

BUSINESS GROWING BUSINESS

SBP's business linkages programme, 1998 - 2003



SBP

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Cover picture

Sam Nkosi (bottom right) of Nkosi Cleaning Services, Trevor Venter (bottom left), Mondi CartonBoard's warehouse manager, and Springs BLC manager Fred Jones, in the Mondi CartonBoard Dolphin Warehouse



Joint owners of Shosholoza Mine Maintenance, Eric Molele and Stefan Kruger, produce pallets for Foskor and Palabora Mining Company

SINCE 1998 the SBP has launched and supported business linkage centres (BLCs) in various parts of South Africa. This innovative approach involves forging links between large corporations and small and medium-sized companies in the same locality.

The SBP's overarching objective is to help reduce poverty and unemployment, particularly among blacks, by stimulating job-creating economic growth. It believes the key to this form of growth – as opposed to the jobless growth that has characterised the South African economy for much of the past decade – lies in small business promotion and development.

But the SBP believes that small enterprise cannot flourish in a vacuum, and that those enterprises run by emerging entrepreneurs in particular need assistance in order to establish links with economic sectors from which they were previously excluded. Thus the BLCs facilitate transactions between large and small concerns in the form of tenders, subcontracts, and joint ventures.

Black economic empowerment (BEE) has lent added impetus to the programme.

As the government has intensified its pressure on the private sector to racially transform the economy, BLCs have increasingly focused on black-owned and black-managed small firms. This has given many participating corporates a head start in giving shape to BEE, and provided them with meaningful benchmarks in a context where industry charters commonly formulate empowerment goals in terms of a 'score card' approach.

Business linkages can assume many forms, and operate at various levels. They typically begin with small companies supplying rudimentary services to corporates. BLCs seek to extend and deepen these relationships into such areas as technical services and product supply.

Since 1998 the SBP has helped to establish six BLCs,

which provide linkages to more than 80 corporates. Their activities have resulted in contracts worth more than R1 billion being awarded to small local, mainly black-owned, companies, and the creation of more than 3 000 sustainable jobs.

This publication reviews the first five years of the SBP's business linkages programme. At the beginning of 2003 the SBP commissioned a study of the BLCs in Phalaborwa, Middelburg, and Springs in order to gauge the experience of participants, and identify the programme's strengths and weaknesses. The main findings are summarised below.

The SBP's role

The SBP's unique qualification for setting up BLCs lies in its extensive experience of networking, bringing together stakeholders, and building relationships. All those interviewed in the course of the study agreed that the SBP had played a crucial role in supplying the original model, tools, and framework for managing the different linkage relationships. Nevertheless, each of the BLCs presented its own challenges, requiring the SBP to provide varying levels of post-establishment support. Generally, contact between centre managers and the SBP has diminished and become less formal as the managers have grown in competence and assurance; in fact, the centres are meant to become self-sustaining, and SBP support aims to phase itself out over time. However, while the extent of contact between the SBP and the BLCs diminishes, the engagement often becomes more intensive.

In **Phalaborwa**, the SBP managed the BLC for 18 months after launching it in September 1998 with the backing of Foskor, Sasol Agri, and the Palabora Mining Company. Five years on, the centre is functioning largely on its own. In 2002 it facilitated linkages worth R150 million.

An enabling environment for business: policy research for private sector growth

The SBP's programme of work combines research, practice, and advocacy activities. It uses its practical experience to track regulatory constraints, mobilise policy interventions, and promote an enabling environment for business development. Its research provides policy-makers, legislators, and business stakeholders with practical analyses of the environment in which SMEs operate.

This approach is highly relevant to South Africa, where the government has recognised that small business development is a key strategy for reducing poverty and promoting economic participation and job creation in those communities that were most disadvantaged during the apartheid era. However, this sector is still significantly underdeveloped, contributing just 35 per cent of gross domestic product.

SBP's current work in the policy field includes a survey of regulations that impose disproportionate costs on business, particularly SMEs. This evidence of the actual costs of regulatory compliance will be used to increase awareness of the importance of regulatory best practice (RBP) to creating an enabling environment for business. Working with international as well as South African partners, the SBP's broader aim is to influence key decision-makers in the public and private sectors, and to ensure that these issues are placed firmly on the agenda of debates about the investment climate in Africa.

Selected SBP publications

- Understanding regulatory impact assessments. *SME Alert!* January 2003.
- An enabling environment for private sector growth. *SME Alert!* November 2002.
- Improving the enabling environment for indigenous enterprise development and investment: Lessons of experience from a 10-country study. Summary of insights from six southern African workshops, June 2002.
- South African industrial strategy: a small business perspective. *SME Alert!* September 2001.
- A small business update on labour market reforms. *SME Alert!* November 1999.
- Competitive markets: an imperative for small business growth. *SME Alert!* November 1997.

In **Springs**, the SBP helped corporates and the local chamber of commerce to set up a BLC which has operated relatively autonomously under broad SBP supervision. It is funded by 14 corporate participants. In 2002 it helped to create linkages valued at R9 million.

The small **Middelburg** centre is unusual in having a single corporate member that operates in the area, which handed over an existing linkage facility, and continues to pay a portion of its costs. Here the SBP has played a far more direct role; the manager is an SBP employee.

Corporates singled out the SBP's activities at BLC start-up as its most valuable contribution. Under steadily growing pressure to increase their BEE spending, they have embraced the linkage model as a vehicle for achieving this. Corporate spokespersons also valued the SBP's ability to provide a national perspective, and its capacity for policy analysis. In addition, corporate managers said forums staged by the SBP provided them with valuable opportunities to interact with their peers, and compare experiences.

The challenges of transactions

The services supplied to corporates by 'linked' small firms have been broad and diverse, ranging from catering and cleaning to construction work. As mutual trust develops, the services supplied have, in some cases, become more sophisticated. So, for example, some small labour brokers started by providing corporates with unskilled manual workers, but have graduated to providing more highly skilled personnel, such as more machine operators and minders. In a few instances, products – notably scrap metal and paper, and plastic for recycling – have been sourced from small suppliers.

What 'linked' small operators do

In the three localities studied, small and medium enterprises are supplying a wide range of services to corporates. These include cleaning; catering; laundry; safety training; labour broking; painting; the resale of computer hardware; transport; machine shop work; and building work. Products supplied include recycled plastics, paper, and metal, clothing, and office consumables.

The study has revealed that mainly services, and relatively few products, are being supplied. The low skills levels involved in service provision, and the slow progression to more technically demanding and core business, is a cause for concern.

The progression from simple to more sophisticated transactions has been slow. Once the easy, low-risk tasks have been assigned to small black firms, corporate spending has tended to level off. The foundations have been laid, but linkages now need to be strengthened, and built up to higher levels.

How BLCs add value

BLCs are catalysts tasked with creating a new business chemistry by bringing together various different agents. The SBP's vision is that BLCs should work in terms of sound commercial principles, and actively expand local markets. But, in practice, BLCs have had to respond flexibly to the needs of corporates and small entrepreneurs in particular areas, in some cases providing support services peripheral to the pure business relationship.

Corporates' views

Most corporates singled out the identification and screening of small businesses as the BLCs' most valued function. The BLCs utilise a simple accreditation process which takes account of basic business skills and technical capacity. When a would-be small entrepreneur has no track record, they go on 'gut feel'.

Participation in the business linkages programme gives corporates a gratifying sense of promoting BEE and local economic development.

Corporations also appreciate the work of the centres in training and mentoring emerging entrepreneurs in basic business administration and financial management, and advising them on how to meet corporate expectations.

This presents the centres with something of a dilemma: it is difficult to draw the line between facilitating a business linkage and offering support to ensure its continued health. On the one hand, the linkages have to be commercially self-sustaining. On the other, assistance beyond the initial transaction is sometimes needed to establish a lasting relationship. In practice, managers have drawn the line in different ways, according to their needs and circumstances. In turn, BLCs recognise the need to continue demonstrating their value to corporates.

Entrepreneurs' views

According to small entrepreneurs, the BLCs provide a highly valued service in the shape of introductions to large companies that can buy their products and services, and in facilitating access to useful information on tenders and other business opportunities. In some cases – particularly those involving less experienced small enterprises – this has spilled over into direct assistance with winning work from corporates, including advice on tendering, and help with negotiating contracts. Some centres have tried to reduce the many constraints on small companies in order to make them more effective suppliers.

Benefits versus costs

For various reasons, it is difficult to provide a simple cost-benefit analysis of these business linkages. Despite this, all the corporate representatives interviewed believed they were getting a fair return on their investment; they made the point that the value of the linkages could not be calculated in purely commercial terms.

The overwhelming majority of corporations involved have gone the linkage route in order to meet the transformation expectations of the government and the South African public. Thus far, few have reaped immediate commercial benefits from them.



Wally Rivers, business development manager at Impala Platinum and Roxley Ravuku, procurement manager at Mondi CartonBoard discuss business matters with BLC manager Fred Jones

Costs and benefits

Comparing the costs and benefits of business linkages to and for corporates is a difficult, multifaceted task. The following factors would have to be weighed in any meaningful cost – benefit analysis:

- the corporate's financial contribution to the centre;
- the number of transactions facilitated by the centre;
- the value of the contracts facilitated;
- additional time and resources used in mentoring small suppliers;
- money saved via contracts facilitated by the centre;
- the costs and benefits of embedded services;
- time and resources saved by the involvement of BLC staff;
- the impact of increased competition on prices and products supplied;
- the value of meeting empowerment expectations; and
- the value of contributing to local economic development.

Despite these complexities, corporate managers believe they are getting value for their money.

Even when the motive is commercial, the results are mixed. The involvement of BLC staff can save corporates time and hassle, but administering some small business contracts is more time-consuming and labour-intensive than dealing with large, established suppliers.

The rewards in terms of poverty relief, job creation, and local economic development are equally hard to quantify, as they may not be instantaneous. Several executives felt it might take decades for the programme's full benefits to be felt. Gauging the positive spin-offs is even more difficult in large communities, where the impact is spread over greater need.

Compounding these complexities is the fact that corporations pay varying amounts to BLCs, whose fixed costs are typically divided between corporate members. Contributions vary considerably – between R20 000 and R100 000 a year – which may explain why some large companies feel they are getting better value for money than others.

Commitment counts

The SBP study underscores the importance of corporate commitment to the business linkage concept. Linkages are not standard contractual arrangements. They work best when corporates are on the look-out for small firms, and manage their relationships with them in a flexible way.

For most corporate managers, the advantages of business linkages are strategic and symbolic. Besides relieving empowerment pressures, they see them as making entrepreneurs out of employees, contributing to local economic development, and providing sorely needed employment, thus helping to alleviate local poverty.

Few corporate managers see an immediate commercial rationale in the linkages, most of which involve the supply of services or products which are already in the market. In theory, linkages could work to build capacity and increase the number of available suppliers; in practice, this has seldom happened. Corporate commitment would undoubtedly be stronger if the centres were perceived to facilitate commercially driven outsourcing and supply chain development.

It is crucial for executives and top managers to clearly and enthusiastically back the linkages model, as policy and operating methods generally emanate from them. Experience has shown that a policy of promoting BEE or small business

development is more effective if it is supported at the highest levels, and a clear implementation plan is formulated. Companies forming part of large national conglomerates frequently have to comply with group empowerment strategies.

The key implementers of the linkages are managers responsible for operations, procurement and finance, but they need a company-wide change mandate to make a real impact. Some corporations in which linkages have high-level backing have appointed empowerment or small business development managers to champion and drive them.

The buy-in of the lower-level employees who interact with 'linked' enterprises is also vital - and often overlooked. Interviews confirmed that the commitment of lower-level staff is generally weak, and in some cases problematic. This may be because of some hostility to black business, or because of a vested interest in maintaining the status quo. Explaining the policy to staff and seeking their support works better than simply imposing policy.

The gravest threat to sustained corporate commitment is a change in major shareholders, executives, managers or users, which can prompt a reassessment of the relationship with a BLC. In such cases, early intervention is needed to secure fresh buy-in. In a few instances the corporates have signed BLC purpose statements, which have helped to secure continued corporate commitment.

Nkoben Services cc's nursery provides plants for the rehabilitation of Foskor's tailings dams



An outsourced cleaning service at work in the warehouse of one of the corporates participating in the Springs business linkage programme



Risks and barriers

Turning to small, sometimes untested, suppliers holds certain risks for corporates, particularly those that run continuous production operations requiring large capital investments.

Many corporations have decided not to use small, inexperienced companies to provide vital operational inputs. Their overriding concern is the threat to production posed by unforeseen stoppages, and the costs associated with this.

Safety is the second biggest risk factor cited by corporates. Many small operators do not observe industrial health and safety standards, and tend to cut corners in order to maximise profits. The corporates' concern is not simply humanitarian - many standards certification programmes take account of safety, and unsafe practices on site can jeopardise a company's commercial standing.

Fears that product and service quality will suffer is a further reason why corporates tend to reserve small contractors for low-level, non-critical supplies. Many corporate personnel believe that small black-owned or black-managed firms lack expertise and experience, and do not fully understand clients' needs. There is also a perception that small firms mismanage their cash flows, and may not deliver services on time.

Corporate managers and 'linked' small entrepreneurs see risk in a fundamentally different way. The corporates insist that competent black operators are rare, and will take many years to emerge. The small operators themselves regard these views as unfair generalisations. They believe the root problem is a lack of opportunity rather than a lack of ability.

Clearly, these risks must be understood in the context of the South African transition, and the movement of historically marginalised and excluded people into the mainstream economy.

Besides these risk factors, there are several other barriers to a closer engagement between corporates and small contractors.

An obvious deterrent is financial pressure – if a particular corporate or the industry in which it operates is under threat, small business linkages slide rapidly down its list of priorities. Conversely, prospering corporates are more likely to invest heavily in linkages. The point is that their actions are primarily dictated by commercial considerations.

Inevitably, some corporates are in a better position to foster linkages because of the nature of their operations. The typical approach is to scrutinise their existing operations, and identify those that can be taken over by a small local supplier. Some corporates, particularly those that buy in bulk, offer limited scope for linkages. For this reason, it can be misleading to measure corporate success and commitment purely in terms of their SME linkage spend.

Security concerns, and the cost of giving contractors security clearance, can also be a limiting factor. High levels of security tend to restrict external supply chains. Corporates worry about the theft of valuable materials, such as gold and diamonds, or the threat to intellectual property that gives them the edge in the marketplace. In some cases, companies may depend on the protection of trade secrets for their survival.

Should participating corporations be strongly committed to the programme, a number of other constraints, or potential constraints, on the creation and growth of linkages are more easily addressed. These include pressures on corporates to

Small supplier saves corporate money

After using the same laundry firm to clean workers' overalls for more than a decade, a certain corporate put the contract out to tender. The winner, a small black-owned SME, hired staff and bought machinery to enable it to launder 60 000 units a month at a set price per overall. Within two months, it was in financial straits. However, a joint review uncovered the startling fact that the previous contractor had overcharged by nearly 900 per cent. The contract was renegotiated, and the SME has become a trusted service provider that has saved the corporate a significant sum.

reduce the number of their suppliers, seen by some as a way of cutting costs. To date, this has not deterred them from linking up with new small firms. Similarly, the practice of centralised buying in some groups could pose a threat. In reality, this has not had much of an impact because the companies concerned have other linkage options.

In one or two cases, a failure by small suppliers to adapt to technological change has jeopardised business relationships. One example of such change would be a corporate's introduction of a computerised procurement system, which would exclude many unsophisticated small operations.

A more serious potential threat to the linkage programme is the possibility that corporates may soon require small suppliers to be standard-certified. All the corporates interviewed boasted at least one quality certificate, which they said was necessary to keep them globally competitive, and require all so-called 'critical input suppliers' to be certified. Because none of the 'linked' small firms furnishes critical supplies, they have not been affected thus far – but this could change soon. Some small enterprises may be unable to adapt to the new requirements.

Changes can threaten small business

A corporate employee with entrepreneurial ambitions quit his job to establish a small company that supplies recycled paper to his former company. The paper in question serves as an interleaving material between layers of steel in a coil product. As it is imported from the United States at great expense, the entrepreneur conceived the idea of cleaning and rejoining scrap paper and selling it back to the company. Here was an example of a small enterprise offering a commercially valuable service that undoubtedly saved the corporate money. However, the corporate has recently begun to convert to a plastic interleaving product, a development that has drastically affected the entrepreneur's business.

Stock reductions and the adoption of 'just-in-time' delivery could also weaken the position of small 'linked' suppliers, as it could prompt corporate managers to fall back on larger companies which they trust.

Challenges to small enterprises

It is not only on the corporate front that linkages face risks, barriers, and constraints. Small businesses in South Africa face many daunting hurdles.

Chief among these is the regulatory environment. Significantly, many small enterprises examined by the SBP started as informal businesses, and only took the formal route later.

The chain of statutory procedures which companies must comply with and the payments they must make to enter the formal sphere can be exceptionally onerous for small operators.

Registering a company can take up to four months, and is procedurally so demanding that 20 of the 23 small businesses interviewed paid someone else to do it for them. The cost of hiring these service providers ranged between R400 and R1 200.

Formal businesses must ensure that all employees are covered by the official workman's compensation system, requiring an annual payment assessed on the nature of the business and size of the workforce. Even more taxing is the requirement that employers and employees contribute a sum equivalent to 1 percent of salary each month to the unemployment insurance fund. Small companies typically use temporary workers, while their staff complements tend to fluctuate in size.

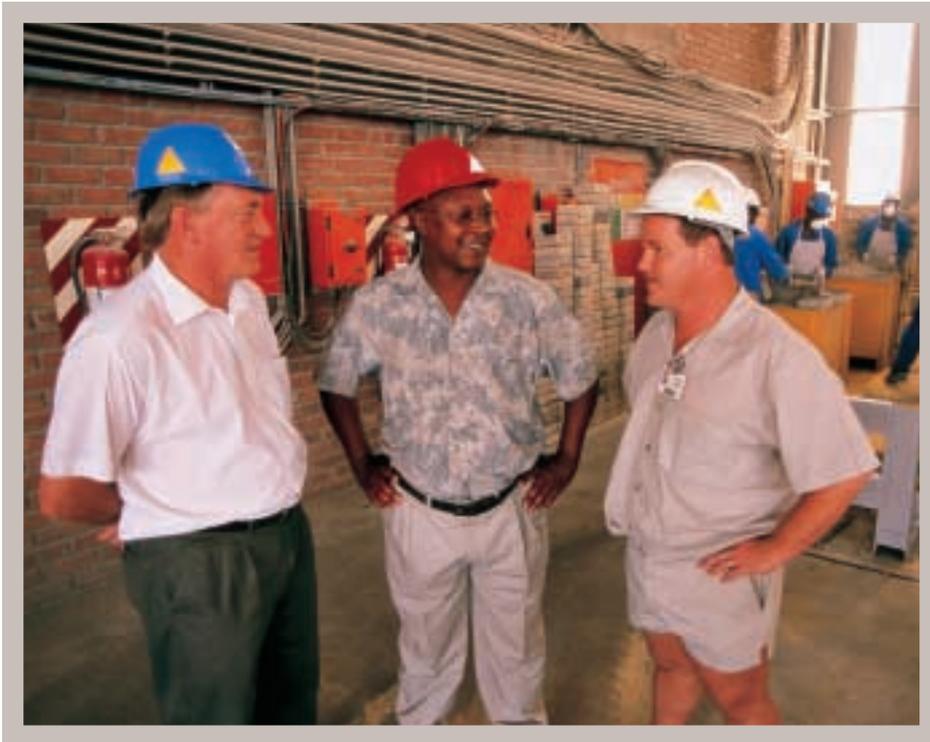
Small firms also confront the statutory requirement of a skills levy equivalent to 1 percent of payroll. Because the rebate procedures are so lengthy and complicated, and small firms usually lack administrative capacity, most either fail to pay, or omit to reclaim for training they have conducted. Thus the levy has become a tax on small business.

Charters: a help or a hindrance?

In a bid to accelerate the racial transformation of the economy, the South African government has been pushing for black economic empowerment charters in major economic sectors. Charters have been agreed in the liquid fuels industry and in mining, are being negotiated in financial services, information technology, and transport; and are also expected in the manufacturing industry. The resultant charters are to be gazetted as quasi-regulations, pending black economic empowerment legislation.

A centrepiece of all the charters will be quantitative targets and time frames for the transfer of ownership to black companies. But they will also enshrine the principle of 'broad-based empowerment', meaning that credit will be given to companies for achievements in such areas as employment equity, the transformation of management, the socio-economic development of surrounding communities, and procurement expenditure on small black enterprise. This is the so-called 'scorecard' approach.

Many emergent entrepreneurs are adamant that, without government pressure, and defined expectations, corporates will not revamp their business practices. The corporate response is more equivocal. Some corporates seem unfazed by the charter initiative, and acknowledge that business linkages have given them a head start in terms of empowerment spending requirements. But they also insist that expectations must be realistic. Overambitious targets will simply prompt avoidance and deception. Already there are widespread allegations of 'fronting': the tokenistic use of black names and faces to project an image of change.



L to R: Louis Diedericks, manager of the Phalaborwa BLC, Abel Nkosi, director of Nkobon Services cc, and Sybrand van Jaarsveld, Foskor production foreman

Value added tax is a further burden, which can also affect cash flow. Most small companies have to hire external bookkeepers to handle their tax obligations.

Small businesses that become formal may not factor the cost of compliance into their pricing. On the other hand, those that choose to remain informal face two crucial disadvantages: they cannot access formal financial services, such as bank loans, and more importantly, corporates will not take them on as suppliers.

Linkage blues

The key challenges facing small enterprises linking up with corporates come after start-up, when management and consolidation skills become vital. At this stage, tendering requirements, sourcing finance, a lack of basic management skills, operating in intensely competitive environments, and untransformed corporate attitudes can be serious obstacles.

Small companies commonly win business from corporates via a tender process. Inexperienced small entrepreneurs find it difficult to assess the full cost of a contract, and for this reason, or because they are desperate for work, they often underquote. This has forced some companies to work at a loss, prevented them from fulfilling the client's requirements, and even led to bankruptcy.

Access to financial services was identified as a major constraint on small businesses – while a few companies interviewed had begun with R50 000 or more, most had set out with less than R8 000. Key cash requirements are transport, safety gear, and input materials. Cash flow management poses an additional challenge, but small operators are typically reluctant to tell corporate clients that they lack the finances to manage a contract.

Many 'linked' enterprises face the additional hurdle of operating in low-skill, over-traded industries, either dominated by large competitors or by many small rivals. In cleaning and construction, for example, pricing is so cut-throat that small firms find it difficult to grow.

And while some of the entrepreneurs interviewed had technical experience, none had formal business training. A lack of general management skills, ranging from

Tender trap?

In 1998 an entrepreneur established a company that supplies stationery, protective clothing, and cleaning chemicals, mainly to government entities and parastatals. Through a BLC, she was offered a chance to tender for a painting contract with a major corporate. As she was unfamiliar with contract painting, she hired someone to help her draw up a tender, submitted it, and won a six-month contract. Almost immediately she hit cash flow difficulties, and realised she had underquoted because her consultant had wrongly assumed that the corporate client would supply the paint. Despite raising the problem with the BLC, the deal could not be renegotiated. The entrepreneur completed the contract, but made a loss.

how to invoice to communicating with clients, is a common constraint. The root problem is a lack of understanding of what clients expect.

Once a link has been established, small black entrepreneurs perceive the 'destructive, untransformed attitudes' of corporate employees as the major obstacle to running and growing their businesses. Some entrepreneurs spoke of racism, and corporate managers acknowledged that there was a problem. Other entrepreneurs complained that their opportunities were limited because corporate staffers had vested interests in the status quo, and blamed favouritism, patronage, and even corruption. Although unsubstantiated, such perceptions are powerful.

In some cases, unscrupulous third parties have exploited the inexperience and desperation of small business people. White partners have on occasions used black entrepreneurs as fronts, while clients have exploited their lack of experience by squeezing them on prices.

Supporting small enterprise

BLCs have played a valuable role not only in mediating the original contact between corporates and small operators, but also in providing post-linkage support. This includes business development services (BDSs) such as training, advice on tendering, and business planning.

But, in the SBP's view, the continued provision of free services is not ideal, as it hampers the emergence of small entrepreneurial service providers. The BLCs could play a significant role in developing the BDS market.

Mopane Mini Bulk Bags supply their products to Palabora Mining Company



Most small companies interviewed had paid for business services in some form, indicating that there is an existing market, which could be expanded. Book-keeping and company registration, which are linked to government requirements, were the most common services paid for. Other services provided by private companies which are used occasionally include the development of business plans, and the sourcing of finance and tender advice.

'Embedded' services – provided as part of another commercial transaction – are another form of support which small enterprises often receive from corporate clients without necessarily being aware of it. Some corporates provide office space for 'linked' suppliers, as a way of maintaining control over work conducted on site, and to facilitate communication between contractor and client. Most corporates also provide free safety training to their small suppliers, a 'win-win' approach which ensures a safe working environment while accommodating the suppliers' financial limitations. Another 'embedded' service of mutual benefit is the provision, by a few corporates, of credit accounts at supply stores. Of particular help to building contractors, for whom the cost of materials can be key, this relieves the financial burden on small firms, and ensures a steady flow of inputs required to finish assignments.

How 'embedded' training can help

As a major purchaser of scrap metal, which it reprocesses, one corporate participant – a steel producer – has fostered many emerging black businesses in its locality. The latter buy decommissioned equipment, and strip, cut, and sort the metal for resale to the steel producer. Staff from a small black-owned firm attended a two-day training course at the corporate on how to appraise scrap steel and thus get the best value for money. In the past, the small firm had lost money by overpaying for poor-quality scrap. The training course has boosted the SME's earnings, while improving the quality of the corporate's feed scrap and cutting its processing costs.

Screening potential small suppliers

One of the BLCs' key contributions is to screen potential small suppliers in a way that feeds into the corporates' own assessment and monitoring systems. Three methods have been used, with varying success: accreditation, capability rating, and verbal recommendation.

Accreditation has been designed for evaluating firms with a substantial track record, and has not been very useful for screening new entrants. It requires centre staff to travel to small firms' places of business, but as these entrepreneurs often work from home or corporate sites, this does not provide much insight. An adaptation, which has to some extent replaced accreditation, is a simple one-page capability grading, which is integrated into corporate databases. Verbal recommendations are also used.

The screening of small firms offers BLCs a possible income stream over and above the corporate subscriptions they currently receive. In other models, small firms pay for accreditation. To make this a viable alternative revenue source, a concerted campaign to explain and market accreditation would be essential. Some centres charge small enterprises for registration or listing on their databases. These enterprises would probably pay more if they felt this gave them a competitive edge.

Other linkage possibilities

Besides small firms supplying corporates as purchasers - the current model - other possible linkages include second-tier relationships, black–white company tie-ups, and small company–supplier links.

All the corporate spokespersons interviewed favoured the second-tier approach, which involves a small company providing inputs to an established supplier. Such linkages do not currently exist, but are seen as an effective way of leveraging the linkage centres in order to enhance small business growth.

Coupling emerging black companies with established white firms is seen as a way of helping black enterprises to move beyond unskilled work. However, black entrepreneurs distrust such arrangements – presumably because of South Africa's history of racial patronage and exploitation. If they are to work, the relationships must be transparent and equality-based.

The major current shortcoming is the dearth of small companies that supply products rather than services. Here, the underlying constraint is the independent sourcing of inputs. Reselling products forces smaller firms to compete with the primary suppliers, which have the price edge. Engineering goods are cited as a potential start-up area, but independent supply sources, such as agencies for products, would again be needed.

A market approach paradigm

Most corporates believe BLCs in their current form have a potential life of one to five years; some insist that the possibilities for low-skill, non-core linkages have already been exhausted. However, they may well underestimate the time needed to meet expenditure targets for small business promotion.

It could be argued that the centres have strayed beyond their facilitation mandate by, for example, providing free mentoring and training. Corporates, too, have provided extensive free or heavily subsidised training. This could set a dangerous precedent. In future, it may be necessary to bring the linkages programme more clearly in line with market principles by engaging outside assistance. A possible future role for the centres would be to facilitate contacts between small businesses and providers of business services. BLCs could consider forging relationships between small firms and financial services companies, as well as piloting second-tier link-ups between small operators and existing suppliers to corporates. Many corporate managers interviewed felt that BLCs could do more to introduce them to black product suppliers.

Instead of offering training services themselves, corporates could adopt a more market-friendly approach by subsidising a voucher system. This would enable small firms to decide on their own training needs, and choose from a range of service providers.

If BLCs are to extend their life span, corporates believe they must identify and support more technically endowed small enterprises. The SBP hopes to move in this direction through a new programme – the Next Evolution of Linkages (NEL) – outlined in the concluding section.

The corporates' role

Corporates may also need to modify their practices, if the linkage programme is to be expanded.

They should, in the first instance, continue identifying openings for small

enterprises. The centres can promote only as many linkages as there are windows of opportunity. Corporates need to revisit their small business relationships to see if they can broaden their support.

To boost linkages, the following measures should be in place at all corporates:

- a black economic empowerment policy, with a concrete implementation plan;
- empowerment and small business promotion expenditure targets, with reporting requirements;
- an executive closely involved in procurement processes, and specifically charged with driving empowerment and small business linkages; and
- systems supporting 'embedded' business services and a flexible payment regime for small firms.

The SBP's role

The three BLCs surveyed all see the SBP's future role in a similar light.

They would like the management forums organised by SBP to continue and grow, as they counteract the centres' isolation from the main commercial centres, and provide a national perspective. They also believe the SBP can continue helping them by providing useful policy information and analysis on, for example, the impact of state initiatives on the regulatory environment, and different models and support networks for empowerment and small business growth.

As a body with a national (and international) reach, SBP is in an ideal position to foster linkages among the various BLCs by bringing together centre managers, and sharing best practices among them.

Letting the market decide

BLCs presently operate in terms of three paradigms, in which the free market features to a greater or lesser extent.

In the first, linkages are seen as a response to social pressures on business to accelerate economic change. A form of corporate social responsibility, they seek to



TTV Fencing and Brickmaking Project's chairperson Flora Mathebula (right) and Project secretary Peggy Mkhonto (left) talk to Louis Diedericks, the Phalaborwa BLC manager

redress the centuries-long distortion of markets in South Africa, which made skills and wealth the preserve of a minority. Black economic empowerment is accepted by most corporates as a necessary, if short-lived, corrective step. The SBP study has found that BLCs are doing a good job of facilitating this, but could do more to shift to paradigms two and, particularly, three.

In the second paradigm, BLCs are seen primarily as facilitators which can help corporates to comply with empowerment legislation and charters that set procurement targets for black enterprise.

In the third, the centres are seen as helping to rationalise markets by developing supply chains, increasing competition, lowering costs, and improving quality.

The next evolution of linkages: NEL

Central to the SBP study is the finding that, after an initial development phase, linkages have tended to stagnate at the level of low-value and non-core goods and services. Often because of negative past experience, corporates are nervous about relying on small suppliers for inputs which are crucial to their operations.

Therefore, the next stage is to build greater expertise on the one side and greater trust on the other, so that small companies can supply corporates with more core and semi-core functions. The SBP's next evolution of linkages (NEL) programme seeks to achieve this.

The first leg of NEL will examine ways in which BLCs can facilitate the provision of business services to small enterprises according to market principles. The centres would continue their established functions of maintaining a small company database, screening small firms, and collaborating with corporates in identifying business opportunities. But they would also work more closely with small firms in order to identify their development needs, and maintain a database of accredited business service providers. The idea is that the small firms would pay market rates for such services, although a voucher system may be needed as a bridging measure.

The second leg of NEL will focus on corporate barriers to greater engagement with small companies, specifically in respect of core and semi-core aspects of their business. The intention is to help corporates identify these barriers, and to put them in touch with the most suitable service providers. Services of potential use to corporates include opportunity identification, the analysis and revision of procurement systems, the revision of screening systems, and the design of effective 'embedded' services to small firms.

The SBP plans to pilot these concepts over a two-year period, and to use the lessons learnt to inform the design of broader South African and international linkage programmes.

They hold the promise of many benefits to communities, including the increased participation of small black businesses in specialised areas of the economy, and more rapid local economic development.

A new Business Linkage Centre under construction at Steelpoort. The Sekhukhune BLC is funded by mines participating in the Steelpoort Valley Producers' Forum, and Limpopo Province's SME directorate



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