

# **Linking SMEs with large enterprises: a case study from South Africa's aluminium industry**

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*Paper presented at the 46<sup>th</sup> ICSBWorld Conference,  
Taipei, Taiwan,  
June 17-20, 2001*

## ABSTRACT

It is increasingly recognised in the literature on SME development that supply-side measures to facilitate SMEs need to be complemented by demand-side support that creates the needed markets for SME outputs. One such demand-side support measure is the linking of SMEs with large enterprises. This paper aims to investigate the factors that may facilitate the linking of SMEs with large enterprises. It uses empirical results from a case study in South Africa to analyse these factors. The case study pertains to Billiton Aluminium (BA), which operates two aluminium smelters at Richards Bay in South Africa, where approximately 4% of the world's aluminium is produced annually and more than 3000 labourers are employed. Using a structured questionnaire as well as on-site visits, it was determined that:

- BA actively tries to involve SME suppliers in affirmative procurement through an SME development programme;
- competition inhibits the expansion of markets by SME suppliers;
- SME suppliers are technologically aware enough to meet BA's procurement needs;
- SME suppliers increasingly employ part-time instead of permanent workers;
- SME suppliers are in need of training to especially develop management skills;
- inaccessibility of investment and working capital funds inhibits market development of SME suppliers;
- SME suppliers don't appreciate infrastructural changes in their region;
- SME suppliers do not experience the benefits from a relaxed regulatory environment in their business activities;
- BA's SME development programme has an important role to play in improving economic activity in Kwazulu-Natal;
- SME suppliers do not experience sufficient support in their activities from large enterprises, government organisations or parastatals;
- SME suppliers feel satisfied with the implementation of procurement policies by BA; and
- information flow between BA and its SME suppliers improved after the institution of the BA SME development programme.

## 1. INTRODUCTION

Billiton Aluminium (BA), South Africa's largest aluminium producer was established as "Alusaf" at Richards Bay, on the KwaZulu-Natal north coast, in 1967. Currently the firm employs just under 3 000 workers at two smelters in Richards Bay, namely the Hillside and Bayside smelters. Its annual value of exports is worth more than R3.5 billion (US\$ 5 billion).

Worldwide large firms (such as BA) are considered to have a significant potential to stimulate job creation and growth through their linkages with small and medium enterprises (SMEs). There is increasing consensus that SMEs can be important in generating economic growth and development, particularly in the fast-changing and increasingly competitive global market. Carrier (1994) maintains that SMEs are often more fertile than larger firms in terms of innovation. The features of SMEs such as flexibility, innovativeness and problem-solving action orientation are now being considered as vital for success in a global economy. Even large businesses have attempted to implement entrepreneurship and have learned to think like a small business. Over the last decade SMEs have been the primary source of employment creation world-wide.

The promotion of SMEs is one of the core strategic thrusts of South Africa's macro-economic development approach, and the fostering of linkages between large businesses and SMEs can be an important demand-side support measure to complement the wide range of supply-side measures for SMEs introduced by the South African government since 1994. In light of this, the purpose of the present paper is to provide an assessment, based on a case study of the linkages between BA and SMEs of the potential of linking large and small business, and identify the best way in which an enabling environment for the promotion of SMEs can be created around large businesses.

The empirical analysis of this study was carried out during August 1999. Use was made of (a) structured interviews and (b) a specially designed questionnaire<sup>1</sup> to address the brief. An on-site visit was conducted between 18 and 21 August 1999 and BA provided the research team with a list of 19 SMEs and service providers currently involved with them. In total 13 questionnaires could be used for the project (N=13). Furthermore, a literature study was undertaken of the SME-situation in South Africa, as well as of the international best practice towards SME-promotion.

In the identification of opportunities/constraints for SME-development, only the operational phase of the project were considered. Opportunities that may have arisen or existed during the construction phase were not investigated, although these might be important in the future establishment of large firm projects.

The paper is structured as follows. In section two the core business and SME development program of BA is described. In section three the empirical findings are set out. Section four concludes.

## **2. OVERVIEW OF BILLITON ALUMINIUM (BA)**

### **2.1 Description of Core Business**

BA took over in 1998 what was founded as Alusaf in 1967. The first metal was cast on 14 May 1971 at the Bayside smelter and its official opening on 13 October 1971 marked the dawn of aluminium production in South Africa (Hillside Aluminium 1998a:2). The smelter was expanded in 1973 and again in 1983.

During the early 1990s, a private company Gencor and the parastatal Industrial Development Corporation (as the primary shareholders of Alusaf), decided to further

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<sup>1</sup> The questionnaire is available from the authors on request.

expands capacity by building a R5 billion, 466 000 ton per year greenfield smelter(Hillside) and launching a R267 million upgrade of the Bayside smelter.

Construction on the Hillside smelter started in June 1993. By June 1995 the Hillside smelter poured its first aluminium - four months ahead of schedule and R1.43 billion under budget. By 21 June 1996 all 576 aluminium smelting-pots were successfully on line, and it became clear that production output would exceed design capacity by more than 30 000 tons a year (Hillside Aluminium 1998b:4).

At the time of completion, the project constituted the largest private capital investment ever undertaken in South Africa. Various calculations have shown that it contributes anything between 1% and 3% to the national GDP. As a result of the Hillside smelter's operations alone, BA moves 2 million tons of cargo through the Richards Bay port every year.

- The Hillside smelter uses French Aluminium Pechiney AP30 technology. This makes it one of the world's cleanest and most efficient. Hillside currently employs 1 200 people, and has the capacity to produce 500 000 tons of aluminium per year. This represents approximately 4% of the world's aluminium production. All of Hillside's aluminium is exported to international markets. In the production of its products the possibility for creating demand for SME-products and services is obvious. As a result, BA introduced an SME development program during 1998 in an effort to maximise their impact on SMEs involved in the side-stream, upstream and downstream activities of the value chain<sup>2</sup>.

## **2.2 Description of the SME Development Program**

BA formulated and implemented an SME development program in 1998. This program has as its mission to 'direct Hillside and Bayside efforts in identifying, developing and supporting

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<sup>2</sup> The impact of a large enterprise such as BA on SMEs goes beyond the SMEs directly benefitting either upstream or downstream in the value chain. It has for instance been estimated that the indirect multiplier effect of BA is in the order of R700 million (US\$ 100 million) per annum and that it indirectly creates 12 000 jobs in the province.

emerging SMEs as viable suppliers'. Furthermore, the vision of the program is 'to identify, develop and support SMEs in supporting the government's economic employment policy and lift up the local economy in Zululand'. Through this mission and vision, the program strives towards achieving the following objectives, namely to:

- Determine departmental responsibilities to which support and development will be provided;
- Develop emerging enterprises through joint ventures and in the process facilitate the transfer of skills;
- Help SMEs access resources through financial, technical and business development information.

BA has implemented the following strategies for the program, namely to:

- Identify potential SME suppliers;
- Develop an accredited SME supplier list;
- List SMEs who are currently providing services;
- List goods and services that SMEs can supply;
- Simplify processes and procedures for SME vendors, i.e. create policies and procedures to accommodate SMEs;
- Take the lead in SME forums;
- Provide training and workshops for SMEs (empowerment);
- Sponsor SME conferences;
- Create internal and external awareness of the above; and
- Establish an SME committee as a supporting system to the above.

With the above in mind, the following targets were set for the year 2000:

- To conduct 10% of Hillside and Bayside's business with SMEs;
- To have at least 150 accredited SMEs listed in the data base;
- To host at least one workshop per month for SMEs; and
- To give monthly performance feedback to SMEs.

The program is managed by a small business development co-ordinator and essentially entails affirmative procurement of non-core products and services - also known as "side-stream" beneficiation. The focus is currently strong on side-stream activities because:

- Upstream possibilities for SME involvement are limited by the fact that core inputs are either imported (e.g. alumina, petroleum coke and liquid pitch) or sourced from major utilities (e.g. electricity from Eskom); and
- Downstream SME involvement is under-developed.

Possibilities are, however, investigated through which SME downstream beneficiation opportunities may be facilitated. This includes, for example the operation of a mini-smelter by an SME to melt Billiton-supplied aluminium for manufacturing of other aluminium products by SMEs located on the smelter site.

The processing of dross (a waste product of aluminium smelting) was identified as another opportunity for downstream SME beneficiation. One of the environmental policy targets of BA is to totally eliminate waste as a result of dross disposed. The objective is to process all dross by means of a process that will have only recyclable by-products.

Operational improvements made by BA during 1998 may have led to closer SME involvement. These improvements included:

- The start of a detailed and comprehensive performance audit of all vendors who supply the maintenance department with goods/services. On completion of this audit the Hillside Smelter will be able to enter into long-term partnering agreements with key vendors which will enable the aluminium producer to become more cost-effective,



whilst providing the vendors with a greater degree of stability;

- Improvements in areas of accounts payable, resulting in more satisfied vendors and a minimum of queries. Introduction of electronic funds transfer has obviated the need for manual cheques; and
- In purchasing, success was achieved through the introduction of a Kanban-system.

Conversion cost of Hillside Aluminium includes the cost of sales excluding alumina, electricity and depreciation. Most of these costs are controllable, for example maintenance and administration. In order to stay competitive, BA has to drive down these costs under their direct control. These are, however, also the cost of inputs sourced from prospective SME suppliers. SME suppliers to BA will therefore experience increased pressure to deliver more efficiently.

In order to ascertain the success of this linkage program, all major SMEs currently involved with BA (and who were willing to participate) were contacted for participation in the survey. 13 SMEs were finally surveyed to determine (a) their profile and (b) the obstacles they experience in optimising on the linkage with BA. In the next section the results of this survey are set out.

### **3. EMPIRICAL FINDINGS**

#### **3.1 Profile of SMEs**

All respondents who participated in the survey indicated that they are involved with side-stream product or service provision to BA. SME suppliers to BA are primarily involved in iron and steel basic industries (38%) and transport equipment (excluding motor vehicles and motor vehicle parts - 31%). Other categories like metal products (23%), machinery (23%) and motor vehicles and motor vehicle parts (23%) were also fairly well represented. Currently, however,

85% of suppliers are involved with Hillside Aluminium, with only 15% being involved with Bayside. Almost half of the respondents indicated that less than 5% of their total business goes to BA. BA, however, maintains to be the SMEs' largest customer. The question can be asked therefore where/to whom SMEs deliver the other 95% of their products/services. This was not determined in the survey. Taking into account the lack of demand for products and services highlighted below, it is necessary that BA becomes more involved with their current SME suppliers. This becomes even more important in light of BA's SME program aimed at empowering local SMEs. It could also be the case that respondents misunderstood the question.

On average, the following was found with regard to the background profile of SME owners and operators:

**Highest level of formal education:** the majority of respondents who participated in the survey (38%) indicated that they had a secondary school education. Similarly, 23% also indicated that they had a technical education background, with a similar percentage having formal university training as highest educational level.

**Age of the respondent:** respondents who participated in the survey ranged from 22 years to 46 years of age. The majority of these were either in their late thirties or early forties.

**Establishment of businesses:** The majority (85%) stated that they have been involved in the establishment of the business they currently operate.

**Previous business experience:** the majority of respondents who participated in the survey (69%) had previous business experience before entering into the businesses they are currently involved in. The form of experience these entrepreneurs have mainly relates to working for another business in the same industry (54%). In terms of years' business experience, a wide range of possibilities was recorded. Some entrepreneurs indicated that they had little business experience in their particular industry before establishing their current

businesses (i.e. from no experience to 5 years experience). However, some entrepreneurs also indicated that they had extensive experience in the industry, ranging from 8 to 22 years. No trend could, however, be established as to specific categories of business experience. The majority of respondents (46%) indicated that they were working for another business in a similar industry to where they are involved now before establishing their businesses. Despite the difficulty to determine the specific length of involvement with similar businesses before establishing an own business, this result indicates that the majority of them worked in related fields. This experience gives them a good background in terms of involvement with the industry they are currently operating in. It also gives entrepreneurs an advantage in terms of issues like for example quality, performance or technical skills.

**Other business involvement:** the majority of participants (77%) do not currently own any other businesses. Where respondents did indicate that they owned other businesses, the majority (31%) were not in the same sector as their core business. This could be an indication of SMEs' commitment towards successfully managing and operating their core businesses.

As far as their general business information is concerned the following was determined:

**Business profile:** almost 80% of participants in the survey indicated that they operate close corporations. Their total business sales for 1997/1998 ranged between R200 000 and R3.1 million. Similarly, their total employees varied between 3 and 350 for 1996/1997. This figure declined for 1997/1998, with them indicating that they employ between 7 and 40 employees. One can conclude from this that SME suppliers to BA range from very small to medium according to the criteria set out by the National Small Business Act (see South Africa, 1996). This is also supported by the result that SME suppliers are responsible for less than 5% of the total industry output for their specific products and services. The majority (54%) of SME suppliers indicated that their profit margin has decreased in the last year. SMEs indicated changes of between 3% and 70% in their profit margin in the last year.

The fact that 62% of suppliers indicated no change in their product range for the last year illustrates one of two scenarios. SMEs are either focused in their product/service delivery and they strive towards providing fewer products/services of better quality. On the other hand, it could indicate that SMEs are not investigating new options in expanding their range of products/services. The value of capital equipment used by current SME suppliers was found to be between R6 000 and R800 000, with the majority of 23% indicating the value of their capital equipment to be in the range of R200 000;

**Obstacles in capacity utilisation:** the most severe obstacles facing SME suppliers were found to be either a lack of working capital (31%) or a lack of demand for products/services (31%). These findings imply constraints in terms of finances, as well as potential for expansion of transactions between suppliers and BA or other clients.

### **3.2 Obstacles in Linking SMEs with Billiton Aluminium**

In this section, the obstacles experienced by the SMEs in their involvement with BA are discussed. A number of these constraints are, however, reciprocal, and also do not motivate BA to become involved with SME suppliers on a long-term basis.

#### **3.2.1 Competition**

One of the biggest constraints (highlighted by BA employees) in successfully implementing their SME development program, is BA's relationship with other suppliers in the area. In a number of instances, these suppliers have rendered good products and services to BA over a period of time, and they have established a good relationship with them. In making the SME program successful and give SMEs an opportunity in the market, BA needed to break ties with many of these suppliers. This results in negative relationships with them and increased competition for SMEs in other markets than BA.

From SME suppliers' side, competition also seems to be a possible constraint. The majority of respondents (62%) stated that there are more than 10 competitors for their principal products or services in the area. Almost 70% of participants indicated that new competitors (ranging between 2 and 6 in number) entered their markets in 1998/1999. A similar percentage of respondents indicated an exit of between 2 and 5 competitors from the market in 1998/1999.

The fact that 85% of respondents indicated that they are collaborating with other businesses in their region to increase business activity, indicates attempts towards establishing business networks in the region. In terms of the VMR model (Buchanan & Gillies, 1995)<sup>3</sup>, this is a positive trend towards strengthening partnerships and contributing towards improved relations. Despite this, however, 69% of respondents remain unsure about the extent to which partners can trust each other. This indicates that the above partnerships have not been developed to their full potential yet, and do not necessarily add value to the parties involved.

In line with BA's above remark about SME suppliers versus other suppliers with whom they had a longstanding relationship, the majority of participants (77%) indicated that BA has unfairly compared them with other competitors in the past. Despite these unfair comparisons, the majority of SME suppliers (54%) experience trust between themselves and BA.

### **3.2.2 Technology**

According to literature, technology is one of the major constraints prohibiting SMEs from fully utilising market opportunities. This either relates to a lack of (or outdated) equipment, or a lack of skills to effectively utilise equipment. Apart from this, SMEs can often not afford to buy technologically advanced equipment.

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<sup>3</sup> The key objectives of the VMR model are discussed as recommendations towards the end of the paper. These objectives relate to ways in which BA can build a co-operative and communicative partnership with its SME suppliers.

BA's SME suppliers were found to mostly use locally produced equipment, although some imported equipment is also utilised. More than half of respondents (54%) indicated that they have made major additions to their production capacity since establishing their businesses. Moreover, the majority of SME ventures (46%) have units or personnel dedicated towards productivity improvement. They also consider their business technology sufficient to both address continuous change in procurement specifications, and supply products/services to BA. The fact that 54% of respondents use electronic technology (like the Internet and electronic mail) in their business activities furthermore highlights that SME suppliers to BA are technologically aware. A negative aspect, however, is that 77% of respondents' businesses are not involved with research and development activities.

### **3.2.3 Labour Markets**

As was highlighted in section 3.1 above, the majority of current SME suppliers to BA are either small or medium-sized businesses with the current number of employees ranging from 7-40. The following breakdown in terms of labour market issues was found for all respondents who participated in the survey:

- permanent workers hired in the last year: between 2 and 18;
- permanent workers retrenched in the last year: 5;
- amount of severance paid to these workers: R10 000 on average per retrenched worker;
- permanent workers who quit in the last year: 12;
- permanent workers who retired in the last year: 0;
- permanent workers who left the business in the last year because of illness: 0;
- permanent workers who died in the last year: 1.

Employment levels have decreased over the past year and fewer permanent workers left SMEs. 62% of respondents therefore also indicated that their employees do not belong to labour unions and that none of them had any labour-related problems during 1998/1999.

### 3.2.4 Training and Skills

In order for VMRs to be effective, it is important that staff members at both parties involved are adequately trained to motivate them and avoid uncertainties and possible problems. From BA's side they have committed themselves towards SME training as one of the strategies in their SME development program. However, they acknowledge that significant progress has not been made yet. This is especially the case as far as training in business and management skills is concerned. Although SMEs display high levels of skills as far as technical aspects are concerned, they also lack a number of skills related to correct and competitive tendering procedures. These aspects should be addressed in order to make SMEs more competitive and empower them to make a bigger success of their business ventures.

Similarly to business owners' educational levels, the majority of employees also indicated secondary school qualifications as their highest educational level (46%). It seems, however, as if staff members are technically better educated than their employers, as 31% indicated this as their highest educational level. Very low technical skills were found among employers themselves.

The majority of businesses (69%) do not have training specialists or training staff employed. Half of respondents indicated that they have training programs in place through which non-production workers, skilled workers and unskilled workers are trained. All such training programs were introduced since 1997.

Respondents overall indicated a lack of interest on the part of suppliers, buyers, foreign or local business partners to provide training to their employees. Almost 70% of SME suppliers did not receive such training since 1998. This is a very negative result in terms of BA's SME development program, as training and education have been set out as one of its strategies. A mitigating factor is that BA has only launched this program in November 1998. Similarly, respondents also indicated a lack of training received from technical institutes,

universities and other associations. A large number of SMEs (84%) indicated that they do not have joint training programs with other institutions. The majority of respondents (77%) stated that the main responsibility for training production workers lies with supervisors within their own businesses.

SMEs therefore see training as an internal operation, rather than an external one. The main reasons for a lack of training from other institutions are related to limited resources to spend on external training programs (38%) and a lack of knowledge as far as training techniques and the management of training programs are concerned (38%).

Despite the lack of external training, the majority of respondents are confident that their employees have the ability to realise the objectives of the business. They are also confident that their employees are adequately skilled to adjust to changing conditions and requirements.

### **3.2.5 Finance & credit**

In the majority of studies conducted among SMEs, finance is almost always found to be one of the major constraints. In this survey it was found that on average SMEs owe their suppliers in excess of R92 000-00. The main reason for buying on credit was indicated as SMEs not having enough money to pay suppliers before they have sold some outputs. The fact that SMEs owe their suppliers such large amounts of money necessitates the use of overdraft facilities. As such, 54% indicated that they currently use overdrafts. The average overdraft balance is in excess of R25 000-00, with SMEs paying relatively high interest rates.

SMEs who participated in the survey have average accounts receivable in excess of R135 000-00. Of these outstanding accounts, on average R 41 500-00 is due to them by BA. This amount comprises 31% of SMEs accounts receivable. It was also found that businesses seem to be much more lenient in extending credit to BA than to their other clients. More than 60% of SMEs also complained about receiving late payments from debtors, with more than



half stating that these late payments have an influence on their business activities. The fact that so many of them have to buy on credit (because of a lack of cash) also supports this finding.

The main reasons why SME suppliers sell on credit were given as credit cultivating regular clients (46%) and clients wanting to pay on credit instead of prepaying or paying cash (54%). The fact that these reasons play such an important role again underlines the lack of demand for SME products and services highlighted earlier. In an attempt to have access to more markets, SMEs are willing to sell on credit despite the fact that they have large amounts of debt outstanding.

The large number of respondents who indicated that they experience clients constantly requesting quotations without accepting it (69%) furthermore supports the result that SMEs are eager to have access to a larger portion of their markets. Despite the time and effort which go into providing clients with quotations, it seems like SMEs go through the process in the hope of extending the markets for their products and services.

A lack of capital among SMEs is often related to a lack of access to funds from lending institutions (formal or informal) or other sources (e.g. family and friends). When asked what their experience was in obtaining finance from a number of sources, the following rating was given:

- Formal lending institutions (e.g. banks): easy access or impossible to have access to funds via these institutions (23% each);
- Informal lending institutions (e.g. SMME development corporations): very difficult to have access (23%);
- Informal groups: difficult (23%); and
- Family or friends: difficult (23%).

Despite the fact that some SMEs regard it difficult to obtain funds from formal lending institutions, this seems to be the easiest source of finance for small businesses. While all the

other sources of finance were rated as being difficult to very difficult to access funds, some respondents regarded access to funds via formal lending institutions as easy. Nevertheless, the majority of respondents (62%) indicated that they have not applied for a loan from an institution in the past year. Of the more than 30% who did apply for a loan, more than 20% of applications were not approved.

### **3.2.6 Infrastructure**

Infrastructure is commonly regarded as an important constraint facing SMEs in South Africa. This is especially the case among SMEs from previously disadvantaged communities.

With this in mind, and because of the wide-ranging efforts initiated by government and other institutions to improve on infrastructure in the country, respondents were asked to indicate whether they could witness a change (improvement or deterioration) in a number of services during 1998/1999. The following results were obtained:

- Electricity: no change (62%);
- Water: no change (77%);
- Freight transport (e.g. railroads, trucks): no change (69%);
- Roads: no change (54%);
- Telecommunication: no change (54%);
- Handling services at air and sea ports: no change (38%);
- Waste disposal: no change (53%); and
- Security: deterioration (38%).

From the above one can conclude that SMEs regard the level of services as being unchanged compared to the past. The only significant negative change was reported in terms of security. The majority of them (62%) considered the available infrastructure as adequate to their business' needs and activities.

In terms of business premises available to SMEs, the majority (85%) indicated that they use rented facilities from where to operate their businesses. They also consider their ability to adapt the existing infrastructure as sufficient (62%).

The SME suppliers to BA (both Hillside and Bayside) seem to be closely situated to both these plants. Distances given from business locations to BA ranged from 2 km to 25 km. This is a positive indication, as it gives suppliers the opportunity to be in touch with the way in which products and services are rendered to BA. It also gives them the opportunity to react quickly should there be any problems in the supply process.

### **3.2.7 Regulations and taxation**

Since 1994, the South African government has initiated and implemented a number of policies to facilitate SME development in the country. Apart from creating more beneficial conditions for SMEs to operate in (e.g. simplified tendering procedures; preference for SMEs from underprivileged communities; and relaxed financial guarantees), they have also initiated a program through which bigger businesses are encouraged to purchase from SMEs (e.g. see Hugo, Van Rooyen & Badenhorst 1997). Moreover, the government has not yet taken action (as was the case in other parts of the world) in terms of putting formal pressure on big businesses to purchase from small ones.

In light of the above, one can expect that SMEs would express positive experiences in terms of the regulatory environment. However, more than half of them (54%) stated that they were unsure whether legislation on SME activity created unrealistic conditions for them to successfully operate in. Similarly, 38% stated that they were unsure about whether legislation and regulation interfere with their activities. Despite this, the majority indicated that none of the possible obstacles listed affected their business activities during 1998/1999 (e.g. trade unions, government rules, restrictions from government, or the legal process of bankruptcy).

Against the background of uncertainties expressed by SMEs with regard to changed regulation and taxation conditions, it was interesting to find that respondents only considered wage costs (38%) and labour regulations (46%) to have deteriorated in the previous year. Only a few respondents (30%) indicated that corruption has become worse in the last year. Quite a number of respondents (62%) stated that these factors influence their ability to adhere to contractual requirements. More than half of respondents (54%) were unaware of legislation that interferes with their ability to benefit from contracts with BA.

### **3.2.8 Macro-economic factors**

The majority of SME suppliers to BA considered the level of economic activity in their area as ranging between bad and very bad (46%). Hence they also consider this situation to have a very high influence on their business activities (38%). The main factors contributing to these conditions are poverty (54%), unemployment (38%), and crime and violence (62%). An interesting result was that 38% of respondents indicated that HIV/Aids has no influence on their business activities.

### **3.2.9 Business Support Services**

In order for small business purchasing programs to be successful, it is important that businesses' top management is fully committed. Apart from this, the commitment should form part of their business policy and be facilitated through regular information flow - internally and externally. BA's commitment towards the success of their SME development program is illustrated by program outcomes being linked to top management's key performance areas.

Many of BA's SME suppliers (61%) expressed some levels of antagonism on the part of their clients because of a negative image being promoted about their businesses. Almost half of respondents indicated that this negative image undermines trust between themselves and their clients. These results are not very positive in terms of BA establishing and maintaining good relationships with their SME suppliers. These results were further highlighted by the fact

that 62% of suppliers felt that there are not enough business support systems in their area to facilitate initiative and new ideas.

Despite BA's indications that they give regular feedback and encouragement to their suppliers (on a monthly basis in terms of their target for the year 2000), the majority of SME suppliers (62%) do not regard the feedback they receive as adequate at all. However, only 46% indicated that a lack of feedback influences their business activities. This illustrates the lack of communication and co-operation between BA and its SME suppliers, as the benefits of feedback and encouragement are not clear to them.

The areas in which SMEs seem to receive the fewest information and assistance are financial (i.e. from lending institutions like banks, development corporations and government organisations - 85%); technology (e.g. the CSIR, HSRC - 92%); export (e.g. from DTI and other government departments - 92%); and infrastructure (92%). This again underlines the lack of efficient information to SME suppliers. Although a large enterprise like BA cannot necessarily provide direct assistance in terms of finances or infrastructure, they can assist their suppliers providing information services towards accessing the relevant resources. This element also forms part of BA's vision for their SME development program.

In cases where SME suppliers did receive assistance, 31% of them were more or less satisfied with the level to which they were assisted. A similar percentage stated that this had some influence on their business activities.

### **3.2.10 Procurement Policy**

In the Richards Bay area, BA is a major role-player in implementing adjusted procurement policies. Although Hillside has planned to spend R25 million on SME development in 1999, only R2 million was spent in June 1999 and R1.2 million in July 1999. Hillside, however, spends up to US\$40 million per year on importing spare parts from overseas (excluding raw materials). BA has the vision of changing this in order for SMEs to

provide these products and services. The aim is also to see an increase in the manufacturing involvement from SMEs.

A positive result from the survey is that 31% of respondents indicated that BA does not set procurement specifications that discourage them to participate in transactions with the company. Similarly, 54% felt that BA encourages open procurement channels with their suppliers. Also positive in terms of the VMR model is that 69% of respondents indicated that BA's procurement policies are aimed towards developing long-term relationships with them. Joint investment with SME suppliers also seems to feature high on BA's agenda, with 38% stating that they regard this to be the case. However, only 31% indicated that they were satisfied with the level of joint planning between themselves and BA.

Despite the earlier result that SME suppliers do not receive adequate feedback and encouragement from BA, 77% stated that open two-way communication channels exist with BA. As was indicated earlier, this has not been the case in the past, and has positively improved since the establishment of the SME development program. However, some instances of inadequate communication were reported.

In correspondence with BA's statement that they overall feel satisfied with the quality of products and services rendered to them, the majority of SME suppliers (92%) also indicated that they perform according to BA's quality and delivery specifications. Not all respondents felt, however, that their supplier relationship with BA is aimed at realising the lowest total cost for both parties involved.

### **3.2.11 Information**

Adequate information flow between parties involved in the VMR is crucial. Before establishing the SME program, information flow between BA and its SMEs was not very good. During interviews with SMEs, they complained that they would be sent 'from pillar to post' without receiving any feedback on requests from BA. Since the SME development program was

introduced in November 1998, this situation has improved slightly. Apart from improved information flow, this program has also partly solved problems surrounding technical skills, joint ventures, financial and management skills. In order to make the program more successful, it is important that BA focus on these issues even more in future.

SME suppliers do have specific people or departments primarily responsible for information flow (92%). As a result, 54% of SMEs feel satisfied with the level of information on their businesses communicated to their outside markets/suppliers. With specific reference to BA, 51% of respondents consider their information flow to this business as adequate.

As was found earlier, more than half of respondents use electronic media like the Internet and electronic mail to obtain information and/or business.

In accordance with the requirements of the VMR model, SME suppliers' main information channels are either marketers (54%) or procurement officers (31%). These channels should form the basis of external information flow, as they form the interface levels with external clients or suppliers.

#### **4. CONCLUSIONS AND RECOMMENDATIONS**

The trend world-wide is to complement supply-side measures for supporting SMEs with demand-side support through which markets for SME outputs are created. Linking SMEs with large, often multinational, enterprises is only one way to do this. This paper investigated factors facilitating the above process. It used empirical results from a case study at Billiton Aluminium (BA) in Richards Bay, South Africa.

The following can be concluded from the study:

- A deliberate SME-development program with a responsible and committed senior manager from the large enterprise to take charge should be put in place. Although BA has done this, perceptions of unfair comparison among its SME suppliers is but one

issue which needs to be addressed for the program to be successful. Levels of trust between BA and its suppliers also needs attention in order for meaningful long-term relationships to develop;

- In terms of the possible problem areas which can hamper the success of the above program, the following was found:
  - SME suppliers experience a fair amount of **competition**. BA should also address the perception of unfair comparison as indicated above;
  - **technology** was not found to be a major constraint for existing SME suppliers to BA – SMEs are aware of technological advances and consider their technology sufficient towards meeting the procurement needs set out by BA;
  - the nature of **labour markets** is such that SME suppliers increasingly employ part-time workers who do not present as many constraints to them in terms of retrenchment. Very few therefore experience labour-related problems;
  - SME suppliers should become more aware of available **training programs**. They also need to find sufficient funds to have their employees trained externally. BA should adhere to the objectives of their SME development program and become more involved with the training of SME suppliers;
  - SMEs' most critical **financial** problems relate to large amounts outstanding from customers. The majority of SMEs also seem to lack the financial and management skills to improve this situation;
  - SMEs regard the level of **infrastructure** available to them unchanged compared to the past. It was only in terms of security where negative changes have been highlighted;
  - Despite the relaxed **regulatory environment**, SMEs have not yet experienced the benefits themselves. SMEs are highly insecure and uncertain as far as the legislative environment is concerned. This again highlights the need for training and awareness



programs through which this situation is improved. BA should again play a major role in this process;

- In terms of **macro-economic activity**, the study highlighted the need to improve economic activity through higher employment and poverty alleviation. BA's SME development program is one vehicle through which this can be achieved, although other big businesses in the area should also facilitate this process;
- **Business support** to SME suppliers is not sufficient. BA has the intention to develop this as part of its SME development program, but SME suppliers still highlighted the inadequacies of the current support they receive;
- **Procurement** seems to be one of the more positive elements as far as SME suppliers' relationship with BA is concerned. SMEs highlighted joint planning and realising the lowest possible cost for both parties as problems. BA also indicated that they need to do more to achieve their procurement goals;
- **Information** flow between BA and its suppliers was not good in the past. However, the SME development program seems to have addressed this to a large extent. SME suppliers also feel reasonably satisfied with the information flow between themselves and BA. This is positive in terms of achieving the objectives of the SME development program and developing meaningful relationships between BA and SMEs.

Stemming from the above, and achieving the objectives of the VMR, the following recommendations can be made as far as successfully linking SMEs with large enterprises:

- **Develop a more strategic approach towards suppliers.** This entails fewer suppliers who are strategically more beneficial to BA. This also implies a shift from quantitative evaluation criteria to qualitative ones. Suppliers can therefore develop a competitive advantage over competition, and in turn increase the value added to the supply chain. This is, however,

not always an easy process, as many small suppliers do not yet adhere to the requirements set out for 'good suppliers'. Development and training of small suppliers can address these issues and make the partnership with small suppliers still a beneficial one for big companies. BA currently has a list of approved suppliers (both SMEs and bigger companies). BA accredits and approves suppliers before putting them on the supplier list, ensuring that suppliers adhere to BA's entry requirements. BA seems to be satisfied with the level of service and the quality of products they receive from SMEs, most probably because of SMEs employing highly skilled employees. Problems with SME suppliers do, however, still occur, but are resolved through the arbitration of the Small Business Co-ordinator. This individual is the executive in charge of the BA SME development program. This is a very positive trend, as it underlines BA's commitment towards SME involvement and empowerment.

**- Establish long-term relationships through joint planning and investment.**

This implies a deliberate attempt by all parties to address the other's specific needs through joint planning. Establishing a long-term relationship justifies the investment for both parties. Investing time and creativity in the relationship results in mutual trust being developed – an element which is crucial for the success of the relationship. BA think they involve their SME suppliers sufficiently. However, they did acknowledge that the process is still in its infancy and that more will have to be done before the project will fully take into account the SME suppliers in decisions being taken.

**- Establish a partnership agreement.** Agreements should be subservient to a partnership principle. Programs should therefore be focussed on the development of a relationship with the supplier, making 'affirmative purchasing' programs ideal for developing well-established partnerships. Criteria should become secondary to the relationship built between the parties. As such, product developments should take into account both the supplier's capabilities and the customer's needs. Ultimately, a partnership agreement also

results in lower costs in the value chain. BA considers a high level of trust and a good relationship to exist between themselves and (especially) their SME partners. They encourage SMEs to discuss problems with them, although the theory and practice around this issue do not always correspond. Some SMEs still experience some of BA's actions not to be conducive to developing trust.

- **Realize the importance of planned communication.** Good information flow is often a problem, despite the fact that it facilitates co-operation agreements and eventually improve value presented to consumers. To facilitate communication and avoid prejudices, mistrust and unmet expectations, objectives should be stated clearly by all parties (see Hugo *et al* 1997). This stems from sufficient information regarding the supplier, his performance and the status of the relationship between the customer and the supplier. Open communication channels also provide the opportunity to efficiently identify and resolve issues among parties.

- **Integrate activities on a number of levels.** This also implies regular planning sessions and open communication. It does not only relate to information, but also non-informational sources like skills and knowledge. Once this level of interaction is achieved, adjustments to products become limited, delays are reduced, problems are identified and addressed at an earlier stage and more flexibility implemented. Ultimately this results in lower costs and improved quality of products and services.

- **Work towards quality and timeous performance.** Within a more integrated relationship, the quality of products and services become the most important factors. Improved relationships therefore imply that the supplier is completely informed on the requirements and specifications of the customer. If these are addressed correctly, quality inspections almost become unnecessary.

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