

PRIVATE PROCUREMENT AND THE DEVELOPMENT OF BLACK SMMEs IN EKURHULENI

Briefing paper 2

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1. Introduction

Affirmative procurement has always been acknowledged as one of the tools that could be used as a means of advancing black economic empowerment. In the rush for black-owned or controlled consortiums to acquire stakes in JSE-listed companies, a feature that characterised BEE in the mid-1990s, procurement was always in the shadows. Recently, however, with the collapse of many of the special-purpose vehicle deals as well as the unhappiness of companies with regard to government empowerment initiatives such as the mining charter, procurement is increasingly being seen as the stick behind empowerment. The small and medium business sector is the economic powerhouse in most developing countries; including South Africa, as it is where business is developed and jobs are created. If BEE is going to have a meaningful impact, government and business need to drive small business development aggressively. Affirmative procurement provides emerging black enterprises with opportunities to expand their output and thus become competitive and efficient.

The objective of this paper is to explore issues in the development of private-sector affirmative procurement in Ekurhuleni. The paper does this through taking the cases of both large and small firms to examine the extent of affirmative procurement as well as how it has changed over time. The research also explicitly addressed obstacles to the pace of procurement and support mechanisms required.

1.1 The nature of SMMEs and their importance in the South African economy

The small business sector in South African is highly diverse not only in terms of structures and problems but also growth potential and access to support. This diversity applies not only to the different economic sectors but also to the various stages of growth of these enterprises. The abbreviation "SMMEs" (small, medium and micro-sized enterprises) along with the general term "small business" is widely used to contrast this sector with bigger business.

The important distinctions however exist within the sector between survivalist activities, micro-enterprises, small enterprise and medium-sized enterprises and are categorized in the Department of Trade and Industry's White Paper on National Strategy for the Development and Promotion of Small Business in South Africa as follows:

- Survivalist enterprises are generally defined as businesses set up by people unable to find a paid job or get into an economic sector of their choice. Income generated from these activities usually falls far short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business. This category is characterised by poverty and the attempt to survive.

- Micro-enterprises are very small businesses, often involving only the owner, some family members and at the most one or two paid employees. They usually lack 'formality' in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. However, many micro-enterprises advance into viable small businesses. Earning levels of micro-enterprises differ widely, depending on the particular sector, the growth phase of the business and access to relevant support.
- Small enterprises constitute the bulk of the established businesses, with employment ranging between five and about 50. These enterprises are usually managed by the owner or by the owning community. They are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction.
- Medium enterprises constitute a category difficult to demarcate vis-à-vis the "small" and "big" business categories. It is still viewed as basically owner/manager-controlled, though the shareholding or community control base could be more complex. The employment of 200 and capital assets (excluding property) of about R5 million are often seen as the upper limit.

Reasons have been put forward as to the positive role SMMEs often play in economic development in general. Firstly, small businesses tend to use capital effectively. They are also able to produce a variety of goods or services at relatively small levels of output. Secondly, SMMEs serve as both a pillar for local entrepreneurship and an engine of growth. For many, the ability to provide an income, no matter how basic, for themselves and their dependants contributes to their level of dignity and self-worth. SMMEs are generally more labour-intensive and use predominantly local resources therefore becoming very effective employment creators. The process of starting a small, medium or even micro-sized business not only provides a reasonable starting point for self-employed entrepreneurs but also contributes to integrating the informal and semi-formal sectors into the formal sector (Motubatse, 1996).

The benefits of a burgeoning small business sector are especially relevant to the current economic situation in South Africa. Given this country's legacy of big business domination, constrained competition and unequal distribution of income and wealth, the small business sector is seen as an important force to generate employment and more equitable income distribution, to activate competition, exploit niche markets (both internally and internationally), enhance productivity and technical change, and through all of this stimulate economic development. Furthermore, given the current phase of fundamental structural changes that are rendering the formal economy unable to absorb the increasing labour supply, and social support systems that are grossly inadequate, the small business sector plays a crucial role in peoples' efforts to meet their basic needs. This applies especially to marginalised groups such as the female-headed households, disabled people and rural

families. Perhaps more significantly, experience has shown that in the past black people have been able to make far greater progress in the micro- and small-enterprise segments of the economy than in medium-sized and larger enterprises. Thus, the SMME sector provides, despite all its impediments, a highly effective vehicle for black economic empowerment (Government Gazette, Ministry of Trade and Industry, 1995).

1.2 Review of Legislation and Policy Frameworks

The Preferential Procurement Policy Framework Act

The Preferential Procurement Act was passed in February 2000. The Act sets out a framework within which all organs of the state are obliged to implement suitable preferential procurement policies. In terms of the Act, a preference point system must be used. Organs of the state may allocate points for specific goals which they aim to achieve in giving out a tender. These goals include contracting with people who are historically disadvantaged by unfair discrimination on the basis of race, gender, and disability.

Although this Act was promulgated specifically for the public sector, it has also become a framework for private sector procurement, particularly for companies that supply goods or services to the public sector.

The Mining Charter

The Mining Charter has proved to be a strong motivator in terms of ensuring that firms take the necessary steps needed to reach the empowerment targets that have been set out. In terms of the Charter, mining companies are obliged to give historically disadvantaged South Africans (HDSAs) a preferred supplier status, where possible, in all three levels of procurement, that is, capital goods, services and consumables. To this end, companies should:

- Identify current levels of procurement from HDSA companies;
- Commit to a progression of procurement from HDSA companies over a 3 to 5-year time frame reflecting the genuine value added by the HDSA provider;
- Encourage existing suppliers to form partnerships with HDSA companies, where no HDSA Company tenders to supply goods or services; and
- Commit to help develop HDSA procurement capacity and access Department of Trade and Industry (DTI) assistance programmes to achieve this.

Companies who do not comply with these regulations risk having their mining rights revoked.

1.3 The Role Procurement Plays in the Advancement of BEE

If implemented properly, affirmative procurement has the potential to be beneficial for both private sector firms and SMMEs. Affirmative procurement is beneficial for large firms in the private sector in that it provides a larger and more diversified pool within which large firms can source potential subcontractors. The more small businesses there are competing for a tender or contract, the more competitive the price of goods and services becomes. Furthermore, if companies are able to source goods and services from businesses in the same vicinity, they are more likely to do so if this will reduce transport costs. By complying with affirmative procurement policies, companies also project a positive image of being open to transformation which in turn enhances their corporate image and may even secure them more clients. The benefits of affirmative procurement for SMMEs that are specifically owned and managed by historically disadvantaged individuals are evident. Small businesses depend on the contracts they secure for their growth and increased competitiveness. It is important to have a good track record in order to attract the business of large companies. The continued success of small businesses may lead to an increase in employment and other positive economic spin-offs.

1.4 Methodology

The paper is based on interviews with large firms and their small firm subcontractors. To better understand the process behind the procurement decisions of firms, a selected number of in-depth interviews were conducted. This method was chosen over the alternative of conducting a large-scale survey due to the nature of the issues that are to be discussed. The challenges faced by large firms in terms of their procurement arrangements tend to be homogenous as is also the case for small firms. What is needed therefore is more insight into specific issues rather than a broad overview of different firms' practices.

In considering which firms to interview, the researcher attempted to put together a varied and representative sample in terms of location and industries. The firms interviewed are therefore spread over three industries and four different areas in Ekurhuleni.

Section 2 of the paper gives an overview of the interviews carried out with the large firms in the area, while Section 3 provides an overview of the subcontractors interviewed. In Section 4 the case studies are analysed, firstly from the point of view of large firms and then of small businesses. Finally Section 5 gives a summary of the findings and also makes recommendations based on these findings.

2. Interviews with Large Firms

Five large firms based in different parts of Ekurhuleni were interviewed on their procurement policies and procedures as well as on their experiences with working with local small businesses. These interviews were with purchasing managers or senior buyers and, in the case of very large firms, the business development manager. A brief questionnaire was used in the interviews. Questions were asked about the firms' procurement processes, their affirmative procurement policies, their experiences with SMMEs and also what support structures they had in place for their subcontractors.

Firm 1

Firm 1 is a wholly owned subsidiary of a large South African conglomerate. It is spread over five facilities, four in Gauteng and one in the Western Cape. Its head offices are situated in Wadeville. Its main operation, which consists of about 85% of its total production, is in the manufacture of glass. Plastic is also manufactured on a much smaller scale. Firm 1 spends approximately R990 million per annum of which R350 million is on capital expenditure. This amount is usually spent on the latest technology in terms of furnaces, refractories and other machinery. All of this equipment is imported. The remaining amount of R640 million is spent on domestic purchases and services. These include raw materials, energy, transport services, distribution networks and packaging. Energy, liquid fuels and raw materials are traditionally supplied by large, established companies and Firm 1 tends to be conservative when it comes to changing suppliers. The reason given for this aversion to change is that the efficiency of a glass manufacturing plant depends on constant and reliable supply. Products offered by new suppliers have to be tested and integrated into the system. This causes a loss in efficiency especially if the quality specifications are not satisfactory.

The procurement spend on SMMEs is distributed across services, consumables, as well as the packaging and transportation of the finished product. A large amount of money is also spent in the recycling of glass, especially in terms of transporting it from all over the country to one of the plants. In terms of the criteria used to select service providers, quality specifications are a key aspect. The proximity of the subcontractor to the glass plant is also important. In short, Firm 1 wants its subcontractors to be reputable, self-sustaining, financially viable and competitive. Firm 1 currently uses the SAP system to manage the logistics of the procurement process but is in the process of upgrading this system. Firm 1 also uses a vendor management database which is audited regularly.

Although they do not have their own affirmative procurement policy in place, Firm 1 is guided by the policy of its parent company. The motivation to take on affirmative procurement for Firm 1 is purely in terms of corporate governance. There are no Charters underpinning this process nor is there any consumer base to be considered. Firm 1 does not differentiate between small and large BEE companies and has no specific policy on the development of SMMEs. Presently, 18% of its total procurement expenditure is spent on black-owned companies although their target is 25%. Firm 1

uses the 25% black ownership benchmark in determining whether a company is an empowered one or not. At the moment, Firm 1 has no plans to expand its supply base. In fact, it is in the process of cutting it. It is committed, however, to ensuring that BEE companies are given a larger share of the company's daily expenditure. While Firm 1 does not offer any financial help to its subcontractors it is willing to offer technical support. In addition, it can facilitate early payment as well as provide a letter of intent for the purpose of helping the subcontractor secure a loan from a financial institution.

Firm 2

Firm 2 operates as a gold mine and is based in Boksburg. 60% of Firm 2 is owned by a BEE holding company while another company, which also manages the mine, owns 40%. Firm 2 currently operates three facilities. All the purchasing requirements from the different shafts are processed through the head office using the Magic system to manage the logistics. Firm 2 has outsourced all its services including the management of the miners' hostels and the transport system. It purchases all its electrical consumables, mining machinery and tools from companies on its vendor's list. The repair and maintenance of the machinery is also procured. In order to be placed on Firm 2's vendor list, firms have to complete a rather extensive vendor application form and are also subject to an inspection of their premises as well as a security check. Their vendor list currently consists of 800 suppliers. Because of the time-pressured nature of mining operations, the most important criterion used in selecting potential suppliers is their ability to deliver on time especially in emergency breakdown situations. Quality requirements are also more important to the company than the pricing of goods and services.

The fact that Firm 2 is effectively a black-owned company gives it an added incentive to actively pursue an affirmative procurement policy. In addition to this, the mine has to subscribe to the Mining Charter which also sets out affirmative procurement targets. But, only 12% of Firm 2's services and goods are provided by black SMMEs. Although black firms sometimes secure contracts to supply engineering machinery and services, as well as offer maintenance, most of the black subcontractors tend to supply the catering, cleaning, and miner's clothing services. Most of the challenges faced by Firm 2 in working with emerging SMMEs have largely been in terms of trying to help SMMEs cope with supplying the correct product. Mining machinery is very specific and therefore emerging SMMEs often need some technical support. Apart from this technical support, Firm 2 is also willing to make early payments in order to help their subcontractors.

Firm 3

Firm 3 is situated in Springs and is part of a large mining company, which is the second largest producer of platinum in the world. The function of Firm 3 is to beneficiate ore concentrate from the main company's mines. It also uses its excess capacity to process materials from third party sources. Firm 3 prides itself on its economic empowerment policies and even mentions their affirmative

procurement programme in their brochure. The brochure states that the programme employs best practice methods in identifying prospective affirmative business enterprises and small to medium operations as potential preferred vendors.

The procurement process of Firm 3 is separate from that of the main company's mines and is run from Springs. Firm 3 uses the MIMS system to manage all its supply needs, from ordering the good right through to its reception. This facilitates a procurement system that is efficient and fully professional. Firm 3 uses subcontractors for all its services (cleaning, gardening, security, catering, clinic and IT support) as well as consumable goods such as stationery, clothing and electrical services. Potential subcontractors are subject to both a technical as well as a commercial evaluation process. Requirements include quality, high safety standards and a good track record. Due to the high security risk aspect associated with the processing of precious metals it is also essential that subcontractors who work on site should not possess a criminal record. According to the business development manager interviewed, this requirement makes the process of affirmative procurement difficult since a large number of historically disadvantaged people have some sort of criminal record.

Firm 3 spends approximately R5 million a month on BEE contracts and more specifically, between R250 000 and R500 000 per month on black-owned SMMEs. The Human Resources division also runs a large and active company social investments division that implements local socio-economic development initiatives. A large number of subcontractors are used for this purpose and therefore rather than working on site at the premises of the firm, these subcontractors are used, for example, to build or renovate police stations or schools. If a subcontractor is battling to meet their targets, Firm 3 offers support in terms of quicker payment as well as a mentoring process. In addition, they are the main sponsors of a business skills course run in conjunction with a business linkage centre which is offered to all small and medium business owners and managers.

Firm 4

Firm 4 is a gold mining company situated in Strubenvale, Springs. It is wholly owned by an Australian holding company. The final acquisition of Firm 4 by the holding company took place in February 2003 and as such they are still in the process of establishing themselves. They do not as yet have a procurement manager or division, and a single buyer handles all the purchasing arrangements. Firm 4 uses subcontractors for a large range of goods and services including electrical consumables; labour, mining equipment, transport services and chemicals. Firm 4 is currently in the process of drafting an affirmative procurement policy which will be implemented along with a comprehensive re-evaluation of the status of their current suppliers. At the present moment, 60% of all procurement is through SMMEs, of which 60% are owned by previously disadvantaged individuals (including white women).

Firm 4 has not yet established a formal accreditation system for potential subcontractors and contracting requirements have been generally ad hoc. If a company can provide immediate delivery at

the most competitive price, they are generally awarded the contract. Technical specifications and quality standards play a role in the selection of a subcontractor for a particular job. Although Firm 4 claims that they prefer to source from local, BEE businesses, they concede that this is not often feasible, as other, more established firms tend to be more competitive especially in terms of pricing. Although the Mining Charter is influential in terms of determining affirmative procurement targets, Firm 4 cites increased competitiveness gained by being able to choose suppliers from a larger pool of subcontractors as their main incentive for adopting affirmative procurement practices. The main challenges of this procurement process according to Firm 4 are those concerned with transformation. There seems to be unwillingness on the part of the heads of the divisions to change their traditional suppliers for emerging, black SMMEs. Although Firm 4 can arrange for early payments to accommodate smaller firms, they are inflexible over extending deadlines to suppliers.

Firm 5

Firm 5 is one of the four large steel firms in South Africa. It is wholly owned by a large conglomerate, through its ferrous metal division. Firm 5 itself wholly owns four companies and has a 50% stake in another. Firm 5's head offices are located in Germiston and the group currently employs approximately 6000 people. The company's core function is to transform scrap into long steel products and it has four main divisions, namely the grinding media, rolled products, casting products and steel wire products divisions.

Each of the subsidiaries has traditionally handled their own procurement but this arrangement is in the process of being replaced with a centralised group procurement department which will be run from the head offices in Germiston. The procurement process at Firm 5 has traditionally been run in a fairly non-professional way in that it is only recently that a formal system has been introduced. Prospective subcontractors apply to be placed on the vendor's list from which suitable candidates are selected when a service or product is required. Firm 5 has outsourced all its services i.e. security, cleaning, catering etc. The transportation of workers and the maintenance of the buildings and machinery are also handled by small subcontractors. Firm 5 buys a lot of fuel from large petroleum companies and uses Spoornet to transport its steel. In selecting which subcontractor to use there are a few criteria that are used. Quality is the key requirement, while the price of the good or service and the consistency of supply are also important.

As a subsidiary of a large parent company, Firm 5 actively follows the parent company's affirmative procurement policy, which tends to concentrate more on the aspect of black empowerment regardless of the size of the empowered company. Therefore the emphasis is not really on promoting SMMEs but on dealing with black-owned companies. Black-owned companies currently constitute 6% of the vendors list. While the Mining Charter has been instrumental in shaping the parent company's affirmative procurement policy, the other incentive for affirmative procurement is that it helps develop alternative suppliers to the traditional ones who are perceived as being too comfortable and therefore

prone to complacency. This increased competitiveness between subcontractors also leads to more competitive pricing which is important in the highly competitive steel market. When it comes to the difficulties faced by Firm 5 in working with black-owned SMMEs, the interviewee cited problems with establishing and maintaining suitable quality and safety standards, the inability to correctly price goods or services provided and the lack of technical know how. In terms of the support offered by Firm 5 to up and coming SMMEs, Firm 5 is only prepared to amend the payment terms and will either pay on delivery or after 7 days depending on the needs of the SMMEs.

3. Interviews with Subcontractors

Each of the large firms that were interviewed was asked to provide details of BE subcontractors that they had a working relationship with. From this pool of subcontractors, four black-owned SMMEs were interviewed. The aim of the interviews were to establish the motives for starting a small business, common difficulties and challenges, as well as recommendations on what should be done in order help these small firms build capacity.

Firm A

Firm A is based in Edenvale. It has three shareholders: two blacks, who between them own 80% of the company as well as a white shareholder who owns the remaining 20%. The white shareholder however provided all the start-up capital for the firm and it is unclear to the black shareholders how the ownership agreement is set up. The company started operating in March 2003 and is involved in the repair, maintenance and hiring out of pumps. The business does not have their own premises and shares facilities with an established company that also specialises in pumps. The black shareholders who are involved in the day to day operations of the firm have no prior training in running a business, although one of them has spent all his working life in companies that repair pumps. The firm employs two workers to handle the manual work. Their clients include Johannesburg Water, Grinaker, and Randwater. They are also currently on Eskom's vending list although they have not received any work from them yet.

Although Firm A would like to expand their operation by securing premises of their own, they have not been able to secure financial help from a bank. The black shareholders are also very sceptical about the intentions of their white partner and feel that he has control over them and the running of the business as a result of his financial backing. The partners' lack of business and marketing skills also contribute to the difficulties that they face in trying to build up their business. Furthermore, the partners feel that although large companies seem to place emphasis on black ownership when giving out contracts, there is still a lot of cronyism among procurement managers and their white suppliers.

Firm B

Firm B is a successful building contractor firm. The owner started his business on a much smaller scale in the 1960s, working firstly as a subcontractor for white builders and then, because of apartheid legislation which prohibited him from working in white areas, as an independent builder in Kwa-Thema, where his business is still based. Today, the firm employs about 29 construction workers and has contracts with a mining company as well as several banks in the area. When the owner first started up, he secured a loan from the former Small Business Development Corporation (SBDC) but found that because of the high repayment rates, he was not able to secure much profit. The owner is a trained builder and has also attended courses on business skills development. Although he believes that it is now easier to secure contracts as a black-owned business, he also feels that black businesspeople should also learn how to market their goods and services effectively.

Firm B's owner feels that for a small business to build capacity, high standards of quality and reliability are needed. Subcontractors should also develop networks, especially with their own suppliers in order to be able to reduce costs. He also points out the importance of a basic level of business skills, especially in terms of budgeting. He also feels that black businesspeople should organise themselves into some sort of support structures. He regards lack of access to finance as the main difficulty facing small businesses today and feels that banks still tend to favour white clients.

Firm C

The third small business featured deals in the repair and maintenance of electrical motors. The firm also sells new motors and spare parts. It is based in Wadeville and apart from the owner, who is Indian, employs four black workers and one white, who is employed as the marketing manager. The workers have been given on-the-job training by the owner who is a qualified quality controller with work experience in dealing with electrical motors. His motivation for opening the business in 1999 was basically the threat of retrenchments at the company where he was working. The business has done work for ISCOR, Lever Ponds, SAB and small engineering firms. The owner feels that a lot of opportunities now exist for HDI firms due to affirmative procurement legislation. For instance, when he first approached one company in 1999 offering his services he was turned down. Upon reapplication this year, he was accepted as one of their service providers. The owner believes that being located in a business industrial site has given his company added exposure since there are a lot of companies around him that he can feed off.

The owner of the business has never approached any financial institution for help and therefore had not experienced problems with access to finance. He identified his main difficulty as attracting sufficient clients to build a broad client base. Repairing electric motors tends to be cyclical and therefore a broad customer base is essential. He has employed a marketing manager to deal specifically with this perceived gap in his business. The owner has had some training in business

skills and is also familiar with the safety standards required by large firms. This has enabled him to secure most of the contracts he has. His main goal at the moment is to secure a deal with a mine or power station, since they have a large demand for the services he offers.

Firm D

Firm D is a clothing company owned by a couple who are former teachers. They work from their home in Springs. They started their business part-time more than 10 years ago, but only left their full-time jobs and registered the business in 1997. Their main product up to now has been school uniform and they currently have an agreement with the Department of Education as recognised suppliers of school uniform. The business has recently started diversifying into corporate wear and their customers up to now include JIA and Ringrollers as well as a few clinics. They employ two full-time and four temporary employees and although their small-scale work is done from their premises in Springs, they rent a large workshop in Johannesburg for their bulk orders.

The owners of the business do not feel that affirmative procurement legislation has had any positive effect on their chances of securing contracts and have had bad experiences with racism when dealing with clients. Most of this racism though is covert and masked by the 'requirements' of the large firms. There also seems to be a need for connections and subcontractors are chosen for whom they know rather than their track record or references. Their biggest challenge is access to finance and they have unsuccessfully tried to secure loans from large banks. Firms are also reluctant to give advance payments which would provide working capital. They have had to resort to borrowing money from micro-lenders, which has negatively impacted on their profit margins. Lack of access to finance has also led to the company losing contracts with companies such as Nampak because of their failure to provide overalls without any advance payments.

This particular company has been helped by the Springs Business Linkage Centre and says that this has been their greatest source of help. Not only does the linkage centre help them to acquire new clients, it also provides Internet facilities, business skills courses and bookkeeping services at reduced rates.

Firm E

Firm E is situated in Kempton Park and offers international air and sea freight services. The company has been in operation since 1990 and employs four people. Its owner has a background in marketing as well as in freight services, having worked for a major parastatal in their freight division. He chose to start his own business in freight services due to his experience in the field and the exposure and networks that he had established in his previous job.

The market within which the firm operates is very service-driven and success depends on efficient delivery, quality of services and excellent communication between the company and its clients. Acquiring clients however is challenging since international airlines prefer to work with companies in their home countries. The company however, has quite an extensive client base which includes the United Nations, Eskom and City Power.

The owner of Firm E cites the slow pace of transformation as the main challenge faced by the business. The industry is still dominated by white firms, especially international ones. Company -client networks are very well protected and establishing new connections is extremely difficult. The level of corruption is also high with people responsible for awarding tenders doing so on the basis of available kickbacks. The key to building capacity, according to the owner of Firm E, lies in developing workers in terms of empowering them with skills training which will increase the efficiency of the firm. Support structures where small businesses can obtain information and logistical support are also important for their development.

Firm F

Firm F's main activity is in the manufacture of steel cabinets to the specifications of clients. The company has a complement of 18 employees and is situated in Jet Park. The company is part of a group of three companies which have come together offering a range of complementary services ranging from the manufacture of steel cabinets to wiring and the manufacture and supply of alkali batteries. The owner of Firm F is chairperson of the group with 67% ownership. This is especially relevant in terms of the contracts that these companies are able to access through having a black person as the major shareholder.

Firm F started as a result of the owner being retrenched from a steelworks company in the late 80s. He started manufacturing post boxes and burglar-proof bars on his residential premises and as his business expanded, he diversified into steel cabinets for industrial use. His clients include Consol Glass, Telkom, Eskom and PSV. Although his experiences with large firms have been relatively problem-free, he maintains that there is still a lot of discrimination towards black businessman by their white counterparts. Black businessmen are not regarded as being professional and credible, and their efforts are therefore often dismissed or ignored by large firms.

Firm F's owner cites lack of access to finance as the main impediment to growing businesses including his own. The inability to obtain financing from banks led to him selling 30% of his company shares to another white-owned company in order to obtain funds in order to expand. The contract however includes an option for him to purchase back the shares at book value at any time. Other difficulties include obtaining the required safety and quality certification required by prospective contractors. According to the owner of Firm F, small business will grow only if the owner is willing to

risk what has been accomplished and consistently expand his operations, especially through investing in capital equipment.

Firm G

Established in 1965 by its owner, a trained bookkeeper, Firm G has a long and illustrious history of service to mainly other black-owned SMMEs. The firm was established as a bookkeeping service and has since expanded into other financial services as well as SMME consulting. The firm offers a range of services from company registration and bookkeeping to tax consulting. In addition to this they are also in partnership with another large black-owned accounting firm who assist them with their auditing requirements. Firm G is based in Benoni and employs 9 people including the owner and his business partner. They have a client base of over 300 mainly small black-owned businesses with annual turnovers ranging from R100 000 to R20 million.

Although BEE legislation has yielded some business opportunities for the company, one of the partners in Firm G felt that obtaining contracts from large firms was still a frustrating process. This is mainly due to the covert racial prejudice that still exists among those in charge of procurement in the large firms. The insistence on an extensive track record by contracting firms is also a stumbling block for many small businesses that may be still struggling to build up a client base. Firm G however does have an extensive track record with a constantly increasing client base obtained mainly through referrals to the firm by existing clients. The firm however makes use of personal visits as well as advertising through radio to attract new clients.

The obstacles to the sustained growth of their small business cited by Firm G are in many respects similar to those of the other small businesses interviewed. Although they are a relatively well-established firm they also have to contend with a lack of access to financial resources. Firm G also feels that they need to establish a more efficient work system, not only in terms of improving their physical workspace but also in terms of training of staff members as well as the efficient delegation of tasks. One of the senior partners of the firm also regards a lack of negotiation skills as an impediment to the growth of small businesses. The owners or managers of these businesses are often unable to negotiate favourable terms when finalising a contract agreement. They are also unable to negotiate with their clients for extensions to deadlines which they may be unable to meet.

Firm H

Firm H's main business activities are the supply and distribution of stationery and abrasives to private companies and government departments in and around Ekurhuleni. Set up initially in 1994 as a distributor of beverages, the company has undergone several transformations including operating as a supplier of speciality tapes and as a printing company. The owner is a qualified accountant with a working background in a large beverage company. His qualifications as well as the fact that he is from

a family with a business background have been essential in ensuring that his business has run smoothly. Apart from the fact that business skills enable the owner of a small business to run his operations more efficiently, they also play a part in facilitating effective planning and ways to cope with unpredictability.

The business is based in Germiston and employs six workers. Although the owner of Firm H concedes that the market for distributing and supplying stationery is almost saturated and dominated by large firms who at one time can hold stock worth millions of rands, he is still positive about the growth prospects of his business. The market for abrasives is growing and through a business agreement with 3M, who manufacture these abrasives, he has been able to supply the product to an increasing amount of clients, especially in the public sector. One of his major successes so far has been to secure a three-year tender agreement to supply abrasives to the Department of Correctional Services at a national level.

Firm H's owner uses a range of methods to acquire new clients. These include actively looking for tendering opportunities on the internet and in other media sources, subscribing to the local chamber of commerce and using the extensive political networks which he has established. As to whether the implementation of BEE legislation is making it easier for small black businesses to secure more business opportunities, Firm H's owner feels that this is only relevant within the public sector. Within the private sector, connections are still more important than the quality of the product provided. Furthermore affirmative procurement is implemented more for compliance rather than transformation. In order to compete against larger firms who are able to offer lower prices due to the amount of stock they hold, Firm H has had to rely on using their quick turnaround and delivery times as their selling points. This has proved to be challenging however due to the fact that large firms place more emphasis on pricing than other criteria when selecting a potential subcontractor.

Firm I

Firm I is a relatively successful IT firm based in Benoni. It offers a range of services to its clients including the installation of IT networks, the provision and maintenance of relevant infrastructure as well as complete IT solutions for their companies. The business, which was set up in 1999, has a sole owner and now employs 22 workers. Most of those employed are technicians who provide the actual services to clients. The owner has experience in information technology, having worked for a company which supplies IT products. It was while working for this firm that he discovered a gap in the market for firms who offered complete IT solutions and decided to venture into this market.

Although there is demand for the services he offers, there are other obstacles to growth that the firm faces. Firstly there is still a significant amount of racial prejudice among potential clients, black firms are used to fill excess capacity rather than as first choices. Secondly, due to a lack of connections, black firms are unable to access input products from overseas directly. This means that they have to

buy these products from other firms in South Africa, consequently raising costs. A lack of access to working capital also impedes on the ability of the firm to grow at a fairly rapid rate. According to the owner of Firm I, the requirements laid out by banks in order to qualify for a loan are too stringent and although government funded initiatives are useful, they sometimes require that you cede a stake in your company to them and they also rely on approval by banks to provide finance. Government initiatives therefore only facilitate the financing process and by requiring a stake in the business diminish the credibility of black businesspeople.

Although he acknowledges that preferential procurement policies have benefited black businesspeople especially in terms of opening up opportunities, the owner of Firm I feels that a lack of entrepreneurial spirit among blacks has prevented them from exploiting these opportunities. In addition, the lack of intellectual capital among blacks also limits the ability of small businesses to build capacity. A lack of intellectual capital limits exposure to certain jobs and also makes it more difficult for firms to break into global markets. Taking the importance of intellectual capital into consideration, Firm I's owner feels that government should play a more proactive role in offering skills training to workers. Furthermore companies should be willing to invest in human capital.

Firm J

Firm J is situated in Driehoek, Germiston and is involved in the manufacture of guttering systems. The firm began its operations in 2001 following the development of an innovative alternative to asbestos boards as gutter covers by own of the partners. The product manufactured by the firm is unique and the design has even been registered with the Department of Trade and Industry. The firm currently rents workshop space from an established firm in the area and employs ten people to manufacture and install the gutter systems. Firm J is owned by two partners, one has a background in business while another has worked in the steel industry.

The company has taken a rather creative approach to acquiring new clients. Most of their current clientele are homeowners in the townships and to attract more of these clients the firm holds road shows in public areas such as taxi ranks. In addition to this they may also sponsor one 'show house' in the area which would then serve as an exhibition of their work for potential clients. One of the long-term plans of Firm J is to hire agents all over their service areas who would deal with the marketing aspects of the particular area they are based in and would also then become official suppliers of the product. Although they are currently only operating within the private homes market, their goal is to firstly secure some government tenders to supply gutter systems to low cost housing builders. They also aim to secure some contracts from large firms who may offer housing to their employees.

The owners of Firm J attribute their success so far to the fact that they were able to identify a niche in the market and capitalise on it. Other business management systems used by the owner such as information gathering, awareness of the market and proper planning have also helped the firm run

more efficiently. In order to increase their efficiency and capabilities the firm has also approached Gaumac for manufacturing advice as well as some help. With the help of Gaumac, they were able to have a professional business plan drawn up and Gaumac is now in the process of giving them some advice in terms of their marketing strategy.

4. Analysis of Case Studies

A number of issues came up consistently throughout all the interviews and these will be picked up in this discussion. These are issues that concern both small and large firms and which will have to be addressed if a sustainable method of affirmative procurement in Ekurhuleni is to be established.

4.1 Affirmative Procurement and Large Firms

The five firms chosen seem to follow similar procurement trends in terms of what is procured locally (in Ekurhuleni) and what is not. All of the companies have outsourced their day-to-day services such as cleaning, catering, security and gardening. There are certain other services which companies seem to purposely or inadvertently give out to black-owned businesses to provide. From the cases looked at, these include transport services, stationery supplies, corporate wear, general construction, and the maintenance and repair of small parts such as electric motors and pumps. The companies interviewed seemed eager to dispute the perception that black-owned firms were only given the types of contracts that required mostly manual labour and were not particularly lucrative or highly specialised. According to the companies interviewed, most of the black-owned businesses offering their services for other, more skilled work did not meet the minimum quality and safety standards and could therefore not be considered.

All of the firms interviewed were involved in either mining or manufacturing. As such, they use highly specialized and sophisticated machinery, which they almost always import from other countries. Raw materials used in the manufacturing process are often highly specific and not necessarily found in Ekurhuleni. For example, the glass manufacturer uses limestone, soda ash and silicone sand as core raw materials. These are not available in Ekurhuleni, especially in the quantity and quality demanded by the manufacturer. Raw materials are therefore generally sourced from other parts of the country.

Companies generally have a target, expressed as a percentage of total procurement, that they are working towards in terms of the proportion of contracts awarded to black-owned SMMEs. Although all the companies expressed a desire to meet this target in the near future, they all stressed that the pace of transformation would be slow in order to ensure that companies would not lose out on their efficiency standards. As desirable as it sounds, none of the companies are willing to trade-off efficiency for fairly rapid transformation. The proportion of procurement from black-owned SMMEs remains low despite the appropriate sentiments expressed by the large firms.

There are certain issues that are pertinent to the way in which large firms handle their procurement procedure and the relationship they have with SMMES. These issues were discussed in the interviews and because of their relevance to the topic will be given more attention below.

The Motivation for Affirmative Procurement

Preferential procurement is now recognised as one of the essentials of good business practice, along with employment equity and good labour relations. Since the passing of the Preferential Procurement Act, it has become even more imperative for firms to comply with affirmative procurement policies. Two main motivating factors for the adoption and implementation of an affirmative procurement policy were consistently given in the interviews, being legislation and increased competitiveness.

The Mining Charter has proved to be a strong motivator in terms of ensuring that firms take the necessary steps needed to reach the empowerment targets that have been set out. Companies who do not comply with these regulations risk having their mining rights revoked. Given that out of the five firms interviewed, three are in the mining sector, the threat of 'punishment' by the government is a definite motivation for transformation in procurement to take place. But, it was striking that the research reveals that mining firms are not more likely to have recorded more advanced affirmative procurement practices.

The second motivation for affirmative procurement that was mentioned by three of the companies was that it would increase competitiveness between SMMES. Companies feel that their traditional suppliers have become complacent and that if there are more SMMES competing for contracts, the prices charged by subcontractors will become more competitive and their safety and quality standards will improve. The companies interviewed denied the fact that they were outsourcing their services to black-owned SMMES merely as a cost-minimisation exercise saying that they were motivated by the desire to be seen as contributing to empowerment. All the companies were quick to stress that they were more responsive to incentives for affirmative procurement rather than being threatened with government-led regulations. But, the research does not necessarily support this.

Definitions of Affirmative Procurement

There is a need for a distinction to be made between BEE companies as a whole, and smaller black-owned SMMES in particular. Most large firms do not make a distinction between the two. In two of the large firms there is a definite policy on BEE and affirmative procurement but none on the promotion of SMMES, black-owned or otherwise. This trend seems to be picked up from the parent companies. It is therefore not clear what proportion of the procurement spend goes to black-owned SMMES rather than large BE consortiums. This confusion has significant implications for the development of SMMES who may not have the same resources at their disposal as the large empowerment companies.

Legislation does not specify whether large firms should use black-owned SMMEs or large black-owned companies as potential subcontractors. Large firms are therefore under no obligation to choose small black businesses over large ones. Small black-owned firms however are more likely to promote empowerment at all levels, operational and managerial. Their ownership structures are often less complex and the extent of empowerment both in terms of operations and ownership is often more evident than in large firms with complex ownership structures. It might be argued therefore that in order to make a significant contribution to genuine black empowerment, large firms looking for potential subcontractors might do better to concentrate their efforts on smaller businesses.

Selection Criteria

There seems to be a level of inconsistency among large firms over what criteria are important for selecting subcontractors. Although these large firms reiterated their support for affirmative procurement, they also all stated that a proven track record, preferably with other large firms, was an important requirement. Issues of quality and safety specifications coupled with technical know-how were cited as being more important than the price of the good or service, yet the small firms all saw pricing as the key criterion large companies use to select subcontractors. Selection criteria also tend to differ, depending on what sector the firm operates in. For example, the mining companies gave immediate delivery as their key criterion mainly due to the time pressures they operate under. The glass manufacturer specifies that any truck used in the transportation of their product should have air suspension features to ensure that the glass is delivered to their customers safely.

What remains unclear is the exact point at which affirmative procurement considerations come into effect in the procurement process. If affirmative procurement is practised, at which point is it practised?

Obstacles to Efficient Affirmative Procurement

When asked what made the process of affirmative procurement more difficult, large firms generally cited similar constraints or obstacles. The first was that emerging SMMEs often failed to meet the required safety and quality standards. This was as a result of either not having the correct equipment for the job or not having workshops that meet safety specifications. Another problem was the costing abilities of small businesses. In preparing a quotation for the contracting firms, SMMEs usually charged a price that was either extremely expensive or extremely cheap. This indicates that such businesses are unaware of prevailing market trends and prices in the sector they operate in.

In the manufacturing and mining sectors, procurement beyond the generally outsourced services requires a certain amount of technical expertise. Due to a lack of these technical skills, black-owned SMMEs are often unable to compete with established businesses. All the companies interviewed are unable to offer any SMME an advance of payment when offering them a contract for work to be

carried out. Coupled with the small business's inability to secure a loan, it means that it is often not possible for small businesses to fulfil their obligation to supply goods and services due to a lack of working capital.

Four of the companies also conceded that in some cases the problem lies with the attitudes of the heads of the different divisions who initially request goods and services. These foremen are usually unwilling to change suppliers and also believe that black-owned subcontractors are not able to deliver a standard of work equal to or better than the existing suppliers. The procurement managers interviewed gave the impression that there was little they could do to remedy this situation which was puzzling given that they are ultimately in charge of which company is given the contract.

Support Structures

Given their stringent selection and delivery requirements, the apparent inability or unwillingness of large firms to offer support structures to struggling small businesses is surprising. Although all firms said they could try and arrange early payment, none of the firms was prepared to give an advance to small businesses. In addition, only two firms stated that they would be willing to supply small businesses with letters of intent that would help them secure loans from banks. Companies seem to perceive the acquisition of business skills, satisfactory safety standards and emergency procedures as being the sole responsibility of the subcontractor. This was especially evident at one company where it was made clear that there was no flexibility or leeway for subcontractors to have glitches in delivery. The main sentiment seems to be that if you cannot deliver a service when it is needed, you should not have the contract, no matter what the circumstances are.

Prevailing Attitudes within Large Firms

It is important to the companies that were interviewed that they are able to supply the best quality product at the best price. This has an influence on the kind of inputs they demand in arriving at the final product. Procurement managers and buyers are therefore under pressure to ensure that the procurement process is as hassle-free as possible. The impression that was given, although not explicitly, was that implementing affirmative procurement practices was a tiresome exercise that they would prefer not to have to do, purely because of the extra effort involved in ensuring that their vendor's lists are more representative of historically disadvantaged citizens.

What was of concern were the perceptions or stereotypes that some of these managers seemed to have of black businessmen. Managers seem to engage in racial profiling perhaps without being aware of it. For example, while talking about the obstacles to contracting work at their firm to black businesses, one manager stated that because of the high-security aspect of the operations, it was difficult to offer contracts to black people because 90% of them had criminal records. Another talked of how some black businessmen lost contracts because they insisted on operating on 'African time'.

4.2 Affirmative Procurement and Small Businesses

Although the ten small businesses that were interviewed operate in different industries, they almost always shared the same experiences as well as difficulties. The activities engaged in by the different firms range from the repair and maintenance of electric motors and pumps, to financial and IT services and solutions. The number of employees hired by each firm ranged from two to 29. All of these firms have less than three shareholders and, with the exception of two businesses that have been operating since the 1960's, have been in operation for thirteen years or less. Although not equally successful, the businesses interviewed seemed to be doing well; most firms had been able to secure one or more big contracts and none of them gave any indication of experiencing serious financial difficulties. One of the businesses only started operating in March of this year and, although they have secured some important contracts, one cannot really comment on their growth and performance thus far. It is also interesting to note that in most of the cases, the businesspeople featured chose to operate in the fields of business where they had background experience, either through their previous employment or through training they had undergone.

The following sections will look at specific factors that are pertinent to small firms and will to a large extent mirror issues already discussed from the perspective of the large firms. These issues mainly relate to two broad themes, namely obstacles faced by small businesses and what is needed for capacity-building within these firms.

Access to Finance

Access to finance is one of the major obstacles facing small and medium-sized enterprises. All the firms that were interviewed, both small and large, cited this as the main reason that small businesses do not reach their full growth potential. Although it is very difficult for small businesses to obtain loans from large banks, micro-lenders are much more flexible in giving out loans. This was the option one of the small businesses interviewed had chosen to take, with the result that its profit margin was often significantly reduced by the high interest charged by the micro-lenders. When asked why it is difficult to obtain a loan, small businesses cite the fact that banks often require collateral and that banks refuse to give out loans to people who have bad credit records.

In order to ascertain whether large financial institutions are in fact unwilling to assist in the development of small businesses by making finance available to these businesses, an interview was arranged with the First National Bank branch in Germiston.

In the interview, the bank acknowledged that it was difficult for emerging SMMEs to obtain loans. The reason they gave for this was that as the custodian of their shareholders' and customers' wealth, it was too risky for the bank to give out loans to new SMMEs that might not be serviced. In giving out loans, the bank uses one important criterion, whether a loan can be serviced or not. In light of this

criterion banks are more willing to lend money to businesses that are going concerns. Often, however, it is businesspeople that need start up capital that approach banks for financial help. All banks have also had to face the failure of their micro-loans divisions. FirstRand for instance wrote off R104 million, as bad debt through micro-loans last year. There is recognition by large banks that new models of assisting SMMEs that are viable and sustainable have to be developed. First National Bank has introduced some programmes to offer support for SMMEs and these will be discussed at a later stage.

As stated before, the two main criticisms small businesses had with regard to obtaining finance from large banks were that banks required collateral and that loans were refused to individuals with bad credit records. On the issue of requiring some kind of collateral before issuing loans, the bank stated that due to increased competitiveness within the banking industry this prerequisite is becoming less of a priority. If a small business can prove that they have been awarded a contract to carry out work, the need to put up some form of security can be overlooked by the bank. In terms of bad credit records by shareholders of a small business, the bank said that they examined an applicant's ITC record in order to ascertain that applicant's willingness and ability to pay off debt. The bank would, however, take into account whether there were bona fide reasons for the inability to pay off the relevant debts.

Other initiatives include:

- The First National Bank branch in Springs had run a fund known as the Sizanani Fund in conjunction with the Springs Business Linkage Centre. The bank made R50 000 available to the fund, which was used to provide selected SMMEs with working capital to the value of up to R10 000. The procedure followed was that an SMME would produce a letter of intent from the company it had secured work from. The fund would then provide them with the capital they needed to carry out the work they had been contracted for. On completion of the project, the contractor would deposit the money to the fund, which would pay off the loan and then give the subcontractor his profit. Short-term insurance was often taken out to protect the fund against the risk of non-performance by the subcontractor. The fund has subsequently been terminated but the bank hopes to introduce a similar scheme at a larger level.
- Absa Bank has recently announced that they will establish a fund which will provide private equity funding of between R300 000 and R10 million to fledging black-owned businesses. Absa is also still wary of taking further financial risks as a result of the failure of its micro lending subsidiary, Unifer, and will initially only fund the project to the tune of R250 million. Absa has admitted that the pressure on the financial sector to provide banking services to historically disadvantaged individuals, with the Financial Services Charter due for release in October 2003, has played a role in galvanising the sector into action (Business Day, 2003).

An alternative service offered to businesspeople is to access finance through government-funded initiatives. Khula Enterprise Finance was established in 1996, under the auspices of the Department

of Trade and Industry mainly as a result of the National Small Business Act of 1996. Khula is essentially a wholesale agency which provides financial support for SMMEs through intermediaries. It offers a variety of financial products including loans, credit guarantee schemes, grants and institutional capacity building. Khula generally facilitates loan and equity capital to SMMEs through the use of retail financial intermediaries. The criteria used by banks and other financial institutions in screening potential lenders therefore also apply in relation to the requirements set out by Khula. In some circumstances however, Khula is willing to act as security for SMMEs who may require some form of collateral to meet the requirements set out by the bank. In 1998, the Minister of Finance, Trevor Manuel also announced the establishment of the Umsobomvu Youth Fund with the aim of providing a service to the youth which would have the responsibility of enhancing the economic participation of young people by helping them access sustainable business opportunities, finance, and business development services. Umsobomvu's funds are also disbursed through financial intermediaries, as is the case with the recently launched FNB-Momentum-UYF Fund, a public-private partnership that provides finance to SMMEs that are owned or managed by previously disadvantaged youth.

Although most of the small businesses interviewed had heard of these government-funded initiatives, none had made use of them. Furthermore, the businesses did not seem eager to find out more about the services offered by the funds. Two concerns were raised regarding these initiatives. Firstly, the initiatives generally work in co-operation with other financial institutions and therefore the same criteria that the small businesses have found difficult to meet are still applied. The perception the businesspeople interviewed have is that using these initiatives will not help as they will still ultimately depend on the banks for final approval of their loans. The second concern pertains to the requirement of board representation or a stake in the business that is often a condition of assistance by the initiatives. Khula requires that the fund owns a 25% to 45% minority share position in the business depending on the valuation of the company and the amount of the funding sought by the SMME. Khula is also represented on the board of the small business. The FNB-Momentum-UYF Fund also requires a stake in the business of up to 49% for the duration that funding is provided. The business owners that were interviewed were not happy with this condition, preferring to maintain full ownership and control of their businesses. As one businessman said, these conditions seem to undermine the credibility of black business people and their ability to run a business successfully.

Business Skills Development

After access to finance, the lack of formal business skills training was considered by both small businesses and large firms alike as the next largest obstacle to building a successful small business. Out of the four small businesses that were interviewed, only one owner had attended a business skills course. It is perhaps significant to note that this owner runs the most successful business among those interviewed. All of the other business interviewed acknowledged that they sometimes struggled with specific areas of running their businesses and felt that training in those areas would contribute to

the development of their businesses. In one case, the owner of the business had employed someone to manage the marketing of the business and conceded that it would have been ideal, especially in terms of costs, if he had been able to manage the marketing on his own.

The term 'business skills' is broadly used to cover a whole range of focus areas where a basic understanding of each is essential for the efficient functioning of a business. These include developing a sustainable business plan, budgeting, effective labour and quality management, advertising and marketing skills, knowledge of legal matters, stock management and time management. While it is important to possess a certain amount of background knowledge about the technical requirements of the industry you operate in, these can only be optimally used if supplemented by sound business skills.

General Skills Development

Although business skills are essential to have in order to ensure that a SMME is run efficiently and profitably, they are not the only kind of skills that are necessary for someone engaging in business ventures. Some of the owners spoke about the difficulties they encountered in making the transition from being a worker to owning your own business. They felt that they were not equipped with the necessary skills that would enable them to navigate through the more sensitive and complex situations in the running of their business. Negotiation and communication skills were considered to be important in terms of being able to secure favourable deals with large and better-established firms. The owners that were interviewed confessed to sometimes feeling bewildered and out of their depth in situations where they were in the presence of other business owners, such as at meetings or functions held by the chambers of commerce.

Understanding Selection Criteria

Most large firms source their required suppliers from vending lists which they have already compiled. The challenge facing small firms therefore is meeting the specifications required for being included on a company's vending list. In order to be included on a company's vending list, certain procedures have to take place. Initially, potential subcontractors are required to complete a comprehensive application form. Their premises are then inspected for safety and quality purposes. The aim of the inspection is for a large firm to determine whether suitable premises are used and whether there is enough labour and capital available to cope with the quantity of work that might be demanded by the large firm. Inspectors also determine whether the subcontractor has the correct equipment needed to complete the specific job at the required quality levels.

According to the large firms, if subcontractors successfully meet all the requirements set out by the firm, they are included on the vending list. The small businesses however, have different views. Firstly two of the small business told of instances where large companies had carried out these inspections

and approved the subcontractor as a potential supplier. But, these small businesses had not been placed on the companies' vending lists even though they matched the criteria. Another small business owner claimed that corruption existed within large firms especially among their buyers. Apparently buyers will only approve your application if you undertake to give them a certain percentage of your profits.

Another area of discord between the views of large firms and small businesses was the listing of criteria for choosing a supplier in order of importance. Large firms consistently placed the rate of delivery and quality standards as being the key criteria in choosing a subcontractor. According to the large firms, the cost of a good or service was only considered as a third or even a fourth criterion. Small businesses however felt that large companies used cost as the key criterion for choosing a supplier. One business spoke of a potential contract that they were not awarded because they were not the cheapest applicants even though they had the highest quality standards.

The Role of Support Structures

In examining the role of support structures for the development of SMMEs, interviews were carried out with Mr Mogami from the Gauteng Manufacturing Advisory Centre (Gaumac) offices in Germiston and Mr Jones, who runs the Springs Business Linkage Centre. Both these organisations are very involved in the development of SMMEs and seem to be the only efficient services available to small businesses.

Gaumac is mainly involved in assisting SMMEs that are involved in manufacturing across all industrial sectors. The aim of Gaumac is to assist SMME manufacturers improve their competitiveness and growth in local, national and international market places. In addition to providing advisory services aimed at improving company growth and performance, Gaumac also offers technology and information support, human resource development, marketing advice, business management as well as resource funding. Gaumac also aims to facilitate clustering and co-operation amongst firms and foster big-small business linkages with regard to outsourcing and subcontracting. This however is a secondary function of Gaumac and not much attention is given to fostering these links.

The Springs Business Linkage Centre is the first of its kind in Ekurhuleni. It is run by the Springs Chamber of Commerce and Industry. The linkage centre's main aim is to provide a link between SMMEs seeking contracts or subcontracting opportunities and large firms who require suppliers. The linkage centre maintains a database of registered SMMEs that can be used by large firms who want to outsource or procure services or goods from local SMMEs. The linkage centre also offers technical and administrative support to SMMEs in the area. SMMEs are able to use the centre's Internet and fax facilities to help them in running their business. The centre also offers advice with regard to registration of small businesses. The centre currently offers a business skills development course in

conjunction with one of the large firms in the area. The course is offered to any interested businessperson at no cost.

Only one of the small firms interviewed was making use of the linkage centre in Springs. This firm acknowledged the contribution it had made to the growth of their business and felt that it was one of the reasons why they were still operating. Although all the other firms were not in contact with the linkage centre or any other support structures, they all acknowledged the need for such institutions and expressed their wish to get into contact with any such support structure.

Only one of the large firms had ever used linkage centres to source potential clients. Another company uses the SMME development division of their parent company to acquire new BE clients. The companies were also not aware that there was a business linkage centre in Ekurhuleni which was involved in facilitating contact between large firms and SMMEs. Perhaps the reason for this lies in the fact that the linkage centre in Springs seems to be the only operational one in the whole of Ekurhuleni. There are apparently plans afoot to start up linkage centres around other industrial hubs in Ekurhuleni and there seems to be a definite need for this.

5. Conclusions and Recommendations

5.1 Major Findings

The large firms interviewed have similar ideas and procedures relating to affirmative procurement. The incentive to participate in affirmative procurement policies seems to be based on legislation or parent company policies. Although they may have set targets for affirmative procurement, it is quite clear that large firms are not eager to quicken the pace of transformation at the expense of company efficiency.

Small businesses are finding it difficult to develop and grow. While legislation may be helping them to secure more contracts than before, there are other challenges they face which still have to be addressed. We look at the problems and challenges faced by these small firms below.

There are many challenges that impede the process of effective affirmative procurement. One of these is the problem of fronting. It has become common for previously advantaged individuals or companies to use blacks as fronts for their companies. These blacks are usually given non-valuable shares, which change the ownership structure of the firm to reflect empowerment, and then expected to remain as silent partners who are not involved in the operations of the business.

Other challenges facing SMMEs include ways of gaining access to finance in order to build capacity, as well as receiving adequate business skills training. A lack of genuine understanding of the

difficulties of building up a relatively new business by large firms is also a challenge facing affirmative procurement. Racial profiling practised by large firms impedes the process of effective affirmative procurement. Added to this are the allegations of cronyism and corruption among middle management, which are to a large extent, ignored by senior management.

The research reported here suggests that procurement is not yielding the dynamic gains to small firms from access to business opportunities that it could. These possible gains include the opportunity to learn from contact with larger firms and upgrade capabilities. Instead, to a large extent, large firms are unsympathetic and impatient with SMMEs that are struggling to establish themselves and quality and delivery requirements are barriers. The process of affirmative procurement needs to be complemented by the existence of effective support structures. The virtual non-existence of these structures in Ekurhuleni is a major challenge. This indicates the need to link procurement, as a lever acting on large firms, together with a coherent SMME development framework.

The mining charter specifies a progressive approach to procurement. The emphasis is on increasing the value-added contributed by black firms and it identifies partnerships between existing suppliers and black firms as an important part of the framework to be encouraged. Under the charter large firms are meant to specify plans for the progression of procurement and work together with firms owned by historically disadvantaged South Africans to develop capacity, including through the accessing of assistance programmes. This is a solid approach, but the research indicates that mining firms have yet to take it on board

5.2 Recommendations

Based on the challenges identified in the paper the following recommendations are made about what is needed to improve the implementation of affirmative procurement within the private sector in Ekurhuleni.

- There is a need for proper support structures to assist in the development of SMMEs. The Springs Business Linkage Centre should be expanded in order to reach more SMMES. Other Chambers of Commerce in Ekurhuleni should be tasked with establishing their own linkage centres.
- The linkage centres, with the help of the Ekurhuleni Metro should encourage large firms to participate in initiatives which will foster communication and co-operation between these large firms and small businesses.
- The Ekurhuleni Metro and the linkage centres should find suitable ways of securing sustainable financing agreements on behalf of SMMEs with financial institutions in the area. This could even become a pilot project linked to the Financial Charter. The now defunct Sizanani Fund run by the Springs Business Linkage Centre and First National Bank branch in Springs is an example of the kind of arrangement that might be implemented.

- More business skills development training should be offered to owners or managers of emerging SMMEs at a price which is affordable.
- There should be more systematic information gathering on SMMEs by the Ekurhuleni Metro, and reporting by the large firms on progress and obstacles concerning affirmative procurement.
- The need for SMMEs to develop their track records points to the need for government to maintain a database to demonstrate the increasing proportion of procurement to SMMEs by it.
- Large firms in similar industries could group together to form procurement clusters in order to identify appropriate support measures.
- The Ekurhuleni Metro should examine the possibility of establishing advice offices that would offer specialised advisory services for subcontractors in the area.