?
23. If so, how many of your suppliers were formed as part of the Company’s Enterprise Development?
9.3  **Appendix 3: Interview Questions for Think tanks in the Field.**

1. What kind of services does your organisation offer to SMEs?

2. How do the SMEs learn about your organisation and the services you offer?

3. Business Linkages have been identified as one way to make SME’s grow. What do you think is the state of business linkages in South Africa today?

4. Apart from the SME and the large corporation do you think there are other important parties who have to be involved for a business linkage to be successful?

5. Apart from the widely researched backward linkages do you think forward or horizontal linkages are effective in the growth of SMEs?

6. What do you think are the critical elements necessary in a business linkage relationship?

7. What are the challenges that the partners in business linkage relationships currently phase?

8. What role does your organisation play (if any) in helping SME’s meet the criteria? In overcoming the challenges?
### Appendix 4: Summary of Profiles of SMEs

<table>
<thead>
<tr>
<th>SME</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGE</td>
<td>7</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>Sector</td>
<td>Agriculture</td>
<td>Textile</td>
<td>Gardening</td>
<td>Tourism</td>
<td>Recruitment</td>
<td>Tourism</td>
<td>Mining</td>
<td>Forestry</td>
</tr>
<tr>
<td>Linkage years</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>N0 Customers at creation, excluding L.C</td>
<td>0</td>
<td>9</td>
<td>30</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>Current N0 of customers, excluding L.C</td>
<td>5</td>
<td>0</td>
<td>90 **</td>
<td>3</td>
<td>4</td>
<td>20</td>
<td>80</td>
<td>2</td>
</tr>
<tr>
<td>N0 of Emp. At start of start of business</td>
<td>15</td>
<td>29</td>
<td>8</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Current N0 of Emp.</td>
<td>25</td>
<td>29</td>
<td>6</td>
<td>8</td>
<td>2</td>
<td>4</td>
<td>28</td>
<td>8</td>
</tr>
<tr>
<td>Time spent on LE</td>
<td>5%</td>
<td>100%</td>
<td>50%</td>
<td>100%</td>
<td>95%</td>
<td>5%</td>
<td>5%</td>
<td>95%</td>
</tr>
<tr>
<td>% to revenue contribution</td>
<td>80%</td>
<td>100%</td>
<td>70%</td>
<td>100%</td>
<td>100%</td>
<td>50%</td>
<td>10%</td>
<td>95%</td>
</tr>
</tbody>
</table>
## 9.5 Appendix 5: Training in the SMEs

<table>
<thead>
<tr>
<th>SME</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you attend training</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>By whom are they organised</td>
<td>Illima Trust, SEDA, large Lorp.</td>
<td>SEDA, Large corp.</td>
<td>Large corp.</td>
<td>Enablis, Business Network</td>
<td>Department of Tourism</td>
<td>Merseta</td>
<td>Large Corp</td>
<td></td>
</tr>
<tr>
<td></td>
<td>USEC, UDDI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>SA Forestry</td>
<td></td>
</tr>
<tr>
<td>How do you hear of this training</td>
<td>Networks</td>
<td>Networks</td>
<td>Word of Mouth</td>
<td>Word of mouth</td>
<td>Emails, newsletters</td>
<td>Newspapers internet</td>
<td>Email</td>
<td>Newspaper Word of mouth</td>
</tr>
<tr>
<td>How often does large corp. visit your premises</td>
<td>Once a year</td>
<td>Every 2 years</td>
<td>Sometimes</td>
<td>Business located on hotel premises</td>
<td>Never</td>
<td>Once a year</td>
<td>Once a year</td>
<td>Once a month</td>
</tr>
</tbody>
</table>
### 9.6 Appendix 6: SMEs and Debt

<table>
<thead>
<tr>
<th>SME</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt at beginning</td>
<td>no</td>
<td>Yes</td>
<td>no</td>
<td>No</td>
<td>no</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Source of Debt</td>
<td>n/a</td>
<td>Business Partners</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>Bank</td>
<td>Bank</td>
<td>Large corp.</td>
</tr>
<tr>
<td>Current debt</td>
<td>none</td>
<td>none</td>
<td>none</td>
<td>none</td>
<td>none</td>
<td>Increased</td>
<td>Decreased</td>
<td>Decreased</td>
</tr>
<tr>
<td>Payment Terms</td>
<td>30 days</td>
<td>30 days</td>
<td>30 days</td>
<td>30 days</td>
<td>7 days, 15 days, 30 days, depending on the customer</td>
<td>30 days</td>
<td>30 days</td>
<td>30 days</td>
</tr>
<tr>
<td>Reason for change</td>
<td>Business has received government funding</td>
<td>Only short term supplier accounts to pay</td>
<td>Work on a cash basis</td>
<td>Opened as enterprise development, funded by large corp.</td>
<td>Organic growth</td>
<td>More business, use of profits generated in business</td>
<td>Paid off from profits</td>
<td></td>
</tr>
</tbody>
</table>
### 9.7 Appendix 7: SMEs, Linkages and % Revenue

<table>
<thead>
<tr>
<th>SME</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time spent on LE</td>
<td>60%</td>
<td>100%</td>
<td>50%</td>
<td>80%</td>
<td>95%</td>
<td>5%</td>
<td>15%</td>
<td>95%</td>
</tr>
<tr>
<td>No of Customers. (excl. Large corporation)</td>
<td>5</td>
<td>0</td>
<td>90 **</td>
<td>3</td>
<td>4</td>
<td>20</td>
<td>80</td>
<td>2</td>
</tr>
<tr>
<td>% Increase in Rev. Due to Linkage</td>
<td>100%</td>
<td>100%</td>
<td>50%</td>
<td>100%</td>
<td>100%</td>
<td>50%</td>
<td>15%</td>
<td>100%</td>
</tr>
<tr>
<td>% to revenue contribution</td>
<td>80%</td>
<td>100%</td>
<td>70%</td>
<td>100%</td>
<td>100%</td>
<td>50%</td>
<td>10%</td>
<td>95%</td>
</tr>
</tbody>
</table>
### Appendix 8: SME’s, linkages, Critical Elements and Challenges

<table>
<thead>
<tr>
<th>SME</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>SECTOR</td>
<td>Agriculture</td>
<td>Textile</td>
<td>Gardening</td>
<td>Tourism</td>
<td>Recruitment</td>
<td>Tourism</td>
<td>Mining</td>
<td>Forestry</td>
</tr>
<tr>
<td>CRITICAL ELEMENTS</td>
<td>Product quality</td>
<td>Support from large corp.</td>
<td>Timely payments</td>
<td>Timely delivery</td>
<td>Turn Around Time</td>
<td>Personal involvement</td>
<td>Communication</td>
<td>Honesty</td>
</tr>
<tr>
<td></td>
<td>Commitment of large corp. to supplier development</td>
<td>Good quality from us</td>
<td>Good service</td>
<td>Communication</td>
<td></td>
<td></td>
<td>Ethical business practices</td>
<td></td>
</tr>
<tr>
<td>CHALLENGES</td>
<td>Communication technology</td>
<td>Consistent Quality</td>
<td>Meeting stringent demands</td>
<td>Loss of items</td>
<td>Negotiating power</td>
<td>Cash flow</td>
<td>Corporate red tape</td>
<td>Prices set by sawmills rather than by supplier</td>
</tr>
<tr>
<td></td>
<td>Logistics</td>
<td>Sound business principles</td>
<td></td>
<td>Consistency of requirements from large corporation</td>
<td></td>
<td>Cash Flow</td>
<td>Dealing with several people with different requirements</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Silos in the large corp.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### 9.9 Appendix 9: Profile of Large Corporations

<table>
<thead>
<tr>
<th>Large Corporation</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age of existence in SA</strong></td>
<td>70 +</td>
<td>16</td>
<td>42</td>
</tr>
<tr>
<td><strong>Sector</strong></td>
<td>Retail</td>
<td>Tourism</td>
<td>Manufacturing</td>
</tr>
<tr>
<td><strong>local procurement</strong></td>
<td>98%</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td><strong>% of local suppliers in the SME section (less than 150 employees)</strong></td>
<td>20%</td>
<td>80%</td>
<td>40%</td>
</tr>
<tr>
<td><strong>How do you come in contact with these SMEs</strong></td>
<td>Business units have to source from SMEs</td>
<td>Sent out notices, Preferential Procurement strategy</td>
<td>Ongoing overhaul of supply chain, Internal Business Development Division, A call to tender</td>
</tr>
<tr>
<td></td>
<td>Unsolicited proposals from the SMEs</td>
<td>Supplier made an unsolicited proposal, Business Development Agency</td>
<td></td>
</tr>
<tr>
<td><strong>How many local Suppliers are part of Enterprise Development Program</strong></td>
<td>50</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td><strong>On what criteria do their Contracts increase</strong></td>
<td>Evaluation of delivery quality,</td>
<td>Quality, Reliability, Supplier Performance Evaluation</td>
<td>Management skills, Increase need for the product, Cost</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>potential of the SME, Quality</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Reliability, Service Delivery</td>
</tr>
</tbody>
</table>
## 9.10 Appendix 10: Large Corporation, Linkages and Challenges

<table>
<thead>
<tr>
<th>Large Corporation</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CHALLENGES</strong></td>
<td>Geographical challenges</td>
<td>Takes time to establish a good relationship with SME</td>
<td>Capacity to meet volume and quality requirements</td>
</tr>
<tr>
<td></td>
<td>SMEs need to understand the functioning of the LE.</td>
<td>Sometimes there are high short term transaction costs.</td>
<td>Poor service delivery</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Management capacity e.g. timely and correct invoicing</td>
</tr>
<tr>
<td><strong>Overcoming challenges</strong></td>
<td>link SMEs to a larger supplier</td>
<td>Appointing a champion supplier evaluation and Accreditation systems</td>
<td>SMEs sometimes lack the financial capacity to handle down side and to gear up quickly in the upswing.</td>
</tr>
<tr>
<td></td>
<td>source from SMEs nearby</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>using SMEs in support areas is a good learning experience</td>
<td></td>
<td>finding alternative supply</td>
</tr>
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</table>
### 9.11 Appendix 11: Findings from Field Experts

<table>
<thead>
<tr>
<th>Reason for Engaging in Business Linkages</th>
<th>A1</th>
<th>B1</th>
<th>C1</th>
<th>D1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BEE compliance</td>
<td>In tourism sector, large hotels and other large players still sceptical of SMEs.</td>
<td>Depends on the context.</td>
<td>More on compliance even though global best practice suggests that SMEs are cheaper due to lower overheads.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Instils competition and breaks down monopoly</td>
<td>Establishing a personal relationship is critical</td>
<td>The most successful remain those treated as business.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Serves to redistribute wealth</td>
<td></td>
<td>Overall state still very paternalistic.</td>
</tr>
<tr>
<td>Critical Elements</td>
<td>Fair tender policies in both private and government sector.</td>
<td>Quality and reliability</td>
<td>SME should have good networks</td>
<td>Cost, quality and delivery like with any other buyer-supplier relationship</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A good relationship with people in the sector</td>
<td>SME should be honest but confident</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Adequately networked</td>
<td>Manage cash flow ‘think like a boss’</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Building trust</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Leadership in the SME. It needs to be run by an independent party.</td>
<td></td>
</tr>
<tr>
<td>Challenges</td>
<td>cash flow</td>
<td>Geographical location. Hotel chains prefer suppliers close to them</td>
<td>Knowledge of opportunity</td>
<td>Fear of using new suppliers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The fear of new suppliers</td>
<td>policy and procedure</td>
<td>Fraud and corruption (being with a supplier for personal benefits, rather than the organisations benefit)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Large corporations are not aware of the constraints of SMEs, while SMEs don’t fully appreciate the strict requirements of the large corporations.</td>
<td>Mentality of both SME and large corporation</td>
<td>Long term benefit over short term benefit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Conformance to development terms.</td>
<td></td>
<td>Limited or restricted advertising of tenders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Perception that SMEs lack skills and capacity</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Overcoming Challenges</strong></td>
<td><strong>Awareness both of SMEs and large corporations</strong></td>
<td><strong>Convincing large enterprise that there is a different and better way of doing things.</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------------</td>
<td>-------------------------------------------------</td>
<td>---------------------------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SMEs could form consortiums. Government cooperative Act even offer R300, 000 grants to cooperatives.</td>
<td>A two way educational process. Large corporations and SMEs each learning about the constraints and requirements of the other party.</td>
<td>Using extra capacity within the large organisation to train SMEs</td>
<td></td>
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<tr>
<td>Grading system in the award of contracts</td>
<td>Changing expectations</td>
<td>There must be a champion in the large corporation to ensure smooth functioning of the linkage</td>
<td></td>
<td></td>
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<tr>
<td>Fair and transparent tender policy</td>
<td></td>
<td>A facilitator with embedded exit strategy so that it does not become expensive for the SME and the large organisation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade World database</td>
<td>Institute running courses on ethical business practices</td>
<td>A linkage could be a 3 way relationship to facilitate development of very small SMEs.</td>
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</tbody>
</table>
9.12 Appendix 12: Correlation Tables significant at the 0.01 level (2-tailed).

<table>
<thead>
<tr>
<th>Pearson Correlation</th>
<th>AGE</th>
<th>Linkage</th>
<th>N0 of Customers at creation of Business</th>
<th>Current N0 of customers.</th>
<th>N0 of employees at start of business</th>
<th>Current N0 of employees</th>
<th>% change in N0 of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Linkage</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N0 of Customers at creation of Business</td>
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<tr>
<td>N0 of employees at start of business</td>
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<tr>
<td>% change in N0 of employees</td>
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<tr>
<td>% Contribution to Revenue</td>
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</tbody>
</table>

** indicates significance at the 0.01 level (2-tailed).
### 9.13 Appendix 13: Regression ANOVA OUTPUT

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>.963a</td>
<td>0.927</td>
<td>0.854</td>
<td>0.932</td>
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</tbody>
</table>

No of Linkage years  
N0 of customers  
N0 of employees

<table>
<thead>
<tr>
<th>Model</th>
<th>SS</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>33.107</td>
<td>3</td>
<td>11.036</td>
<td>12.698</td>
<td>.033a</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>2.607</td>
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<tr>
<td></td>
<td>Total</td>
<td>35.714</td>
<td>6</td>
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</tbody>
</table>

Predictors (constant) Age of Business

No of Linkage years  
N0 of customers  
N0 of employees

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Age of Business</td>
<td>0.882</td>
<td>1.233</td>
<td>0.715</td>
</tr>
<tr>
<td></td>
<td>Current N0 of Customers</td>
<td>-0.004</td>
<td>0.019</td>
<td>-0.057</td>
</tr>
<tr>
<td></td>
<td>Current N0 of Employees</td>
<td>-0.08</td>
<td>1.904</td>
<td>-0.015</td>
</tr>
<tr>
<td></td>
<td>Linkage Years</td>
<td>0.671</td>
<td>0.173</td>
<td>1.003</td>
</tr>
</tbody>
</table>