THE DEVELOPMENT OF A MODEL OF COMPETENCIES FOR SMALL, MEDIUM AND MICRO-SIZED ENTERPRISES (SMME’S) TO ACHIEVE COMPETITIVE ADVANTAGE IN THE EAST CAPE MOTOR INDUSTRY CLUSTER?

By

LLOYD DE BEER

Submitted in partial fulfillment of the requirements for the degree of Magister in Business Administration at the Port Elizabeth Technikon.

SUPERVISOR: DOCTOR TS HUTTON

JANUARY 2003
DECLARATION

This work has not been previously accepted in substance for any degree and is not being currently submitted in candidature for any degree.

Signed..................................
Date..............................

STATEMENT 1

This dissertation is being submitted in partial fulfillment of the requirements for the degree in Masters in Business Administration.

Signed..................................
Date..............................

STATEMENT 2

The dissertation is the result of my own independent work/investigation, except where otherwise stated.
Other sources are acknowledged by footnotes giving explicit references. A bibliography is appended.

Signed..................................
Date..............................

STATEMENT 3

I hereby give consent for my dissertation, if accepted, to be available for photocopying and for interlibrary loan, and for the title and summary to be made available to outside organisations.

Signed..................................
Date..............................
ACKNOWLEDGEMENTS

I would like to express my gratitude to the following people for their assistance and support during the compilation of this study:

- To my wife, Carol, for her patience, support and encouragement, and to my children, Jarred and Robyn, for their understanding and patience.

- Doctor T.S. Hutton, my supervisor, whose advice and encouragement made it possible for me to complete this study.

- Mrs Samantha Greef for her expertise in editing this document.

- Ms Carol van Onselen for her valuable input in compiling this document.
DEDICATION

This dissertation is dedicated to my wife, Carol, and children, Jarred and Robyn.
ABSTRACT

The research problem addressed in this study was to identify the generic strategies that small, medium and micro enterprises (SMME’s) are required to implement in order to achieve competitive advantage in the highly competitive global automotive market.

Markets have merged into one huge global marketplace, increasing the competitive forces on all the participants in the automotive markets. Strategies to achieve competitive advantage has changed from the traditional domestic strategies to that of strategies required for global competitive advantage.

This has created challenges for SMME’s to attain competitive advantage essential in the fast-changing global markets.

The East Cape Motor Industry Cluster (ECMIC) is the heart of the SA automotive industry with three of the major automobile manufacturers having their assembly plants located in the Buffalo and Nelson Mandela Metropoles. A significant number of component manufacturers and their suppliers serve these manufacturers, as well as the other automobile manufacturers located elsewhere in South Africa. Many of these component manufacturers and suppliers are SMME’s. The need to become globally competitive is thus critical for SMME’s in the region.

This study investigates the generic strategies that SMME organisations are required to implement in order to achieve competitive advantage in the ECMIC, and based on this and the empirical study that seeks opinion from management of SMME firms in the ECMIC, a model of generic strategies to create competitive advantage is developed.
CONTENTS

Declaration..............................................................................................................i
Acknowledgements...............................................................................................ii
Dedication..............................................................................................................iii
Abstract................................................................................................................iv
Table of Contents..................................................................................................vi
List of Figures........................................................................................................x
List of Tables.........................................................................................................xi
List of Annexures.................................................................................................xii
TABLE OF CONTENTS

CHAPTER ONE
INTRODUCTION, PROBLEM STATEMENT AND DEFINITION OF KEY TERMS

1.1 INTRODUCTION ................................................................. 1
1.2 MAIN PROBLEM ............................................................. 2
1.3 SUB-PROBLEMS .............................................................. 3
1.4 DELIMITATION OF RESEARCH ........................................... 3
1.4.1 Demarcation of organisations to be researched ................. 3
1.4.2 Geographic demarcation ............................................... 3
1.5 DEFINITION OF KEY TERMS .............................................. 4
1.5.1 Industry cluster .......................................................... 4
1.5.2 Small, Medium and Micro Enterprises (SMME’s) .............. 4
1.5.3 Competitive advantage .................................................. 5
1.5.4 The East Cape Motor Industry Cluster (ECMIC) ............... 5
1.6 SIGNIFICANCE OF THE RESEARCH .................................. 5
1.7 RESEARCH DESIGN .......................................................... 6
1.7.1 Research methodology ............................................... 6
1.7.2 The development of an integrated model ......................... 7
1.8 PROPOSED PROGRAMME OF STUDY ................................. 7

CHAPTER TWO
A DISCUSSION ON COMPETITIVE ADVANTAGE

2.1 INTRODUCTION ............................................................. 9
2.2 PORTER’S FIVE FORCES MODEL ....................................... 9
2.2.1 The threat of new entrants .......................................... 10
2.2.2 Extent of rivalry among established companies ............... 14
2.2.3 Bargaining power of buyers ........................................ 20
2.2.4 Bargaining power of suppliers .................................... 21
2.2.5 The threat of substitute products .................................. 22
2.3 THE DIRECTIONS FOR STRATEGY DEVELOPMENT .......... 22
2.4 THE “STRATEGY CLOCK” MODEL OF GENERIC STRATEGIES .. 26
2.4.1 Introduction .............................................................. 26
2.4.2 Price-based strategies (Route 1 and 2) .............................. 27
   2.4.2.1 No-frills strategy (Route 1) ..................................... 28
   2.4.2.2 Low price strategy (Route 2) ................................... 30
CHAPTER THREE
THE COMPETITIVE ADVANTAGE OF SMALL, MEDIUM AND MICRO ENTERPRISES (SMME’S)

3.1 INTRODUCTION .............................................................................................................. 44

3.2 THE INFLUENCE OF PORTER’S FIVE FORCES ON SMME’S ........................................... 44

3.2.1 The threat of new entrants ...................................................................................... 44
3.2.2 Extent of rivalry among existing firms ...................................................................... 50
3.2.3 Bargaining power of buyers .................................................................................... 52
3.2.4 Bargaining power of suppliers ................................................................................ 52
3.2.5 The threat of substitute products ............................................................................ 53

3.3 A MODEL OF COMPETENCIES BASED ON PORTER’S FIVE FORCES FOR SMME FIRMS TO SUSTAIN COMPETITIVE ADVANTAGE .............................................................................................................. 54

3.4 SMME COMPETITIVE ADVANTAGE IN TERMS OF THE THEORETICAL MODEL FOR ORGANISATIONAL COMPETITIVE ADVANTAGE .............................................................................................................. 55

3.4.1 Introduction ............................................................................................................. 55
3.4.2 Competitive strategies for SMME’s in terms of the theoretical model .................. 55

3.4.2.1 The Price-Based Strategies .................................................................................. 55
3.4.2.2 The hybrid strategy of differentiation and lower price ...................................... 56
3.4.2.3 Differentiation ..................................................................................................... 57
3.4.2.4 Focus differentiation ........................................................................................... 62
CHAPTER FOUR
THE EMPIRICAL STUDY, METHODS USED AND ANALYSIS OF DEMOGRAPHIC DETAILS OF RESPONDENTS

4.1 INTRODUCTION ........................................................................................................ 65
4.2 THE RESEARCH DESIGN .......................................................................................... 66
4.3 PLANNING THE EMPIRICAL STUDY ..................................................................... 68
4.3.1 The Questionnaire ............................................................................................ 68
4.3.2 Contents of the Questionnaire .......................................................................... 70
4.3.3 Process of survey design ................................................................................... 72
4.3.4 Mail survey ......................................................................................................... 72
4.4 ADMINISTERING THE QUESTIONNAIRE ............................................................ 73
4.5 THE RESEARCH SAMPLE ....................................................................................... 73
4.6 RESPONSE RATE ................................................................................................... 74
4.7 ANALYSIS OF DEMOGRAPHIC INFORMATION ...................................................... 75
4.7.1 Responses to Sections 1 to 3 of Survey ............................................................... 76
4.8 RESPONSE TO SECTIONS DEALING WITH COMPETITIVE ADVANTAGE .......... 86
4.8.1 Section 4: Statements on competitive advantage drawn from the literature study .................................................................................................................. 86
4.8.2 Section 5: Factors promoting competitive advantage ........................................... 89
4.8.3 Section 6: Strategies for Sustaining Competitive Advantage ............................... 94
4.9 SUMMARY .............................................................................................................. 101

CHAPTER FIVE
FINALISATION OF A MODEL OF COMPETENCIES, INTEGRATION OF THE FINDINGS WITH THE LITERATURE STUDY, RECOMMENDATIONS AND CONCLUSION

5.1 INTRODUCTION ........................................................................................................ 102
5.2 INTEGRATION OF THE FINDINGS OF THE EMPIRICAL STUDY WITH THE LITERATURE STUDY ................................................................. 102
5.3 AN INTEGRATED MODEL OF COMPETENCIES FOR SMME FIRMS TO PROMOTE AND SUSTAIN COMPETITIVE ADVANTAGE IN THE ECMIC ................................................................. 106

5.4 RECOMMENDATIONS ........................................................................... 107

5.5 CONCLUSION ........................................................................................ 108

REFERENCES .............................................................................................. 110
LIST OF FIGURES

Figure 2.1: Porters five forces that determine industry competitiveness.....10
Figure 2.2: Entrants Average Total Return to Shareholders Relative to Own Industry .................................................................13
Figure 2.3: The Life Cycle Model for Industries ......................................16
Figure 2.4: The Modified Product Life Cycle ...........................................17
Figure 2.5: The Boston Consulting Group (BCG) Matrix .........................18
Figure 2.6: The life cycle model for firms .................................................23
Figure 2.7: Directions for Strategy Development ........................................24
Figure 2.8: The Strategy Clock: Bowman’s Competitive Strategy Options .26
Figure 2.9: A theoretical model for organisations to achieve competitive advantage ..................................................................................41
Figure 3.1: A model of competencies of SMME firms to sustain competitive advantages in terms of Porters Five Forces ........54
Figure 3.2: A model of generic strategies for SMME firms .......................63
Figure 4.1: Statements on competitive advantage .....................................87
Figure 4.2: Statement 5.1: The existence of an established industry cluster ..................................................................................89
Figure 4.3: Statement 5.2: By achieving economies of scale (low cost) with mass production .................................................................90
Figure 4.4: Statement 5.3: Proprietary knowledge (patents, licences, etc) .90
Figure 4.5: Statement 5.4: Being located in close proximity to the customer ......................................................................................91
Figure 4.6: Statement 5.5: Vast experience, ie the “experience curve” ......92
Figure 4.7: Statement 5.6: Having the most modern technologies ............93
Figure 4.8: Statement 5.7: Being able to change at the same rate as the market ......................................................................................93
Figure 4.9: Statement 6.1: By achieving economies of scale at relatively low output .............................................................................95
Figure 4.10: Statement 6.2: By anticipating the market in advance, and changing with the market.................................................................96

Figure 4.11: Statement 6.3: Producing unique products to suit targeted customers in market niches.................................................................97

Figure 4.12: Statement 6.4: Superior access to distribution channels by cultivating good relations with suppliers and/or customers.......98

Figure 4.13: Statement 6.5: Develop absolute cost advantages independent of scale, which include proprietary knowledge (technology, experience), favourable location, advantageous access to raw materials .................................................................99

Figure 4.14: Statement 6.6: Focus all strategies on delivering superior total service (i.e., adding value) to customers.............................100

Figure 5.1: The final model of generic competencies for SMME firms to sustain competitive advantage in the ECMIC .........................106

LIST OF TABLES

Table 4.1: Number of companies to be surveyed.................................74
Table 4.2: Summary of data collection procedure .................................75
Table 4.3: Responses by region.............................................................75
Table 4.4: Classification of respondents by product manufactured .........76
Table 4.5: Classification of respondents by employees of the organisation.............................................................................................77
Table 4.6: Classification of respondents by total annual turnover of the organisation................................................................................77
Table 4.7: Classification of area of responsibility of respondents ...........78
Table 4.8: The structure of the organisation.............................................78
Table 4.9: The ownership of the organisation.........................................79
Table 4.10: The size of the markets in which the SMME organisations serve.................................................................................................80
Table 4.11: Share of the market served by the organisations .................81
Table 4.12: Growth stage of the markets in which the SMME organisations serve .........................................................82
Table 4.13: The number of customers the organisations serve ...........83
Table 4.14: The number of competitors in the markets served by the SMME firms. .................................................................83
Table 4.15: The number of suppliers of the major input materials of SMME firms. ........................................................................84
Table 4.16: Technology used in the manufacture/assembly of the products made by the SMME firms ........................................85
Table 4.17: The cost of SMME firm's products in relation to competitor products ........................................................................85

LIST OF ANNEXURES

Annexure 4.1: Covering Letter for Survey ..................................................114
Annexure 4.2: Pro-forma Survey .................................................................115
Annexure 4.3: Spreadsheet .....................................................................116
CHAPTER ONE

INTRODUCTION, PROBLEM STATEMENT AND DEFINITION OF KEY TERMS

1.1 INTRODUCTION

The Eastern Cape region has traditionally been identified as the hub of automotive activity in Southern Africa, but has been seriously affected by the withdrawal of certain manufacturers during the apartheid era. After the first democratic elections held during 1994, investment has returned to South Africa and more importantly to the Eastern Cape. The automotive industry cluster in the region was previously known as the Fish River Motor Industry Cluster.

According to Van Huyssteen (1999: 12), Delta Motor Corporation’s Ed Emmett states that “there are also significant levels of automotive expertise and capability in the Eastern Cape with about 60 percent of all suppliers situated in this province - and hence a bigger pool of labour which has automotive industry knowledge”. Van Huyssteen (1999: 12) continues that the Port Elizabeth/Uitenhage Metropole is home to some of South Africa’s major motor, tyre and automotive component manufacturers. This makes the area the natural centre for the Motor Industry Cluster. In addition to this, Van Huyssteen (1999: 12) describes the city as having access to world class tertiary education and research institutions that according to Porter (1998a: 88), are essential to the development of skills and knowledge required in any cluster.

A firm gains important competitive advantages from the presence of world-class buyers, suppliers, and related industries in its home nation (Porter, 1998a: 589). They contribute to a climate for change and improvement, and become partners and allies in the innovation process.
Small, medium and micro-sized enterprises (SMME’s) play a key role in generating employment, promoting innovation, engendering competition, and creating economic wealth (Sengenberger, Loveman, and Priore, 1990). SMME’s are by far the largest number of private formal institutions, comprising 97.5 percent of all establishments in South Africa, and employs 54.4 percent of all the formal, private sector enterprises comments Malagas (2000: 26).

The Government has also realised that SMME’s play an important role in the economy of South Africa and The National Small Business Act of 1996 was promulgated and passed accordingly.

The role of industry in overcoming barriers to growth for small and medium enterprises and creating an environment for them to create advantage for themselves in the motor industry cluster, is crucial to ensure the long-term success of the East Cape Motor Industry Cluster.

1.2 MAIN PROBLEM

As the South African automotive industry restructures and adapts to the realities of trade liberalisation and the resultant lower levels of protection, globalisation, rapid technological change and rising customer expectations, small and medium sized enterprises engaged in supplying components to the East Cape Motor Industry Cluster need to implement measures which will create and sustain all the competitive advantages that are available in order to survive and prosper in the future. This has lead to the following problem which was addressed in the research:

The development of a model of competencies for small, medium and micro-sized enterprises (SMME’s) to achieve a competitive advantage in the East Cape Motor Industry Cluster?


1.3 SUB-PROBLEMS

In an attempt to resolve the main problem, the following sub-problems were used to resolve the main problem:

- What factors lead to an organisation developing a competitive advantage?
- How can a cluster initiative promote competitive advantage?
- What factors make SMME’s competitive?
- How can an SMME develop a competitive advantage in the East Cape Motor Industry Cluster?
- What do knowledgeable people feel promote a competitive advantage in SMME’s?

1.4 DELIMITATION OF RESEARCH

In order to ensure that the research project is of a manageable size, it was necessary to demarcate the research to the areas listed below. By delimiting the research, there is no implication that other industrial clusters do not require research in the same field.

1.4.1 Demarcation of organisations to be researched

The scope of the research was limited to automobile component manufacturers and suppliers falling under the requirements of the Small Business Act of 1996, supplying to the local and global automobile manufactures operating in what was previously known as the Fish River Motor Cluster.

1.4.2 Geographic demarcation

The areas researched are situated in the area within the Nelson Mandela Metropolitan Municipality which includes Port Elizabeth and Uitenhage, and the Buffalo Municipality which includes East London, of the Eastern Cape Region in the Republic of South Africa.
Chapter One  Introduction, problem statement and definition of key terms

1.5 DEFINITION OF KEY TERMS

1.5.1 Industry cluster

Porter (1998: 197) states that clusters are geographic concentrations of interconnected companies, specialised suppliers, service providers, firms in related industries, and associated institutions. Due to the linkages within clusters, synergies are created which support a platform for competitive success. Clusters, broader than industries, capture important linkages, complementaries, and spillovers of technology, skills, information, marketing, and customer needs that cut across firms and industries (Porter, 1998: 205).

1.5.2 Small, Medium and Micro Enterprises (SMME’s)

In terms of the National Small Business Act, 1996, small, medium and micro enterprises are defined as follows:

- **Small Business:** is defined as a small separate and distinct business entity that includes co-operative enterprises and non-governmental organisations that are managed by one or more owners in any sector or sub-sector of the economy. Classification as a SMME is determined by satisfying the criteria contained in the National Small Business Act, 1996. For example, in manufacturing, a SMME firm employs less than 200 employees with an annual turnover of less than R40 million;

- **Small Business Organisation:** is defined as any entity, whether or not incorporated or registered under any law, which consists mainly of persons carrying on small business concerns in any economic sector, or which has been established for the purpose of promoting the interests of, or representing, small business concerns.
1.5.3 Competitive advantage

Porter (1985: xvi) states that competitive advantage grows fundamentally out of the value a firm is able to create for its buyers. It may take the form of prices lower than competitors’ for equivalent benefits or the provision of unique benefits that more than offset a premium price.

With the globalisation of trade there are fewer opportunities to shelter an uncompetitive domestic industry, and as such the significance of competitive advantage is important.

1.5.4 The East Cape Motor Industry Cluster (ECMIC)

The East Cape Motor Industry Cluster was previously known as the Fish River Motor Industry Cluster. This is a forum of the automotive and allied industries in the Eastern Cape. The objectives of the forum are to establish a viable, local and internationally competitive industry that is capable of achieving continuous growth and sustainable job creation.

1.6 SIGNIFICANCE OF THE RESEARCH

We are witnessing the globalisation of markets and production, where national markets are merging into one huge global marketplace (Hill, 1996: 5). Trade agreements, including the General Agreement on Tariffs and Trade (GATT), recently replaced by the World Trade Organisation (WTO), has affected measures to cut tariffs and reduce trade (Hellriegel, Jackson and Slocum, 1999: 129), increasing competitive forces throughout the world. As for globalization of production, individual firms are dispersing parts of their production process to various locations around the globe to take advantage of national differences in the cost and quality of production factors (e.g. labour, energy, land, capital) (Hill, 1996: 6).
With the globalisation of trade there are fewer opportunities to shelter an uncompetitive domestic industry, and as such the significance of researching competitive advantage is important.

In the light of the above, the scene is set for a concerted effort to upgrade the competitive advantage of SMME’s in the cluster.

Furthermore, similar research along these lines has not been carried out on the previously named Fish River Motor Industry Cluster. The researcher feels that in the light of this and the fact that the cluster has been established and offers an established infrastructure, research such as this could lead to significant gains in competitiveness in SMME enterprises, as well as in global competitiveness.

### 1.7 RESEARCH DESIGN

In this Section the methodology which was followed in the research project is described.

#### 1.7.1 Research methodology

In conducting the research project the following procedure was adopted to solve the main problem and the sub-problems.

(a) Literature study

A literature study was conducted in order to identify the key factors leading to critical success factors for suppliers in industry clusters. Literature was gathered from libraries of the Port Elizabeth Technikon, the University of Port Elizabeth, the Internet and the motor companies in the ECMIC.

(b) Empirical study

The empirical study consisted of the following parts:
• A survey was carried out in the delimited area to determine the specific problem areas that exist for SMME’s supplying the motor industry, as well as identifying how to overcome these obstacles;

• The measuring instrument which was used in the survey was a comprehensive Questionnaire developed by the researcher based on information gained from the literature study;

• The population comprised the owners, directors and general management from all companies delimited in the study.

1.7.2 The development of an integrated model

The results of the above literature study were combined with the results of the empirical study to identify the benefits to SMME’s belonging to the East Cape Motor Industry Cluster.

1.8 PROPOSED PROGRAMME OF STUDY

The research has provisionally been planned to include the following chapters:

Chapter 1  Introduction, problem statement and definition of key terms, significance of the study, broad methodology, and the programme to be followed in concluding the study.

Chapter 2  An analysis of competitive advantage.

Chapter 3  The identification of competencies leading to competitive advantage which SMME firms can employ, from a literature study.

Chapter 4  The design of the empirical survey will be described. An integration of the findings from the literature study and the results of the survey in order to identify the benefits to SMME’s belonging to the ECMIC, will follow, together with presentations of the findings.

Chapter 5  Integration of the empirical study with the literature study, conclusions and recommendations.
CHAPTER TWO

A DISCUSSION ON COMPETITIVE ADVANTAGE

2.1 INTRODUCTION

Chapter One introduced the study, defined the main problems, sub-problems and key concepts.

Industries operate in the environment that encapsulates many different influences (Johnson and Scholes, 1999: 97). Furthermore, environmental conditions vary greatly, from simple/static to complex/dynamic conditions. The task facing managers is to analyse competitive forces in an industry environment in order to identify the opportunities and threats confronting a company (Hill and Jones, 1998: 72).

With the globalisation of trade there are increased demands to ensure that industries succeed, and as a result the significance of competitive advantage is important.

Competitive advantage grows out of the value a firm is able to create for its buyers (Porter, 1985:xvi). In this chapter, those factors that can be harnessed to create or add value in the quest for advantage(s) over competitors are identified by using Porters Five Forces model, and generic strategies using Bowman’s Strategy Clock are discussed. As a result, a theoretical model of generic strategies to achieve competitive advantage is produced.

2.2 PORTER’S FIVE FORCES MODEL

Michael E. Porter of the Harvard School of Business Administration has developed a framework that helps managers in this analysis (Hill and Jones, 1997: 72). The framework focuses on five forces that shape competition within
an industry. Figure 2.1 below indicates how rivalry between competing firms is influenced by other forces. The organisation that most effectively uses these influences to its benefit will have the edge in the stakes for competitive advantage:

**Figure 2.1: Porter’s five forces that determine industry competitiveness**

![Diagram of Porter's five forces](image)

*Source: Adapted from Porter (1998:22).*

### 2.2.1 The threat of new entrants

In Figure 2.1 above, the first of these forces is the threat of new entrants. The threat or reality of increased competition in an industry depends on the relative ease with which new firms can compete with established firms (Hellriegel et al, 1999: 95). This determines the likelihood that new firms will enter and compete away the value, either by lowering prices or raising the costs of competing.

The four factors that need to be diagnosed in assessing barriers to entry, states Hellriegel et al (1999: 95), are:
(a) Economies of scale

Economies of scale refer to decreases per unit cost as the volume of goods and services produced by a firm increases. Existing firms that maximize economies of scale make it difficult for potential new entrants to compete, due to the fact that it takes considerable time and effort to realize economies of scale.

(b) Product differentiation

This is uniqueness in quality, price, design, brand image, or customer service that gives one firm’s product an edge over another firm’s. It is difficult for firms to imitate this uniqueness, thus it is difficult for new entrants to enter and compete.

(c) Capital requirements

Capital requirements are the capital required to finance equipment, supplies, research and development (R&D), and the like, to enter the industry. The higher the capital costs, the more difficult it is to enter the industry and compete.

(d) Government regulation

This is a barrier to entry if it bars or severely restricts new entrants to an industry. For example, South African Airways operated in an industry regulated by government that restricted foreign or local private airlines from operating, preventing competition. Similarly, rail transport, the telecommunications, broadcasting and mining industries enjoy government regulations preventing or restricting competition from private organisations.

Johnson and Scholes (1999: 115) detail further barriers to entry as being:
(e) **Access to distribution channels**

South African Breweries (SAB) have invested large sums in the financing or financial support by way of sponsorship of pubs, bars, sporting events such as soccer, rugby and cricket, which guarantees the distribution of their products and makes it difficult for competitors to enter their markets. The large retail and food stores such as Pick ‘n Pay, Checkers, Edgars and many others that dominate their sector of an industry, control the distribution of products to their stores, making it difficult for new entrants to distribute their products or services to the public on a large scale.

(f) **Expected retaliation**

If a competitor believes that the retaliation of an existing firm will be so great as to prevent entry, or be too costly to enter, a barrier exists. SAB are in the position where competitors that have entered the South African beer market, have found it too costly to compete head-on with SAB.

Porter (1998: 26) proposes a further entry barrier, being:

(g) **The experience curve**

Unit costs in firms decline with “experience”, due to a combination of elements, including economies of scale, the learning curve of labour, and capital-labour substitution, states Porter (1998:26). Costs decline systematically with increases in accumulated experiences in production, states Rao and Steckel (1998: 298). New entrants face higher costs than established firms, especially the market leaders.

(h) **The market forces of discontinuity**

Foster and Kaplan (2001: 46) state that most new entrants into an industry have the upper hand in competing with older companies. As shown in Figure 2.2, the performance of new entrants deteriorates to the industry average, and then below.
There are three reasons for this pattern (Foster and Kaplan, 2001: 47):

- The original innovation introduced by the entrant is imitated or improved in the market, often by even newer entrants. During the initial period, the new entrants are in a pioneering industry, or are pioneers in their own industry;
- The market learns how to properly value the company, and returns accordingly approach the cost of equity for the industry. Corporate excellence does not last forever;
- The new entrants fall prey to cultural lock-in and can no longer innovate on the scale that brought its original success.

A further reason is the “icarus paradox”, where many companies become dazzled by their early success that they believe more of the same type of effort is the way to future success. As a result however, a company can become too specialized and inner-directed that it loses sight of market
realities and the fundamental requirements for achieving a competitive advantage (Hill and Jones, 1997: 133).

This indicates that contrary to many other factors, the market allows new entrants to enter the market when the performance of existing firms are deteriorating, thus making it relatively easy to enter and compete.

### 2.2.2 Extent of rivalry among established companies

Hill and Jones (1997: 75) state that intense rivalry among established companies constitutes a strong threat to profitability, and weak rivalry resulting in the raising of prices and greater profits. The extent of rivalry within an industry is largely a function of three factors, comments Hill and Jones (1997: 75), these being: the industry’s competitive structure, demand conditions, and the height of existing barriers in the industry.

**a) Competitive structures**

These vary from fragmented, being a large number of small or medium-sized companies, none in a position to dominate the industry, to consolidated industry, dominated by a small number of large companies. Fragmented industries generally reflect low barriers to entry, and high barriers characterize the consolidated industry.

**b) Demand conditions**

Growing demand tends to reduce competition by providing more room for expansion, thus reducing rivalry among existing firms, comments Hill and Jones (1997: 78). Declining demand conversely results in increasing rivalry among existing firms. Demand conditions are an important factor in considering whether to enter an industry.
(c) Exit barriers

These are economic, strategic, and emotional factors that keep companies in an industry even when returns are low, states Hill and Jones (1997: 80). Exit barriers include:

- Investments in plant and equipment that have no alternative uses and cannot be sold off. The construction industry is an excellent example of demand and exit conditions. The construction industry is experiencing a declining demand for various reasons. Many companies own tower cranes, large concrete mixers, bulldozers and excavators among their equipment, but despite very low or even negative profitability, cannot exit the industry as the equipment cannot be sold at prices required to at least break even with the capital and maintenance costs, due to the lack of demand in the industry, as well as the fact that the equipment cannot be used in other industries;

- Another exit barrier is labour legislation, which has resulted in high fixed costs of exit, such as severance pay to workers being made redundant, as well as the high cost of protracted negotiations with labour unions required;

- Sentimental reasons as a result of emotional attachments to an industry are a further exit barrier, states Hill and Jones (1997:80). The majority of leaders in industry have many years experience in a particular industry, most having created their company. The industry has provided them with everything they have. They are thus more attached to, and sentimental of, their company, and therefore very reluctant to exit the industry; and

- Economic dependence on the industry, such as when a company is not diversified and therefore relies on the industry, is a further exit barrier.

Competitive rivalry also depends to a large extent on industry maturity and the growth stage of a firm’s product or services, which is discussed.
(d) Growth stage of the market and products

Market growth rates affect rivalry, state Johnson and Scholes (1999: 121). The market’s growth stages help firms achieve their own growth, whereas when markets are mature, growth has to be achieved by taking market share from competitors (Johnson and Scholes, 1999: 121). The life cycle model of markets represented in Figure 2.3 below, indicate the stages of the market and the respective competitive conditions that can be expected.

**Figure 2.3: The Life Cycle Model for Industries**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Development</th>
<th>Growth</th>
<th>Shakeout</th>
<th>Maturity</th>
<th>Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Users/</td>
<td>Few: trial of early adopters</td>
<td>Growing adopters: Trial of</td>
<td>Growing selectivity of</td>
<td>Saturation of users</td>
<td>Drop-off in usage</td>
</tr>
<tr>
<td>buyers</td>
<td></td>
<td>product/service</td>
<td>purchase</td>
<td>Repeat purchase reliance</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Entry of competitors</td>
<td>May be many</td>
<td>Fight to maintain share</td>
<td>Exit of some competitors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Attempt of achieve trial</td>
<td>Likely price-cutting for volume</td>
<td>Difficulties in gaining / taking</td>
<td>Selective distribution</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fight for share</td>
<td>Shakeout of weakest competitors</td>
<td>share</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Undifferentiated products/services</td>
<td></td>
<td>Emphasis on efficiency/low cost</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Johnson and Scholes (1999: 121)

Figure 2.3 illustrates the typical life cycle of markets, which is similar to that of products and services. At each stage of the life cycle, users or buyers of the products will respond to the product and the stage of maturity of the market. As a direct result, the forces of supply and demand in markets will alter the competitive conditions, for example, a growing market will attract new competition in the form of new entrants who enter the market to gain a slice of the growing market. As the life cycle matures and declines, so does the demand, with the result that the competitive conditions will change. Declining
demand will result in a smaller market, with fierce rivalry among firms leading to some leaving the market, and many of the remaining pursuing price-cutting strategies.

The competitive position of products and services that firms have or introduce in the market, result in various levels of rivalry, dependant on their position and the industry maturity. The life cycle of products is similar to that of industries, with introduction, growth, maturity, shakeout and decline phases. However, new strategic initiatives may be introduced to the product, which can shift mature or declining good or services into a new growth phase, comments Hellriegel et al (1999: 243). Figure 2.4 illustrates the modified life cycle model incorporating new strategic initiatives, which alters the degree of rivalry between firms competing with products serving the same customers.

**Figure 2.4: The Modified Product Life Cycle**

![Modified Product Life Cycle Diagram](image)


In trying to determine market share for a firm with a number of products, a portfolio analysis was developed by the Boston Consulting Group (BCG). The position of products relative to market share and its market growth rate determine the strategic capability and competitiveness of firms, therefore the extent of rivalry.
### Figure 2.5: The Boston Consulting Group (BCG) Matrix

<table>
<thead>
<tr>
<th>Market growth</th>
<th>Relative market share</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HIGH</strong></td>
<td><strong>LOW</strong></td>
</tr>
<tr>
<td>High</td>
<td></td>
</tr>
<tr>
<td>STARS:</td>
<td>QUESTION MARKS:</td>
</tr>
<tr>
<td>Maintain share by reinvesting earnings in price reductions, product refinement, advertising, to discourage competitive entry.</td>
<td>Invest in market-segmentation strategies thereby reducing competition and increasing share</td>
</tr>
<tr>
<td>Stars become cash cows as the product matures.</td>
<td>Or Reduce further marketing investment and let the product drop to the dog category</td>
</tr>
<tr>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>CASH COWS:</td>
<td>DOGS:</td>
</tr>
<tr>
<td>“Milk” the cash out of the product by investing in marketing only enough to maintain market share. The product is too late in its life cycle for a strong competitive entry.</td>
<td>Move the dogs into the cash cow category if the returns exceed the cost of an effective segmentation strategy</td>
</tr>
<tr>
<td></td>
<td>Or Prepare to drop the product</td>
</tr>
</tbody>
</table>

**Source:** Rao and Steckel (1998: 334)

The four cells of the matrix represent particular conditions as a result of the market share and market growth rate. These conditions will determine in which direction their strategies should be targeted towards. The four cells represent the following conditions (Rao and Steckel, 1998:334):

- Question marks operate in high-growth markets but with low market share. This is where most firms are positioned on entering the market. The firm has to think hard about whether to spend a lot of money to grow their market share;
- Stars are the market leaders in a high growth market. The successful Question mark becomes a star. Firms have to spend heavily to maintain their leadership position;
- Cash cows are the result of a declining market, but in which the firm has high relative share. A lot of cash is generated for the firm due to their dominant position;
- Dogs are where firms have weak market position in a low-growth market. They typically produce low profits. Firms must consider seriously whether it is worth keeping products in this position.
However, we are in an era of discontinuity. The pace of change has been accelerating rapidly since the 1920’s, states Foster and Kaplan (2001:11). If history is a guide, no more than a third of today’s major corporations will survive in an economically important way over the next 25 years, Foster and Kaplan (2001: 14) continue.

Foster and Kaplan (2001: 79) state that the evolution of corporations proceeds in a predictable way:

- **Stage 1 - Foundation (attack):** in any new industry, many new companies are drawn to capitalize on the opportunities. Success either happens or it does not. A few survive and advance to the next stage;

- **Stage 2 - Growth:** the second stage is characterized by rapid growth. Management is aware that the markets and competition are constantly changing, so they look outside for evidence of competitive threats to do something more radical, but often they do not find anyone doing just what they are doing. There is no crisis looming, the present course can be stayed without risk, continues Foster and Kaplan (2001: 81);

- **Stage 3 - Dominate:** these companies have come of age. A few have risen to dominate their industries and become models of managerial acumen. Everything and everyone runs like clockwork. At this stage, out of view, the threatening stage 1 companies are lurking. Stage 3 companies often have difficulty identifying threatening stage 1 companies because these companies exist on the periphery of an industry and often look different than what stage 3 companies are used to. If an attack, it will be aimed precisely at the weakest spots of the current market leaders. These attackers are the carriers of discontinuity (Foster and Kaplan, 2001: 82). A few new companies that survive will have found some weakness to exploit in the existing order. Finally, there comes a time when the young attacker goes for the jugular. The attack almost always comes as a ‘surprise’ to the incumbent; and

- **Stage 4 - Cultural lock-in:** In this final stage the formerly dominant company finds itself in a fight for its very survival. The incumbents’ emotions often move from denial to anger, bargaining, depression, and
finally acceptance. Each step in this natural process slows or blocks incoming information, and disaster is courted (Foster and Kaplan, 2001: 84). The cycle of denial and disconfirmation manifests itself in the fear of cannibalisation, the fear of customer conflict, and the fear of dilution.

As a result, organisations have to continually re-assess their strategic positions. In fact, any strategies adopted would be ineffective if firms did not keep pace with changes in the markets.

2.2.3 Bargaining power of buyers

Buyers may be the customers who consume its products, or the companies that distribute its products to the end users, such as retailers and wholesalers. Customer bargaining power is likely to be relatively great under the following circumstances, states Hellriegel et al (1999: 97):

(a) The customer purchases a large volume relative to the supplier’s total sales. The large retail organisations such as Pick ’n Pay, Checkers, Wooltru and many others, use their position to leverage the cost of purchases downwards. This threatens the profitability of suppliers.
(b) The product or service represents a significant expenditure by the customer. Customers are motivated to cut a cost that constitutes a large portion of their total costs. An individual will spend much more time and effort in obtaining the best cut-price deal possible on a car or lounge furniture, than on a car wash or lamp shade.
(c) Large customers pose a threat of backward integration. Backward integration is the purchase of one or more of its suppliers by a large organisation as a cost-cutting or quality enhancing strategy.
(d) Customers have readily available alternatives for the same products or services. A customer may not have a strong preference between a Mecer or Proline computer, Willards or Simba chips, Beacon or Cadbury chocolate.
2.2.4 Bargaining power of suppliers

Strong suppliers are able to force up the price of the inputs they supply, thus depressing the company’s profitability, comments Hill and Jones (1997: 82). Weak suppliers give the company the ability to force down prices and demand greater input quality, increasing the company’s profitability. Supplier power will be high, according to Johnson and Scholes (1999: 119), when:

- Suppliers are concentrated rather than a fragmented source of supply;
- The switching costs from one supplier to another are high, for example with highly specialized industries such as aerospace, information technology or biotechnology, where alternative materials would necessitate a thorough testing process, be time-consuming, costly and disruptive. Another example is where an alternative supplier’s product would require machinery or any other component in the manufacturing process to be adapted to suit the new product, resulting in delays, uncertainty, and additional costs;
- The brand of the supplier is powerful. The result is that the retailer may not be able to do without the brand. This is particularly true with younger consumers who demand brand name clothing, sportswear and accessories, and with consumers who recognize and will pay a premium for proven brand products;
- The supplier possibly integrating forwards if it does not obtain the prices, and hence the margins, it seeks;
- Purchasing companies cannot use the threat of vertically integrating backward and supplying their own needs as a means of reducing supply costs, states Hill and Jones (1997: 82). The opposite situation where purchasing companies can threaten suppliers by integrating backwards has become fairly common, either by purchasing the suppliers or by introducing their own brand of products, such as Pick ‘n Pay’s No Name brand, introduced to drive down the cost of products;
- The supplier’s customers are highly fragmented, so their bargaining power is low.
2.2.5 The threat of substitute products

The final force in Porter’s model is the threat of substitute products. This may take various forms, such as:

- Product-for-product substitution, comments Johnson and Scholes (1999: 120), for example e-mail for the fax, cellphone for telephone, internet-based banking and the purchasing of goods for over-the-counter banking and retail store shopping;
- Substitution of need by a new product or service, rendering the existing superfluous;
- Generic substitution occurs where products or services compete for need, for example cinemas compete with restaurants and video stores for consumers entertainment allowances;
- Close substitutes present a strong competitive threat, states Hill and Jones (1997:84). Coffee competes with tea, fish competes with chicken, cold drinks compete with concentrated flavoured drinks, and margarine competes with butter. If one product becomes too expensive, customers will switch to the other product immediately;
- Doing without can also be a substitute, comments Johnson and Scholes (1999: 120). Examples of this are cigarettes, sugar and other products that have been found to adversely affect one’s health.

2.3 THE DIRECTIONS FOR STRATEGY DEVELOPMENT

In understanding the position firms find themselves in the markets, they now must determine the appropriateness of the positions, and whether the strategies being adopted, are appropriate. Figure 2.6 summarises the competitive strategies firms are likely to employ to achieve various competitive positions within stages of industry maturity.
Figure 2.6: The life cycle model for firms

<table>
<thead>
<tr>
<th>STAGES OF INDUSTRY MATURITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Embryonic</td>
</tr>
<tr>
<td>Dominant</td>
</tr>
<tr>
<td>Strong</td>
</tr>
<tr>
<td>Favourable</td>
</tr>
<tr>
<td>Tenable</td>
</tr>
<tr>
<td>Find niche</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Source: Johnson and Scholes (1999: 357)

For example, having determined that the firm’s product is in a favourable competitive position and the industry is in the growth stage, strategic options will include differentiating, focus differentiation, to grow with the industry and to catch up. If the firm were not following any of these strategies, it would be advisable to reconsider the strategy being followed.

Thereafter, it is important to outline the directions for strategy development available to firms in terms of market coverage, products and competence bases they possess. Figure 2.7, adapted from Ansoff’s product/market matrix, provides a useful way to identify growth options for a business to develop strategies for competitive advantage.
Figure 2.7: Directions for Strategy Development

<table>
<thead>
<tr>
<th>PRODUCTS</th>
<th>EXISTING</th>
<th>NEW</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXISTING</td>
<td>PROTECT/BUILD</td>
<td>PRODUCT DEVELOPMENT</td>
</tr>
<tr>
<td></td>
<td>Withdrawal</td>
<td>On existing competencies</td>
</tr>
<tr>
<td></td>
<td>Consolidation</td>
<td>With new competencies</td>
</tr>
<tr>
<td></td>
<td>Market penetration</td>
<td></td>
</tr>
<tr>
<td>NEW</td>
<td>MARKET DEVELOPMENT</td>
<td>DIVERSIFICATION</td>
</tr>
<tr>
<td></td>
<td>New segments</td>
<td>On existing competencies</td>
</tr>
<tr>
<td></td>
<td>New territories</td>
<td>With new competencies</td>
</tr>
<tr>
<td></td>
<td>New uses</td>
<td></td>
</tr>
</tbody>
</table>

Source: Johnson and Scholes (1999: 308)

(a) Protecting or building is concerned with developing in an existing market with existing products. The options suggested are:

- Withdrawal from certain markets in order to strengthen other markets, or in certain markets subject to speculation or short-term duration, withdrawal is a strategic decision;
- Consolidation is protecting and strengthening position in its current markets with existing products; and
- Market penetration attempts to gain market share within its existing market.

(b) Product development is the result of changing customer requirements, where new products are developed in existing markets. This is essential in markets with short life spans, such as in consumer electronics. This is carried out:

- On existing competencies, where existing competencies are modified or “leveraged” in order to develop products. This is certainly a very cost and resource effective method of developing new products.
- Development with new competencies will require innovation and high levels of spending. This is the case in markets such as consumer electronics and information technology. With technologies advancing at
a fast pace, the demand for developing on new competencies will grow.

(c) Market development focuses on the way in which firms decide which segments of the market their products will be positioned in. Three common ways of doing this are:

- Extension into market segments not currently served. This may require the development of new competencies;
- Development of new uses for existing products. This again requires innovation in analysing potential markets and finding new uses for the existing products;
- Spreading geographically into new markets nationally and/or internationally. This may require some adjustment to product features or marketing methods.

(d) Diversification, being direction of development away from its present products and markets. Diversification generally falls under two categories, related and unrelated diversification:

- Related diversification is development beyond the present product and current market, but within the broad confines of the industry. For example, motor vehicle retailers providing financial services for customers of motor vehicles;
- Unrelated diversification is when the firm moves beyond the confines of its current markets into new markets with new products. An example is the Virgin Group, providing financial services, airlines and railways, entertainment, megastores and cinemas to clothes and even bridal salons.
2.4 THE “STRATEGY CLOCK” MODEL OF GENERIC STRATEGIES

2.4.1 Introduction

In considering the competitive advantage of a firm, the central question is a firm’s relative position within its industry. Positioning determines whether a firm’s profitability is above or below the industry average, states Porter (1985: 11). There are two basic types of competitive advantage a firm can possess: low cost or differentiation, according to Porter (1985: 11). These in turn stem from industry structure. Due to the continuous change processes taking place, relative position within an industry is continuously changing, with the result that strategies will continuously evolve and change to suit. The strategic clock model of generic strategies caters for a variety of strategic choices to be made according to the changing environments in which a firm operates in, which were discussed in Figure 2.4 previously.

Competitive advantage is achieved by choosing certain strategic routes to follow from various bases of strategic choices. Competitive strategies are central to competitive advantage. Figure 2.6 is a guide to various strategic routes that can be followed.

Figure 2.8: The Strategy Clock: Bowman’s Competitive Strategy Options

Source: Johnson and Scholes (1999: 272)
The strategy clock is a market-based model of generic strategy options that focuses on the value added for the customer or end user of the product or service, comment Johnson and Scholes (1999: 271).

2.4.2 Price-based strategies (Route 1 and 2)

The low cost strategic route is the first of the two generic strategies that Porter (1985: 11) states a firm can possess. The sources of cost advantage are many, depending on the structure of the industry.

Firms entering the market with the low cost strategic route, do so after careful consideration of various factors, including the fact that competitors cannot easily imitate or adapt to the same low cost strategy (Johnson and Scholes, 1999: 276), due to the difficulty in determining the factors contributing to existing firms having a low cost strategic advantage, so the risks may be high. Reasons for entering the market with the low cost strategic route include:

- A sector of the market, a niche, demanding low cost goods or services is not being served, or is not being served adequately.
- This route is part of an integrated strategy that may require that in order to succeed, a bridgehead is created to build volume before moving on to other strategies (Johnson and Scholes; 1999: 271).
- This route is followed to avoid competing against major firms, who are following other strategies, Johnson and Scholes comments (1999: 271).
- To compete head-on with competitors in that market, for certain strategic reasons.
- This route attracts considerable attention due to the larger scale involved (economies of scale), so could be a strategy to market the firm or it’s products, without the marketing costs, or as a marketing tool.
- The firm has competencies that are sources of cost advantage, which give it competitive advantage in this market. Competencies such as having the lowest cost base, of being the cost leader in the industry (Johnson and Scholes, 1999: 276), having certain factors of production such as having access to raw materials at lower cost than competitors,
being able to produce more efficiently or benefit from economies of scale, or being in a location which provides a cost advantage such as low rental, low rates, low wages, low transportation and distribution costs.

An important point is that only one firm can be the cost leader in an industry. When there is more than one aspiring cost leader, rivalry among them is usually fierce, states Porter (1985: 13), leading to potentially disastrous consequences for their profitability and the industry structure. The construction industry is a typical example where the majority of contracts are awarded on the basis of the lowest quote submitted. This forces firms to follow the low-cost producer route, with the result profits are driven downwards for most of the firms in the construction industry, resulting in many firms leaving the industry.

Of crucial importance is the sustainability of price-based strategies. The fundamental basis of above-average performance in the long run is sustainable competitive advantage (Porter, 1985: 11). To sustain competitive advantage requires that competitive advantage be upgraded to more sophisticated types of competitive advantage, states Porter (1998: 164). This clearly implies that the low cost route is extremely difficult to sustain over the long term, and should be viewed in the light of a longer-term comprehensive strategic plan.

The first two routes detailed on the strategic clock are the no-frills and low price strategies, which are discussed.

### 2.4.2.1 No-frills strategy (Route 1)

This strategy combines a low price, low perceived added value and a focus on a price-sensitive market segment (Johnson and Scholes, 1999: 271). This is an extremely difficult market to succeed in, due to the low profitability and relatively high risk, and firms should not use this strategy exclusively, and rather combine this strategy with others, such as the hybrid strategy discussed later. A further threat to this strategy is that it can easily be imitated
by many competitors who can also reduce prices, state Johnson and Scholes (1999: 271), even if only for a short period, long enough to threaten the sustainability of the low cost advantage the firm enjoys.

Experience is a key source of cost advantage, state Johnson and Scholes (1999: 167). Organisations undertaking any activity learns to do it more efficiently over time, and hence develops core competencies in this activity arising from its experience and producing cost advantage (Johnson and Scholes, 1999: 167). Since companies with high market share have more cumulative experience than others, this route suits the firms with high market share.

Supply costs clearly influence the overall cost position of firms, and firms which act as intermediaries and add little value from their own activities, are at an advantage. Trading organisations sustain their competitive advantage in this way, state Johnson and Scholes (1999: 166). This strategic route therefore is suitable for many trading firms for example large food wholesalers such as Metro Cash and Carry.

In terms of the direction for strategy development outlined in Figure 2.7, the directions that would suit the no-frills low cost strategies within existing markets would include consolidation with existing products where market share is high in the price-sensitive market. The low-cost route generally requires economies of scale, therefore should market share be reduced, the price-based route would be difficult to sustain.

A low-price positioning is best supported by competencies that emphasises cost improvement and perhaps a largely bureaucratic management regime, which may make it difficult for organisations to innovate (Johnson and Scholes, 1999: 239).

The Mazda 323 and the Volkswagen Citi Golf are examples of motor vehicles in this position in the car market.
2.4.2.2 Low price strategy (Route 2)

This route seeks to achieve a lower price than competitors whilst trying to maintain similar value of product or service to competitors, state Johnson and Scholes (1999: 271). The key to the success of this strategy is that its products are seen as comparable or acceptable to buyers, otherwise a cost leader will be forced to discount prices well below competitors to gain sales, states Porter (1985: 13), which will nullify its low-cost position. Therefore, in order to succeed with this strategy requires a small measure of value to be added, by offering similar or better value than competitors.

2.4.2.3 Gaining cost leadership

There are two major ways that a firm can gain a cost advantage (Porter, 1985: 99). The first is to:

(a) Control cost drivers

A firm can gain an advantage with respect to the cost drivers of value activities representing a significant proportion of total costs. These include controlling scale that drives cost by activity; learning from experience, by keeping learning proprietary can become an important means of achieving cost advantage in learning-sensitive value activities (Porter, 1985: 101); learn from competitors (Porter, 1985: 101); controlling capacity utilization by levelling the fluctuations of volume through its value chain (Porter, 1985: 102) for example; by sharing appropriate activities, Porter (1985: 103) states that a firm can often reduce its relative costs significantly by sharing value activities with sister business units, or by entering new businesses in which opportunities for sharing exist. By controlling integration and by controlling timing is a further area of cost control (Porter, 1985: 104), where the first mover in an industry often reaps a long-lasting cost advantage by tying up the best locations, pre-empting the best personnel, gaining access to preferred suppliers, or securing patents, in other industries, late movers may gain cost advantages because technology is changing rapidly or they can observe and cheaply imitate the
actions of the pioneer; controlling discretionary policies that govern a firm’s activities may raise cost; investing in new technology often underlies cost advantage, or can also allow a firm to make its competitor’s advantages vis-à-vis cost drivers obsolete; optimising the location of facilities well will often gain a significant cost advantage (Porter, 1985: 105); and purchasing correctly at every point along the value chain can significantly reduce cost, comments Porter (1985: 105).

(b) Reconfiguring the value chain

Dramatic shifts in relative cost position arise from a firm adopting a value chain that is significantly different from its competitors (Porter, 1985: 107). Reconfiguring the value chain can lead to cost advantage for two reasons. First, reconfiguration frequently presents the opportunity to fundamentally restructure a firm’s cost, compared to settling for incremental improvements. The new value chain may prove inherently more efficient than the old one (Porter, 1985: 109). The second way an alternative value chain can lead to cost advantage is by altering the basis of competition in a way that favours a firm’s strengths. Performing an activity differently can change its susceptibility to scale economies, interrelationships, locational effects, and virtually every other cost driver (Porter, 1985: 110).

A further area within the value chain that results in cost advantages is careful optimisation of linkages within the value chain. Each linkage affects the cost or effectiveness of other activities. Optimising the linkages is a source of competitive advantage, because of the difficulty rivals have in perceiving them and in resolving trade-offs across organisational lines states Porter (1998: 78). Optimising linkages between the value chain and suppliers is another source of competitive advantage (Porter, 1998: 78).
2.4.3 The hybrid strategy of differentiation and lower price (Route 3)

This strategy seeks to achieve differentiation and a price lower than that of competitors, simultaneously, comment Johnson and Scholes (1999: 281). Lower price strategies have been discussed above.

Differentiation means that the firm seeks to be unique in its industry along some dimensions that are widely valued by buyers, comments Porter (1985: 14). The firm seeks to select one or more attributes that many buyers perceive as important, and uniquely position themselves to meet those needs. For example, most automakers attempt to create unique value (benefits) by influencing customer perceptions and/or providing real differences, comments Hellriegel et al (1999: 243).

The hybrid strategy is highly advantageous in the following circumstances, comment Johnson and Scholes (1999: 281):

(a) If high volumes can be achieved, and the low cost base maintained, the result is good profitability.

(b) When the core competencies on which differentiation is built, are clear, and costs are reduced in other activities.

(c) As an entry strategy in a market with established competitors, where a weakness is found in an aspect of a competitors operation. The strategy is to enter in the arena where the weakness is found, with a superior product and if necessary, at lower cost, to create a foothold for expansion. This must be considered a favourable strategy, as the market is established, and the demand is there, with high rewards, however the risk is similarly high. The established competitor is likely to counteract aggressively, using its established base to leverage its established structures and assets which include customers, knowledge of the particular market, the environment and their local supply chains among others. This may result in expansion plans being thwarted, unless the firm had planned for such a
response, planning a clear follow-through strategy, with which the firm can afford to sustain the low margins for a long period.

The sustainability of this strategy is of crucial importance. To sustain competitive advantage requires competitive advantage be upgraded to more sophisticated types of competitive advantage, states Porter (1998: 164). This implies continual adjustment and modification to the competitive advantages the firm had when entering this segment. The hybrid strategy route allows a degree of flexibility in differentiation, where the dimensions creating differentiation are many and varied. These can be adapted and combined with other dimensions to create new or changed forms of differentiation. However, the flexibility is limited in that the resulting goods or services must be at lower prices than those of competitors. This restricts the sustainability of this strategy.

Good examples of the automobile industry employing this strategy are French built cars such as Renault, Peugeot and Citroen which have recently entered the South African market. These combine unique design and features with prices slightly lower than their main competitors.

However, the manufacturers of these vehicles will not be able to sustain this strategy as it is fairly quickly imitated by competitors, and probably not economically viable in the long run. They will probably upgrade their strategy towards the differentiation strategies, but as a result of following the hybrid strategic route, entered and successfully expanded in a niche market.

2.4.4 Added value, or differentiation strategies (Route 4)

The differentiation strategy seeks to provide products or services unique or different from those of competitors in terms of dimensions widely valued by buyers, state Johnson and Scholes (1999: 276). This strategy can be achieved through the following:
2.4.4.1 Uniqueness factors or improvements in products

Uniqueness factors, for example investment in R&D, design, expertise, the building of innovatory competencies in the organisation, leads to differentiation (Johnson and Scholes, 1999: 276). Policy choices, linkages within the value chain, the timing of an activity, location, interrelationships with sister business units, and the scale of the activity could be further uniqueness factors. The ability to innovate is an essential competency. The underlying element in all innovation is creativity (Foster and Kaplan, 2001: 116). The organisation therefore needs to be creative, to be structured to allow employees to be creative, in order to innovate and develop the uniqueness factors required to differentiate products and services.

Furthermore, in support of the requirement to innovate, Johnson and Scholes (1999: 277) state that such improvements are not durable: competitors are able to catch up. In the long term, product development is unlikely to be sustainable without the development of new competencies (Johnson and Scholes, 1999: 319). The ability to continually change to suit the environment and the markets is necessary to ensure these factors are sustainable.

2.4.4.2 Market based approaches

This differentiation strategy focuses on demonstrating better than competitors how the product or service meets customers needs. Daimler Chrysler (DC) demonstrated how strongly-built and safe their cars were by running a television and print commercial based on an actual event. A DC vehicle drove over the edge of a cliff on Chapmans Drive near Cape Town, landing on the rocks fifty metres below, and the driver escaped unhurt. This was certainly a very powerful message.

The market-based approach also requires that organisations position their products in markets very carefully, comments Johnson and Scholes (1999: 321). Introducing products into new markets is carried out in three ways, state Johnson and Scholes (1999: 321), these being:
(a) Extension into market segments that are not currently served. This might require some modification or the development of new competencies.
(b) Development of new uses for existing products. This requires innovation within the organisation.
(c) Geographical spread into new markets. This may also require some adjustment to product features or marketing methods.

It is clear the market-based approach requires creative, innovative abilities within organisations in order to introduce and position products in new markets.

2.4.4.3 Competence-based approaches

The competence-based approach to differentiation is when differentiation is built based on its core competences. Identifying core competences as a basis for building a differentiation strategy is a challenging task. Core competencies are in many instances threshold competencies to survive, and not core competencies. Core competencies are also easily imitated, so they need to be adjusted to keep ahead of the competition, so this process could lead to innovation, (such as brand development, marketing, or financial services) state Johnson and Scholes (1999: 161). The ability to keep ahead of the competition requires the ability to innovate and change with the market and the environment.

Rao and Steckel (1998: 297) state that there are two major classes of paths to differentiation - creating quality offerings and building strong brands. Successfully offering high quality goods and services to the customer typically results in three important benefits for the organisation, states Hellriegel et al (1999: 68). These are a positive company image, lower costs and higher market share, and decreased product liability. The benefits of a strong brand is expressed by George J. Bull, the chief executive of Grand Metropolitan, quoted in Rao and Steckel (1998: 303), “If you can convince customers that your product tastes better than your competitor’s, that it is made with superior ingredients, then you can command a premium price for it.”
In terms of the direction for strategy development outlined in Figure 2.7, the differentiation strategy is one of the most ideal strategies to implement, due to the degree of uniqueness and innovation involved, attracting higher profits. This strategy would suit:

(a) Market penetration within existing markets from a weak or favourable position or by a new entrant, especially in a growth market (refer to Figure 2.5, Figure 2.6), and in an embryonic industry stage from a favourable or strong position, due to the perceived uniqueness and quality. In a static market this route would also be suitable.

(b) Entering new segments or territories (new markets), market development using the differentiation strategy is highly recommended. Differentiation allows firms to enter these new markets without enduring much competition, and due to the costs involved, being able to immediately recoup the high costs of entering new markets.

(c) Product development using existing or new competencies in an existing market would suit the differentiation route. Development of new products requires high R&D spending, high innovation, high risk, involves mostly narrow product lines in narrow market segments, and short life cycles. This route allows firms to recover their costs quicker by introducing products with a price premium, with quick penetration and little competition due to uniqueness of the product.

An example is the Renault Megane vehicle which was introduced onto the South African market with many safety and security features considered important to many vehicle owners, including four airbags, ABS braking system and secure factory-fitted radio designed for that vehicle only (not attractive to thieves as it cannot be used in other vehicles), and not found in their direct competitors.

2.4.4.4 The sustainability of differentiation

The sustainability of differentiation depends on two things, its continued perceived value to buyers and the lack of imitation by competitors (Porter,
1985: 158). The sustainability of a firm’s differentiation vis-à-vis competitors depends on its sources. To be sustainable, differentiation must be based on sources where there are mobility barriers to competitors copying them:

(a) Differentiation will be more sustainable if, firstly, the firm's sources of uniqueness involve barriers (Porter, 1985: 159).

(b) Next, the firm has a cost advantage in differentiating. A firm with a sustainable cost advantage in performing the activities that lead to differentiation will enjoy much greater sustainability.

(c) Furthermore, the sources of differentiation are multiple. The overall difficulty of imitating a differentiation strategy depends in part on how many sources of uniqueness a firm has. The sustainability of a differentiation strategy is usually greatest if differentiation stems from multiple sources, rather than resting on a single factor such as product design.

(d) By a firm creating switching costs at the same time it differentiates, differentiation is made more sustainable. If differentiation at the same time creates switching costs, the sustainability of differentiation is increased.

2.4.5 Focused differentiation (Route 5)

The focus strategy emphasises competing in a specific industry niche by serving the unique needs of certain customers or a specific geographic market, comments Hellriegel et al (1999: 245). The focused differentiation strategy seeks differentiation in its target market.

This strategy seeks to provide high-perceived value justifying a substantial price premium, comment Johnson and Scholes (1999: 283). The sustainability of a focus strategy is determined by three factors (Porter, 1985: 267):

(a) Sustainability against broadly-targeted competitors

The focuser’s competitive advantage over a more broadly-targeted competitor is a function of the degree of compromise a broadly-targeted competitor faces
in serving the focuser’s segments and other segments at the same time, and the competitive advantage of sharing value activities with other segments in which the broadly-targeted competitor operates.

The more different the focuser’s value chain is from the value chain required to serve other segments, the more sustainable is the focus strategy. The focus strategy is more sustainable as buyer needs in the target segment are more different and unusual vis-à-vis other segments.

(b) Sustainability against imitators

Succeeding against imitators is dependant on the sustainability of the competitive advantage a firm using the focus strategy, possesses. The mobility barriers to imitating a focus strategy are the scale economies, differentiation, channel loyalty, and/or other barriers unique to the focus strategy. The size of a segment can affect the threat of imitation of a focus strategy. In a small segment, even modest economies of scale may be significant relative to segment size if they cannot be offset by interrelationships, and competitors may not be interested in entering. Conversely, in a growing industry there is the continual possibility that not only will a focus strategy be imitated but also that a focuser will be “outfocused” as ever-narrower segments become viable.

(c) Sustainability against segment substitution

A focus strategy concentrating on a segment is vulnerable to the disappearance of that segment (Porter, 1985: 269).

In terms of the direction for strategy development outlined in Figure 2.7, the focused differentiation strategy is one of the most ideal strategies to implement, due to the degree of uniqueness and innovation involved, with few competitors, attracting higher profits. This strategy would suit:
(i) Market penetration within existing markets from a favourable position or by a new entrant, especially in a growth market (refer to Figure 2.5, Figure 2.6), and in an embryonic industry stage from a favourable or strong position, due to the high perceived value which will command high prices.

(ii) Consolidation in growth and mature markets in a favourable and strong competitive position, where high-market share will result in the firm demanding higher prices and resulting in high profitability.

(iii) Entering new segments or territories (new markets), market development using the focused differentiation strategy is recommended for markets that reward high-perceived value. Focused differentiation allows firms to enter these new markets without enduring much competition, and due to the costs involved, being able to immediately recoup the high costs of entering new markets.

(iv) Product development using existing or new competencies in an existing market suits the focused differentiation route. Development of new products requires high R&D spending, high innovation, high risk, involves mostly narrow product lines in narrow market segments, and short life cycles. This route allows firms to recover their costs quicker by introducing products with a price premium, with quick penetration and little competition due to uniqueness of the product and high added value.

(v) By diversifying on existing competencies into new markets, either by related or unrelated diversification, can result in the focused differentiation strategy being used, due to the potentially strong competitive position the firm has and the specialty market served. Successful related diversification is suitable for firms in which a component or product has an experience curve, which provides an important opportunity to lower costs by creating shared experiences (Rao and Steckel; 1998: 300).

However, it is important to note that Johnson and Scholes (1999: 334) state that successful diversification is difficult to achieve in practice, which indicates that the risks are high. Furthermore, Johnson and Scholes (1999: 326) comments that there has been disillusionment with related diversification as a strategy, with more emphasis being placed on improving performance within the value system, through external linkages and the management of
relationships with the various parties in the supply and distribution chains.

2.4.6 Failure strategies (Routes 6, 7 and 8)

These strategies are probably destined for failure, state Johnson and Scholes (1999: 284), due to their inability to create value for the customer (Porter, 1985: xvi).

(a) Route 6 suggests the price increasing without increasing value to the customer. This is the strategy monopolistic organisations follow, however, unless protected by legislation or high barriers to entry, competition will likely reduce their market share.

(b) Route 7 involves the reduction in value of a product while increasing relative price, a strategy worse than route 6.

(c) Route 8, reduction in value while maintaining price, is also a dangerous strategy. There is a high risk that competitors will increase their share substantially, states Johnson and Scholes (1999: 284).

2.5 A THEORETICAL MODEL OF COMPETITIVE STRATEGIES TO ACHIEVE COMPETITIVE ADVANTAGE

From the information discussed in this chapter, certain generic strategies emerge as being suitable for achieving competitive advantage for firms. However, it is clearly seen that market forces dominate, and that it is premature to simply follow a strategy based on the analysis of Porters five forces. Issues such as the ability to thrive in an environment of discontinuity driven by the market and the environment, which requires that firms change in tune with these markets and environments, or face competition by others ready to fulfill the market requirements, must be uppermost when deciding on which generic strategic route to follow.
Figure 2.9: A theoretical model for organisations to achieve competitive advantage

Source: Adapted from Section 2.4, The “Strategy Clock” model of generic competencies for competitive advantage

The strategy clock model discussed in Section 2.4, provided insight to various bases for competitive advantage, including strategies that are likely to fail (Routes 6, 7 and 8). In order to develop an insight into competitive strategies that will lead to competitive advantage, a model was developed and is represented by Figure 2.9. This model reflects the following outcome on the discussion on competitive advantage:

(a) The no-frills strategy route (Route 1) is not suitable in most instances. As stated in Section 2.4.2.1, factors such as a low profit and high-risk ratio, the ease for competitors to imitate, and the difficulty in entering the market and competing against existing competitors with experience that gives them a cost advantage, mitigate against this strategic route.

(b) The low-price strategy route discussed in Section 2.4.2.2 is a strategy that is suitable, due to the combined customer benefits of low cost and similar or better value than competitors.
(c) The hybrid strategy route discussed in Section 2.4.3, is suitable, due to the factors which are widely valued by the customer, with lower prices than competitors, combined with some form of uniqueness. The advantages as stated in Section 2.4.3, are a clear indication of the potential success of this strategy.

(d) Differentiation strategies as discussed in Section 2.4.4, seek to provide unique products along dimensions widely valued by customers. This is a successful route to competitive advantage.

(e) Focus differentiation strategies discussed in Section 2.4.5 emphasise providing unique products/services in specific niches, with the benefit of a price premium. This strategy is suitable.

(f) The literature dealing with ways to differentiate indicates that in order for these to be successful, the development of new competencies on a regular basis is required. This requires that the organisation be capable of innovating and have the ability to change in order to sustain their competitive advantages. The aim of all strategies is to sustain competitive advantage, which the study reveals, requires that the firm add value for its customers, therefore the customer is the focus of all the strategies.

2.6 CLUSTERS AND COMPETITIVE ADVANTAGE

Porter (1998: 213) believes that clusters can increase competitive advantage in three ways, by increasing the productivity of companies based in the area, by driving the direction and pace of innovation, and stimulating the formation of new business within the cluster.

In addition, benefits that depend on physical proximity, face-to-face contact, close and ongoing relationships, “insider” access to information, and location-specific public goods, which is very difficult to access from distant locations, result in competitive advantage for firms within a cluster, comments Porter (1998: 220).

Absorbing the above facts of the advantages of proximity can cause
confusion, or at the very least, raise a few questions relating to the concept of a global village. Theoretically, the advantages of technology, faster transportation and communication should enable global markets to be accessed so efficiently that, geographic proximity should not be as critical as has been advocated in this section.

Porter’s (1998: 78) stance on this paradox is that there are advantages that are difficult to tap from a distance, namely, the relationships, information and incentives derived from geographic, cultural, and institutional proximity. Porter (1998: 78) continues by adding that “... competitive advantage lies increasingly in local things, knowledge, relationships, and motivation that distant rivals cannot replicate.”

The motivation leading to an organisation’s location largely depends on the proximity of its major inputs. However, being present in a cluster forces the organisation to continually find more productive uses of inputs to ensure competitive advantage.

2.7 SUMMARY

Organisations face many influences in their environment, as well as growing competition. The ability to create and sustain competitive advantage over competitors has become extremely important. The model developed for organisations to achieve competitive advantage, comprises various strategic routes. Organisations must assess which strategy or combination of strategies is suitable for them. Furthermore, the ability to be creative and therefore innovative is a requirement for competitive advantage, as all competencies need to be adapted and modified on a continual basis.

In addition, operating within an industry cluster provides further opportunities and benefits as mentioned. These opportunities and benefits are acquired at no or very little cost, therefore providing a further factor in the ability to attain competitive advantage. The following chapter, Chapter Three, discusses
competencies that SMME’s possess, which can provide the SMME firms with competitive advantage(s).

CHAPTER THREE

THE COMPETITIVE ADVANTAGE OF SMALL, MEDIUM AND MICRO ENTERPRISES (SMME’S)

3.1 INTRODUCTION

Competitive advantage grows out of the value a firm is able to create or add value in the quest for advantage(s) over competitors. Porters Five Force model, discussed in Chapter Two, is used as a basis for discussing SMME competitive advantages. The result of this discussion provides for the development of a model of competencies for competitive advantage

3.2 THE INFLUENCE OF PORTER’S FIVE FORCES ON SMME’S

3.2.1 The threat of new entrants

The relative ease with which new firms can compete with established firms in an industry, determines the threat or reality of new entrants. The four factors that require analysis to assess barriers to entry, as discussed in Chapter Two, are:

(a) Economies of scale (a uniqueness factor and competence-based approach)

Small firms that produce high volumes in order to achieve economies of scale, face the threat of attracting the attention of much larger volume dominant firms (Reid, Jacobsen and Anderson, 1993:130). Potential entrants anticipating entry as large-volume producers, and therefore attempting to challenge the dominant firms, are likely to be repelled by the presence of overwhelming scale economies, absolute cost advantages (Reid et al, 1993: 132).
The changing position of SMME’s is being facilitated by changes in the environment. For example, changes in markets, such as segmentation of mass markets, with heightened and diversified consumer preferences, have reduced cycle times and forced large manufacturers to rely on their suppliers, comments Aoki and Dore (1994: 211). As a result, the importance of economies of scale has been replaced in many instances by factors such as diversified customer preferences and reduced cycle times.

Furthermore, large firms, which have relied on economies of scale for their competitive advantage, have found that there are limits to economies of scale, with research pointing out that they are accompanied by diseconomies of scale, at both management and production level, especially in the medium-term (Julien, 1998: 32). For this reason, large firms are making more use of small businesses to take advantage of their special flexibility and reduce “size costs” in terms of large-scale economies of scale.

This suggests that SMME firms have a competitive advantage at the stage where the limits to economies of scale for large firms are reached, where ‘small-size’ economies of scale achieved by SMME firms can be considered a competitive advantage in many markets, and that economies of scale are achieved in many modern industries using technological innovations resulting in a lower level of economy of scale. Thus SMME firms are not at a disadvantage, and may have advantages in certain markets where low-output economies of scale can be achieved.

This is uniqueness and a competence-based strategy to differentiation as discussed in Section 2.4.4.1 and 2.4.4.3 respectively.

(b) Product differentiation (uniqueness factor or improvement in products)

Firms that follow the generic differentiation strategy seek to exploit firm-specific assets by producing goods or services which are almost unique compared to those offered by rivals (Reid et al, 1993: 21). Potential and
existing rivals must overcome the uniqueness of the product and try to erode customer loyalty, Reid et al (1993:21) continues.

Due to the fragmented markets in which small SMME’s choose to develop specialized niches, the role of product differentiation is very important. Moreover, fragmented markets are dominated by goods subject to marked product differentiation, that tends to promote rather than deter entry for small business enterprises (SBE’s) willing to develop new product varieties (Reid et al, 1993: 126).

SMME firms do expect market entry by new entrants using product differentiation, but expect that entrants would carve out their own niches without undue threat or harm to pre-existing, occupied niches, comments Reid et al (1993: 126). Such entrants would be likely to be welcomed (at least initially) by incumbent firms as they contribute to an expanding market (Reid et al, 1993: 133).

The product differentiation route serving market segments is a natural route to follow for SMME’s to attain and maintain competitive advantage. This is a uniqueness and/or an improvement in products, discussed in Section 2.4.4.1.

(c) Capital requirements of entry

SMME firms generally use light equipment, requiring moderate precision and skills, due largely to their small size and modest finances. Due to the rapidly changing and evolving environment where products are continually changing, SMME’s have the advantage of producing small volumes at relatively low cost, lower than what large firms can achieve. The principle of multiples is achieved at low cost (Staley and Morse, 1965: 100). Their capital requirements are modest and therefore generally not an impediment to entry into a market.

Banks evaluate loan requests in relation to their riskiness and transaction costs. Consequently, banks are wary making loans to start-up firms, to young
firms, and to small firms, comments Levy (1996: 10). Collateral for the loans are required, which is extremely difficult for SMME firms to access.

Levy (1996: 11) found that lack of access to finance was not a high-level constraint to SMME’s in South Africa, that firms that had twenty or more employees and had been in existence for more than 4 years, were only moderately constrained in their access to finance.

Capital requirements could not be considered a competitive advantage, as access to finance was available to most firms as mentioned.

(d) Government regulation (institutional factors)

Governments have deregulated many markets, removing barriers that prevented entry of new firms (Julien, 1998: 33), as well as actively supporting small businesses.

The South African government promulgated the Small Business Act of 1996, as a means of removing barriers and allowing SMME firms to enter and compete in markets they had no access to previously.

Government has stated its commitment to promoting small business, however, the administrative burden placed on small firms by the requirements of legislation, especially labour legislation, is considered onerous for small firms.

(e) Access to distribution channels (uniqueness and competence-based factors)

Lack of access to (including knowledge of) distribution channels is arguably the principal deterrent to entry states Reid et al (1993: 126). This is because existing owner-managers can draw on their arduous experience of locating and then cultivating relationships with suppliers and buyers. This process typically takes years (with three years being a commonly quoted figure), states Reid et al (1993: 126). Highly developed distribution channels are therefore a competency for competitive advantage. This is a uniqueness
factor and a competence-based approach in terms of Section 2.4.4.1 and 2.4.4.3.

(f) Expected retaliation

Within an industry experiencing a general expansion in demand, the harmonious mutual growth of rival firms is possible without outbreaks of fierce inter-firm competition. By contrast, a stagnant or declining market demand will naturally intensify competition (Reid et al, 1993: 18).

Depending on the competitive strategy, concentration of, and position of small firms within the market, retaliation to new entrants will vary. Potential entrants anticipating entry as large-volume producers, and therefore aiming to challenge the dominant firms, are likely to be repelled by the presence of overwhelming scale economies, absolute cost advantages, and high strategic stakes, states Reid et al (1993: 132). Small firms in low-concentration markets (few customers and few competitors) find that the competitive pressures exerted by existing and potential rivals are “quite formidable” (Reid et al, 1993: 140), and the reverse situation can apply to those small business enterprises in high-concentration markets.

(g) Cost advantages independent of scale (uniqueness factor and competence-based factor)

This refers to absolute cost advantages that potential entrants may be subject to, which are firm-specific and not related to either size or scale (Reid et al, 1993: 19). Examples of independent cost advantages possessed by incumbent firms include proprietary knowledge (including technology and experience), favourable geographic location, government assistance and an advantageous access to raw inputs, states (Reid et al, 1993: 19).

These independent cost advantages are developed over a number of years and are very difficult for new entrants to compete against. Furthermore, these absolute cost advantages have enabled existing firms to command considerable market power (Reid et al, 1993: 148). This makes it difficult for new entrants to compete directly, with the result that small firms entering,
attempt to confine their growth and development to well-defined niches within the competitive fringe (Reid et al, 1993: 148). These cost advantages independent of scale are competencies to achieve competitive advantage.

This is a uniqueness factor and a core competency in terms of Sections 2.4.4.1 and 2.4.4.3.

(h) The market forces of change

As discussed in Section 2.2.1 (h) and Section 2.2.2 (d), an era of discontinuity prevails. The pace of change has been accelerating since the 1920’s, and large organisations do not have the ability to change with the market and the environment. As discussed in Section 2.2.1(h), the performance of large organisations deteriorates over time. Cultural lock-in and the belief that success does not require further innovations and change, will contribute to the demise of large organisations over time.

Small firms, firmly rooted, in industrialised countries, using “more intelligent” production, whether through design, innovation or new technology, are in a position to seize all the aspects of rapid change (Julien, 1998: 45). The central element of this production is and will continue to be technical and organisational creativity and innovation, which is particularly present in small business, states Julien (1998: 45). According to Julien (1998: 35) the acceleration of change in our economies is due to the emergence of entrepreneurship as the driving force of economic development.

The ability of small firms to change with the market and the environment is a requirement essential for competitive advantage.

In terms of the threat of new entrants, organisations new to an industry will be predominantly small firms due to SMME’s comprising 97.5 percent of formal institutions as commented in the introduction to Chapter One, thus they have an advantage over large organisations, in that the market will provide new entrants with a competitive advantage.
3.2.2 Extent of rivalry among existing firms

The rivalry among firms is discussed under the factors of the industry’s competitive structure, demand conditions, the height of existing barriers to entry, and the growth stage of markets and products.

(a) Competitive structures (focus differentiation)

SMME firms, due to their size, compete in markets in which there are generally many other small firms, none in a position to dominate the industry. These fragmented industries generally reflect low barriers to entry (Hill and Jones, 1997:75). However, the number of rivals and the extent of their differences, particularly in terms of size and capabilities, largely account for the type and intensity of competition (Reid et al, 1993: 17). If an industry is dominated by one or a few firms, this dominant group or cartel can dictate, and even in a sense define, the nature of rivalrous behaviour (Reid et al, 1993: 17). Competitive behaviour is therefore the result of the size and state of the market, and the state of the existing competition. SMME’s implement largely a focus differentiation strategy by serving particular geographic, customer and/or product niches (Reid et al, 1993: 159). This reduces the threat of rivalry by dominant firms.

(b) Demand conditions (market based approach)

As stated in Chapter Two, growing demand tends to reduce competition by providing more room for expansion, comments Hill and Jones (1997: 78). With the changes in the environment, for example changes in markets and customer preferences referred to previously, market segmentation clearly favours job lot production (Julien, 1998: 31).

With the multitude of tasks and components in modern products, with many of these tasks and components similar over a range of firms producing the finished product, specialised small firms can concentrate on high-volume production for several large firms who cannot sustain a specialised production facility of its own due to these volumes being small to them (Staley and Morse
This is a market-based approach to differentiation (see Section 2.4.4.2).

Growing demand for small-scale flexible production in small markets as well as serving large organisations, as mentioned above, result in the SMME firm enjoying harmonious rivalry.

(c) Exit barriers

Firm-specific assets such as an emotional attachment on the part of the owner-manager(s) are examples of forces that tend to keep firms actively competing in an industry states Reid et al (1993: 18). Because most small firms are young, they are equally the embodiment of their owner-managers' aspirations (Reid et al, 1993: 125). This implies a generally high, even emotional, level of commitment to operate in their chosen industry, and, a willingness - even in intensely competitive environments - to ‘slog it out’ with rivals, if need be over many years (Reid et al, 1993: 125).

(d) Growth stage of the market and products

International experience shows that young, small firms grow most rapidly, with growth slowing as the enterprise matures, states Levy (1996: 6). One of the most notable aspects of the small business enterprise is that they are typically subject to rapid growth, comments Deakin (1996: 188). Rivalry in growing markets is moderate, but will intensify as growth matures. SMME firms will therefore focus on being in the growth stage of the market, using their innovative, flexible competencies to extend the life cycle of goods as shown in Figure 2.4, and by employing the first-mover advantage as noted in Section 3.4.2.1 (a).

Section 2.2.2 (d) states that organisations will reduce their economic performance over time, resulting in small firms that are relatively new in the market, having a competitive advantage.
3.2.3 Bargaining power of buyers

Customer bargaining power is likely to be relatively great when the customer purchases a large volume relative to the supplier’s total sales, states Hellriegel et al (1999: 97).

Many SMME firms do business with large organisations, which, due to the power and dependant nature of the relationship, squeeze SMME firms financially by delaying payments (Aoki and Dore (1994: 220). Large organisations may also charge SMME firms more for materials, due to the SMME firms not being able to get credit facilities from many suppliers.

As a result, small firms are highly motivated to differentiate their product from rivals, even if by simple measures, states Reid et al (1993: 20).

3.2.4 Bargaining power of suppliers

The higher the concentration of suppliers of factors of production compared to the concentration of firms within the industry, the higher is the leverage that suppliers can impose (Reid et al, 1993: 20). This holds particularly true when an industry is highly fragmented and contains many micro-sized firms, Reid et al (1993: 20) continues. Furthermore, the importance of an input to the industry helps to determine the bargaining power of the supplier of that input (Reid et al, 1993: 20).

The levels of ownership concentration across many manufacturing sectors were very high, comments Levy (1996: 15). In addition, South African corporate law permits the establishment of pyramid holding companies, which enable business groups to maintain control over individual operating entities even with a small direct ownership stake, states Levy (1996: 10). Having control of various suppliers by the same owners is a serious threat to small firms.

As a result, small firms should seek to differentiate their product or services by employing uniqueness factors, and therefore following the focus differentiation
route to competitive advantage. This allows the firms to recover the supplier’s high costs from the customer, or by following the low price strategy as discussed in Section 2.4.2.2. This will increase customer loyalty and provide a platform for firms to increase their market share and therefore with increased power, restrain suppliers’ power.

### 3.2.5 The threat of substitute products

Substitutes which have their origins in highly profitable industries are particularly threatening to incumbent firms in the industry because their profitability suggests that the resources exist to make a rapid impact. The importance of an input to the industry helps to delineate the influence of the supplier of that input (Reid et al, 1993: 20).

To create the appropriate defence against this is rarely an easy undertaking, especially when one considers that a concerted effort is usually required in order to mount an effective response to incursions from well-financed substitutes (Reid et al, 1993: 20).

Substitute products in small markets (low concentration), which are often traditional or long-standing, are not considered a serious threat, and frequently, such substitutes are not available (Reid et al, 1993: 126). In many markets it is considered that customers have little desire to substitute. The general view expressed by small firms is that attention to providing the right quality of goods or service, prompt delivery and follow-up service will ensure customer loyalty (Reid et al, 1993: 127). This will not only sustain a firm’s industry position, but will, in effect, provide immunity from substitutes (Reid et al, 1993: 127). In order to provide the right quality of good or service, total quality management (TQM) would have to be followed. This is discussed in Section 3.4.2.3(vi). Customer loyalty is achieved in many ways, including by way of market-based approaches (Section 2.4.4.2) and competence-based approaches (Section 2.4.4.3).
The nature of customers is an important factor. Customers are generally quite rigid in their purchasing habits, and for a substitute to be at all potent, it would require an extraordinary marketing effort, which is generally considered inconceivable (Reid et al, 1993: 134).

3.3 A MODEL OF COMPETENCIES BASED ON PORTER’S FIVE FORCES FOR SMME FIRMS TO SUSTAIN COMPETITIVE ADVANTAGE

The discussion of the influences of Porter’s Five Forces on competitive advantage discussed in Section 3.2 identified certain competencies that is said that SMME firms possess, which give them a competitive advantage. These factors are summarised in a model of competencies which SMME firms possess, which provides them with competitive advantages (Figure 3.1).

Figure 3.1: A model of competencies for SMME firms to achieve competitive advantages in terms of Porter’s Five Forces

Source: Developed from Section 3.2, The Influence of Porter's Five Forces on SMME’s.
3.4 SMME COMPETITIVE ADVANTAGE IN TERMS OF THE THEORETICAL MODEL FOR ORGANISATIONAL COMPETITIVE ADVANTAGE

3.4.1 Introduction

In terms of the theoretical model for organisational competitive advantage developed in Chapter Two, the generic strategies are discussed in terms of the SMME firm, to identify competencies that SMME firms have, that are considered to provide competitive advantages.

3.4.2 Competitive strategies for SMME’s in terms of the theoretical model

3.4.2.1 The Price-Based Strategies

(a) Low cost strategy
This strategy provides for prices lower than competitors, while maintaining similar value of product or service (Section 2.4.2.2). The central hypothesis of business is profit maximization. This central hypothesis carries with it the corollary hypothesis of cost minimization (Reid et al, 1993: 5). The small firm is particularly suited of all firm types, to the profit maximization hypothesis. It is notably free of the ‘agency costs’ which burden larger enterprises (Reid et al, 1993: 6). Small firms are suited to the low-cost strategy, where they can employ their cost efficient small-scale production competencies as discussed in Section 3.4.2.3(b). However, this is difficult to sustain over the long term for the following reasons, among others:

• SMME firms need to be relatively profitable, to have sufficient funds to re-invest and to finance growth. Self financing of growth is important, since long-term finance has been identified as one of the most important barriers to growth in small and entrepreneurial firms, states Deakin (1996: 194);
• A further reason that this strategy will not sustain competitive advantage for SMME firms, is that at times, in order to maintain position, or where competitors try to enter the market, it may be necessary to undercut
competitors on prices, leading to some form of price war (Deakin, 1996: 231). This is a situation that the majority of small firms cannot afford.

- In the rapidly changing markets, where global GDP will double in 20 years (Foster and Kaplan, 2000: 9), the SMME would find it difficult to maintain their position for long due to changing markets requiring changes and innovations which will force small firms to invest in new technologies and new skills, which will threaten the low cost basis of their competitive advantage, as well as threatening the equity capital of the SMME. The SMME firm faces the added threat of considerable risk of failure during the development cycle for these new products.

The low-cost strategy route can be used in the light of longer-term comprehensive strategies as described in Section 2.4.2.

3.4.2.2 The hybrid strategy of differentiation and lower price

This strategy adds value and differentiation to the low price strategy discussed above. The success of this strategy depends on the ability both to understand and to deliver enhanced value in terms of customer needs, while also having a cost base that permits low prices (Johnson and Scholes, 1999: 281). As stated in Section 2.4.3 (a), this strategy is highly advantageous when high volumes and a low cost base can be maintained. In the framework of this definition, the hybrid strategy is not ideally suited to SMME firms due to the relatively high volumes required. However, SMME’s are well suited to small-scale cost efficient production as stated in Section 3.4.2.3 (b), and due to the size and state of the markets, are suited to the focus differentiation strategy route, as noted in Section 3.2.2 (a). Therefore, a hybrid strategy utilising small-scale production at relatively low cost, combined with a focus differentiation strategy, is more suited to small firms. This can be termed a focused hybrid strategy for reference purposes.
3.4.2.3 Differentiation

As stated in Chapter Two, the differentiation strategy seeks to provide products or services unique or different from those of competitors in terms widely valued by buyers.

Attributes contributing to the capability to differentiate products and services are discussed. It will be shown that the differentiation route to competitive advantage is suitable for SMME firms, who have the following characteristics that provide for differentiation and thus competitive advantage:

(a) Innovation capabilities and differentiation (uniqueness, improvement in products, the market based and competence-based approach)

Small firms create four times more innovations per research and development dollar than medium-sized firms, and twenty four times as many as large companies, states Scarborough and Zimmerer (1996: 36). The differentiation route requires that the bases of differentiation need to be reviewed continually, and keep changing (Johnson and Scholes, 1999:281). This stresses the potential importance of developing innovatory capabilities in organisations (Johnson and Scholes, 1999:281).

First mover advantages in the innovation process are considerable, states Deakin (1996: 160). This is particularly true for leading edge technology, resulting in superior market revenues. The further reason for adopting this approach is that there is a ‘window’ of opportunity available. This ‘window’ of a few years is a period during which any new venture must establish itself in any new knowledge-based industry (Deakin, 1996: 123). This window is becoming shorter with time and competition, and once shut, will not reappear for some twenty to thirty years (Deakin, 1996: 123), or ever again. The first mover advantage is a key factor in innovation. Small firms have the ability to implement the first mover advantage better than larger organisations due to their innovative abilities mentioned above, their organisation structure which
allows small firms to respond quickly, as stated in Section 3.4.2.3 (e), and their superior customer focus in Section 3.4.2.3 (d).

In terms of differentiation strategies discussed in Section 2.3.4, innovations allow firms to follow the route of uniqueness and product improvement, the market based approach and the competence-based approach.

SMME firms have the attributes to innovate and therefore it is a competency that must be utilised.

(b) Cost efficient small-scale production (a uniqueness, market based and competence-based approach)

The economy generates different types of market spaces, some of which are not suited to large-scale production, states Julien (1998: 35). Such markets favour small firms, as these markets are inaccessible to large firms, or demand a type of production that is too specialized or not profitable enough for them. Serving markets that require small-scale production in a cost efficient manner, is therefore a differentiation strategy SMME firms can employ.

This competitive asset allows the SMME firm to adopt strategies which will result in the competitive position of the firm being strengthened (refer to Figure 2.5 and 2.6), by enhancing the ability to enter and strengthen niche positions, whether from a weak position in a new market, growth or mature market.

(c) Location and differentiation

Scale of plant tends to be limited for products with a high transfer cost which confines them to a local or regional market, and for the processing of resources which are widely scattered and difficult to concentrate in unprocessed form due to perishability or high transfer costs, comments Staley and Morse (1965: 100). Therefore, many large firms have a competitive
disadvantage due to their location, resulting in the locality of small firms, as well as their small scale, providing them with a differentiation advantage.

Using their small-scale production capabilities and decentralised locations provides competitive advantages which SMME firms can utilise.

(d) Customer focus

All differentiation strategies must focus on the customer. Firms must realise that the key success factors is having a creative, innovative, responsive firm that tries to anticipate the market and the customers years in advance, comments Naumann (1995: 13). Firms must realise that the ultimate measure of success consists of delivering better value to the customer than the competition, Naumann (1995: 13) continues.

The importance of retaining customers is that there is strong evidence that customer retention and profitability are directly linked, reports Payne, Christopher, Clark and Peck, (1995: vii).

Today's customers face a vast array of product and brand choices, prices and suppliers, states Kotler (2000: 34). Those customers are harder to please. They are smarter, more price conscious, more demanding, less forgiving, and approached by more competitors with equal or better offerings, states Kotler (2000: 46). The challenge is to produce loyal customers (Kotler, 2000: 46). According to the survey of Europe's Most Respected Companies carried out by The Financial Times and Price Waterhouse, one of the six most important attributes of business performance is customer service, state Kreitner, Kinicki and Buelens (1999: 546).

This indicates that sustainable competitive advantage is achieved when customers are very satisfied with the total service provided, which implies that other forms of competitive advantage will not be sustainable without focusing on superior value for the customer.
To retain the best customers requires that value be added in their purchasing experience. Silverstein and Stalk (2000: 103) states that a combination of three reasons explains this, firstly the best value is being offered, the products or services are reliable, and there are high switching costs in purchasing elsewhere. Customer retention is a moving target, because customer tastes are continuously changing. This suits the flexible firms that are continuously innovating and embracing change in their environment. As discussed under (d) above, SMME firms are very customer-focused.

All strategies must have as their goal, to satisfy the customer, therefore all strategies are directed to this goal.

The discussion on organisation structure that follows also stresses the importance of the SMME organisation structure for providing superior service to the customer.

(e) Organisation structure

The organisation structure is critical to customer service. Creating structures to suit the service ethos by placing customers at the top of the corporate structure and agendas, is what is required. Freeing organisations from rigid reporting lines and central command posts, replacing them with fluid channels of communication, is required (Vandermerwe, S. 1993: 73). In the new organisation structure, the networks have no top, middle or bottom, control is primarily self-control, there is less constraint; the emphasis is on risk taking and innovation, states Vandermerwe (1993: 76).

Large organisations have been engaged in perfecting bureaucracy for 60 years, now they are engaged in breaking it, state Heckscher and Donnellon (1994: 1). Bureaucratic organisations are based on the control of people by formulating strategy at the top, with the rest of the organisation as a means of implementation, so organisation design becomes a means of top-down control, state Johnson and Scholes (1999: 401). With the dramatic changes taking place in the environment, many companies spent significant effort
during the 1980’s reorganising, realising that the 1990’s would demand even more radical change. Technology and changes in the workforce were continuing to demand new organisational initiatives, state Heckscher and Donnellon (1994: 8). They had cut layers of management and increased spans of control; they had pushed the hierarchy to the limit, continues Heckscher and Donnellon (1994: 8). The decentralisation of authority from the centre to units and managers lower down the hierarchy, is central to the design of organisations being able to respond to these challenges.

In fast-moving markets, or during periods of significant change in the public services, there was a feeling that more authority was needed close to the action in order to improve corporate performance, state Johnson and Scholes (1999: 423). This produces severe problems for senior authority in large organisations, as managers they cannot be in many places at the same time, as well as deal with managing large organisations. In small firms, authority can reach the “action” quite easily. The SMME firm is decentralised to cope with the changes taking place.

Organisations are evolving to suit the environment and competitive forces. Many are downsizing, the objectives of which are to improve customer relations, amongst others, comments Hellriegel et al (1999: 29). This reflects the advantage small firms have over large organisations with regard to customer service, in terms of their small structure.

(f) Total quality management (TQM)

W. Edward Deming, the American statistician, was credited with insisting that it was only the customer who ultimately could decide whether an offering had quality (Vandermerwe, 1993: 135). Andrea Gabor, in her book ‘The Man Who Discovered Quality’, which specifically examines the life and work of Deming, refers to Ford’s experience to demonstrate how far off firms were from understanding customer motivation. Ford executives found that if customers did not have any concrete problems with their car, that did not mean they were necessarily happy with it (Vandermerwe, 1993: 136).
TQM emphasises utilising the knowledge of all employees, comment Heckscher and Donnellon (1994: 178). This requires commitment from all employees. Commitment without ownership is difficult to achieve. Commitment and ownership have become almost synonymous, that a sense of ownership leads to commitment, state Heckscher and Donnellon (1994: 182). To achieve this requires that the organisation be designed to provide the sense of ownership required for commitment and the successful implementation of TQM.

SMME firms, having a higher level of owner-management than large firms, with a small organisation structure providing a sense of ownership, thus a high level of commitment, have the ability to implement TQM practices successfully.

Small firms have the competencies to implement the differentiation strategies successfully, however, due to the market’s size and state, small firms are confined to segments of a market, as stated before. Differentiation for small firms takes place within a segment of a market, therefore the focus differentiation as strategy, discussed below, or the hybrid strategy adjusted to suit small firms as discussed in Sub-section (b) above, both use differentiation as a key factor. A differentiation strategy alone is not suitable.

3.4.2.4 Focused differentiation

As described in Chapter Two, focused differentiation emphasises competing in a specific industry niche by serving the unique needs of certain customers or a specific geographic market. Focusing on certain customers or serving certain geographic markets is the focus differentiation strategy being applied. Most small firms are small in relation to the markets in which they operate. As stated by Reid et al (1993: 159), lack of resources and market uncertainty predominately account for their implementation of a focus strategy by serving certain geographic, customer and/or product niches. This strategic route is suitable for small firms as discussed in sub-Section (d) above.
3.5 A MODEL OF COMPETENCIES BASED ON THE THEORETICAL MODEL FOR SMME FIRMS TO SUSTAIN COMPETITIVE ADVANTAGE

From the literature study contained within this chapter, a model is presented (Figure 3.2), which depicts the outcome of the literature study, which stated that:

- The price-based strategy using the low cost strategy is unsuitable over the long term, but may be part of a longer-term strategy;
- The focused differentiation strategy is suitable as a strategy for small firms;
- A hybrid strategy comprising low cost small-scale production and a focus differentiation strategy is suitable, referenced the ‘focused hybrid’ strategy.

**Figure 3.2: A model of generic strategies for SMME firms**

Source: Developed from the discussion in Section 3.4
3.6 SUMMARY

The generic strategies which SMME firms are suited to implement are the price-based strategy, focus differentiation strategy, and the focused hybrid strategy. The focused hybrid strategy combines the focus differentiation strategy, which focuses on serving segments of a market, due to the small-size of their outputs relative to the requirements of the market, and the changing state of the market, which poses too many risks for a mass production strategy when the market changes. Price-based strategies are suitable as part of a comprehensive longer-term strategy.

In considering the models generated by the discussion of Porter’s Five Forces and the theoretical model of generic competencies, the competencies found in both models are strikingly similar, as they should be. Figure 3.2 summarises the competencies required to sustain competitive advantage using the focused differentiation or a focused hybrid generic strategies. It is strikingly evident that the focus of any strategy must be the customer. Each differentiation competency has as the goal, to serve the customer and to add value for the customer.

The next chapter deals with the empirical study which sets out the process of research design, the demographical details of the respondents. The results of the Questionnaire are integrated with the literature study to produce generic strategies for SMME firms to achieve competitive advantage.
CHAPTER FOUR

THE EMPIRICAL STUDY, METHODS USED AND ANALYSIS OF DEMOGRAPHIC DETAILS OF RESPONDENTS

4.1 INTRODUCTION

In Chapter Two, an outline was presented on competitive advantages for companies. This was done using Porter’s Five Forces and Bowman’s Strategy Clock. The result was a theoretical model for organisations to achieve competitive advantage. Chapter Three discussed the above bases of strategic choice for small, medium and micro (SMME) firms, with a resultant model for SMME firms to achieve competitive advantage.

The literature study was used to establish the answer to the first three sub-problems, namely:

- What factors lead to an organisation developing a competitive advantage?
- How can a cluster initiative promote competitive advantage?
- What factors make SMME’s competitive?

The empirical study helped to resolve the fourth and fifth sub-problem:

- How can an SMME develop a competitive advantage in the East Cape Motor Industry Cluster?
- What do knowledgeable people feel promote a competitive advantage in SMME’s?

The aim of this chapter is to explain the process used during the empirical study and document the results gleaned from Section I to 6 of the Questionnaire developed from the literature study. This is achieved through the following steps:
Firstly, the research design will be documented in order to explain the steps taken during the study;

Secondly, the planning of the study will be set out: this covers the population size, the development of the Questionnaire, the administration of the Questionnaire, and the responses to the Questionnaire;

Finally, a quantitative analysis of the demographical data of the respondents will be presented to identify the groups that responded to the Questionnaire.

4.2 THE RESEARCH DESIGN

Allison, O’Sullivan, Owen, Rice, Rothwell and Saunders (1996: 4) define research as a systematic enquiry that is reported in a form that allows the research methods and outcomes to be accessible to others. Research involves seeking solutions to problems or answers to Questions

This research attempts to develop a strategy in order to solve a problem and is thus applied. According to Welman and Kruger (1999: 12), a research problem refers to some difficulty that the researcher experiences in the context of either a theoretical or practical situation and for which s/he wishes to obtain a solution. In the case of this study the problem posed by the researcher is:

The development of a model of competencies for (SMME’s) to achieve a competitive advantage in the East Cape Motor Industry Cluster?

In order to assist in resolving the main problem, five sub-problems were identified:

• What factors lead to an organisation developing a competitive advantage?
• How can a cluster initiative promote competitive advantage?
• What factors make SMME’s competitive?
• How can an SMME develop a competitive advantage in the East Cape Motor Cluster?
• What do knowledgeable people feel promote a competitive advantage in SMME’s?

The procedure used to solve the main problem and the sub problems was as follows:

• In Chapter Two a literature study was conducted on competitive advantage, using Porter’s Five Forces to analyse the competitive environment in which industries operate, and identifying competitive advantages from this study. Bowman’s Strategy Clock of competitive strategy options was also used as a basis to identify competitive advantages from the various strategy options. This resulted in a theoretical model for competitive advantage being developed. This answered the first sub-problem.

• In Chapter Two, a literature study was conducted to discuss clusters and the competitive advantages which result. This answered the second sub-problem.

• Chapter Three comprised a study of the competitive advantages of SMME firms, using the literature study in Chapter Two as the basis. This resulted in answering the third sub-problem.

• Chapter Four is an empirical study to resolve sub-problems four and five, namely:
  o How can an SMME develop a competitive advantage in the East Cape Motor Cluster?
  o What do knowledgeable people feel promote a competitive advantage in SMME’s?

A Questionnaire was developed and circulated to SMME firms in the municipal area of the Nelson Mandela Metropolitan Municipality and Buffalo City Municipality. Results gained from the survey were then analysed to ascertain the answers to these two sub-problems.
4.3 PLANNING THE EMPIRICAL STUDY

The empirical study was conducted by means of a mail survey with the use of a Questionnaire (see Annexure 4.1) developed from the literature study. The results of the Questionnaire were tabulated and statistically analysed. The process followed during the empirical study is set out below.

4.3.1 The Questionnaire

The Questionnaire is a common instrument for observing data beyond the physical reach of the observer (Leedy, 1997: 191). The Questionnaire used in this study was developed using information gleaned from the literature study (discussed in chapters two to three). The Questions were selected to address each of the factors that SMME firms must develop that would lead to the development of competitive advantage.

Instructions: The instructions to a Questionnaire must ensure that all respondents are treated equally. Two principles which form the foundation for good instructions are clarity and courtesy. These two principals were used in the development of the Questionnaire.

Types of Questions used: Riley, Wood, Clark, Wilkie and Szivas (2000: 82) state that there may be open and closed questions. A closed question is one where responses are restricted to a small set of responses that generate precise answers. Open-ended questions do not impose restrictions on the possible answer, but are difficult to aggregate and computerise. However, the response is often richer and deeper. Jancowicz (2000: 269) notes that a structured Questionnaire must provide Questions possessing an element of ‘steering’ information for the respondent without any prompting from the researcher. This is the method that was used in the Questionnaire developed for the empirical study.
The Questionnaire was divided into 6 Sections. Sections 1 to 3 consisted of biographical questions that offered choices for the respondent to tick. Questions in this Section surveyed the number of employees in the organisation, geographical location of the organisation, the annual turnover of the organisation, the position of the respondent in the organisation, whether the respondent was employed in a component supplier organisation, a service organisation or another related industry, the ownership and management structure, and industry demographics.

Sections 4 to 6 consisted of closed questions. Some of these required respondents to record the degree to which they concurred with certain statements; others required ranking in order of importance. The benefits of each method of questioning are set out below.

The Likert scale is the most widely used form of scaled items where the respondent chooses a point on a scale that best represents his/her view (Allison et al, 1996: 83). In this study a five point Likert-type scale was used. Scoring for the scale was follows; 1 indicated strong agreement, 2 agreement, 3 uncertainty, 4 disagreement and 5 strong disagreement. Riley et al (2000: 121) adds that the Likert scale must have some dividing point between positive and negative. This function is performed by the mid-point in this scale, which is neutral. The scale is used to measure a batch of attitudes that are added together for the researcher to draw conclusions. Due to the small sample and the subsequent low number of responses it was decided, after discussion with a statistician, to reduce the five-point scale to three. This meant that the responses to the statements “strongly agree” and “agree” were combined and that the statements “strongly disagree” and “disagree” were combined. The statement “uncertain” remained unchanged.

**Wording of Questions:** Riley et al (2000: 96 - 97) name the following key issues pertaining to Questionnaire design:

- Use simple and concise language;
- Do not make unrealistic demands of those who fill in the Questionnaire;
Each question should ask about only one topic;
Each question should have no ‘escape route’, for example, do not know, no comment;
Each question should be polite;
Be straightforward and guard against double meanings;
Get the question order right;
Make the layout easy to follow;
Give clear instructions; and
Test the Questionnaire first.

The above principles were followed when drawing up the Questionnaire.

4.3.2 Contents of the Questionnaire

In order for a clear understanding of why certain questions were included in the Questionnaire, the discussion below will explain the rationale for the structure of each Section of the Questionnaire.

For ease of answering questions and the subsequent analysis of data gathered by in the empirical study, the Questionnaire was divided into six Sections. Each Section will now be discussed:

Section 1: This Section covered the demographical data of respondents. The data gathered in this Section consisted of independent variables that were used to establish relationships between the dependant variables measured in the rest of the Questionnaire.

Section 2: The questions in this Section dealt with the organisation at which the respondent was employed. This Section aimed to establish the type of organisational structure SMME’s operated under, whether there was a relationship between organisation structures which were not hierarchical and thus more suited to SMME firms, and competitive advantage by way of responses to questions dealing with customer focus and total quality
management contained in Section 4 and 6. Total quality management, one of the sustainable competitive advantages identified, requires an organisational structure that promotes commitment from employees. This was assessed from the responses to questions in Section 4 and 6.

**Section 3:** In this Section questions were raised to determine the characteristics of the industry in which the firm is operating. The objectives of this Section were to determine the firm’s relevant position within the market, the level of rivalry within the market, the level of demand for the products and the growth stage of the market.

Strategies are dependant on many factors including the level of rivalry, demand conditions and market growth stage as mentioned above. Understanding these factors will help to clarify why certain responses are provided in the other Sections, especially in Section 6.

**Section 4:** The statements in this Section were largely drawn from the literature study, and the results were expected to ascertain whether the literature study reflects the experiences of SMME firms. The results may dispute the literature, and identify other competencies required for SMME's to sustain competitive advantage.

**Section 5:** This Section provided factors that the literature identifies as promoting competitive advantage. These factors, as well as many others, contributed towards the formulation of the model of competencies laid out in the conclusion of Chapter Three, which are also detailed in Section 6. The importance of each, and the five most important identified, will be compared to the results in Section 6, to confirm that the respondent was consistent in answering Section 5 and 6, and to identify other factors which the respondent feels is important for SMME’s competitive advantage.

**Section 6:** Section 6 contained the strategies for achieving competitive advantage, arrived at from the literature studies in Chapter Three, and contained within the model of competencies based on the theoretical model
for SMME’s to achieve competitive advantage. The importance to the respondent of each will test the validity of the strategies, and/or identify other strategies that the respondents feel are important to achieve competitive advantage.

4.3.3 Process of survey design

According to Riley et al (2000: 97), the task of creating a Questionnaire must be seen as a part of a larger application that involves not only the development, but its application too. They suggest the following process:

- Identify the topic and set objectives;
- Pilot the Questionnaire to find out what people know and what they see as important issues;
- List the areas of information needed and refine the objectives;
- Review the pilot responses;
- Finalise the objectives;
- Draw up a Questionnaire;
- Re-pilot the Questionnaire;
- Finalise the Questionnaire;
- Code the Questionnaire.

Prior to conducting the pilot study, the Questionnaire was checked by a senior lecturer, who is a staff member at the MBA Unit at the Port Elizabeth Technikon, as well as by a statistician, and the necessary adjustments were made.

4.3.4 Mail survey

For the purposes of the study, a mail survey was selected. This was done for a variety of reasons. Kemp (1997: 181) notes that a mail survey is relatively cheap, one person can handle the administration, there is more anonymity than with other forms of communication and a mailed Questionnaire may be easily standardised.
4.4 ADMINISTERING THE QUESTIONNAIRE

The applicable addresses of organisations operating in the automobile industry in the Nelson Mandela Metropole were obtained from a list of organisations operating in the automobile industry provided by the Port Elizabeth Regional Chamber of Commerce and Industry. Similarly, the addresses of the organisations operating in the automobile industry in the Buffalo City Metropole were obtained from the Border/Kei Chamber of Commerce and Industry. The Questionnaire was sent by facsimile, together with a covering letter (see Annexure 4.2), on 19 November 2002, to the organisations operating in the Nelson Mandela Metropole, and on 22 November 2002, to the Buffalo City Metropole. The aim of the covering letter was to provide the following information:

- the aim of the research;
- the fact that the Questionnaire would take not more than 10 minutes to complete; and
- an offer to make a summary of the study available if so desired.

Section 4.6 sets out the manner in which the Questionnaire was administered and the dates set for submission.

4.5 THE RESEARCH SAMPLE

Fridah (2000) describes sampling as “the act, process or technique of selecting a suitable sample or representative part of the population for the purposes of determining parameters or characteristics of the whole population.”

For the purposes of this study a convenience sampling method was chosen for practical reasons. A list of member organisations of the Port Elizabeth Regional Chamber of Commerce and Industry, and of the Border/Kei Chamber of Commerce was used to gain the names and addresses of the sample to be studied. Based on these lists shown above each company was
contacted, the name of a senior manager were obtained and a Questionnaire was sent to each by name. The reason for the selection of senior manager as one respondent is the strategic nature of the job and as such a knowledge of their strategic initiatives in the ECMIC. A breakdown of companies by region may be seen in Table 4.1.

**Table 4.1: Number of companies to be surveyed**

<table>
<thead>
<tr>
<th>AREA</th>
<th>NUMBER OF COMPANIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buffalo City Metropole</td>
<td>7</td>
</tr>
<tr>
<td>Nelson Mandela Metropole</td>
<td>18</td>
</tr>
<tr>
<td>TOTAL</td>
<td>25</td>
</tr>
</tbody>
</table>

*Source:* List of Questionnaires sent out

### 4.6 RESPONSE RATE

The survey was distributed by facsimile over the period 19\textsuperscript{th} to 21\textsuperscript{st} November 2002, and a response rate of 44 percent was attained by due date, which was 22 November 2002. Due to the low response, further companies were drawn from the list of organisations operating in the automobile industry provided by the Port Elizabeth Regional Chamber of Commerce and Industry, and the organisations operating in the automobile industry in the Buffalo City Metropole obtained from the Border/Kei Chamber of Commerce and Industry. The survey was distributed to these companies over 25\textsuperscript{th} and 26\textsuperscript{th} November 2002, with a return date of 26\textsuperscript{th} November 2002 set, with one firm confirming that they would respond on 29\textsuperscript{th} November 2002 due to work pressures. The final response rate as at the 29\textsuperscript{th} November 2002 was 60 percent.

Table 4.2 shows the data collection procedure and response rates achieved.
Table 4.2: Summary of data collection procedure

<table>
<thead>
<tr>
<th>DATE RECEIVED</th>
<th>QUESTIONNAIRES SENT</th>
<th>QUESTIONNAIRES RETURNED</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>22 November 2002</td>
<td>18</td>
<td>11</td>
<td>44.0</td>
</tr>
<tr>
<td>26 November 2002</td>
<td>6</td>
<td>2</td>
<td>8.0</td>
</tr>
<tr>
<td>27 November 2002</td>
<td>1</td>
<td>1</td>
<td>4.0</td>
</tr>
<tr>
<td>29 November 2002</td>
<td>-</td>
<td>1</td>
<td>4.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>25</td>
<td>15</td>
<td>60.0</td>
</tr>
</tbody>
</table>

Source: Responses from mail survey

Table 4.3: Responses by region

<table>
<thead>
<tr>
<th>AREA</th>
<th>RESPONSES</th>
<th>QUESTIONNAIRES</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buffalo City Metropole</td>
<td>3</td>
<td>7</td>
<td>42.86</td>
</tr>
<tr>
<td>Nelson Mandela Metropole</td>
<td>12</td>
<td>18</td>
<td>66.66</td>
</tr>
<tr>
<td>TOTAL</td>
<td>15</td>
<td>25</td>
<td>60.00</td>
</tr>
</tbody>
</table>

Source: Responses to mail survey

According to Welman and Kruger (1999: 152), responses frequently fall below fifty percent. Emory and Cooper (1991: 333) state that thirty percent is an acceptable response rate for postal surveys. The response rate of sixty percent was acceptable.

4.7 ANALYSIS OF DEMOGRAPHIC INFORMATION

Sections 1 to 3 of the Questionnaire required respondents to complete general information about their organisations, the nature of the industry and the market in which they operated. These questions were designed to highlight similarities or differences between the organisations in terms of the above, as well as to determine in general the competitive position firms find themselves in the market, in order to provide a better understanding of
responses to statements regarding competitive advantage, presented in Sections 4 to 6.

### 4.7.1 Responses to Sections 1 to 3 of Survey

The results of the questions posed in Sections 1 to 3 are provided in Tables 4.4 to 4.18 set out below.

**Table 4.4: Classification of respondents by product manufactured**

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Components</td>
<td>10</td>
<td>66.67%</td>
</tr>
<tr>
<td>Services</td>
<td>5</td>
<td>33.33%</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>15</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: Analysis of Annexure 4.2, Section 1, Question 1.2*

This evaluation is to classify respondents in order to obtain a general representation of the type of services provided.

Table 4.4 shows that the component manufacturers made up the greatest percentage of respondents (66.67%). Being component or service providers in the automotive industry, the SMME firms provide for a segment of the industry.
Table 4.5: Classification of respondents by employees of the organisation

<table>
<thead>
<tr>
<th>SIZE OF THE ORGANISATION</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 10 employees</td>
<td>2</td>
<td>13.33</td>
</tr>
<tr>
<td>11 to 50 employees</td>
<td>10</td>
<td>66.67</td>
</tr>
<tr>
<td>51-100 employees</td>
<td>1</td>
<td>6.67</td>
</tr>
<tr>
<td>101-200 employees</td>
<td>1</td>
<td>6.66</td>
</tr>
<tr>
<td>TOTALS</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Analysis of Annexure 4.2, Section 1, Question 1.3*

This analysis is to obtain a general representation of the average number of employees within a SMME firm.

Table 4.5 shows that 80% of organisations employed up to 50 employees, with a smaller percentage (6.67%) comprising organisations each employing 51-100 and 101-200 employees. It is interesting to note that the vast majority of SMME firms supplying components and services, employ not more than 50 employees.

Table 4.6: Classification of respondents by total annual turnover of the organisation

<table>
<thead>
<tr>
<th>ANNUAL TURNOVER</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than R10m</td>
<td>9</td>
<td>60</td>
</tr>
<tr>
<td>R10-R40m</td>
<td>6</td>
<td>40</td>
</tr>
<tr>
<td>TOTALS</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Analysis of Annexure 4.2, Section 1, Question 1.4*

This evaluation is to obtain a general understanding of the turnover of SMME firms.
It is interesting to note that the annual turnover did not correlate with the number of employees in the organisations, implying that reliance on labour varied, and that technology is used in the different organisations to varying degrees. The components and services supplied will also vary considerably in unit costs, contributing to the disparity between the number of employees and annual turnover.

**Table 4.7: Classification of area of responsibility of respondents**

<table>
<thead>
<tr>
<th>AREA OF RESPONSIBILITY</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner/director</td>
<td>9</td>
<td>60</td>
</tr>
<tr>
<td>General management</td>
<td>4</td>
<td>26.67</td>
</tr>
<tr>
<td>Technical manager</td>
<td>1</td>
<td>6.66</td>
</tr>
<tr>
<td>Logistics manager</td>
<td>1</td>
<td>6.67</td>
</tr>
<tr>
<td>TOTAL</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Analysis of Annexure 4.2, Section 1, Question 1.5*

By analysing the area of responsibility of respondents, the level of respondents knowledge regarding competitive advantage is established.

Table 4.7 shows that responses received reflected that in most cases, the owner or director of the organisations responded, which may imply that SMME’s are in most instances owner managed, who take responsibility for most of the management functions.

**Table 4.8: The structure of the organisation**

<table>
<thead>
<tr>
<th>ORGANISATION STRUCTURE</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple: controlled by owner</td>
<td>6</td>
<td>40</td>
</tr>
<tr>
<td>Flat: owner/directors and one level of management</td>
<td>8</td>
<td>53.33</td>
</tr>
<tr>
<td>Hierarchical structure</td>
<td>1</td>
<td>6.67</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTALS</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Analysis of Annexure 4.2, Section 2; Organisation structure*
By analyzing the organisation structure, a general understanding of the layers of management and level of control is established.

Table 4.8 shows that SMME firms have a small organisational structure, being mainly owner controlled, or a flat organisational structure comprising owner/director level and one management level. Communication flow is simple within the small organisation structure, enhancing the ability to provide superior customer service, and to respond quickly to changing markets, as described in Section 3.4.2.3(e). Table 4.8 confirms the competitive advantage SMME firms have in terms of a responsive, small organisation structure.

### Table 4.9: The ownership of the organisation

<table>
<thead>
<tr>
<th>OWNERSHIP</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole proprietor</td>
<td>6</td>
<td>40</td>
</tr>
<tr>
<td>Subsidiary of a large organisation</td>
<td>2</td>
<td>13.33</td>
</tr>
<tr>
<td>Wholly/ majority owned by management</td>
<td>8</td>
<td>46.67</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Analysis of Annexure 4.2, Section 2; Ownership of the firm*

This analysis provides an indication of the ownership of the respondents.

Table 4.9 indicates that about 86.67% of SMME firms are owned by one person, or are wholly/majority owned by the management team. This further reflects the high level of ownership of SMME’s by the people managing the firms. This enhances the ability to respond to the challenges of fast-moving markets, for senior authority to be close to the action, as discussed in Section 3.4.2.3(e).
Table 4.10: The size of the markets in which the SMME organisations serve

<table>
<thead>
<tr>
<th>SIZE OF THE MARKET</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>9</td>
<td>60</td>
</tr>
<tr>
<td>Small</td>
<td>6</td>
<td>40</td>
</tr>
<tr>
<td>TOTAL</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Analysis of Annexure 4.2, Section 3; Question 3.1

This analysis determines the size of the markets of each respondent, and allows a better understanding of the competitive environment for SMME firms.

Table 4.10 indicates that approximately an equal number of respondents serve small and larger markets. Due to there being only three motor vehicle manufacturers in the ECMIC, the implication is that certain firms serve other markets and customers as well, and are thus not dependant on the ECMIC for their total market. This implies that approximately half of the SMME firms use the focus differentiation strategy to serve the ECMIC market segments, and most of the others serve a wider market, following a differentiation strategy to achieve competitive advantage. However, Table 4.13 indicates that they served a few customers, thus the implication is that the large markets reflect the size of the market they are serving, being very large in terms of the number of products/services they provide to their small number of customers. This reflects a focused strategy within the focused differentiation strategic route. This being the case, the opportunity to expand capacity to serve the large market size is there. However, having not done so, could reflect that the owners of most SMME owners prefer to maintain their “smallness”, but it may reflect other reasons as to why SMME firms did not occupy a greater share of the market they served. This needs to be addressed in a future study.
### Table 4.11: Share of the market served by the organisations

<table>
<thead>
<tr>
<th>SHARE OF THE MARKET</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10%</td>
<td>8</td>
<td>53.33</td>
</tr>
<tr>
<td>10-20%</td>
<td>2</td>
<td>13.33</td>
</tr>
<tr>
<td>20-40%</td>
<td>1</td>
<td>6.67</td>
</tr>
<tr>
<td>&gt;40%</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>unsure</td>
<td>1</td>
<td>6.67</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>15</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Analysis of Annexure 4.2, Section 3; Question 3.2*

This analysis will provide further understanding of the share of the market SMME firms occupy, which is essential in also understanding their competitive position.

Table 4.11 indicates that the majority (53.33%) of SMME firms have a small share (less than 10%) of the markets they serve, but some (20%) dominate their markets. The statements made in Table 4.10 apply to Table 4.11. It also implies that SMME firms mainly focus on providing differentiated products and services to targeted customers.

The question raised in the analysis of Table 4.10, as to why many firms have not expanded is raised here again. Also, with many firms occupying a small share of the market, the supplier power is weak, and customer power is strong, leading to prices being forced down (Section 2.2.4). A firm’s products must be differentiated in a way that creates high ‘switching costs’ for customers, to counter the customer power, as stated in Section 2.2.4.
Table 4.12: Growth stage of the markets in which the SMME organisations serve

<table>
<thead>
<tr>
<th>GROWTH STAGE OF THE MARKET</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Embryonic</td>
<td>1</td>
<td>6.67</td>
</tr>
<tr>
<td>Growth</td>
<td>10</td>
<td>66.66</td>
</tr>
<tr>
<td>Mature</td>
<td>4</td>
<td>26.67</td>
</tr>
<tr>
<td>Declining</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTALS</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Analysis of Annexure 4.2, Section 3; Question 3.3

This analysis will determine the general growth stage of the market for the respondents, an important factor contributing to the competitive position of firms.

Table 4.12 indicates that 66.66% of the SMME firms in the ECMIC are mainly in the growth stage of the market. The growth stage provides various strategic development options as described in Section 2.2.2 (d). However, a key requirement of any strategy in a growth market is to be creative and innovative, to be able to take advantage of the opportunities provided by a growing the market. Being in the growth stage indicates growing demand, which reduces rivalry among existing firms (Section 2.2.2 (b)), but the threat of new entrants is high. Barriers to entry for new entrants need to be included in strategies. With 26.67% of respondents being in the mature stage, growth for those firms will come from taking market share from competitors, as noted in Section 2.2.2 (d). Rivalry is increased. The implication is that these firms may have to employ strategies such as cost reductions, greater efficiencies, finding niche markets, focusing on product differentiation, as discussed in Figure 2.5 and Figure 2.6, depending on their relative competitive position. However in mature markets, goods can be modified to extend the life cycle, as stated in Section 2.2.2 (d) and Figure 2.4. This can be done by product development, market development and diversification, as stated in Section 2.3 and Figure 2.7.
Table 4.13: The number of customers the organisations serve

<table>
<thead>
<tr>
<th>NUMBER OF CUSTOMERS</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Many</td>
<td>4</td>
<td>26.66</td>
</tr>
<tr>
<td>Few</td>
<td>11</td>
<td>73.34</td>
</tr>
<tr>
<td>TOTALS</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Analysis of Annexure 4.2, Section 3; Question 3.4

This analysis further assists in providing an indication of the size and nature of the market the respondents operate in.

Table 4.13 indicates that the vast majority of SMME firms serve a few customers, due probably to the fact that the automobile manufacturers number three in the ECMIC, reflecting a dependency on a few customers. It indicates that most SMME firms focus on supplying a few customers, and have not diversified into other related markets by way of related or unrelated diversification.

Table 4.14: The number of competitors in the markets served by the SMME firms.

<table>
<thead>
<tr>
<th>NUMBER OF COMPETITORS</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Many</td>
<td>8</td>
<td>53.33</td>
</tr>
<tr>
<td>Few</td>
<td>7</td>
<td>46.67</td>
</tr>
<tr>
<td>TOTALS</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Analysis of Annexure 4.2, Section 3; Question 3.5

A general understanding of the number of competitors is necessary to further understand the competitive nature of the market of the respondents.

Table 4.14 indicates that approximately half of the firms compete against many competitors, and half compete against a few competitors. This reflects a
similar outcome to Table 4.10, which was the size of the markets served. The implication is that the larger the market, the more competitors there are, and a few competitors reflect a small market.

Furthermore, with most firms having a small share of the market (Table 4.11), the competitive structure is very varied, none in a position to dominate the industry (Section 2.2.2 (a)). This further reflects low barriers to entry.

Table 4.15: The number of suppliers of the major input materials of SMME firms.

<table>
<thead>
<tr>
<th>NUMBER OF SUPPLIERS OF MATERIAL INPUTS</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Many</td>
<td>5</td>
<td>33.33</td>
</tr>
<tr>
<td>Few</td>
<td>10</td>
<td>66.67</td>
</tr>
<tr>
<td>TOTALS</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Analysis of Annexure 4.2, Section 3; Question 3.6

This analysis further assists in understanding the level of the dependence of SMME firms on their suppliers.

Table 4.15 indicates that approximately two-thirds of SMME firms products or services require a small number of supplier input materials, reflecting a high degree of dependency on the suppliers of those input materials. It also reflects the small number of employees (Table 4.5) required to process the small number of input materials, and the high-tech nature of the production process as reflected in Table 4.16, resulting in a high dependence on technology and less dependence on labour and material inputs.
Table 4.16: Technology used in the manufacture/assembly of the products made by the SMME firms

<table>
<thead>
<tr>
<th>TECHNOLOGY USED</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-tech</td>
<td>11</td>
<td>73.33</td>
</tr>
<tr>
<td>Low-tech</td>
<td>4</td>
<td>26.67</td>
</tr>
<tr>
<td>TOTAL</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Analysis of Annexure 4.2, Section 3; Question 3.7

This analysis assists in further understanding the nature of the technology employed by the respondents, and is a factor to consider when analysing the competitiveness of firms.

Table 4.16 indicates that the majority of SMME firms use high technology, reflecting the high-tech nature of the automotive market, the necessity for SMME firms to use high technology to produce relatively high volumes for the demands of a large market (see Table 4.10), and the fact that most SMME firms have few employees (see Table 4.5). However, low-technology firms face the threat of new entrants and existing competitors, who can easily imitate their technology. Their defence should be to counter the threat by developing competencies that differentiate their products from competitors and new entrants.

Table 4.17: The cost of SMME firm’s products in relation to competitor products

<table>
<thead>
<tr>
<th>COST OF PRODUCT IN RELATION TO COMPETITORS</th>
<th>RESPONSE FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>1</td>
<td>6.67</td>
</tr>
<tr>
<td>Similar/same</td>
<td>10</td>
<td>66.67</td>
</tr>
<tr>
<td>Higher</td>
<td>4</td>
<td>26.66</td>
</tr>
<tr>
<td>TOTALS</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Analysis of Annexure 4.2, Section 3; Question 3.8
The analysis of the relative cost of a firm’s products in general in relation to that of competitors is an indicator of the competitive position of the firm.

Table 4.17 indicates that the majority of the analysed firms products are priced at similar or the same prices as those of competitors. This implies that as a result of there being a few customers (see Table 4.13) and the market was small for 40% of respondents (see Table 4.10), customer power is high, thus restricting the ability to charge higher prices than competitors. Interestingly, two out of the four SMME firms that indicated their products were priced higher than competitors, as well as indicating that their share of the market they serve is greater than 40% (Table 4.11). It is seen that SMME firms are at an advantage if they are able to dominate their market by pricing their products higher as the customer is dependant on these products. This leads to the advantage of higher profits. The other two SMME firms charging higher prices, may have developed a strategy to prevent or discourage customers from switching to other suppliers, so they will have differentiated their product or service from other competitors in a dimension that was of great value to the customers, emphasising the value of customer focus and service.

4.8 RESPONSE TO SECTIONS DEALING WITH COMPETITIVE ADVANTAGE

Sections 4 to 6 comprise statements drawn from the literature study. The purpose of these statements is to determine the relevance of the statements regarding factors necessary to sustain competitive advantage contained within the literature study, and to determine which strategies taken from the literature study and research response are important for sustaining competitive advantage.

4.8.1 Section 4: Statements on competitive advantage drawn from the literature study

Statements in Section 4 of the empirical study (Annexure 4.2):
- Question 4.1: Changes in products or customer needs does not suit a low-cost strategy.
- Question 4.2: Total quality management (TQM) is essential to providing superior customer service.
- Question 4.3: The firm you work for has created a new product/service in the last two years.
- Question 4.4: The owners of small firms are the main reason for the innovative/creative abilities in small firms.
- Question 4.5: A firm’s performance in an industry will slowly deteriorate due to factors such as cultural lock-in and the belief that success means change is not required.
- Question 4.6: Large organisations are relying more on small firms to help them reach their customers.
- Question 4.7: Organisation structure in small firms empowers employees/teams to respond quickly and effectively to customer needs.
- Question 4.8: Small firms have to grow by focusing on producing products different (in some way) from competitors and aimed at certain customers, and not the market in general.

**Figure 4.1: Statements on competitive advantage**

![Bar chart showing responses to questions 4.1 to 4.8]

*Source: Analysis of Annexure 4.2, Section 4*
These general statements assist in determining the level of competencies the respondents had, or to determine shortcomings to the competencies required.

The majority of respondents agreed with statements 4.1, 4.2, 4.3, 4.4, 4.7 and 4.8. Very interestingly, 9 out of 15 (60%) of respondents believed that statements 4.5 and 4.6 were important, and 33.33% (5 of the 6 remaining) respondents disagreed that “a firm’s performance in an industry will slowly deteriorate due to factors such as cultural lock-in and the belief that success means change is not required.” This level of disagreement is a serious cause for concern. It may reflect the owners of these firms unwillingness to accept that cultural lock-in, created and sustained by them, will lead to deterioration in performance. It is also very difficult for owners to observe this happening. It is also natural to disbelieve that despite being successful, a firm needs to change, a requirement highlighted by the market forces of discontinuity (Section 2.2.1 (h)).

Statement 4.6 is more applicable to service providers such as transport contractors (of motor vehicles) and motor retail firms, which serve the large organisations by bringing their products to locations near the customer, and not to the component suppliers and the few service providers that responded, therefore the high level of disagreement and uncertainty.

However, the fact that any respondents disagreed with statement 4.1, 4.3, 4.7 and 4.8, and the level of uncertainty to statements 4.1, 4.4 and 4.8, is of great concern. This reflects a poor understanding on the part of some SMME firms to the necessity for:

- Upgrading strategies from low-cost to differentiation;
- Innovating. The fact that four firms had not created new products in the last two years indicates a lack of innovation skills;
- Small firms need to grow and achieve competitive advantage by following the focus differentiation strategic route.
4.8.2 Section 5: Factors promoting competitive advantage

This Section assists in obtaining further information on the importance attached by the respondents to factors which the literature reveals as conducive to competitive advantage, and to reveal any shortcoming in this regard.

Figure 4.2: Statement 5.1: The existence of an established industry cluster

This analysis will identify the importance to the respondents of an established industry cluster.

Most respondents confirmed the high importance of an established industry cluster (12 out of 15, 80%). However, of the five most important statements, it was generally not one of the five important statements. It may be summised that the industry cluster is of more importance to the original equipment manufacturers than to the SMME firms. Furthermore, the fact that geographic distance between SMME supplier and customer is not great in the respective metropoles, it may contribute to the lack of importance attached to an industry cluster by some SMME’s.
Figure 4.3: Statement 5.2: By achieving economies of scale (low cost) with mass production

By analyzing the response to this statement, an indication is provided to what extent respondents follow the low cost strategic route.

The relatively high number of confirmations of the importance of this factor, reflects that many firms follow the low-cost strategic route, due probably to the high customer power (Table 4.13) and their low market share in most instances (Table 4.11). This reflects a lack of understanding of the requirements for competitive advantage. Section 3.4.2.1(a) confirms this strategy not to be suitable in most cases, and should be used in the context of other strategies as mentioned in Section 2.4.2.

Figure 4.4: Statement 5.3: Proprietary knowledge (patents, licences, etc)

Source: Analysis of Annexure 4.2, Question 5.3
This analysis further assists in determining the extent to which proprietary knowledge is embodied in the respondent’s strategies.

Seven out of 15 respondents (46.66%) indicated this factor to be very important, but in most cases was not one of the five most important factors. This implies that proprietary knowledge is very important, but other factors are considered more important.

In the majority of industries this competency would be an important competitive advantage, however, in the automotive component and service industries, the implication is that it is not considered an important competency. On the other hand, having proprietary knowledge may possibly result in the SMME firm outgrowing its SMME status as a result of an increase in market share.

Figure 4.5: Statement 5.4: Being located in close proximity to the customer

![Bar chart showing levels of importance for being located near the customer]

Source: Analysis of Annexure 4.2, Question 5.4

This analysis provides an indication of whether being located near the customer was considered a competitive advantage by the respondents.

Eight out of the 15 respondents (53.33%) confirmed the high importance attached to this factor. Similarly it was considered one of the five most important factors by 53.33% of respondents. However, 46.67% of respondents consider it not to be important. This may be due to the relatively
close proximity of most SMME firms to their customers, therefore many could not consider it to be a competitive advantage.

**Figure 4.6: Statement 5.5: Vast experience, ie the “experience curve”**

![Bar chart showing level of importance for respondents]

*Source: Analysis of Annexure 4.2, Question 5.5*

This analysis will determine the importance of vast experience as a basis for competitive advantage of the respondents.

All of the respondents confirmed this factor to be of importance, with 12 of the 15 (80%) considering it to be very important (level 1 and 2). Similarly, 14 of 15 (93.33%) of respondents confirmed it was one of the five most important factors. The “experience curve” has probably contributed to the correspondingly high level of importance attached by SMME firms to achieving economies of scale (low-cost) (Figure 4.3), of which the experience curve is an important contributor.
Figure 4.7: Statement 5.6: Having the most modern technologies

![Bar Chart]

Source: Analysis of Annexure 4.2, Question 5.6

By analyzing this response, it can be determined to what extent modern technologies are used to the competitive advantage of the respondents.

Ten out of the 15 (66.66%) respondents confirmed the high level of importance attached to this factor, and 80% (13 of 15) respondents confirmed it to be one of the five most important factors. Table 4.16 confirmed that 26.67% of respondents use low-technology. A study into why a number of SMME firms use low-technology in a fast changing high-technology environment, would be of importance.

Figure 4.8: Statement 5.7: Being able to change at the same rate as the market

![Bar Chart]

Source: Analysis of Annexure 4.2, Question 5.7
This analysis will assist to determine the level of understanding and application of this essential competency for competitive advantage by the respondents.

The majority (12 of 15, 80%) of respondents confirmed the high importance of this factor, but very concerning is the remainder who did not place a high importance level (level 1 or 2) on this factor. However, 14 of 15 (93.33%) confirmed it to be one of the five most important factors, therefore the high importance of this factor is confirmed.

This ability is essential. As discussed in Section 3.2.1(h), the market forces are always changing, requiring that firms change accordingly, or face the reality of deteriorating performance compared to the market.

The underlying problem seems to be how to achieve this. With 26.66% of respondents using low-technology (Table 4.16), 2 of 15 (13.33%) of respondents unsure, and 13.33% disagreed with the statement “changes in products or customer needs does not suit a low-cost strategy” (Statement 4.1 in Section 4.8.1; Figure 4.1). Added to this a reliance on economies of scale (Figure 4.3) and vast experience (Figure 4.6), underscores many SMME firms reliance on factors which make it difficult for firms to change at the pace of the market.

It is extremely important for SMME firms to change at the rate of the industry they are in, therefore a study into ways for SMME firms to achieve this would be extremely important, in order for them to sustain competitive advantage over competitors.

4.8.3 Section 6: Strategies for Sustaining Competitive Advantage
Figure 4.9: Statement 6.1: By achieving economies of scale at relatively low output

Source: Analysis of Annexure 4.2, Question 6.1

This analysis will determine the extent to which respondents employ this competency.

This strategy is considered very important (level of importance 1 to 2), for 53.33% (8 of 15) of respondents. Interestingly, of the two respondents (firms 1 and 10) that believe this factor not to be very important, firm 1 uses high-technology, with few competitors and customers. Firm 10 dominates their market, with a market share exceeding 40% (Table 4.11), and their products are more expensive than competitors (Table 4.17), and so the lack of importance attached by these two firms to this competency is understandable. This competency is essential to reduce the threat of competition from new entrants as noted in Section 3.2.1 (a), and to create a demand as noted in Section 3.2.1 (b), for adding value for the customer, as they are more price-conscious (Section 3.4.2.3(d)).

The importance attached by the majority of SMME respondents can be understood when it has been confirmed that customers have power over many SMME firms as confirmed previously (a few customers, see Table 4.13, small markets, see Table 4.10, share of markets, see Table 4.11), and that they mostly have a small share of the market shown in Table 4.11, therefore necessitating that they produce goods at low cost for the customer, with small volumes due to their small market share.
Figure 4.10: Statement 6.2: By anticipating the market in advance, and changing with the market

![Bar chart showing level of importance for respondents.]

Source: Analysis of Annexure 4.2, Question 6.2

The response to this statement will assist in determining the extent to which respondents agree with this statement, which is a key competency.

The high response rate confirming the importance of this competency, supported by the response in Figure 4.8, confirms this competency to be extremely important.

However, the underlying problem as discussed in Figure 4.8, would apply to this analysis.

The study reveals that the key success factor is having a creative, innovative, responsive firm that tries to anticipate the market and the customers in advance (Naumann, 1995: 13), discussed in Section 3.4.2.3(d). First mover advantage is the result, and the advantage is considerable.
Figure 4.11: Statement 6.3: Producing unique products to suit targeted customers in market niches

Source: Analysis of Annexure 4.2, Question 6.3

By analysing the results to this statement it can be determined to what extent respondents follow the focus differentiation route.

Twelve of the 15 (80%) of SMME firms confirmed the high level of importance of the focus differentiation strategy to achieving competitive advantage, which Section 3.2.2(a) confirms to be the strategy SMME firms largely implement. However, the responses contained in Figure 4.3, Figure 4.6 and Table 4.16, confirm that many SMME firms were not implementing this strategy. It was previously confirmed in Section 4.8.1; Figure 4.1; Statement 4.3, that 4 of 15 firms (26.66%) had not created a new product or service in the past two years, indicating their innovation capabilities were low.

This strategy reduces the threat posed by suppliers, as commented in Section 3.2.4, and reduces the threat of rivalry by dominant firms, as referred to in Section 3.2.2 (a). Producing unique products creates barriers to competition and entry by new firms, which is a sustainable competitive advantage, noted in Section 2.4.4.4 (i) and (ii). This strategy justifies a substantial price premium (Section 2.4.4.3).

The focused differentiation route to competitive advantage requires the firm to have innovative, creative abilities. This may confirm that some SMME firms do
not use the focus differentiation strategy in practice, despite confirming its importance.

**Figure 4.12: Statement 6.4: Superior access to distribution channels by cultivating good relations with suppliers and/or customers**

![Bar chart showing level of importance](chart.png)

*Source: Analysis of Annexure 4.2, Question 6.4*

The response to this statement will assist in determining the extent to which respondents agree with this statement.

This competency was considered very important by 14 of 15 (93.33%) of respondents.

It confirms the statement made by Reid et al (1993) in Section 3.2.1(e), that existing owner-managers can draw on their experience of locating and then cultivating relationships with desirable suppliers and buyers.
Figure 4.13: Statement 6.5: Develop absolute cost advantages independent of scale, which include proprietary knowledge (technology, experience), favourable location, advantageous access to raw materials

Source: Analysis of Annexure 4.2, Question 6.5

Analysis of this statement provides an indication of the extent to which respondents use this competitive advantage competency.

Figure 4.13 confirms that this competency is considered very important by 12 of 15 SMME firms (80%). This is an important competency, as SMME firms cannot produce high volumes for the low-cost strategy, so must rely on other competencies to achieve cost advantages, essential in a small market dominated by their customers.

As noted in Section 3.2.1 (g), this competency deters new entrants, and sustains the firms to command considerable market power.
Figure 4.14: Statement 6.6: Focus all strategies on delivering superior total service (ie adding value) to customers

Source: Analysis of Annexure 4.2, Question 6.6

The understanding and application of this requirement is the key to sustainable competitive advantage, and the analysis will confirm the respondent’s level of competitive advantage.

This competency is considered very important by 14 out of 15 SMME respondents, so is an extremely important competency. Adding value for the customer is the basic requirement for competitive advantage, as commented on in the introduction to Chapter Two, and discussed in Section 3.4.2.3(d), therefore is essential to developing a sustainable competitive advantage.

Figure 4.15: Statement 6.7: Focusing on providing superior total quality management (TQM)

Source: Analysis of Annexure 4.2, Question 6.7
Analysis of this statement assists in providing a further understanding of respondent’s application of the principle of customer service, a key competitive advantage requirement.

86.66% (13 out of 15) of respondents confirmed the high level of importance of this competency. The remaining two respondents confirmed it to be moderately important.

TQM, as discussed in Section 3.4.2.3(f), further enhances customer service, adding value for customers. SMME firms have the capability to implement TQM successfully, as commented on in the same Section.

4.9 SUMMARY

The aim of this chapter was to document the planning and the process used in the empirical study as well as a quantitative analysis of the demographic details of respondents. This was conducted through a brief overview of literature relevant to the research methodology as well as detailed documentation of the process used to glean information from the respondents. The demographic details of the respondents reported in Sections 1 to 3 of the Questionnaire were presented in tabular form. The results from the responses dealing with competitive advantage, in Sections 4 to 6, were presented in graphical form.

The results were analysed and discussed in relation to the literature study. It was found that in general, the results confirmed the validity of the competencies required, contained in the models detailed in Section 3.3 and Section 3.5.

This analysis provides the basis for integrating the models developed in Section 3.3 and 3.5, with the empirical study, into a final model of competencies to achieve and sustain competitive advantage.

Chapter Five deals with the integration of the data gathered in Chapter Four with the literature study conducted in chapters two and three, the conclusion and recommendations.
5.1 INTRODUCTION

In Chapter Four, the results of the empirical study was presented and discussed. Sections 1 to 3 detailed the demographic details of the respondents, and this information was discussed in the context of competitive advantage. Sections 4 to 6 presented the results from the Questionnaire pertaining to competitive advantage in graphical format, which detailed the respondent’s view on competitive advantage strategies for SMME firms in the ECMIC.

5.2 INTEGRATION OF THE FINDINGS OF THE EMPIRICAL STUDY WITH THE LITERATURE STUDY

The result of the empirical study carried out in Chapter Four is integrated with the literature study carried out in chapters Two and Three. The resultant competencies for SMME firms to achieve competitive advantage in the ECMIC is presented. The result is the following generic strategies necessary for competitive advantage:

(a) Firms need to differentiate their products or services by way of the focused differentiation route, which Figure 4.11 confirms, due to the following:

   (i) Reasons for following the focus differentiation route:

   • The firms are small and their market share is small, necessitating a differentiation strategy (Table 4.5, Table 4.11);
• The organisational structures of the firms are small, each with a small management structure, necessitating a focused differentiation strategy (Table 4.8);

• There are many competitors (Table 4.14), therefore there is the need to differentiate and thus reduce competition. They are not in a position to dominate the market, so they cannot employ a low-cost strategy route;

• Customers have power due to their small number and the small market. This requires that SMME’s differentiate their products, as stated in Section 3.2.3;

• The markets are mainly in the growth stage (Table 4.12), therefore low barriers to entry for new entrants. A differentiation strategy is required to ensure new entrants cannot compete directly, and differentiation provides the ability to grow in the growth market by entering new market segments;

• Some firms are in the mature stage of their market, therefore strategies which will extract the most financial benefit, ie. by ‘milking the cash cow’ or moving products into the ‘cash cow’ condition as detailed in Figure 2.5, or by focusing on differentiating products, finding new niche markets (refer to Figure 2.6); and

• The sustainability of competitive advantage requires that competitors cannot imitate its products, as stated in Section 2.4.4.4. This requires that the firm’s products or services are to be differentiated from competitors;

(ii) Competencies which SMME firms can utilise to differentiate their products:

• Many firms use high-technology (Table 4.16), which is suitable for a differentiation strategy, confirmed by Figure 4.7, due to the specialist nature of high-technology requiring special skills and equipment, and a high outlay of capital. Therefore differentiation is necessary and a natural outcome. The low-technology firms can
counter the threat of new entrants by developing new competencies that differentiate products from competitors;

- Exploiting firm-specific assets to differentiate products, is a strategy for differentiation, see Section 3.2.1 (b);

- Unique knowledge of, or special relationships with customer and suppliers in the distribution channels, creates differentiation, see Section 3.2.1 (e). Figure 4.12 confirms the importance;

- Achieving economies of scale at relatively low output, refer to Figure 4.9.

- Cost advantages independent of scale, including proprietary, technology, favourable geographic location, advantageous access to raw materials, see Section 3.2.1 (g). Figure 4.13 confirms this. Figures 4.2 and 4.5 confirm the importance of being located in an industry cluster or near the customer. Figure 4.4 confirmed that proprietary knowledge to be important;

- Vast experience contributes to cost advantages independent of scale, which creates differentiation abilities, see Section 3.2.1 (g). Figure 4.6 of the empirical study confirms this;

- Producing optimal volumes to suit market segments, see Section 3.4.2.3(ii). Figure 4.9 confirms the importance of this strategy; and

- Innovation capabilities of SMME firms as noted in Section 3.4.2.3(a), leads to abilities to differentiate products and services;

(b) A price-based strategy is required for most firms, due to the following factors:

- Most firms have a small market share (Table 4.11), and are small firms. None are in a position to dominate, therefore competition is high requiring a price-based strategy;

- Customer power is strong (refer to discussion of Table 4.17), they will demand added value in the form of low prices. This is an incentive to differentiate their goods;
• The market is in the growth stage, with low barriers to entry, therefore a price-based strategy is required, utilising competencies such as the ‘experience curve’, to reduce costs and reduce the threat posed by new entrants;

• For some the market is in the mature stage in which, to extract greater profits and fight off intense rivalry, requires focusing on reducing costs and greater efficiencies, among other requirements, as noted in Figure 2.3; and

• The sustainability of competitive advantage requires that buyers (customers) believe they are receiving added value. Customers have become more price conscious and more demanding, as stated in Section 3.4.2.3 (d). This requires that strategies should include a price-based strategy.

(c) A hybrid strategy of combining competencies found in the price-based and the focused differentiation strategic routes is also suitable, referenced the ‘focused hybrid strategy’ route.

(d) The ability to change at the rate of the market is considered important from the literature study. Figure 4.8 and Figure 4.10 confirm this importance. However, it is considered that this should be expanded to include the environment, which includes the market and many other factors that affect competitive advantage.

(e) The aim of all strategies is to provide superior customer service. TQM abilities and organisational structure of SMME’s, as detailed in Section 3.4.2.3(d),(e),(f), contribute to customer service. Figure 4.1, Figure 4.14 and 4.15 confirm these requirements.

A model of competencies required for competitive advantage in the ECMIC is presented, which illustrates the generic competencies discussed above.
5.3 AN INTEGRATED MODEL OF COMPETENCIES FOR SMME FIRMS TO PROMOTE AND SUSTAIN COMPETITIVE ADVANTAGE IN THE ECMIC

The outcome of the above analysis confirms that the generic model developed in Chapter Three, Figure 3.2, is applicable to the empirical study in Chapter Four. This model is a generic model, and cannot be applied equally by every firm, as each face forces and conditions, as described in Chapter Two, Section 2.2, which vary for each firm. The empirical analysis also revealed variances in the conditions and forces each firm faces. A detailed analysis of all the factors as described in Chapter Two, is required, in order to establish how, where and to what extent, they must apply the focus differentiation and focused hybrid differentiation strategy to their product or service. The model is reproduced from the model in Figure 3.2, which accurately depicts the results of the empirical study. It can be determined then, that the literature study on SMME competitive advantage conducted in Chapter Three, produced a similar outcome with the empirical study conducted in Chapter Four.

Figure 5.1: The final model of generic competencies for SMME firms to sustain competitive advantage in the ECMIC

Source: Developed from the discussion in Section 5.2
5.4 RECOMMENDATIONS

The competitive nature of the industry is increasing considerably, and strategies to sustain competitive advantage need to be continually reviewed in the changing environment industry operates in. An understanding of the forces that affect the firm, need to be understood and effective measures taken to reduce or eliminate the forces acting against firms.

The underlying requirements for sustaining competitive advantage are the ability to change with the environment the industry operates in, to differentiate products and services in some measure that provides added value to the customer, to focus on serving a segment of the market with the differentiated goods. In most cases, the requirement will be to provide a price-based element to the competitive advantage strategy, further emphasizing the requirement to satisfy the customer, to provide added value in the form of value for money.

However, it was found in the empirical study that some firms were not employing these strategies. The fact that some had not innovated a new product in the last two years indicated a lack of innovation capabilities, essential to sustaining competitive advantage. Furthermore, some respondents failed to understand that a low-cost strategic route would not provide sustainable competitive advantage, unless they were the low-cost leader with a large market share position, which most were not in. In addition, some firms failed to understand the necessity to change with the environment the firms were operating in, which is a critical requirement to sustain competitive advantage.

It is felt that further research is required to determine the forces that are present in the motor industry which are affecting SMME firms in their struggle to sustain competitive advantage. There are considerable forces at work, locally and globally, and to obtain an accurate assessment of necessary competitive advantages, these environmental forces need further study.
5.5 CONCLUSION

The general conclusion is that the SMME firms that supply the ECMIC, operate in a growth market within specific segments, with customers that have power, which confines them to certain strategies for sustaining competitive advantage. The firms do generally understand the requirements for competitive advantage, however, most are found to not implement the competencies to sustain competitive advantage, and certain requirements are not clearly understood.

Research was conducted in order to resolve the main problem of the study:

*How can small, medium and micro-sized enterprises (SMME’s) create and sustain their competitive advantage through the East Cape Motor Industry Cluster?*

In order to help resolve the main problem, sub-problems were developed and addressed in various chapters of this study. These are listed with a brief discussion of the responses to each sub-problem:

- **What factors lead to an organisation developing a competitive advantage?** In order to answer this sub-problem, a literature study was conducted on factors leading to competitive advantage in Chapter Two, Porter’s Five Forces was used to analyse the competitive environment in which industries operate, and competitive advantages from this study were identified. Bowman’s Strategy Clock of competitive strategy options was also used as a basis to identify competitive advantages from the various strategy options. This resulted in a theoretical model for competitive advantage being developed. This answered the first sub-problem.

- **How can a cluster initiative promote competitive advantage?** In Chapter Two, a literature study was conducted to discuss clusters and the competitive advantages that result. This answered the second sub-problem. The study revealed that clusters promoted competitive advantage in three ways, by increasing the productivity of companies based in the area, by driving the direction and pace of innovation, and stimulating the creation of new business within the cluster. Close
relationships with suppliers and customers are promoted, which contribute to competitive advantage.

- **What factors make SMME’s competitive?** Chapter Three comprised a study of the competitive advantages of SMME firms, using the literature study in Chapter Two as the basis. This resulted in answering the third sub-problem. This resulted in a model of competencies based on the literature study of Porter’s Five Forces. A further model was developed from the theoretical model in Chapter Two. This model proposes that sustainable competitive advantage results from following the focused differentiation strategy route, and/or a focused hybrid strategy route that includes price-based strategies with focused differentiation.

- **How can an SMME develop a competitive advantage in the East Cape Motor Cluster?** Chapter Four was an empirical study to resolve this sub-problem. Based on the information provided, competencies were identified that SMME firms can use to develop competitive advantage in the ECMIC. The results identified the generic competitive advantage strategies of focus differentiation and a hybrid strategy comprising the price-based strategy and focused differentiation strategy, previously identified in resolving the third sub-problem.

- **What do knowledgeable people feel promote a competitive advantage in SMME’s?** The empirical study whereby SMME firms responded to the Questionnaire, was reported in Chapter Four. The knowledgeable people, owners, directors and general managers were canvassed concerning their opinions on various issues pertaining to competitive advantage, by means of a Questionnaire developed from the literature study conducted in Chapter Two and Three. Chapter Four described the methodology and the demographics of the respondents, and commented on the results. Chapter Five analysed and integrated the results with the literature study.

The product of the research, the integrated model of competencies to sustain competitive advantage in the ECMIC, was developed to resolve the main problem: **How can small, medium and micro-sized enterprises (SMME’s) create and sustain their competitive advantage through the East Cape Motor Industry Cluster?**
REFERENCES


http://www.trochim.human.cornell.edu/tutorial/mugo/tutorial.htm


ANNEXURE 4.1
COVERING LETTER FOR SURVEY
PRO-FORMA COVERING LETTER

Mr L J de Beer
34 Church Road
Walmer
Port Elizabeth
6070

Tel: (041) 3654565
Fax: (041) 3652398

19th November 2002

Attention :
Company :
Fax No :

Dear Sir/Madam

SURVEY INTO COMPETENCIES FOR SMME’S TO ACHIEVE COMPETITIVE
ADVANTAGE IN THE EAST CAPE MOTOR INDUSTRY CLUSTER (ECMIC)

I am currently conducting a study into competitive advantages SMME’s require
within the ECMIC in partial fulfillment of an MBA degree through the Port Elizabeth
Technikon. The Title of the dissertation is “How can small, medium and micro-sized
enterprises (SMME’s) create and sustain their competitive advantage through the East
Cape Motor Industry Cluster”.

Your assistance in completing the attached questionnaire which comprises six
sections, is extremely important, as providing the responses from the industry enables
the dissertation to reach a balanced outcome between theoretical and practical
knowledge. The questionnaire has been designed to minimize demands on your time
and will take no more than 10 minutes of your time.

Your assistance in completing the questionnaire and returning it by Friday 22nd
November 2002, would be greatly appreciated. Should you wish to receive a copy of a
summary of the findings, please indicate this and it will be forwarded to you in due
course.

Thank you for your assistance.

L. de Beer
MBA student
Port Elizabeth Technikon
ANNEXURE 4.2
PRO-FORMA SURVEY

Section 1: DEMOGRAPHICS

Please tick the appropriate block

<table>
<thead>
<tr>
<th>Question</th>
<th>East London/ Bisho</th>
<th>Nelson Mandela Metropole</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 In which region does the firm in which you are employed operate?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2 Does the organisation manufacture:</td>
<td>Components</td>
<td>2.6.2 Services</td>
</tr>
<tr>
<td>If answer is other, please specify</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3 The number of full-time employees in the organisation is:</td>
<td>0-10</td>
<td>10-50</td>
</tr>
<tr>
<td>1.2 Total annual turnover is less than:</td>
<td>R 10m</td>
<td>R11-40m</td>
</tr>
<tr>
<td>1.4 My area of responsibility in the organisation is:</td>
<td>Owner/ Director</td>
<td>General Management</td>
</tr>
</tbody>
</table>

*CHAPTER SIX
CHAPTER SEVEN If answer is other, please specify*
Section 2 : ORGANISATION DETAILS

Please tick the appropriate block

<table>
<thead>
<tr>
<th>Organisation structure:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Simple: controlled by the owner.</td>
<td></td>
</tr>
<tr>
<td>2.2 Flat structure: owner/directors and one level of management</td>
<td></td>
</tr>
<tr>
<td>2.3 Hierarchical structure: more levels of management than a owner/directors level and one level of management (more than 2.2 above)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
</tbody>
</table>

If other, please specify:

<table>
<thead>
<tr>
<th>Ownership of the firm:</th>
<th>Subsidiary of a large organisation</th>
<th>Sole proprietor</th>
<th>Wholly/majority owned by management</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>If other, please specify</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Section 3: INDUSTRY DETAILS

Please tick the appropriate block

<table>
<thead>
<tr>
<th>3.1 Size of the market you serve?</th>
<th>2.6.4 Large</th>
<th>Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.2 Your share of the market you serve?</td>
<td>0-10%</td>
<td>10-20%</td>
</tr>
<tr>
<td>3.3 Growth stage of the market?</td>
<td>Embryonic</td>
<td>Growth</td>
</tr>
<tr>
<td>3.4 Number of customers?</td>
<td>Many</td>
<td>Few</td>
</tr>
<tr>
<td>3.5 Number of Competitors</td>
<td>Many</td>
<td>Few</td>
</tr>
<tr>
<td>3.6 Number of suppliers of your major input materials?</td>
<td>2.6.5 Many</td>
<td>2.6.6 Few</td>
</tr>
<tr>
<td>3.7 Technology used in the manufacture/assembly of your product(s)?</td>
<td>2.6.7 High-tech</td>
<td>2.6.8 Low-tech</td>
</tr>
<tr>
<td>3.8 Cost of your products in relation to competitors?</td>
<td>2.6.9 Lower</td>
<td>Similar/same</td>
</tr>
</tbody>
</table>
Section 4: STATEMENTS

Set out below is a number of statements. Please indicate the degree of agreement or disagreement with relation to each statement by ticking the appropriate box.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Uncertain</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 Changes in products or customer needs does not suit a low-cost strategy.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.2 Total quality management (TQM) is essential to providing superior customer service.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.3 The firm you work for has created a new product/service in the last two years.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.4 The owners of small firms are the main reason for the innovative/creative abilities in small firms.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.5 A firm’s performance in an industry will slowly deteriorate due to factors such as cultural lock-in and the belief that success means change is not required.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.6 Large organizations are relying more on small firms to help them reach their customers.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.7 Organisation structure in small firms empowers employees/teams to respond quickly and effectively to customer needs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.8 Small firms have to grow by focusing on producing products different (in some way) from competitors and aimed at certain customers, and not the market in general.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Section 5: FACTORS PROMOTING COMPETITIVE ADVANTAGE**

Please indicate the importance of each of the following factors that promote competitive advantage, by ranking them on a scale of one (1) to five (5) with one (1) being most important and five (5) the least important (each factor may be very important, vice versa).

Secondly, indicate the five (5) most important factors in order of importance, one (1) being the most important.

<table>
<thead>
<tr>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1 The existence of an established industry cluster</td>
<td></td>
</tr>
<tr>
<td>5.2 By achieving economies of scale (low cost) with mass production</td>
<td></td>
</tr>
<tr>
<td>5.3 Proprietary knowledge (patents, licences etc.)</td>
<td></td>
</tr>
<tr>
<td>5.4 Being located in close proximity to the customer</td>
<td></td>
</tr>
<tr>
<td>5.5 Vast experience, ie. the “experience curve”</td>
<td></td>
</tr>
<tr>
<td>5.6 Having the most modern technologies</td>
<td></td>
</tr>
<tr>
<td>5.7 Being able to change at the same rate as the market</td>
<td></td>
</tr>
<tr>
<td>Other: please specify:</td>
<td></td>
</tr>
</tbody>
</table>
**Section 6: STRATEGIES FOR SUSTAINING COMPETITIVE ADVANTAGE**

Please indicate the importance of each of the following factors that sustain competitive advantage, by ranking them on a scale of one (1) to five (5) with one (1) being very important and five (5) being of little importance (each factor may be very important, vice versa).

<table>
<thead>
<tr>
<th>Importance of each</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1 By achieving economies of scale at relatively low output.</td>
</tr>
<tr>
<td>6.2 By anticipating the market in advance, and changing with the market.</td>
</tr>
<tr>
<td>6.3 Producing unique products to suit targeted customers in market niches.</td>
</tr>
<tr>
<td>6.4 Superior access to distribution channels by cultivating good relations with suppliers and/or customers.</td>
</tr>
<tr>
<td>6.5 Develop absolute cost advantages independent of scale, which include proprietary knowledge (technology, experience), favourable location, advantageous access to raw materials.</td>
</tr>
<tr>
<td>6.6 Focus all strategies on delivering superior total service (ie. adding value) to customers.</td>
</tr>
<tr>
<td>6.7 Focusing on providing superior total quality management (TQM).</td>
</tr>
<tr>
<td>Other – please specify below:</td>
</tr>
</tbody>
</table>
## ANNEXURE 4.3

### SPREADSHEET OF RESPONSES TO QUESTIONNAIRE

<table>
<thead>
<tr>
<th>RESPONDENT FIRM</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
<th>TOTALS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Q. 1.1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NMMM</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>East London/ Bisho</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td><strong>Q. 1.2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Components</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>If other, specify</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Q. 1.3</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>10-50</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>50-100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>100-200</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Q. 1.4</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R10m</td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>R11-40m</td>
<td>1</td>
<td>1</td>
<td></td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6</td>
</tr>
<tr>
<td><strong>Q. 1.5</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner/ director</td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>G.M.</td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td>1</td>
<td>1</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>If other, specify</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Logistics manager</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Tech. support</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td><strong>Q. 2.1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td>6</td>
</tr>
<tr>
<td><strong>Q. 2.2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Q. 2.3</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>If other, specify</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Ownership:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidiary</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Wholly/majority owned</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>If other, specify</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Q. 3.1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large</td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>Small</td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6</td>
</tr>
<tr>
<td><strong>Q. 3.2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-10%</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>10-20%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>20-40%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>&gt;40%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Unsure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q. 3.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Embryonic</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>10</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mature</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ageing</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q. 3.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Many</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>8</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Few</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>7</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q. 3.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Many</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>8</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Few</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q. 3.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High tech</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>11</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low tech</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q. 3.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>10</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly agree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>7</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncertain</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly agree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>12</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncertain</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly agree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>15</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncertain</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly agree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>10</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncertain</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly agree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncertain</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4.6</td>
<td>Strongly agree</td>
<td>Agree</td>
<td>Uncertain</td>
<td>Disagree</td>
<td>Strongly disagree</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>----------------</td>
<td>-------</td>
<td>-----------</td>
<td>----------</td>
<td>------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q4.7</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Uncertain</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q4.8</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Uncertain</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 5.1</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5 1 4 2 2 2 1 1 2 1 2 1 1 2 4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0 0 5 0 4 0 4 3 5 5 1 0 0</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 5.2</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4 1 5 4 3 2 2 1 2 1 1 1 1 2 4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5 0 0 4 3 0 1 5 2 0 3 2 0</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 5.3</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 1 5 4 3 4 1 3 1 1 4 3 1 4 1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0 5 0 0 4 0 2 0 0 3 2 5 1</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 5.4</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5 1 2 2 4 4 1 4 1 1 3 3 1 3 1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4 4 4 1 0 2 0 5 0 0 0 4 2</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 5.5</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 1 1 3 2 2 1 5 1 1 1 2 0 3 5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 5.6</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 1 2 1 4 4 3 2 1 1 2 1 3 1 2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 2 2 3 5 5 2 3 2 4 1 0 1 3</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 5.7</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 1 4 1 4 1 2 2 1 1 1 1 1 3 2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3 3 1 5 1 3 3 4 4 3 4 5 4 4</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.1</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5 1 3 4 2 3 2 1 3 5 1 1 1 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5 1 2 2 2 1 2 1 2 1 2 1 3 4</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.2</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 3 1 2 1 1 3 1 1 3 1 1 1 1 1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 1 2 1 2 2 1 2 1 1 3 1 1 2 2</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.3</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 1 2 4 1 2 2 1 2 1 4 1 1 1 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 1 1 1 2 2 1 1 1 3 1 1 1 2</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.4</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3 3 1 5 1 3 3 4 4 3 4 5 4 4</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.5</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 1 2 1 2 2 1 2 1 1 3 1 1 2 2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 1 1 1 2 2 1 1 1 3 1 1 1 2</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.6</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 1 1 1 2 2 1 1 1 3 1 1 1 2</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.7</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 1 4 1 4 1 2 2 1 1 1 1 1 3 2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3 3 1 5 1 3 3 4 4 3 4 5 4 4</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.8</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5 1 3 4 2 3 2 1 3 5 1 1 1 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5 1 2 2 2 1 2 1 2 1 2 1 3 4</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.9</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 3 1 2 1 1 3 1 1 3 1 1 1 1 1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 1 2 1 2 2 1 2 1 1 3 1 1 2 2</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.10</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 1 2 4 1 2 2 1 2 1 4 1 1 1 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 1 1 1 2 2 1 1 1 3 1 1 1 2</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.11</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 1 1 1 2 2 1 1 1 3 1 1 1 2</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.12</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3 3 1 5 1 3 3 4 4 3 4 5 4 4</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.13</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5 1 3 4 2 3 2 1 3 5 1 1 1 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5 1 2 2 2 1 2 1 2 1 2 1 3 4</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.14</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 3 1 2 1 1 3 1 1 3 1 1 1 1 1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 1 2 1 2 2 1 2 1 1 3 1 1 2 2</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.15</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 1 2 4 1 2 2 1 2 1 4 1 1 1 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 1 1 1 2 2 1 1 1 3 1 1 1 2</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q. 6.16</th>
<th>Importance of each</th>
<th>Five most important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 1 1 1 2 2 1 1 1 3 1 1 1 2</td>
<td></td>
</tr>
</tbody>
</table>
A threat of competitive advantage is Affirmative action and Black economic empowerment is making business increasingly difficult.