

Constraints to the implementation of a Market Development Approach to the delivery of Business Development Services within the Makana municipal area

A dissertation in partial fulfilment of the requirement for the degree of

Master of Business Administration

of

Rhodes Business School

Rhodes University

by

Garth van Heerden

(Student number: g86v3172)

Supervisor:

Professor Owen Skae

Acknowledgements

I would like to thank:

my wife, Karen, and our boys, Bradley and Dean who had to sacrifice a lot of family time to enable me to focus on my studies.

my mother, Gwen, for her constant motivation and encouragement throughout the MBA.

my supervisor Professor, Owen Skae, for introducing me to this research topic. It has been a very interesting and rewarding to research project. I hope that Makana municipality LED, Rhodes University and the Grahamstown SMME business community will find good value in the outputs of this research.

Professor Paul Skelton, SAIAB-NRF, for the opportunity and support during a very busy time at SAIAB.

Professor Gavin Staude and the staff at Rhodes Business School, for giving me the opportunity to do my MBA and for the support over the 3 years of study, and

My MBA 2008 classmates, for being a wonderful group to lead as president and the great camaraderie over the 3 years and beyond.

Table of Contents

List of Acronyms	vi
List of Figures	vii
Integrative Summary	viii
Section A – Academic Paper	1
Abstract	1
1. Introduction	2
1.1 Context of research	2
1.2 Background to the study area.....	3
1.2.1 Introduction	3
1.2.2 Socio-Economic Profile	3
1.2.3 Local Economic Profile.....	4
1.2.4 Local Economic Development in Makana.....	5
1.2.5 BDS in the Makana Municipal area	5
1.3 Goals of the research	7
2. Literature Review for Business Development Services.....	8
2.1 Introduction	8
2.2 Business Development Services – Definition.....	9
2.3 Importance of BDS	9
2.4 Sustainable BDS	10
2.5 Characteristics of BDS services	11
2.6 BDS role players.....	11
2.7 Approaches to Business Development Services	12
2.7.1 Traditional approach	12
2.7.2 Market Development approach	12
Conclusion.....	13
3. Research method.....	14
3.1 Data Collection.....	14
3.1.1 Sampling method	15
3.1.2 Semi-structured interviews.....	15
3.1.3 Data Analysis.....	17
4. Results and Analysis of semi-structured interviews.....	18

4.1	Perceptions of officials at big institutional buyers.....	18
4.1.1	Approach to SMME support	18
4.1.2	Perceived value of local suppliers	19
4.1.3	Perceptions regarding payment for BDS services	20
4.2	Constraints to SMME support and development	20
4.2.1	Theme 1 - Inconsistent practice in dealing with SMMEs across the organisation.	20
4.2.2	Theme 2 – Absence of a cooperative body or representative Chamber of Commerce	25
4.2.3	Theme 3 – Fragmented Business Development Services	26
4.2.4	Theme 4 – A culture of no cost recovery.....	27
4.2.5	Theme 5 – Limited awareness of BDS in the Makana area	29
4.3	Concluding remarks.....	30
	References	31
	SECTION B	35
	Business Development Services Literature Review.....	35
1	Introduction	35
2.	Business Development Services – Definition	36
2.1	Importance of BDS	36
2.2	Importance of sustainable BDS.....	36
2.3	Sustainable BDS	37
2.4	Actors and their roles.....	38
3.	Characteristics of BDS services.....	39
3.1	Market Access.....	39
3.2	Infrastructure.....	40
3.3	Technology and product development	40
3.4	Policy and advocacy	40
3.5	Training and technical assistance	41
3.6	Accounting and Legal Services.....	41
3.7	Information services.....	42
3.8	Approaches to Business Development Services	42
3.8.1	Traditional approach	42
3.8.2	Market Development approach	43
4.	Conclusion	43

References	44
SECTION C	47
Background to study area and Research Methodology	47
1. Background	47
1.1 Introduction	47
1.2 Socio-Economic Profile.....	47
1.3 Local Economic Profile	47
2. Research Methodology.....	49
2.1 Research Methodology	49
2.2 Goals of the Research.....	50
2.3 Research Paradigms	50
2.4 Qualitative Research	50
2.5 Scope of Research	51
2.6 Data Collection.....	51
2.6.1 Sampling method	51
2.6.2 Semi-structured interviews.....	52
2.6.3 Data Analysis.....	54
References	55
Appendixes	56
Appendix A - Questions to officials from Big Institutional buyers	56
Appendix B – Questions to Business development service providers	58
Appendix C - Questions to Makana LED director	59
Appendix D – Interview questions to SMME owners.....	60

List of Acronyms

BDS –	Business Development Services
DfID -	Department for International Development
EC -	European Commission
GTZ -	German Agency for Development Co-operation
LED –	Local Economic Development
RUCE -	Rhodes University Centre for Entrepreneurship
SEDA -	Small Enterprise Development Agency
SMME –	Small, Micro and Medium Enterprises
USAID -	United State Agency for International Development

List of Figures

Figure 1 - R-GDP per Capita in the Eastern Cape (Source: Quantec, 2007)..... 4

Figure 2 - R-GDP per Capita in the Eastern Cape (Source: Quantec, 2007)..... 48

Integrative Summary

South Africa's biggest challenge remains the high rate of unemployment especially among the country's youth. Small, medium and micro enterprises (SMMEs) have been shown to be instrumental in many third world economies as a sustainable means not only to address unemployment but also to contribute significantly to economic growth. Despite government's good intentions and support, the South African SMME sector is not growing as expected and this is impacting negatively on unemployment creation in the country. Good business development services (BDS) is necessary to support SMMEs and specifically the Market Development Approach to the provision of BDS, where subsidies are replaced by private payment for services.

Makana municipal area provided scope for analysing the constraints to the implementation of such business development services. Analysing the scope and magnitude of the constraints in this setting would contribute to understanding the constraints also in other parts of the country and help officials in local economic development make better informed decisions regarding support to SMMEs.

Authors like Rogerson (2011), UNDP (2004), Miehlebradt and McVay, (2003), the Committee of Donor Agencies for SME Development (Blue book) (2001) and Bear *et al.*, (2001) Gibson (2001), propose that the key to sustainable BDS is the implementation of the Market Development approach which focusses on for-profit activities in the provision of BDS to SMMEs.

The aim of this study was to examine perceptions of key stakeholders towards SMME support and development, to identify the constraints to the implementation of a Market Development approach to the provision of business development services to SMMEs in the Makana area and to make recommendations to the Makana LED office of possible intervention strategies to address identified constraints.

Purposive sampling was used to identify key stakeholders in SMME support in the Makana area in the categories of, big institutional buyers, public and private BDS

providers as well the municipal LED office. Semi-structured interviews were conducted with each stakeholder using questions shown in appendixes A to D.

Perceptions of all key stakeholders were very positive with good intentions to support SMMEs. However, this was not consistent with procurement practice at the big institutional buyers.

Constraints are summarized in the following five themes:

- Theme 1. Inconsistent practice in dealing with SMMEs across the organisation.
- Theme 2. Absence of a cooperative body or Chamber of Commerce.
- Theme 3. Fragmented Business Development Services
- Theme 4. A lack of a culture of cost recovery
- Theme 5. Limited awareness of BDS in the Makana area

A number of recommendations were suggested. Big institutional buyers like Rhodes University and Makana municipality need to take a longer term view and move the focus from employment creation to enterprise support which is a more sustainable and empowering source of employment (ILO, 2009). The Grahamstown Chamber of Commerce should become more representative and big institutional buyers also need to be convinced of the value of private BDS. Stakeholders should work together to combine resources to offer a comprehensive one-stop BDS for the Makana area (Chetty, 2009) and this comprehensive BDS should be provided according to the Market Development approach focusing on those services that lend themselves better to this approach whilst using subsidies only for those services with a low potential for cost recovery (UNDP, 2004).

Section A – Academic Paper

Abstract

Despite government's good intentions and support, the South African SMME sector is not growing as expected. Good business development services (BDS) is necessary to support SMMEs and specifically the Market Development approach to the provision of this BDS. The Makana municipal area provided scope for analysing the constraints to the implementation of such business development services. This research will hopefully contribute to understanding the constraints also in other parts of the country and help officials in local economic development make better informed decisions regarding support to SMMEs. The aim of this study was to examine perceptions of key stakeholders towards SMME support and development, to identify the constraints to the implementation of a Market Development approach to the provision of business development services to SMMEs in the Makana area and to make recommendations to the Makana LED office.

Perceptions of stakeholders were positive with good intentions to support SMMEs. However, this was not consistent with the procurement practice at big institutional buyers. The following constraints were identified: inconsistent practice in dealing with SMMEs across big organisations, absence of a cooperative body, fragmented BDS, poor cost recovery and limited awareness of BDS.

A number of recommendations were suggested. Big institutional buyers needed to take a longer term view and move the focus from employment creation to enterprise support. The Grahamstown Chamber of Commerce should become more representative and big institutional buyers also needed to be convinced of the value of private BDS. Stakeholders should work together to combine resources in offering a comprehensive one-stop BDS provided according to the Market Development approach.

1. Introduction

1.1 Context of research

The International Monetary Fund (IMF) in its 2007 annual country assessment of South Africa, highlighted unemployment as one of the biggest challenges to economic growth in the country. StatsSA's 2010 year-on-year comparisons had unemployment at 24.0% for 2010 and shows that the Eastern Cape was particularly adversely affected by the global financial crisis in terms of job losses, with this province accounting for 110 000 of the 627 000 job losses nationally. This problem is further exacerbated by low levels of education of a largely unskilled labour force combined with a growing AIDS pandemic that is threatening the economically active age sector of the population. South Africa has embarked on an economic policy of free trade which promotes trade but also requires our labour force to compete in other emerging markets like China, India and Brazil. Traditionally, the mining, agricultural, and manufacturing sectors have been seen as a means to employ the masses of unskilled labour force of the country but issues like the European farming subsidies, effects of the global financial crisis on the mining sector and competition from China's textile industry has all had a negative effect on employment in the country.

SMMEs in countries like India have proven to be a sustainable source of employment and economic growth (Henry, 2006). The role of the small, medium and micro enterprise (SMME) sector in economic development has been highlighted also in South Africa since the early 1990s. The objective of the National Small Business Strategy is to promote small business development in South Africa as a means to address a range of South Africa's developmental goals, including equity and redress, Black economic empowerment, economic competitiveness, employment creation and poverty reduction. Despite all government's good intentions and support, the SMME sector in many countries is still not growing as expected (UNDP, 2004). It is well documented that good BDS is necessary in order for SMMEs to thrive (Dawson, 1997).

The Market Development approach to the provision of BDS has been recommended as best practice by the World Bank Group since the early 1990s (Blue book, 2001) and yet two decades later not much success has been achieved with the successful implementation of this approach (Rogerson, 2009). "The approach was formulated as a response to the poor quality of BDS delivered, lack of sufficient outreach and lack of sustainability observed in BDS provided via the Traditional approach" (Blue Book, 2001). "Its basis is that outreach and sustainability cannot be achieved by direct provision through subsidies by donors and governments. Rather, the Market Development approach seeks to facilitate a sustainable increase in demand and supply of services, where subsidies are replaced by private payment for services" (UNDP, 2004).

1.2 Background to the study area

1.2.1 Introduction

Makana comprises of Grahamstown, Alicedale, Fort Brown, Sidbury, Riebeeck East, Salem and Seven Fountains. The Makana economy is largely a service industry with some activity in the tourist and trade sectors in Grahamstown. Other activities involve agriculture, game farming and conservancy reserves in the municipality's less developed areas. Rhodes University, an internationally renowned university, forms a major role player in the areas economy (Makana IDP, 2011).

1.2.2 Socio-Economic Profile

The total Makana population in 2007 was 70 706 (Quantec, 2007). This accounted for 18% of the Cacadu district's population. 66% of the population falls within the economically active age of 15-64, which leads to a healthy dependency ratio of 0.5. This means that every economically active person supports an average of 0.5 people, made up of youth and the elderly. This may be compared with the provincial dependency ratio of 1.8, which is much higher (Makana IDP, 2011).

With regards to basic literacy, 36% of the Makana population have only been educated up to primary level, which is better than the provincial level. 22% of Makana residents have an education level of matric or higher, which is almost twice the provincial level of 13%. The implication of this is that a large proportion of the

population has the potential to become fully economic active members of society (Makana IDP, 2011).

1.2.3 Local Economic Profile

Regional Gross Geographic Product (R-GDP) is an important indicator of economic activity and comprises the value of all final goods and services produced during one year and is commonly used to measure the level of economic activity in a specific area. Figure 1 compares the Makana growth rate with that of the district and the province.

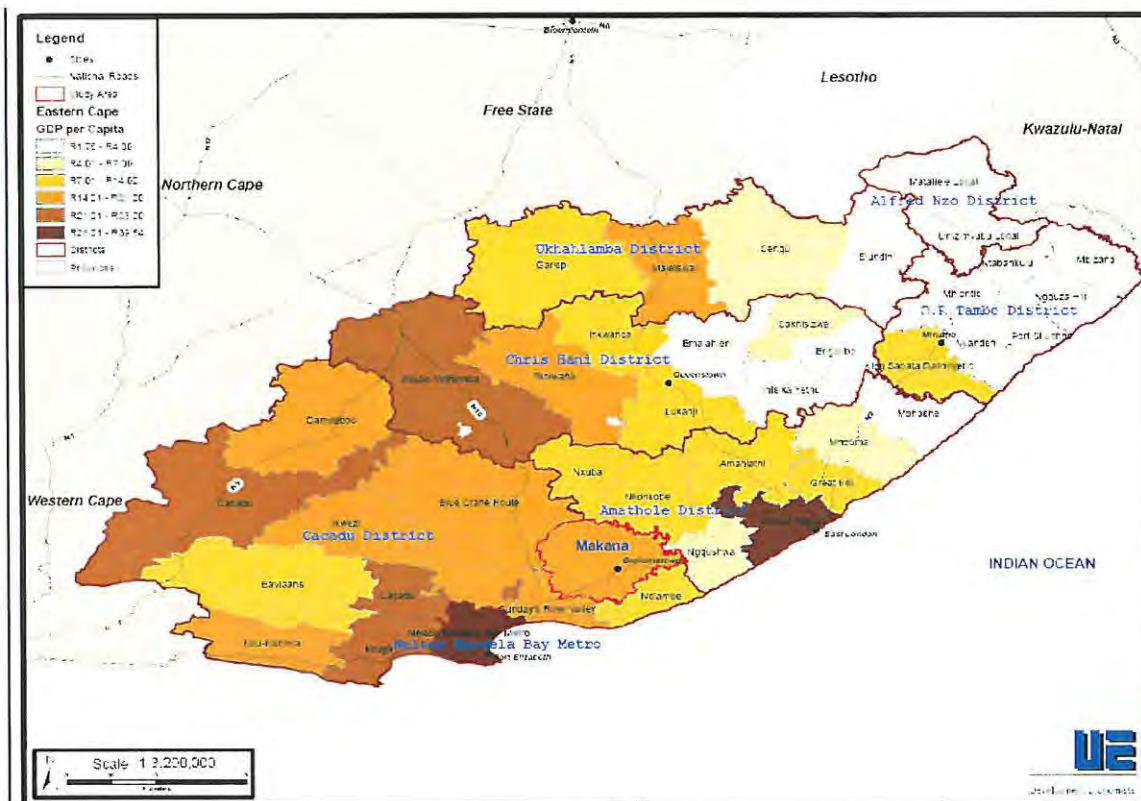


Figure 1 - R-GDP per Capita in the Eastern Cape (Source: Quantec, 2007)

The map shows that Makana's GDP per capita is in line with the provincial average. Makana's R-GDP per capita of R18.77 falls within the median range. The Makana R-GDP per capita can be explained by how the economy is characterised by service trade, with little industrial manufacturing or resource based activity.

Economic structure

The relative contribution of each economic sector to R-GDP shows how important each is to the overall functioning of the Makana economy. Of Makana's

entire R-GDP of approximately R1.3 billion, R684,046 million was generated in the Government and Community Services sector. This sector is made up of government spending in the form of municipal activities, and community services in the form of education facilities and services. The reason for the large size of this sector in Makana is the existence of several educational institutions that generate significant income for the local economy (Makana IDP, 2011).

1.2.4 Local Economic Development in Makana

Makana has a directorate dedicated to LED which is unusual for most similarly sized municipalities. This is expedient both in terms of human capital and financial resources, as well as departmental focus. The directorate's mandate is to create an enabling environment for LED (Makana LED strategy, 2009):

- The main objective of the Makana LED strategy is to create employment opportunities, alleviate poverty and redistribute resources to the benefit of all its citizens
- Identify and fund sustainable initiatives linked to the Integrated Development Plan
- Encourage entrepreneurship as well as facilitate its growth.

The LED directorate was allocated R4.3million for 2008/2009, 2.4% of the total municipal budget and the directorate employed the following staff; a Director, a Manager for Trade, Tourism and Investment, a Project Manager for Kaolin and mining, a Project manager for agriculture, an administrative officer and a secretary (Makana IDP, 2008). There is no formal LED forum in the Makana Municipality, only a business chamber and business forum which are largely inactive (Makana LED strategy, 2009).

1.2.5 BDS in the Makana Municipal area

The BDS suppliers, active in the Makana municipal area, were the Rhodes University Centre for Entrepreneurship (RUCE) and the Small Enterprise Development Agency (SEDA) office at Makana municipality (*pers comm* with Riana Meiring – Director for LED Makana Municipality, 2011).

The Centre for Entrepreneurship was a Rhodes University initiative with the aim of assisting small business in the town with the following objectives in mind:

1. to promote entrepreneurship in the area by providing general business advice. This was mainly in the form of drawing up of business plans as a requirement of applying for finance.
2. to provide a vehicle for the university to commercializing research.
3. on-going training to stimulate entrepreneurship among university students, for example, chemistry II & III students had to manufacture a product and take it to the market place.

The centre was run by a Director. He was a financial manager of an automotive factory and thereafter Managing Director of a property developing company before joining Rhodes University in 1987. Support from the university amounted to the Director's salary and free serviced office space. Operating costs had to be raised by the centre. The Centre had approximately 100 clients on their database and only provided BDS to approximately 10 clients on a regular basis. All BDS services to SMMEs were provided free of charge and RUCS never did any cost recovery. The centre did consulting for big companies like Telkom and Eskom in order to cover operating costs. The RUCS was in the process of being closed down due to restructuring of university positions. The director was moving out of RUCS to an academic department and university was moving the RUCS mandate to Community Engagement but no replacement staff had been appointed at the time.

SEDA was established in December 2004 as an objective based on a revised national support programme, the Integrated Small Business Development Strategy, implemented in 2005. The core role of the agency was to drive the future development and upgrading of the South Africa's SMME economy. SEDA in Grahamstown was a satellite office with limited resources and only one officer. They had approximately 350 active SMMEs on their database from Makana and the neighbouring Ndlambe municipalities of which approximately 180 clients were Makana based businesses. SEDA's cost recovery was set at a flat rate of 20% for all BDS services provided to SMMEs (*pers comm* with Riana Meiring – Director for LED Makana Municipality, 2011).

The SEDA officer has a BCom in Economics and Business Management and had been with SEDA for 2 years and 6 months. Her background was in financial services.

In Summary, given the small size and relatively low level of economic activity in the Makana area, some observers may argue that there is little scope for a Market Development approach to BDS in the area. However, Makana provides much scope for analysing constraints to the implementation of such business development services from a variety of settings. Grahamstown has characteristics of being both rural and urban. Besides the fact that a large proportion of the population live under typical rural conditions, the town boasts a top class university, a number of professional services and it hosts significant national events, such as the National Arts Festival, National Science Festival and Highway Africa, to name but a few. Analysing the scope and magnitude of the constraints in this setting can contribute to understanding the constraints in other parts of the country.

1.3 Goals of the research

The aims of this study were to:

- Examine the perceptions of key stakeholders towards SMME support and development within the Makana municipal area.
- Identify the constraints to the implementation of a Market Development approach to the provision of business development services to SMMEs in the Makana area.
- Make recommendations to the Makana LED office of possible intervention strategies to address identified constraints and possible outcomes.

2. Literature Review for Business Development Services

2.1 Introduction

“Economic, social and democratic reform in Europe and the Commonwealth States prompted various international organizations and donors such as United Nations Development Programme, European Commission, United States Agency for International Development, Department for International Development and German Commission for Development Co-operation (GTZ) to establish Business Development Services in response to various market failures as the result of lack of government intervention in an area” (UNDP, 2004). Back in 2001, the World Bank Group had already highlighted the failure of many institutional models of BDS to maximise the SMME contribution to local economic development and 10 years later we have not made much progress in this regard (Rogerson, 2009).

In the early 1990s, Gibb (1993) already mentions that the efforts of development agencies to bring western experiences of small business support to transition economies appear to have had limited results in terms of creating sustainable forms of institutional support. The author remarks that it had been well demonstrated that public sector organisational mechanisms, have little credibility with entrepreneurs and tend to have a culture which is bureaucratic and not entrepreneurial (Gibb, 2000). Goldmark (1998) argues that positive market forces should be used to stimulate growth and development. The author also mentions the issue of diminishing donor funds with the result that institutions increase their chance of securing assistance when their operations are self-funded. Donors are also looking for institutions that will continue their work after project funds are exhausted.

UNDP (2004) suggests a revised approach to BDS due to the many role players that are involved in the process of BDS, “raising the question as to where organizations can add value and how best it can be deployed”. The author goes on to say that “organisations need to consider how best to target limited resources as most BDS fail to become viable or sustainable once donor funding terminates”.

2.2 Business Development Services – Definition

“Business Development Services (BDS) are services that improve the performance of an enterprise and its ability to compete in the open market” (Committee of Donor Agencies for Small Enterprise Development, 2001). The definition of business development services includes a range of both operational and strategic business services (Committee of Donor Agencies for Small Enterprise Development, 2001). Operational services are those needed for day-to-day operations, such as information and communications, management of accounts and tax records, and compliance with labour laws and other regulations. Strategic services, on the other hand, are used by the enterprise to address medium- and long-term issues in order to improve the performance of the enterprise, its access to markets, and its ability to compete (Committee of Donor Agencies for small Enterprise Development, 2001).

2.3 Importance of BDS

Small, medium and micro enterprises (SMME) forms an essential part of any country's economy (Diochon, 2003) and Business Development Services are an important means of supporting the development of these SMMEs and in doing so create employment (DfID, 2002).

The requirement for sustainable BDS is growing as donor funds become limited due to the current global financial crisis. BDS providers need to recover costs by levying for services rendered. The principle is therefore full service cost recovery, overheads plus direct costs as well as considering capital replenishment costs. The advantages to the service provider in demanding compensation for their services are twofold:

- 1) to enhance organisational sustainability and thus increase the chances of being able to provide similar services to more entrepreneurs in the future; and
- 2) to benefit from price signals. SMMEs may also benefit for the same two reasons, access to a sustainable supply of services, and the chance to communicate preferences through price signals. Where full cost-recovery is not possible, an aggressive strategy can still contribute to organisational sustainability (UNDP, 2004).

Rogerson (2009) refers to the successful implementation of a BDS initiative that was undertaken in Cape Town by the Triple Trust Organization (TTO) in support of informal spaza retailing where the TTO changed from being a service provider to a market development facilitator. This move allowed the TTO to extend its outreach and address critical issues relating to market constraints in this sector thus enabling greater efficiencies within this informal market space.

2.4 Sustainable BDS

For the purpose of this research paper, the UNDP's (2004) view of sustainability is used where the term sustainability refers to the service provider and not to the businesses assisted or created through the provision of business development services. UNDP (2004) differentiates between financial sustainability of services and organisational sustainability of BDS providers.

Financial sustainability

BDS is financially sustainable when the user is required to pay for full service provision, in other words, the BDS will ensure that all of their overheads are recovered and they would charge on the basis of the direct costs incurred as a consequence of rendering a service to SMMEs, be it market research, product development, customer feedback or technical training (UNDP, 2004). Donor funding would not be utilized in rendering BDS services but would be restricted to establishment costs, kick-starting new programmes or provide selected services at lower rates.

Organisational sustainability

"Organizational sustainability differs from financial sustainability in the sense of the ability of the BDS institution to continue in existence by having continuous financial support from which to draw from in term of grants and other non-commercial revenues" (UNDP, 2004).

In BDS, the increasing emphasis on maximizing cost-recovery is due to a belief that prices serve as important signals in the marketplace. "Willingness to pay for services being offered means they are relevant and means that the provider has gained credibility in its sector or area of operation (UNDP, 2004).

Goldmark (1998) also commented that steadily increasing cost recovery along with a growing client base also serve as an indicator of success. The author argues that: "there is therefore no trade-off between serving the poor and reaching financial self-sufficiency, since a sustainable institution will by definition reach larger numbers of poor micro entrepreneurs than an unsustainable one".

2.5 Characteristics of BDS services

"The profitability margins for business development services usually shrink as the size of the businesses served decreases" (UNDP 2004). Examples of business development services which have shown to be viable at the micro enterprise level are marketing services, technology access services, accounting services, and legal services. Services which are not viable may exhibit characteristics of public goods which make them less viable at every level of enterprise size, for example, information, training and technical assistance.

2.6 BDS role players

UNDP (2004) identifies the following role players involved in BDS markets:

Small, medium and micro enterprises (SMMEs)

"The demand side of the market is SMMEs that are mostly profit-oriented and are the actual or potential clients of BDS providers" (UNDP, 2004).

BDS providers

"They provide services directly to SMMEs. They may be individuals, private for-profit firms, NGOs, government agencies, industry associations, and the like." (UNDP, 2004).

BDS facilitators

"They support BDS providers, for example, by developing new service products, promoting good practice, and building provider capacity. BDS facilitators can also work on the demand side, for example, by educating SMMEs about the potential benefits of services or providing incentives to try them." (UNDP, 2004)

Donors

"They provide funding for BDS projects and programs. In some cases, the facilitator is the project office of a donor" (UNDP, 2004).

Governments

“Like donors, they may provide funding for BDS projects and programs. The principal role of governments is to provide an enabling policy, legal and regulatory environment for SMMEs and BDS providers, as well as public goods such as basic infrastructure, education and information services.” (UNDP, 2004)

2.7 Approaches to Business Development Services

2.7.1 Traditional approach

The Traditional Development (TD) approach involves the creation of an organization to provide BDS directly to SMMEs (Sievers, Haftendorn & Bessler, 2003). Public subsidies play an important role in enabling SMMEs to obtain BDS at no or very low cost.

Provision of subsidized BDS can lead to market distortion and constrain existing and potential new BDS providers. “BDS providers develop a wide range of services but these tend to be supply-driven, outreach is relatively low and limited by the subsidies available. Financial support is expected to come from commercial activities and possibly from stakeholders such as government but neither assumption has proved valid” (UNDP, 2004).

The great majority of Business Support Centres are not financially sustainable. “The persistent lack of financial resources often results in changes to the services delivered and target groups, mutation into private companies in order to survive or indeed termination of activities” (Blue Book, 2001).

2.7.2 Market Development approach

International development agencies have for the past decade been proposing that the key to sustainability is the implementation of a Market Development approach which focusses on “for profit” activities in the provision of SMME services (UNDP, 2004, Gibson, 2001; Miehlabradt and McVay, 2003; Committee of Donor Agencies for SME Development, 2001; Bear *et al.*, 2001).

The Market Development approach is not that new anymore but its implementation and measures of success is still relatively recent (Rogerson 2009, 2011). It was formulated as a response to the poor quality of BDS, lack of sufficient

outreach and lack of sustainability observed in BDS provided via the Traditional approach (Blue Book, 2001). Its basis is that outreach and sustainability cannot be achieved through direct provision by donors. Rather, the Market Development approach seeks to facilitate a sustainable increase in demand and supply of services, where subsidies are replaced by private payment for services (Blue Book, 2001).

The ultimate goal of the Market Development BDS approach is to enable SMMEs to buy services of their own choice from a wide array of products offered primarily by unsubsidized private sector suppliers in a competitive and evolving market (Blue Book, 2001). The Market Development approach promotes as many suppliers as possible and may stimulate demand through discounted or subsidized services on a temporary basis for such activities as provision of information, market research, product development, training of suppliers, monitoring and evaluations. All these services fall into the category of “facilitating” the market by stimulating demand and supply (UNDP, 2004)

Conclusion

UNDP (2004) concludes that the viability of business development services depends on the type of service as well as local market conditions. Whereas services like marketing and technology services have the potential to be financial sustainable, other services like individualized technical assistance and training may be less financially sustainable at the SMME level, especially in poor rural economies. The recommendation is therefore that BDS providers cross subsidize income from the financially sustainable services to support the provision of other, less viable but essential services. “For this to be true, however, the business development service provider must be committed to an aggressive cost-recovery strategy and must be willing to prioritize the most viable services provided” (UNDP, 2004).

Measuring the profitability of each service provided therefore becomes very important and institutions that do not measure the loss associated with financially non-sustainable services are risking the existence of their organisations. BDS providers may therefore adjust the mix of services offered to maximized benefit to SMMEs. UNDP (2004) differentiates between “donor-supported business development service programs, designed to compensate for market imperfections,

and private sector business services which are offered by for-profit entities at cost-covering prices". The challenge is therefore in finding the right balance, whilst considering local conditions, between these approaches that will maximize financial and organisational sustainability to the benefit of the SMME sector and ultimately our country's economy.

Most of the abovementioned BDS role players are present in the Makana Municipality area. Besides the Makana LED office, both the Rhodes University Centre for Entrepreneurship (RUCE) and the Small Enterprise Development Agency (SEDA) office provide business development services. Other organisations that are also active in the area to a lesser extent are, e.g. ECDC, IDC, Business Partners, etc. The manner in which their services are offered more closely resemble the Traditional approach to the provision of business development service. Some may reason that, due to its small size, there is little scope for a Market Development approach to BDS in the area. However, Makana does provide opportunity for analysing constraints to the implementation of such business development services from a variety of settings as discussed in the introduction section of this paper. Analysing these constraints can only contribute to a better understanding of business environment in the Makana area and assist in developing a more sustainable economy in the area.

3. Research method

3.1 Data Collection

The research was conducted in a paradigm of post positivism. Post positivists believe that we each construct our own view of the world based on our perceptions of it and because perception and observation is fallible, our construction must be imperfect. The best hope to achieve objectivity is therefore to triangulate across multiple fallible perspectives (Trochim, 2006).

The research methodology was exploratory research and data was collected by means of semi structured interviews with the following major groups of BDS

stakeholders, i.e. big institutional buyers, public and private BDS service providers and the Makana LED office.

3.1.1 Sampling method

A purposive sampling method was used to identify a list of key informants from various groups of BDS role players. Individuals who provided direct services to SMMEs. Additionally, it was necessary to identify those who influenced SMME support at a strategic level.

3.1.2 Semi-structured interviews

In relation to data collection, qualitative methods include non-structured procedures from observations to interviews. According to Guba and Lincoln (1994), these qualitative analyses can include coding the information into categories or levels looking for similarities and differences among data.

The qualitative component of this study consisted of once-off semi-structured interviews conducted with ten key BDS stakeholders in the Makana area. An outline of key topics and areas of interest were prepared (Appendixes A to D). Interviews (duration of ± 45 minutes) were recorded using an Olympus DS-2400 digital voice recorder, transferred to a windows based personal computer (PC) and were transcribed by the researcher using the accompanying Olympus computer software. Semi-structured interviews were analysed through themes, creating categories. Further analysis included grouping of problems and issues in terms of occurrence of such issues, across the sample in order to understand people's opinions, attitudes and perceptions in relation to SMME development and BDS support.

Interviewees

Key stakeholders were identified as follows:

1. Big Institutional buyers: Rhodes University and Makana Municipality
2. BDS service providers: Small Enterprise Development Agency (SEDA), Rhodes University Centre for Entrepreneurship and a private accounting services company
3. Makana LED office
4. SMME owners in the IT sector

Three officials from Rhodes University and one from Makana Municipality were interviewed in the category big Institutional buyers (see interview questions in Appendix A): the Registrar of Finance, the Manager of Food Services and the Director of Residential Operations. These individuals were selected because of the influence of their respective positions on the procurement decision making process in the organisation as well as, in the case of Residential operations, the large size as a proportion of the total Rhodes University procurement budget. The Chief Financial Officer at Makana Municipality was also interviewed. The aims of these questions were to:

1. determine perceptions and approach to SMME support and development, including the perceived value of BDS
2. identify constraints to SMME support and development in terms of
 - a. SMME policy and practice of the organisation,
 - b. demand/supply requirement match by local SMMEs, and
 - c. awareness of available BDS.
3. elicit possible recommendations for the advancement of SMME support and development.

Two officials from public BDS suppliers were interviewed (see appendix B), the Director at the Rhodes University Centre for Entrepreneurship (RUCE) and an officer at SEDA situated at the Makana LED office. The owner of a private bookkeeping firm was also interviewed in order to gain a perspective from a private sector point of view (see Appendix B).

Questions to these individuals were aimed to:

1. identify constraints in term of
 - a. their client needs analysis,
 - b. capacity of the business
 - c. skill and experience of BDS staff
2. assess the level of cost recovery.
3. elicit recommendations for improved SMME support and development in the municipal area

Questions to the Director of Local Economic Development Makana Municipality appear in Appendix C. The LED office was seen by the researcher as playing a pivotal role in SMME development in the area, coordinating and bringing together key role players. It was seen as having the necessary political influence to deliver on its mandate, which was to create an enabling environment for all business to thrive in the Makana municipal area.

It was decided to interview two SMME owners in the IT industry in the Makana area. The reason for this was that although food and stationary were the University's biggest procurement spends, preliminary discussions with University staff and procurement officers indicated that there were already good existing linkages in place with local suppliers in these markets. Information Technology (IT) was identified as not having, as could be expected, similar linkages with local businesses. There are an ample number of IT companies in the Makana municipal area and yet IT trade with RU is very limited. The owners of two IT companies, IT Solutions and Albany Computers, were interviewed as IT SMME owners in the Makana area (Appendix D). IT Solutions is the biggest IT company in the area, employing 14 full time consultants. Albany computer was interviewed because, although small in size, they were the longest surviving IT company in the Makana area (23 years) and therefore had a very good understanding of the IT and SMME environment in Makana.

3.1.3 Data Analysis

In analysing the data, the researcher looked for patterns in the data. This enabled the grouping and coding of certain patterns that occurred in the transcripts of the interviews.

The steps involved in this approach were generating a code, reviewing and revising the code, and determining the validity of the coders and code according to the method of Boyatzis (1998). Generating the code refers to collecting and grouping certain patterns within the data and assigning a specific code to similar patterns. This allowed thematic identification of the data. Once the themes that evolved out of the coding process had been identified, they were discussed using examples from the interviews and consolidated within the theoretical grounding from the literature review.

4. Results and Analysis of semi-structured interviews

4.1 Perceptions of officials at big institutional buyers

4.1.1 Approach to SMME support

Perceptions were determined by questioning respondents on 3 issues: approach (understanding of importance) to SMME support, perceived value of local suppliers and perceived value of private BDS in the procurement value chain.

Interviews with both the University as well as Makana municipality revealed that there existed a lot of good intention to support SMMEs as can be deduced from the following statements:

"We've realised that without Rhodes, Grahamstown Makana would not be much here".

"We have a strong sense of responsibility to ensuring that there is a relationship with the town, not because we're trying to gain any incentives but we feel it is the right thing to do"

"... it is a moral obligation not a business obligation for us to be supporting local (business)."

"Supporting local businesses, means that we are assisting with employment, limiting our carbon footprint, enhancing business potential in a small town. Rhodes contributes about 60% of Grahamstown GDP".

From these responses one can deduce that officials at the big institutions realize the importance of the role that their organisation plays in the economy of the Makana municipal area, in other words, the importance of supporting local business and in particular SMMEs. Reasons given by interviewees ranged from *"the creation of employment"* to *"the upliftment of the community"*, including *"crime prevention"*.

Even in cases where local suppliers were not suitable, outside suppliers were only contracted on condition that, as much as possible, local labour and materials were used which shows commitment from the University to support local enterprise.

"When outside contractors built the new residences they had to use local suppliers, for example, electricians, plumbers, etc. In some cases we've had to overrule the contractors where they wanted to use outside suppliers to use Makana suppliers"

The university had also established the Rhodes University Centre for Entrepreneurship (RUCE) for the provision of BDS to assist local businesses in taking advantage of local opportunities. The main aim of the centre was to provide training to small business owners. RUCE was unfortunately in the process of being moved due to restructuring as a result of *"it not meeting its mandate"* Future training was however to be provided by other means according to the Registrar of Finance:

"If an entrepreneur does need assistance we will link them through various counsellors with someone at the university with the skills necessary if possible and feasible within reason"

"Where people have tendered for certain functions or jobs, we have provided assistance with completing tender documentation".

4.1.2 Perceived value of local suppliers

Rhodes University officials had mixed perceptions regarding the value of local suppliers. Food service at Rhodes University place a lot of value on local suppliers but the Registrar of Finance on the other hand thought that modern day logistics cancelled out any advantage that local suppliers might have had in the past, the difference being between fresh and non-fresh supplies:

"There might be opportunities where the availability is so much and relationships can be built and there is stock that might be available, but with logistics nowadays that doesn't always bring an advantage. So for me it is very much about building the community"

Makana municipality had to adhere to the Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA) and could therefore not give any preference to local suppliers. They were, however, in the process of formulating policy that would enable them to implement a points system that would score suppliers according to proximity to the Makana area.

4.1.3 Perceptions regarding payment for BDS services

All Rhodes University officials perceived an intermediary as only adding cost to the procurement process. The Purchase Consortium of South Africa (PURCO), a purchase consortium for higher education in South Africa, was mentioned as a bad experience by some officials. Some departments, although they were encouraged to support PURCO, could never show the financial benefits of using their services.

Makana officials were receptive to the idea of paying for an intermediary that would be effective in the services provided. It was even seen by the official as a business opportunity in drawing up a proposal to council for offering these BDS services on behalf of the municipality.

4.2 Constraints to SMME support and development

Interviewees pointed out activities resulting from day-to-day operational priorities of the University that may counter the good intentions of any pro-SMME practice, pointing to constraints to SMME support and development. Issues that the university management need to become aware of include the following findings:

The findings are presented in the form of the following 5 themes:

- Theme 1. Inconsistent practice in dealing with SMMEs across the organisation.
- Theme 2. The need for a representative Chamber of Commerce or cooperative body.
- Theme 3. Fragmented Business Development Services offered
- Theme 4. A lack of a culture of cost recovery
- Theme 5. Limited awareness of BDS in the Makana area

Each of these themes are corroborated with supporting quotes from the interviewees. Quotes are then analysed and the underlying causes are examined, where after the requisite SMME support issues are discussed

4.2.1 Theme 1 - Inconsistent practice in dealing with SMMEs across the organisation.

Inconsistent practice at Rhodes University was found due to the following factors:

- lack of a coherent SMME policy and lack of an enabling environment
- socio economic factors affecting the outsourcing decision,

- market distortion caused by on campus suppliers, and
- onerous compliance requirements.

Incoherent SMME policy.

The following was said regarding an SMME policy at the University:

"I'm not sure if it is (SMME policy) written. It is very public and quoted often".

"there is a policy but it is only applied in Food Services and Residential Operations"

"we are in the process of drawing up a procurement policy. This is a general policy that does not specify SMMEs".

Although there was a general acknowledgement of the importance of *"doing the right thing"* by supporting local SMMEs, there was inconsistent practice across the university. On the one hand, Residential Operations had a practice in place that scored suppliers according to BEE status and proximity to the University while, on the other hand, the Registrar of Finance did not support preferential pricing for fear that Makana based suppliers would exploit their local advantage. According to the Registrar, Makana based suppliers had to be price competitive:

"I gave the order: "No, if the local guy is much more expensive than the external one...there is no reason why it should be the case."

The University had made it publicly known that they were keen to support local business but discussions were only taking place at top management level and procurement officers were often not included in these discussions. Also, no training was offered to procurement officers regarding the desired procurement practice of the University.

Also, one SMME owner said: *"entrepreneurs have to pay to advertise on campus, it is not free, for example, interested companies needed to sign up for R5000 per day during orientation week"*. There are very few SMMEs that would be able to pay the amount of money for advertising in Makana so that also represents a major constraint for granting small business access to the lucrative student market.

“Socio-economic” factors

The following was said regarding outsourcing at Rhodes University:

“I (Director of Residential Operations) have co-signed a document with the Vice Chancellor stating to NEHAWU that I will oppose outsourcing... it is a moral imperative to providing as much employment as possible to Makana.

“Whoever we outsource to will employ the same people we’re employing and they will be paid a fraction of what we pay them to do the same job.”

“I think they have a sense of comfort knowing that we won’t be outsourcing. It plays a huge factor when they are sitting with wage negotiations.”

A number of services at the University were being outsourced to local suppliers which promotes local entrepreneurship in the area, amongst others were, laundry services, engineering, campus security and some garden services. The University had, however, signed an agreement with trade unions that outsourcing would not be promoted at the university. Although this had positive effects on employment figures, it did not promote entrepreneurship in the area. The ILO (2000) rather suggests enterprise creating as a more sustainable form of job creation.

Market distortion.

Owners of IT businesses in town had the following to say regarding practices on the Rhodes University campus:

“The IT shop at Rhodes has put a huge dent to shops in town. They get their merchandise at 15% less than my selling price is so they can decide to put on 10% and they will still be cheaper than any IT shop in town”

“Rhodes IT staff sell hardware and run their own little IT consulting companies from campus using University resources with which we cannot compete”

“we are not even given opportunity to quote for large PC purchases”

A big institutional buyer like Rhodes University has major effects on markets in the Makana municipal area. The university, and understandably so, uses this big buying power to get preferential pricing from suppliers when buying directly. The problem comes in when the university also passes these prices onto staff and students by means of providing on-campus supplies at cost prices, for example, the

IT shop, plumbing and paint store, thereby causing a distortion in these markets. Both Hitchins (2002) and Bear *et al* (2003) warns about the market distorting effect of subsidies for state provided business support that hinder the development of private sector BDS.

These "Rhodes University stores" operate at an unfair advantage to stores in the town with minimal overheads. They use university premises, electricity, water and other services at no cost. Coupled with the fact that they do not operate "for profit" they cause distortions in the market by providing their services at below market related pricing making it difficult, if not impossible, for town entrepreneurs to compete. Rhodes University didn't even buy from Port Elizabeth based suppliers. They bought directly from Cape Town.

Compliance as a constraint to trade

Rogerson (2006) argued that legislation often proves to be very onerous to the SMME owner who is also struggling to establish himself in his/her business. SMMEs often do not comply with legislation and this sometimes prevents them from moving to the next stage of the business cycle. The private BDS supplier (the bookkeeper) identified compliance as a major constraint to direct trade with Rhodes University for his clients. He mentioned tax clearance and BEE certificates that were expensive.

"A typical small business could pay as much as R1000 per year for a BEE certificate. One of my larger clients had a BEE certificate issued at a cost of R10,000".

Rhodes University officials mentioned the following compliance issues:

"With construction Rhodes requires certain guarantees with regards to the quality of the product. Previous bad experience with "small scale" builders by sister institutions necessitated strict compliance."

"There are also compliance issues with small scale suppliers. Due to the risk of food poisoning and the large numbers of students involved, suppliers need to be HACCP certified. This is unfortunately very onerous for SMMEs to obtain. It could be seen as a constraint but also an (competitive) advantage."

According to the Small Business Programme (SBP) (2005), South Africa faces a particularly broad range of regulatory challenges. The SBP (2005) argued that while there are costs associated with compliance there are also many benefits to be drawn from it.

Recommendation one

The perception of Rhodes University officials was that the University was central to the economic development of the Makana municipal area. If this is the case then this should be captured in the formulation of a procurement policy that would promote and support local business in general and SMMEs in particular in the area. UNDP (2004) suggested support by means of the Market Development approach to BDS.

In order to address constraints, the University management should be aware of how everyday operational issues impact entrepreneurship. Some of these issues, especially socio-economic factors, for example, employment versus outsourcing versus entrepreneurship are very contentious issues but management needs to be informed of all repercussion of their decisions. ILO (2000) suggest that organisations need to take a long term view and move from direct employment creation to enterprise creation which is a more sustainable and empowering source of employment.

Miehlbradt and McVay (2003) recognised that the standard public policy incentives designed to create a conducive environment for SMMEs (grants for investment, special loan schemes and guarantees, provision of premises and business development services have not been overwhelmingly successful. Gibb *et al* (2006) also recognize the difficulty of getting inside the dynamic of small business communities and influencing it but they encourage policy makers to keep trying.

In order not to avoid market distortion within the Makana municipal area market, university decision makers should become aware of the effects of participating in various local markets, like supplying IT equipment and IT consulting services as well as building hardware supplies to staff at below market prices. That way local business is not negatively affected by the presence of the University in the town.

Compliance is an important requirement to ensure quality. While the University cannot reduce compliance or do away with it in its day-to-day operations, they can assist entrepreneurs to become compliant by arranging regular training sessions. This should be done by private service providers according to the Market Development approach. Training could, perhaps, also have been done by the Centre for Entrepreneurship which ironically did similar training for large parastatals like Eskom and Telkom.

4.2.2 Theme 2 – Absence of a cooperative body or representative Chamber of Commerce

Both Rhodes University as well as the Makana Municipal officials saw no need for an intermediary supplying private business development services to promote trade with SMMEs. They would rather have a cooperative body to coordinate supply of goods and services to the university and municipality. Rhodes University officials felt that private BDS would only add costs to the procurement process. The Chamber of Commerce was said to be not representative of all businesses in town and needed to become more inclusive, especially of small businesses.

The size of SMMEs also emerged as an important deciding factor. The University was not keen to deal with multiple small suppliers as it would increase the administrative load and creates the possibility of inconsistent standards. The University indicated that they would be willing to purchase a said percentage from a cooperative if such existed.

“It’s a huge amount more admin ... We’ve indicated to them that if Makana Municipality can get the local community together to form a coop(erative) and they can meet our quality standards ...we will then guarantee that we will procure initially 10% what they produce locally”

“I think if we sat with Makana and the service providers and explain what our requirements are and what products we’re needing, I think we’ll probably get more buy-in from the town. I don’t think the town knows what our needs are and in terms of our buying power how big it is”.

Recommendation two

Throughout most of the interviews, respondents indicated that the Chamber of Commerce that was operating in Grahamstown was not adequately representative, especially of small business in the Makana area. Big institutional buyers wanted to have one point of contact with Grahamstown business in the form of a cooperative, a role that could perhaps be facilitated by the Makana LED office. Big institutional buyers also need to be convinced of the value of private Business Development Services. The Chamber of Commerce should arrange training sessions for SMMEs on procurement requirements of big institutional buyers. They could also serve as a central point of contact with big institutional buyers. They could even market SMME products and services outside the area.

4.2.3 Theme 3 – Fragmented Business Development Services

Interviews conducted with various public and private BDS providers revealed that BDS offered in the Makana municipal area was fragmented and no business performance monitoring was taking place. SMME life cycles are widely recognized as start-up, growing and mature (Rogerson, 2000). The SEDA office as well as RUCE mainly provided general business advice for start-up businesses and guidance with market research which is only geared toward drawing up of business plans with the sole aim of applying or securing funding from banks or other funding bodies. BDS in the Makana area therefore seemed to focus largely on the first start-up phase and did not give assistance to businesses into the more profitable growing and mature phases. Once funding is secured the need for BDS declines and then there was no or little on-going use of (or need for) BDS.

RUCE did not measure business performance for any of their clients. No reporting was done regarding, for example, the number of clients assisted or business progress. Due to a lack of capacity at RUCE, clients who could not be assisted with their specific needs were referred to 3rd party companies that could assist. Clients were referred back to SEDA who would connect clients to the appropriate service providers on their books.

SEDA did business performance monitoring in terms of turnover but did little to recommend steps to improve business performance. They used turnover to track business performance of their clients to measure growth since the starting date of intervention but limited assistance was available to struggling businesses due to Makana not being a major centre.

Recommendation three

A number of organisations offer BDS in the Makana area but none of these offer comprehensive BDS that will assist business on an on-going basis throughout the business life cycle. Esek (2008) emphasised the need to recognise a mutual interdependence and that governments at all levels are challenged to keep pace with the demands of their constituencies. Both SEDA and RUCE give lack of capacity as a reason for fragmented BDS offered. The recommendation would therefore be for all role players, among others, Rhodes University (RUCE), SEDA, Makana LED, the Makana Chamber of Commerce, Banks and other Funding agencies to work together and combine resources to offer a comprehensive BDS for the Makana area; a service that focusses on small business. Funding agencies and banks should rather provide conditional funding subject to enrolment to on-going BDS. Banks and Funding agencies do not do have the capacity to do monitoring, they only require SMME to repay their loans. Banks and BDS providers should therefore work together to put small businesses on a growth path to grow into medium into big business.

4.2.4 Theme 4 – A culture of no cost recovery

A culture of free BDS

All BDS offered by RUCE was free of charge and although staff agreed that it would be a good idea for SMMEs to pay for services, they did not think that it was feasible due to the small and micro nature of businesses assisted. The RUCE was partly funded by the University. The director's salary was paid by the University and they were given free serviced office space but operating costs had to be raised by RUCE itself by consulting to companies like Eskom and Telkom. So BDS was offered for free to clients of the centre and alternative sources of funding were used to fund operating costs. These included money from the National Innovation Fund.

According to the director of RUCE, the only time clients were required to pay was when the unit was contracted by big companies. In other words

"if the client went to ECDC, ECDC would be invoiced for the service. When clients approached RUCE directly they would not be charged."

Neither the director nor RUCE was an accredited service provider which prohibited them from being listed as a BDS service provider on Governmental and other databases. The director could also not identify additional services that the centre wanted to offer if additional funds were available (by charging clients for services rendered) indicating that no capacity for a Market Development BDS. This was mainly due to a very limited mandate of RUCE. According to the director this mandate would only have been extended if more staff were employed.

SEDA, on the other hand, although heavily subsidized, had a clear policy regarding payment of services. There was a flat rate for all clients at a ratio of 20:80 with clients required to pay only 20% of any BDS costs incurred. SEDA offices (the 80%) were jointly funded by Cacadu Municipality and DTI.

Good cost recovery for private BDS

The private BDS provider ran his bookkeeping business on a cash basis and he had never experienced that people turned away or complained because of costs. His clients are mostly retailers so they traded with the man in the street. Only a few of them traded with Rhodes University and Makana Municipality. His clients benefitted from secondary trade with Rhodes University and Makana.

On the question of whether he thought that government subsidised BDS services interferes with his business sustainability, the private BDS provider responded: "No". From his experience subsidized BDS was of such poor quality that some clients would rather come to him after being dissatisfied with the subsidized BDS.

Recommendation four

RUCE and SEDA offices were providing free and heavily subsidized BDS to SMMEs in the Makana area, which was causing market distortion. Subsidized services was also said to be of a poor quality. Recommendation number 3 suggested a comprehensive BDS for the Makana area by combining limited

respective resources. The recommendation on cost recovery is therefore that the comprehensive Makana BDS be done according to the Market Development approach as far as possible. Some operational BDS like marketing, accounting and information technology, lends itself better to the Market Development approach and these services should therefore be targeted for implementation of this approach. A comprehensive database of service providers should be drawn up and SMMEs should be allowed to choose the service provider whom they feel most comfortable with based on quality of service rather than price.

4.2.5 Theme 5 – Limited awareness of BDS in the Makana area

Bob *et al.* (2005) pointed out that in terms of the Business Support Services, less than 20% of the respondents were aware of the services/ support provided for the SMMEs in the study area. Both SMME owners as well as the bookkeeper were totally unaware of any government subsidised BDS offered in the Makana area by SEDA or any other service provider. Although he was aware of the usual private BDS for example, accounting, legal, ICT services and the like, none of the two SMME owners interviewed ever made use of any such services.

“I see myself as a sole proprietor, self-contained, doing all necessary marketing by myself. I never made use of any marketing or accounting services. It’s always been word of mouth marketing.

“None of my clients make use of subsidized BDS and I am also not aware of any such services rendered by Makana municipality. Do they advertise these things? I read the Grocott’s local newspaper but I’ve never seen anything like that advertised”

Both Makana officials alluded that Imbizos, workshops to promote SMME trade held in the Makana Municipal area, were very poorly attended.

Recommendation five

Many businesses make use of BDS to draw up bankable business plans merely to become eligible for finance from banks. BDS providers as well as banks should make use of the opportunity at this juncture, when application for finance is required, to advertise their services and banks should couple the provision of finance

to on-going BDS. Banks should use monitoring by BDS providers to monitor their “investment” in the enterprise.

The imbizos were found to be very poorly attended in the Makana area, similar to the findings of Jackson (2004). This could be as a result of SMME owners not perceiving value in these workshops or due to a lack of awareness as a result of poor advertising. It is recommended that the LED office balance planning of these Imbizos with communicating the benefit of these sessions to SMMEs as well as advertise extensively via the most effective means to ensure that the correct target market is attracted.

4.3 Concluding remarks

South African biggest challenge remains the high rate of unemployment especially among the country’s youth and the Eastern Cape, arguably the poorest province, is particularly adversely affected. Small, medium and micro-enterprises (SMMEs) have been shown to be instrumental in many third world economies as a sustainable means to address this problem but despite government’s good intentions and support, many SMMEs still do not thrive or grow as expected (UNDP, 2004). Good business development services (BDS) is necessary in order for SMMEs to thrive (Dawson, 1997).

“The Market Development approach to the provision of BDS was formulated as a response to the poor quality of services delivered and seeks to facilitate a sustainable increase in demand for services, where subsidies are replaced by private payment for services” (UNDP, 2004).

The aim of this study was to examine the perceptions of key stake holders towards SMME support and development within the Makana municipal area and to identify the constraints to the implementation of a Market Development approach to the provision of business development services to SMMEs in the Makana area. Thirdly, it was to make recommendations to the Makana LED office of possible intervention strategies to address identified constraints and possible outcomes.

The findings are summarized into five themes that emerged from the interviews conducted with respondents

- Theme 1. Inconsistent practice in dealing with SMMEs across the organisation.
- Theme 2. Absence of a cooperative body or Chamber of Commerce.
- Theme 3. Fragmented Business Development Services
- Theme 4. A lack of a culture of cost recovery
- Theme 5. Limited awareness of BDS in the Makana area

A number of recommendations were suggested mainly aimed at the Makana LED office. These included big institutional buyers like Rhodes University becoming more aware of the importance of SMME in the local economy, needing to take a longer term view and move from employment creation (in the form of direct employment) to enterprise support which is a more sustainable and empowering source of employment. The Grahamstown Chamber of Commerce should become more representative by encouraging more SMMEs to join. Big institutional buyers also need to be convinced of the value of private Business Development Services so that they might be more willing to pay for BDS instead of expecting struggling SMMEs to pay for these critical services. BDS role players should work together and combine resources to offer a comprehensive BDS for the Makana area and that this comprehensive Makana BDS be done according to the Market Development approach as far as possible. Some BDS lends itself better to the Market Development approach and these services should therefore be targeted for implementation of the MD approach and lastly awareness of BDS services should couple the provision of finance.

References

- Babbie, E. 2008. *The Basics of Social Research*, 4e. Thomson Wadsworth. Belmont.
- Babbie, E., & Mouton, J. (2003). *The Practice of Social Research*. Oxford: Oxford University Press.
- Bear, M.; Gibson, A. and Hitchins, R. (2001). *A guide for agencies on the emerging market development approach to BDS; Micro-enterprise Best Practices*

- Berry, A.; von Blottnitz, M.; Cassim, R.; Kesper, A.; Rajaratnam, B. and van Seventer, D.E. (2002). The economics of SMMEs in South Africa, Unpublished draft paper for Trade and Industrial Policy Secretariat, Johannesburg, www.tips.org.za
- Bob, U.; Moodley, V.; Perry, E.C. and Gumede, N.P. (2005). An evaluation of SMME Exhibitors at the SMME Fairs since 1998, Report written for the eThekweni Municipality
- Chetty, A. (2009) A critical analysis of current approaches to SMME development and support within the eThekweni Municipal Area. PhD Thesis. School of Environmental Sciences, University of KwaZulu Natal, Durban, 2009
- Committee of Donor Agencies for Small Enterprise Development "Blue book" (2001) Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention, also known as the "Blue Book". World Bank Group Washington, PDC, USA
- Dawson, J., 1997: Beyond credit--the emergence of high-impact, cost-effective business development services, Small Enterprise Development, 8 (3), 15-25
- Department for International Development (2002) Getting Realistic about Creating Financially Sustainable Business Development. <http://www.dfid.gov.uk>
- Diochon, M.C. (2003), Entrepreneurship and Community Economic Development, McGill-Queen's University Press, Quebec.
- Esek (2008). Public-private partnerships, Esek publication <http://www.esek.co.za> .
- Institutions, by Stanton, D. and Boulter, R., Department for International Development.
- Gibb, A. (1993) 'Enterprise culture and education: Understanding enterprise education and its links with small business, entrepreneurship and wider educational goals'. International Small Business Journal. Vol. 11. No.3. April/June
- Gibb, A. (2006). Making markets in business development services for SMEs. Taking up the Chinese challenge of entrepreneurial networking and stakeholder relationship management. Journal of Small Business and Enterprise Development Vol. 13 No. 2, 2006 pp. 263-283. Emerald Group Publishing Limited.

- Gibson, A. (2001). The BDS Market Development Approach: Rationale and Key Issues, Springfield, presentation at SEED Conference, Springfield, <http://www.seed.org>.
- Goldmark, L. (1998). Sorting Out the truth: the Financial Viability of Business Development Services, International Conference on Building a Modern and Effective BDS Industry, Rio de Janeiro, 1999.
- Guba, E. and Lincoln, Y. (1994). Competing paradigms in qualitative research. In Denzin, N. and Lincoln, Y. (eds.) Handbook of Qualitative Research Sage: Thousand Oaks, California, U.S.A.
- Henry, S. (2006). Good Practice in Business Development Services: How Do We Enhance Entrepreneurial Skills in MFI Clients? Toronto
- International Labour Office, (2009). Sustainable enterprise development and employment creation in the Arab region: A review of issues Thematic Paper. Arab Employment Forum, Beirut, Lebanon 19–21 October 2009
- Jackson, P.L.M. (2004). Entrepreneurial support in South Africa: A case of a small enterprise support centre in South Africa, Masters Dissertation, University of Birmingham, United Kingdom.
- Makana Local Municipality Integrated Development Plan (Makana IDP) Review 2011-2012.
http://www.makana.gov.za/index.php?option=com_docman&task=cat_view&gid=76&Itemid=17
- Makana Municipality Local Economic Development (LED) Strategy 2009. Part I, Situation analysis.
http://www.makana.gov.za/index.php?option=com_docman&task=cat_view&gid=76&Itemid=17
- Maxwell, D. (1998): Can qualitative and quantitative methods serve complementary purposes for policy research? Evidence from Accra, Food Consumption and Nutrition Division, International Food Policy Research Institute, Discussion Paper No.40, Washington, D.C., U.S.A.
- McMillan & Schumacher, 2001. Research in education: A conceptual introduction, 5e. Longman: New York, NY.
- Miehlbradt, A.O. and McVay, M. (2003). Developing commercial markets for Business Development Services: BDS Primer for Fourth Annual BDS

Seminar, Turin, Italy, Small Enterprise Development Programme of the International Labour Organisation, Geneva.

Quantec Consulting Inc., 2007. South Africa Development report..

Rogerson, C.M. (2000). Successful SMEs in South Africa: the case of clothing producers in the Witwatersrand. Development Southern Africa Vol 17, No 5, December 2000

Rogerson, C.M. (2006). The market development approach to SMME development: Implications for Local Government in South Africa, School of Geography, Archaeology and Environmental Studies, University of the Witwatersrand, Johannesburg. Urban Forum, Vol. 17, No. 1, January-March 2006.

Small Business Programme (sbp) (2005). Counting the cost of red tape for business in South Africa. November 2004.

[http://www.sbp.org.za/uploads/media/Counting the Cost of Red Tape for Business in South Africa.pdf](http://www.sbp.org.za/uploads/media/Counting%20the%20Cost%20of%20Red%20Tape%20for%20Business%20in%20South%20Africa.pdf)

Sievers, M., Haftendorn, K. & Bessler, A. (2003) Business Centres for Small Enterprise Development Experiences and Lessons from Eastern Europe, ILO SEED Working paper No. 57.

United Nations Development Programme (UNDP) (2004). Business development services: How to Guide. Bratislava. <http://europeandcis.undp.org/poverty/show/FA14BD48-F203-1EE9-BFE68960B3314C1D>

World Bank Group (2001), SME: World Bank Review of Small Business Activities, 2001, World Bank Group Small and Medium Enterprise Department, Washington, DC.

SECTION B

Business Development Services Literature Review

1 Introduction

“Economic, social and democratic reform in Europe and the Commonwealth States prompted various international organizations and donors such as United Nations Development Programme, European Commission, United States Agency for International Development, Department for International Development and German Commission for Development Co-operation (GTZ) to establish Business Development Services in response to various market failures as the result of lack of government intervention in an area” (UNDP, 2004). Back in 2001, The World Bank Group already highlighted the failure of many institutional models of BDS to maximise the SMME contribution to local economic development and 10 years later not much progress had been made in this regard (Rogerson, 2009).

In the early 1990s, Gibb (1993) already mentions that the efforts of development agencies to bring western experiences of small business support to transition economies appear to have had limited results in terms of creating sustainable forms of institutional support. The author remarks that it had been well demonstrated that public sector organisational mechanisms, have little credibility with entrepreneurs and tend to have a culture which is bureaucratic and not entrepreneurial (Gibb, 2000). Goldmark (1998) argues that positive market forces should be used to stimulate growth and development. The author also mentions the issue of diminishing donor funds with the result that Institutions increase their chance of securing assistance when their operations are self-funded. Donors are also looking for institutions that will continue their work after project funds are exhausted.

UNDP (2004) suggests a revised approach to BDS due to the many role players that are involved in the process of BDS, “raising the question as to where organizations can add value and how best it can be deployed”. The author goes on to say that “organisations need to consider how best to target limited resources as most BDS fail to become viable or sustainable once donor funding terminates”.

2. Business Development Services – Definition

“Business Development Services (BDS) are services that improve the performance of an enterprise and its ability to compete in the open market” (Committee of Donor Agencies for Small Enterprise Development, 2001). The definition of business development services includes a range of both operational and strategic business services (Committee of Donor Agencies for Small Enterprise Development, 2001). Operational services are those needed for day-to-day operations, such as information and communications, management of accounts and tax records, and compliance with labour laws and other regulations. Strategic services, on the other hand, are used by the enterprise to address medium- and long-term issues in order to improve the performance of the enterprise, its access to markets, and its ability to compete (Committee of Donor Agencies for small Enterprise Development, 2001).

2.1 Importance of BDS

“Small, medium and micro enterprises (SMME) undoubtedly play a very important role in the development of any economy” (Diochon, 2003). “BDS are a very important means of supporting the development of these SMMEs, and thereby create employment, generate income and contribute to economic development” (DfID, 2002).

2.2 Importance of sustainable BDS

The requirement for sustainable BDS is growing as donor funds become limited due to the current global financial crisis. BDS providers need to recover costs by levying for services rendered. The principle is therefore of full service cost recovery, overheads plus direct costs as well as considering capital replenishment costs. The advantages to the service provider in demanding compensation for their services are twofold:

- 1) to enhance institutional sustainability and thus increase the chances of being able to provide similar services to more entrepreneurs in the future; and
- 2) to benefit from price signals. The micro entrepreneurs may also benefit for the same two reasons, access to a sustainable supply of services, and the chance to communicate preferences through price signals. Where full cost-

recovery is not possible, an aggressive strategy can still contribute to institutional sustainability (UNDP, 2004).

Rogerson (2009) refers to the successful implementation of a BDS initiative that was undertaken in Cape Town by the Triple Trust Organization (TTO) in support of informal spaza retailing where the TTO changed from being a service provider to a market development facilitator. This move allowed the TTO to extend its outreach and address critical issues relating to market constraints in this sector thus enabling greater efficiencies within this informal market space.

2.3 Sustainable BDS

For the purpose of this research paper, the UNDP's (2004) view of sustainability is used where the term sustainability refers to the service provider and not to the businesses assisted or created through the provision of business development services. UNDP (2004) differentiates between financial sustainability (i.e., potential for profitability) of services and institutional sustainability of BDS providers.

Financial sustainability

BDS is financially sustainable when the user is required to pay for full service provision, in other words, the BDS will ensure that all of their overheads are recovered and they would charge on the basis of the direct costs incurred as a consequence of rendering a service to SMMEs, be it market research, product development, customer feedback or technical training (UNDP, 2004). Donor funding would not be utilized in rendering BDS services but would be restricted to establishment costs, kick-starting new programmes or provide selected services at lower rates.

Organisational sustainability

"Organizational sustainability differs from financial sustainability in the sense of the ability of the BDS institution to continue in existence by having continuous financial support from which to draw from in term of grants and other non-commercial revenues" (UNDP, 2004).

In BDS, the increasing emphasis on maximizing cost-recovery is due to a belief that prices serve as important signals in the marketplace. "Willingness to pay for services being offered means they are relevant and means that the provider has gained credibility in its sector or area of operation (UNDP, 2004).

Goldmark (1998) also commented that steadily increasing cost recovery along with a growing client base also serve as an indicator of success. The author argues that: "there is therefore no trade-off between serving the poor and reaching financial self-sufficiency, since a sustainable institution will by definition reach larger numbers of poor micro entrepreneurs than an unsustainable one".

2.4 Actors and their roles

UNDP (2004) identifies the following actors involved in BDS markets:

Small, Medium and Micro enterprises (SMMEs)

"The demand side of the market is micro enterprises and SMMEs that are mostly profit-oriented and are the actual or potential clients of BDS providers" (UNDP, 2004).

BDS providers

"They provide services directly to SMMEs. They may be individuals, private for-profit firms, NGOs, or government agencies, industry associations, and the like". (UNDP, 2004).

BDS facilitators

"They support BDS providers, for example, by developing new service products, promoting good practice, and building provider capacity. BDS facilitators can also work on the demand side, for example, by educating SMMEs about the potential benefits of services or providing incentives to try them." (UNDP, 2004)

Donors

"They provide funding for BDS projects and programs. In some cases, the facilitator is the project office of a donor" (UNDP, 2004)

Governments

“Like donors, they may provide funding for BDS projects and programs. The principal role of governments is to provide an enabling policy, legal and regulatory environment for SMMEs and BDS providers, as well as public goods such as basic infrastructure, education and information services.” (UNDP, 2004)

3. Characteristics of BDS services

The profitability margins for business development services usually shrink as the size of the businesses served decreases. Examples of business development services which have shown to be viable at the micro enterprise level are marketing services, technology access services, accounting services, and legal services. Services which are not viable may exhibit characteristics of public goods which make them less viable at every level of enterprise size, for example, information, training and technical assistance (UNDP, 2004).

Sustainability may also be defined in a market context, for example, creation of sustainable markets by initially subsidizing certain beneficial products and hoping to catalyse market development. While subsidizing may not be sustainable the new support businesses which emerge as the market grows should be (UNDP, 2004).

3.1 Market Access

UNDP (2004) found that when marketing involves intermediating, subcontracting, or brokering goods, it seems likely to be viable and is often accompanied by other less viable services, such as technical assistance and the provision of market information. These less viable services may be necessary to ensure the delivery of quality products on time, or to facilitate access to new markets.

Administrative and operating costs for a company purchasing goods from many small producers will probably be relatively high (Goldmark, 1998). The decision to provide complementary services without recovering their full costs may

further decrease already narrow profit margins. The small producers' lack of access to credit may force the intermediary to offer advances.

3.2 Infrastructure

This often includes storage and warehousing, transport and delivery, business incubators, telecommunications, internet access, computer access and secretarial services.

3.3 Technology and product development

This includes technology transfer and commercialization, linking SMMEs and technology suppliers, facilitating technology procurement quality assurance programmes as well as design services.

Technology access providers charge micro entrepreneurs for access to the most up-to-date equipment in their sector. UNDP (2004) suggests that cost-recovery levels of technology access services are relatively high. UNDP (2004) found that although technology access services can be extremely profitable, they are rarely able to fully finance the entire institution's operations. As the technology becomes more accessible in the market place, service profitability declines and service providers are pressed to come up with new services, offering access to new equipment which local small and micro entrepreneurs cannot currently obtain in the local market.

3.4 Policy and advocacy

According to Chinese practice important principles can be regarded as a policy basis for building regional and national SMME development support. Decentralisation and local empowerment is seen as key to small enterprise development. This allows freedom for local actors, within resource constraints and under pressure, to build real coalitions forcing synergy between political, social and economic goals. Successful local SMME development demands entrepreneurial behaviour by all key stakeholders in the local community (UNDP, 2004).

While it is known that the existence of a multitude of small businesses in a community creates a culture of enterprise, getting inside this dynamic and influencing it has proved difficult (Gibb *et al*, 2006). "It is recognised that the standard public policy incentives designed to create this dynamic (grants for investment, special loan schemes and guarantees, provision of premises, incubators, business development services – counselling, training and information – and infrastructure provision have not been overwhelmingly successful" (Miehlbradt and McVay, 2003).

3.5 Training and technical assistance

"Training is the service which, in the past, was most frequently packaged with credit for entrepreneurs. Over time, experience has demonstrated that integrating training services into a credit program's activities increases transactions costs for both clients and the microfinance institution, without clear evidence of the expected benefits". UNDP (2004) goes on further to say, that they are often not based on a particular sector, tend to highlight accounting and financial management more than other aspects of the business, and whilst inexpensive, often have virtually no take-up.

Linking training to marketing services is a traditional approach. The problem with building fees into a marketing margin, however, is that there is no opportunity for micro entrepreneurs to send and receive "price signals". However, both the institution and the producers would benefit if costs were transparently measured and communicated, and the percentage of the marketing margin which included service fees was calculated separately. "This approach would also facilitate the gradual phasing out of services in cases where producers improve their skills or reliability to the point where quality control or training are no longer needed, or need not be as intensive" (UNDP, 2004)

3.6 Accounting and Legal Services

These services are usually available from private, for-profit providers in micro enterprise markets (UNDP, 2004). In this case the challenge is the development of market incentives where providers offer micro entrepreneurs a high-quality service, in a transparent and fair manner.

3.7 Information services

Information services for micro enterprises have rarely been seen to recover a substantial portion of their costs (UNDP, 2004)

Given project experience in the field, it seems unlikely to expect that training, technical assistance, or information services for micro enterprises will ever achieve total cost-recovery levels through up-front user fees (UNDP, 2004). Service providers wishing to offer non-viable business development services often cross-subsidize from larger to smaller clients or use revenues from more viable business development services or use donor funds. The challenge is to maintain an accurate costing system so that management can make intelligent decisions about the use of revenue flows, maintaining the desired equilibrium between short-term financial health, long-term sustainability, and the achievement of the institution's goals" (UNDP, 2004).

3.8 Approaches to Business Development Services

3.8.1 Traditional approach

The Traditional Development (TD) approach involves the creation of an organization to provide BDS directly to SMMEs (Sievers, Haftendorn & Bessler, 2003). Public subsidies play an important role in enabling SMMEs to obtain BDS at no or very low cost.

Provision of subsidized BDS can lead to market distortion and constrain existing and potential new BDS providers. "BDS providers develop a wide range of services but these tend to be supply-driven, outreach is relatively low and limited by the subsidies available. Financial support is expected to come from commercial activities and possibly from stakeholders such as government but neither assumption has proved valid" (UNDP, 2004).

The great majority of Business Support Centres are not financially sustainable. "The persistent lack of financial resources often results in changes to the services delivered and target groups, mutation into private companies in order to survive or indeed termination of activities" (Blue Book, 2001).

3.8.2 Market Development approach

International development agencies have for the past decade been proposing that the key to sustainability is the implementation of a Market Development approach which focusses on “for profit” activities in the provision of SMME services (UNDP, 2004, Gibson, 2001; Miehlbradt and McVay, 2003; Committee of Donor Agencies for SME Development, 2001; Bear *et al.*, 2001).

The Market Development approach is not that new anymore but its implementation and measures of success is still relatively recent (Rogerson 2009, 2011). It was formulated as a response to the poor quality of BDS, lack of sufficient outreach and lack of sustainability observed in BDS provided via the Traditional approach (Blue Book, 2001). Its basis is that outreach and sustainability cannot be achieved through direct provision by donors. Rather, the Market Development approach seeks to facilitate a sustainable increase in demand and supply of services, where subsidies are replaced by private payment for services (Blue Book, 2001).

The ultimate goal of the Market Development BDS approach is to enable SMMEs to buy services of their own choice from a wide array of products offered primarily by unsubsidized private sector suppliers in a competitive and evolving market (Blue Book, 2001). The Market Development approach promotes as many suppliers as possible and may stimulate demand through discounted or subsidized services on a temporary basis for such activities as provision of information, market research, product development, training of suppliers, monitoring and evaluations. All these services fall into the category of “facilitating” the market by stimulating demand and supply (UNDP, 2004)

4. Conclusion

UNDP (2004) concludes that the viability of business development services depends on the type of service as well as local market conditions. Whereas services like marketing and technology services have the potential to be financial sustainable, other services like individualized technical assistance and training may be less financially sustainable at the SMME level, especially in poor rural economies. The recommendation is therefore that BDS providers cross subsidize income from the

financially sustainable services to support the provision of other, less viable but essential services. "For this to be true, however, the business development service provider must be committed to an aggressive cost-recovery strategy and must be willing to prioritize the most viable services provided" (UNDP, 2004).

Measuring the profitability of each service provided therefore becomes very important and institutions that do not measure the loss associated with financially non-sustainable services are risking the existence of their organisations. BDS providers may therefore adjust the mix of services offered to maximized benefit to SMMEs. UNDP (2004) differentiates between "donor-supported business development service programs, designed to compensate for market imperfections, and private sector business services which are offered by for-profit entities at cost-covering prices". The challenge is therefore in finding the right balance, whilst considering local conditions, between these approaches that will maximize financial and organisational sustainability to the benefit of the SMME sector and ultimately our country's economy.

References

- Bear, M.; Gibson, A. and Hitchins, R. (2001). A guide for agencies on the emerging market development approach to BDS; Micro-enterprise Best Practices
- Berry, A.; von Blottnitz, M.; Cassim, R.; Kesper, A.; Rajaratnam, B. and van Seventer, D.E. (2002). The economics of SMMEs in South Africa, Unpublished draft paper for Trade and Industrial Policy Secretariat, Johannesburg, www.tips.org.za
- Bob, U.; Moodley, V.; Perry, E.C. and Gumede, N.P. (2005). An evaluation of SMME Exhibitors at the SMME Fairs since 1998, Report written for the eThekweni Municipality
- Committee of Donor Agencies for Small Enterprise Development "Blue book" (2001) Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention, also known as the "Blue Book". World Bank Group Washington, PDC, USA
- DfID (2002) Getting Realistic about Creating Financially Sustainable Business Development

- Diochon, M.C. (2003), *Entrepreneurship and Community Economic Development*, McGill-Queen's University Press, Quebec.
- Esek (2008). Public-private partnerships, Esek publication <http://www.esek.co.za> .
- Institutions, by Stanton, D. and Boulter, R., Department for International Development.
- Gibb, A. (1993) 'Enterprise culture and education: Understanding enterprise education and its links with small business, entrepreneurship and wider educational goals'. *International Small Business Journal*. Vol. 11. No.3. April/June
- Gibb, A. (2006). Making markets in business development services for SMEs. Taking up the Chinese challenge of entrepreneurial networking and stakeholder relationship management. *Journal of Small Business and Enterprise Development* Vol. 13 No. 2, 2006 pp. 263-283. Emerald Group Publishing Limited.
- Gibson, A. (2001). The BDS Market Development Approach: Rationale and Key Issues, Springfield, presentation at SEED Conference, Springfield, <http://www.seed.org>.
- Goldmark, L. (1998). Sorting Out the truth: the Financial Viability of Business Development Services, International Conference on Building a Modern and Effective BDS Industry, Rio de Janeiro, 1999.
- Henry, S. (2006). Good Practice in Business Development Services: How Do We Enhance Entrepreneurial Skills in MFI Clients? Toronto
- Jackson, P.L.M. (2004). Entrepreneurial support in South Africa: A case of a small enterprise support centre in South Africa, Masters Dissertation, University of Birmingham, United Kingdom.
- Miehlbradt, A.O. and McVay, M. (2003). Developing commercial markets for Business Development Services: BDS Primer for Fourth Annual BDS Seminar, Turin, Italy, Small Enterprise Development Programme of the International Labour Organisation, Geneva.
- Rogerson, C.M. (2006). The market development approach to SMME development: Implications for Local Government in South Africa, School of Geography, Archaeology and Environmental Studies, University of the Witwatersrand, Johannesburg.

Sievers, M., Haftendorn, K. & Bessler, A. (2003) Business Centres for Small Enterprise Development Experiences and Lessons from Eastern Europe, ILO SEED Working paper No. 57.

Trochim, W. M. K. (2006). Research Methods Knowledge Base.

<http://www.socialresearchmethods.net/kb/contents.php>

World Bank Group (2001), SME: World Bank Review of Small Business Activities, 2001, World Bank Group Small and Medium Enterprise Department, Washington, DC. able, the two start to look more and more alike.

SECTION C

Background to study area and Research Methodology

1. Background

1.1 Introduction

Makana comprises of Grahamstown, Alicedale, Fort Brown, Sidbury, Riebeek East, Salem and Seven Fountains. The Makana economy is largely a service industry with some activity in the tourist and trade sectors in Grahamstown. Other activities involve agriculture, game farming and conservancy reserves in the municipality's less developed areas. Rhodes University, an internationally renowned university, forms a major role player in the area's economy (Makana IDP, 2011).

1.2 Socio-Economic Profile

The total Makana population in 2007 was 70 706 (Quantec, 2007). This accounted for 18% of the Cacadu district's population. 66% of the population falls within the economically active age of 15-64, which leads to a healthy dependency ratio of 0.5. This means that every economically active person supports an average of 0.5 people, made up of youth and the elderly. This may be compared with the much higher provincial dependency ratio of 1.8 (Makana IDP, 2011).

With regards to basic literacy, 36% of the Makana population have only been educated up to primary level, which is better than the provincial level. 22% of Makana residents have an education level of matric or higher, which is almost twice the provincial level of 13%. The implication of this is that a large proportion of the population has the potential to become fully economic active members of society (Makana IDP, 2011).

1.3 Local Economic Profile

Regional Gross Geographic Product (R-GDP) is an important indicator of economic activity and comprises the value of all final goods and services produced during one year within the boundaries of a specific region and is commonly used to measure the level of economic activity in a specific area. Figure 2 compares the Makana growth rate with that of the district and the province.

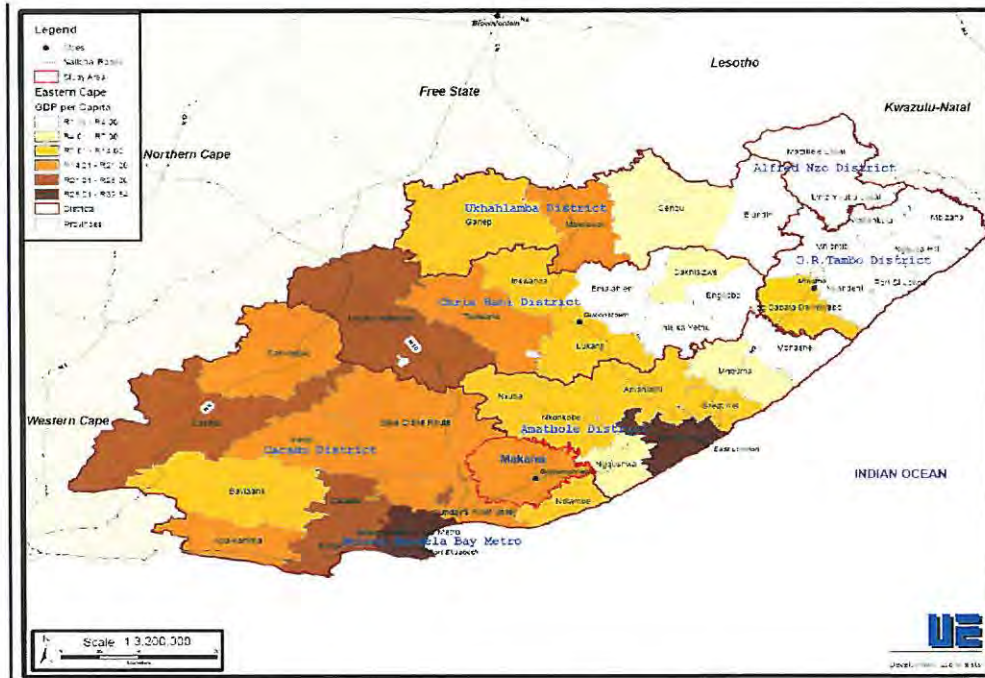


Figure 2 - R-GDP per Capita in the Eastern Cape (Source: Quantec, 2007)

The map shows that Makana's GDP per capita is in line with the provincial average. Makana's R-GDP per capita of R18.77 falls within the median range. The Makana R-GDP per capita can be explained by how the economy is characterised by service trade, with little industrial manufacturing or resource based activity (Makana IDP, 2011).

The relative contribution of each economic sector to R-GDP shows how important each is to the overall functioning of the Makana economy. Of Makana's entire R-GDP of approximately R1.3 billion, R684,000 million was generated in the Government and Community Services sector. This sector is made up of government spending in the form of municipal activities and community services in the form of education facilities and services. The reason for the large size of this sector in Makana is the existence of several educational institutions that generate significant incomes for the local economy (Makana IDP, 2011)

2. Research Methodology

"There is a distinct difference between research design and research methodology. The research methodology is focussed on the process of the research, whilst the research design is more oriented towards the final product of the research, it can be thought of as being a blueprint for the research" (Babbie & Mouton, 2003). The research methodology can therefore almost be seen as a component of the research design. It is important that the research methodology that is selected is a fit with the overall research design.

2.1 Research Methodology

"All researchers approach their research with a particular set of beliefs about the research they are conducting. This belief system ultimately guides and influences their research" (Fouche & Delport, 2002). When conducting any form of research, it is critical to select a research methodology that is appropriate for the type of research being conducted. "The research methodology encompasses both the philosophical underpinnings of the research process as well as the tools and procedures that are used in conducting the research" (Babbie & Mouton, 2001). The methodology selected will depend on a number of factors including the type of data that will be gathered, the methods used for data collection, methodologies selected in prior research and the researcher's beliefs about the nature of the phenomena being researched. It is the last of these points that ultimately determines the paradigm within which the research will be based.

"A paradigm is the theoretical framework within which the researcher organises and explains their observations" (Babbie, 2008). "The paradigm serves as the philosophical underpinning of the research process and is used to add credibility to the research process" (Remenyi, 1996). "This can be troublesome as these paradigms are often implicit and are simply assumed to be the "way things are" (Babbie, 2008). Through the evolution of scientific and social research, a number of paradigms have been developed of which the main ones are positivism, post positivism, critical realism, and constructivism.

2.2 Goals of the Research

The aims of this study were to:

- Examine the perceptions of key stakeholders towards SMME support and development within the Makana municipal area.
- Identify the constraints to the implementation of a Market Development approach to the provision of business development services to SMMEs in the Makana area.
- Make recommendations to the Makana LED office of possible intervention strategies to address identified constraints and possible outcomes.

2.3 Research Paradigms

Research paradigms can be divided into two categories which are dependent on the type of data being collected and analysed. "When collecting data, the researcher can collect either quantitative or qualitative data, this will determine the research paradigm that will be used for data analysis" (Remenyi, 1996).

Paradigms that fall into the quantitative category tend to be more focused on empirical enquiry via scientific and experimental investigation. Research that is quantitative in nature attempts to measure phenomena and make deductions from statistical analysis of the data. Qualitative research, on the other hand, deals in the world of subjectivity and theory. Results are distilled from the data, rather than the data confirming the expected outcome (Remenyi, 1996).

The research paradigm within which the research was conducted is post positivism. "Post positivists believe that we each construct our own view of the world based on our perceptions of it and because perception and observation is fallible, our construction must be imperfect. The best hope to achieve objectivity is therefore to triangulate across multiple fallible perspectives" (Trochim, 2006).

2.4 Qualitative Research

Qualitative research provides the capacity to develop a depth of understanding that is often lost by quantitative research. Due to the nature of the qualitative research process and data analysis it is possible to delve deeper into the

research topic. This enables qualitative researchers to develop detailed descriptions of the phenomena.

Qualitative research, however, is less useful for developing statistical descriptions about a broad population. "Due to the depth of the research and the understanding that the phenomena occur deeply embedded within the social context, extrapolating the results to a large population is less reliable for qualitative research" (Babbie, 2008).

2.5 Scope of Research

"Qualitative research generally focuses on small, non-random samples that are purposively selected so as to provide a wealth of information on the research subject" (Patton, 2002). This provides the researcher a better opportunity to delve deeply into the subject matter and develop detailed descriptions and interpretations of the data. "The meaningfulness and validity of qualitative inquiry relies more on the depth of information from the cases than the number of cases selected" (Patton, 2002).

The research involved conducting semi structured interviews with the following stakeholder groups:

1. Big Institutional buyers: Rhodes University and Makana Municipality
2. BDS service providers: Small Enterprise Development Agency (SEDA), Rhodes University Centre for Entrepreneurship and a private accounting services company
3. Makana LED office
4. SMME owners in the Information Technology sector

2.6 Data Collection

2.6.1 Sampling method

Maxwell (1998) indicated that the main idea of statistical inference is to take a random sample from a population and then to use the information from the sample to make inferences about particular population characteristics. Maxwell (1998) believed that sampling saves money, time and effort. In addition he believed that a sample can, in some cases, provide as much or more accuracy than a corresponding study that would attempt to investigate an entire population.

A purposive sampling method was used to identify a list of key informants from the following groups of BDS role players: big institutional buyers, public and private BDS, Makana LED office and SMME owners. According to Patton (2002), in this method a subject is selected because of some characteristic and is a popular method in qualitative research. In selecting participants for the study it was important to identify those individuals who provided direct services to SMMEs. Additionally, it was necessary to identify those who influenced SMMEs support at a strategic level. Officials at Rhodes University and Makana municipality who are specifically involved in SMME support and development were interviewed to determine their perceptions towards SMME development. Private and public BDS providers were interviewed regarding their capacity to provide effective business development services and to determine possible recommendations on the most effective means of providing sustainable business development services to SMMEs in the Makana area.

2.6.2 Semi-structured interviews

In relation to data collection, the qualitative methods included non-structured procedures from observations to interviews. According to Guba and Lincoln (1994), these qualitative analyses can include coding the information into categories or levels looking for similarities and differences among data.

The qualitative component of this study consisted of semi-structured interviews. Interviews were conducted with key ten key BDS stakeholders. In these types of interviews, an outline of key topics and areas of interest were prepared. The semi-structured interview is one of the most frequently used qualitative methods. This method of data collection also facilitates the compilation of reliable, comparable data (Bernard and Renz, 1998). Semi-structured interviews were analysed through themes, creating categories, data organisation and patterns. Further analysis included grouping of problems and issues in terms of occurrence of such issues, across the sample. It aimed to seek to understand people's opinions, attitudes and perceptions in relation to SMME development and BDS support.

Three officials from Rhodes University and one from Makana Municipality were interviewed in the category big Institutional buyers (see interview questions in Appendix A): the Registrar of Finance, the Manager of Food Services and the

Director of Residential Operations. These individuals were selected because of the influence of their respective positions on the procurement decision making process in the organisation as well as, in the case of Residential operations, the large size as a proportion of the total Rhodes University procurement budget. The Chief Financial Officer at Makana Municipality was also interviewed. The aims of these questions were to:

1. determine perceptions and approach to SMME support and development, including the perceived value of BDS
2. identify constraints to SMME support and development in terms of
 - a. SMME policy and practice of the organisation,
 - b. demand/supply requirement match by local SMMEs, and
 - c. awareness of available BDS.
3. elicit possible recommendations for the advancement of SMME support and development.

Two officials from public BDS suppliers were interviewed (see appendix B), the director at the Rhodes University Centre for Entrepreneurship (RUCE) and an officer at SEDA situated at the Makana LED office. The owner of a private bookkeeping firm was also interviewed in order to gain a perspective from a private sector point of view (see Appendix B).

Questions to these individuals were aimed at:

1. identifying constraints in terms of
 - a. their client needs analysis,
 - b. capacity of the business
 - c. skills and experience of BDS staff
2. assessing the level of cost recovery.
3. eliciting recommendations for improved SMME support and development in the municipal area

Questions to the Director of Local Economic Development Makana Municipality appear in Appendix C. The LED office was seen by the researcher as playing a pivotal role in SMME development in the area, coordinating and bringing together key role players. It was seen as having the necessary political influence to

deliver on its mandate, which was to create an enabling environment for all business to thrive in the Makana municipal area.

It was decided to also interview two SMME owners in the Information Technology (IT) industry in the Makana area. The reason for this was that although food and stationary were the University's biggest procurement spends, preliminary discussions with University staff and procurement officers indicated that there were already good existing linkages in place with local suppliers in these markets. IT was identified as not having, as could reasonably be expected, similar linkages with local businesses. There are an ample amount of IT companies in the Makana municipal area and yet IT trade with RU was very limited. The owners of two IT companies, IT Solutions and Albany Computers, were interviewed as IT SMME owners in the Makana area (Appendix D). IT Solutions is the biggest IT company in the area, employing 14 full time consultants. Albany computer was interviewed because, although small in size, they are the longest surviving IT company in the Makana area (23 years) and therefore had a good understanding of the IT and SMME environment in Makana.

2.6.3 Data Analysis

"Qualitative data analysis refers to the "non-numerical examination and interpretation of observations, for the purpose of discovering underlying meanings and patterns of relationships" (Babbie, 2008). In analysing the data, it was necessary to look for patterns in the data. This enabled the grouping and coding of certain patterns that occur in the transcripts of the interviews (Babbie, 2008).

The steps involved in this approach are generating a code, reviewing and revising the code and determining the validity of the coders and code (Boyatzis, 1998). Generating the code refers to collecting and grouping certain patterns within the data and assigning a specific code to similar patterns. This allows thematic identification of data. Once the themes that evolve out of the coding process had been identified, they were fleshed out using examples from the interviews and consolidating them within the theoretical grounding from the literature review.

References

- Babbie, E. 2008. *The Basics of Social Research*, 4e. Thomson Wadsworth. Belmont.
- Babbie, E., & Mouton, J. (2003). *The Practice of Social Research*. Oxford: Oxford University Press.
- Bernard, N. and Renz, J. (1998). Efficient methods for qualitative spatial reasoning, in *Proceedings of the 13th European Conference on Artificial Intelligence*.
<http://www.cs.washington.edu>
- Boyatzis, R. E. 1998. *Transforming Qualitative Information: Thematic Analysis and Code Development*. Sage Publications: Thousand Oaks, California.
- Fouche & Delport, 2002
- Guba, E. and Lincoln, Y. (1994). Competing paradigms in qualitative research. In Denzin, N. and Lincoln, Y. (eds.) *Handbook of Qualitative Research* Sage: Thousand Oaks, California, U.S.A.
- Makana Local Municipality Integrated Development Plan (Makana IDP) Review 2011-2012
- Maxwell, D. (1998): Can qualitative and quantitative methods serve complementary purposes for policy research? Evidence from Accra, Food Consumption and Nutrition Division, International Food Policy Research Institute, Discussion Paper No.40, Washington, D.C., U.S.A.
- McMillan & Schumacher, 2001. *Research in education: A conceptual introduction*, 5e. Longman: New York, NY.
- Patton, M. Q. (2002). *Qualitative research and evaluation methods*, 3e. Sage Publications: Thousand Oaks, CA.

Appendixes

Appendix A - Questions to officials from Big Institutional buyers

Background

Name of company:

Principal activity:

Interviewee name:

Job title:

Company type:

No of employees:

1. Approach

- a. What do you regard as the importance of supporting small businesses in the Makana area?
- b. What is the primary rationale for doing business with Makana based SMMEs?
- c. What assistance have you given to these suppliers in the form of:
 - i. Training regarding the procurement procedure or your organisation?
 - ii. Advice and counselling?
 - iii. Financial assistance e.g. loan applications, accelerated payment terms, purchasing of capital equipment, raw materials, etc?
 - iv. Other...
- d. What, in your view, are possible advantages of having local service providers/suppliers to your organisation?
- e. Have there been any of these advantages to your business from linkage activities to date? If so, please explain?

Policy

- f. Does your organisation have a written policy on supporting SMMEs in the Makana area?
- g. How do you communicate these policies to your own procurement officers and to the local business community?
- h. Do you ever conduct training to staff on policies regarding supporting local SMMEs?
- i. Does the policy specify a target limit for doing business with local SMMEs?
- j. Do you incentivise staff to do business with local SMMEs?

- k. Do you think the policy is effective? Or restrictive in anyway?
- l. Could you suggest any improvement in policy formulation that will improve its effectiveness?
- m. Do you take interest that your suppliers are good corporate citizens?

2. Demand/Supply requirements

- a. Please give examples of good business activities with local SMME in which you are currently engaged.
- b. What aspects of the linkage works to the advantage of your organisation?
- c. Do you have access to adequate information, internal or external, about potential new sources of supply among SMMEs in the Makana area?
- d. How important do you view the following possible serious impediments to expansion and improvement of linkages with SMMEs?
 - i. Supplier issues
 - ii. Buyer issue
 - iii. Intermediary issues
 - iv. Trade union issues:

Payment for BDS

- e. Has any outside agency (Business Support centre, training program, etc) contributed in any way to the establishment of any of your linkages or making them work better? If yes, which agency?
- f. Has there been any cost (direct cost) to your organisation for your linkage activities to date?
- g. Would your organisation be willing to pay for business development services in order to better utilize services offered by SMMEs in the Makana area?

3. Recommendations

- a. Do you have suggestions of how to make the system work better, to enable more linkages to get started or to enable existing ones to improve or expand?

Appendix B – Questions to Business development service providers

Client needs analysis

4. How do you get clients?
5. To how many clients do you provide BDS?
6. How do you determine the BDS needs of your clients?
7. Do you measure the business performance of your clients?
8. Do you ever need to refer clients to other companies that might be able to assist them?

Capacity

9. Briefly indicate what business development services your organisation offers?
10. Does the organisation serve clients in areas other than the Makana area?
11. If so, are conditions for achieving sustainable BDS different in these other areas? If so, how do conditions in other areas differ from Makana?

Staff experience and skills

12. What are the key competencies of staff that enable your organisation to deal with client needs?
13. To what degree do staff get training to adjust to changing policy requirements with regard to small business development?
14. Are you aware of relevant legislation that relates to small business development?

Cost recover

15. Do you require clients to pay for any of the BDS services?
16. Does the organisation rely on any alternative sources of funding to enable it to recover costs?
17. Does your organisation have a policy regarding payment for BDS services?
18. Does the organisation manage to recover its operating costs through charging customers or does it rely on other sources of funding?
19. Are there BDS that the organisation would like to offer but are unable to due to a lack of funding?

Appendix C - Questions to Makana LED director

1. Approach

- a. What is the mandate of the Makana LED office and how does it fulfil this role?
- b. What is the importance of the role that SMMEs play in the Makana economy?
- c. Would you promote the governmental (or other forms) support of SMMEs in the Makana area? If so, why?
- d. What type of support do SMMEs receive from the LED office?
- e. For someone operating an SMME in the Makana area what do you think are the:
 - i. Advantages?
 - ii. Challenges?
 - iii. Opportunities?
 - iv. Threats?

2. Importance of payment for BDS services

- a. Did any outside agency (Business Support centre, training program, etc) contribute in any way to the establishment of any of your linkages or making them work better? If yes, which agency?
- b. Has there been any cost (direct cost) to your organisation for your linkage activities to date?
- c. Would your organisation be willing to pay for business development services in order to better utilize services offered by SMMEs in the Makana area?

3. Recommendations

- a. Do you have any recommendations for improving SMME support and development in the Makana municipal area, to enable and increased number of and more efficient linkages?

Appendix D – Interview questions to SMME owners

1. What is your main market in the Makana Municipal area?
2. Have you attempted to trade with RU and Makana municipality, which makes up the vast majority of the local economy?
3. If so, how much business do you do with Rhodes University and Makana?
4. What value proposition do you have for these big institutes?
5. Would you have the capacity to satisfy the demand of the RU and Makana markets?
6. Who does your marketing, ICT, accounting, HR, etc?
7. Are you aware of business development services offered in the Makana area?
8. Would you need help from Business development service providers?
9. Do you think there is value in an intermediary between small business and big buyers like Rhodes University and Makana municipality?
10. Would you be prepared to pay for business development services?
11. If so, which would you do yourself and which do you need help with?
12. If any, what are the constraints to trading with these big institutions?
13. What recommendations do you have for overcoming these constraints?