

Failing or not aiming to grow? Manufacturing
SMMEs and their contribution to employment
growth in South Africa

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1 Introduction

South Africa's recent integration into the world economy provokes the question about its potential for building competitive advantage and prosperity at the local level in the context of an increasingly globalised economy. The experience of prospering localities in industrialised countries, in particular Western Europe and Japan, suggests that the small and medium-sized enterprise (SME) sector is at the forefront of local economic development. SMEs are reported to resolve the persistent problems of insufficient employment growth while being highly efficient in flexibly serving increasingly segmented consumer markets.

The small firm discussion has been taken up in South Africa, where small, medium and micro enterprises (SMMEs) hold a numeric majority. SMMEs are expected to function as a driving force in South Africa's both social and economic transition if supported by supply-side measures targeting enterprise constraints. Research on South African SMMEs reveals, however, a mismatch between the reality and the model of the SMME sector used by South African policy makers: The South African SMME sector is far from homogenous and would require a fine-tuned set of interventions rather than the generic assistance currently provided. Only the few, more dynamic SMMEs show a potential to contribute to rapid employment creation, while survivalist activities (as a result of 'enforced self-employment') constitute the vast majority of the South African SMMEs economy and grow in numbers, but not in size. Moreover, small business performance seemingly depends not only on the removal of constraints by means of (supportive) public policies and regulations, but decisively on industrial and organisational structures, the adaptiveness of firms and, above all, the capabilities and aspirations of the entrepreneur.

This paper aims to contribute to the South African SMME discussion by drawing together findings from recent surveys on established manufacturing SMMEs in three South African regions. The descriptive findings on their turnover and employment growth trajectories confirm unambiguously that the present manufacturing SMME economy as a whole is no vehicle to tackle the problem of employment growth. This argument is developed in seven sections. Section two and three shed light on the international experience regarding SMMEs and employment growth. Section four turns to South Africa, its SMME policies and the debate about the role SMMEs are able to play. Theoretical and methodological considerations of section five form the background to section six, which contains the research findings on employment growth in manufacturing SMMEs in three regions. These findings are summarised and interpreted in the final section.

2 SMMEs as major employment creators – evidence from industrialised countries

In many industrialised countries, the late 1970s and 1980s have witnessed the re-emergence of the small firm due to two major events. First, spectacular cases of large enterprises running into economic difficulties and shedding employment arose in nearly all industrialised countries, while the latter's small firm sectors (or parts of it) went relatively well through the period of economic turbulence that started in the early 1970s. Second, Birch's [1979; 1987] finding that small firms created the majority of new jobs in the United States, spread quickly around the world and provoked an upsurge in research on employment shifts towards smaller units.

Indeed, the OECD concluded in 1985 that, in several of its member states, a tendency towards the concentration of workers in small firms could be found, even after accounting for shifts in industrial structure¹ or sectoral composition [OECD, 1985]. Reviewing data on employment shares by enterprise size for nine industrialised countries,² Loveman and Sengenberger [1990:8] confirm that,

“[...] despite significant cross-national differences in the size distribution³ and despite methodological caveats, the employment share of small enterprises has reversed a downward trend that had prevailed for many decades and risen significantly [...]. Taken together, the nine case studies present a convincing case for a shift in employment to smaller units of production”.

Yet, it is important to guard against rushing into premature and overly general conclusions as to the economic and social implications of the shift toward smaller units [Harrison, 1994]. Job generation studies show that the employment dynamic accompanying *new* firm formations and business *closures* is very important to net employment contribution of small units [Becattini, 1990; Koshiro, 1990; Mead, 1999]. Many of the recent firm births in industrialised countries may have been induced by poor economic conditions in general and by high unemployment in particular. Those undertaken as ‘last-ditch’ attempts to provide livelihood to the founder may rest on especially shaky ground and their failure rate might therefore be expected to be abnormally high as either good times draw the entrepreneur back into dependent employment or bad times topple the weak firm [Sengenberger et al., 1990; OECD, 1993].

Nevertheless, it has now been acknowledged that a large majority of business units in industrialised countries are small, and even a conservative review of the job generation literature suggests that small firms account for at least a proportional share of employment creation. The net new jobs created in small firms, however, result from a very dynamic process of expansion and contraction within the small firm sector. While some small firms start and remain small throughout their existence, others experience stages of growth, and senescent firms even decline [Timmons, 1994]. Large employment gains occur seemingly

¹ To some extent, the differences in the size structure reflect varying sectoral and industrial compositions. In general, firms in the service sector are on average smaller than in manufacturing. It can therefore be expected that countries with a larger service sector have smaller average scale of organisational units [Loveman and Sengenberger, 1990].

² The countries under investigation were the United States, France, the Federal Republic of Germany, United Kingdom, Japan, Norway, Hungary and Switzerland.

³ Manufacturing establishments with less than 20 employees, for example, account for 3.4 per cent of all workers in Hungary, 7.4 per cent in the United States, but roughly 35 per cent in Italy and Japan [Sengenberger et al., 1990]

only in a few small firms [Sengenberger et al., 1990; Qualman, 1998; Mead, 1999]. Indeed, recent research by the European Commission has shown that only enterprises characterised as fast-growing SMEs contribute some 50% of net job creation [Papoutsis, 1996].

3 SMMEs as major employment creators? The experience in African countries

In African as well as in other less developed countries, SMMEs (and micro enterprises in particular which constitute their majority) have received mounting attention because of their labour absorptive capacity in times of both a shrinking public sector and private formal economy, and increasing numbers of new labour entrants. With the shift of industrial policy away from import-substitution and of trade policy towards liberalisation, SMMEs are moreover expected to respond flexibly and thus withstand global competition [Hirst and Zeitlin, 1992; Bambara, 1995; Kaplinsky, 1997; Schmitz, 1997]. While the Latin American experience of both single and especially clustered SMEs confirms the dynamism associated with SMEs [Cortes et al., 1987; Rabellotti, 1999; Schmitz, 1999], there has been little systematic evidence on the incidence micro-enterprise 'graduation' or growth into larger ones in Africa [Mead and Liedholm, 1998; Mead, 1999]. Indeed, one-person operations constitute the majority of small-scale industry in Africa, and only about 1 % succeed in graduating to an intermediate-size [Mead, 1995; Dia, 1996; McPherson, 1996; Ferrand, 1997; Manu, 1999]. It is argued that latest technologies are not yet available, but instead technology which has already been commercialised by foreign companies. Moreover, product specialisation is, in most cases, not a strategic answer to segmented markets, but to lack of resources [Pedersen et al., 1994; Amsden, 1997]. Virtually all SMMEs operate in conditions of excess supply of relatively unskilled and unorganised labour, which allows them to transmit the burden of unstable markets on their employees and to base competition on squeezing labour costs rather than innovation or technological upgrading [Storper, 1991; Schmitz, 1995; McCormick, 1999]. Unlike in South Korea where large firms function as catalysts of growth to their subcontractors, corporate subcontracting to small and mostly 'informal' firms in Africa is more than often a means to reduce costs by exploiting labour-surplus conditions and circumventing regulations and trade union organisations [Pedersen and McCormick, 1996]. Clusters of sector-specific firms do exist in Africa, but their growth experiences vary and differ markedly from other developing country cases, like the successful Sinos Valley shoe cluster in Brazil, and the surgical instruments cluster in Sialkot, Pakistan, or from the 'model' industrial districts of Italy [Dawson, 1992; Rasmussen, 1992; Sverrisson, 1992; Maldonado, 1993; Nadvi, 1994; 1997; Schmitz, 1993; 1995; Yankson, 1996; Advani, 1997; McCormick et al., 1997; McCormick, 1999]. Indeed, strong social ties and networking, reported to be essential for the success of industrial districts in Europe, have ambiguous effects on firm growth in Africa: While being supportive amongst the Igbo in Nigeria, research in Kenya suggests that the successful African entrepreneur has loosened his networks based on kinship and social ties in general [Brautigam, 1997; Ferrand, 1997; McCormick et al., 1997]. Furthermore, formal institutions in Africa face crises of legitimacy and enforcement by not being rooted in local culture and are therefore far from conducive to enterprise growth [Steel, 1995; Dia, 1996].

The above suggests that modes of competition and growth trajectories of SMMEs vary across continents and countries [Khoza, 1993; Humphrey & Schmitz, 1995; Amsden, 1997; Gordon, 1997; McCormick, 1999]. Research findings on SMMEs throughout Africa are diverse, albeit they show widely that it cannot be enterprise size as such which determines a firm's growth potential for success and failure of SMMEs co-exist and instead point to the role of the entrepreneur [Sengenberger et al., 1990; Späth, 1994; King and McGrath, 1999]. The predominance of SMMEs in the industrial tissue, both in terms of numbers and employment opportunities generated, demonstrates that SMMEs form an important part of African economies and have found their own ways to deal with market instability and uncertainty. Nevertheless, the critical underlying issues of the viability of these small firms, and the

sustainability and quality of the employment generated by them remain still unclear [Späth, 1994; Dia, 1996; McCormick et al., 1997].

4 Employment creation through SMMEs –debated in South Africa

4.1 Government perspective: SMMEs as a vehicle to tackle the problem of employment growth

Since the elections of April 1994, the issues of black economic empowerment and a more equal income distribution have been placed high on the agenda of the new government of South Africa [Rogerson and Rogerson, 1995]. Nevertheless, the need to take the South African economy onto ‘a higher road’, i.e. a diversified economy in which productivity and international competitiveness are enhanced, wage-levels are high, investment is stimulated and entrepreneurship flourishes, is recognised as a condition to address these issues successfully [RSA, 1994; 1995]. In the 1995 White Paper on National Strategy for Development and Promotion of Small Business in South Africa, the government assigns the SMME sector a key role in South Africa’s socio-economic transition [RSA, 1995:10]. In particular, SMMEs are seen as a vehicle to:

- address the problem of high unemployment levels in South Africa as they have a high labour-absorptive capacity,
- activate domestic competition by creating market niches in which they grow until they identify a new niche as a response to demand changes, and to be internationally competitive because of their flexibility
- redress the inequalities inherited from the Apartheid period - in terms of patterns of economic ownership and restricted career opportunities for black employees.
- contribute to black economic empowerment in that the majority of SMMEs is reported to be initiated, owned or controlled by those members of society who were discriminated against in South Africa’s past; and,
- play a crucial role in peoples’ efforts to meet basic needs in the absence of social support systems during restructuring processes – which refers in particular to South Africa’s micro-enterprise segment and especially survivalist activities characterised by low entry barriers for inexperienced job seekers.

4.2 Government initiative: Supply-side policy measures to promote SMMEs

The South African government suggests that the SMME sector - with the help of government support - is capable of fulfilling these objectives and has introduced a number of supply-side measures to promote the formerly neglected sector. The overall objective is “to create and enabling environment” and “to level the playing field” [RSA, 1995:10] in terms of national, regional and local policy frameworks for SMME development. More particularly, policy measures are aimed at:

- addressing the obstacles and constraints that SMMEs face to promote (faster) growth;
- enhancing their capacity to comply with the challenges of globalisation and an internationally competitive economy; and,

- strengthening their cohesion to increase the leverage of policy measures.

The mechanisms used for small business support involve institutional and regulatory reforms. Ntsika Enterprise Promotion Agency and Khula Finance Limited (apart from the National Small Business Council and the Centre for Small Business Promotion) have been established to act as intermediaries to address SMME constraints such as access to finance and information. The DTI itself administers programmes aimed at increasing SMME manufacturers' competitiveness such as co-financing the acquisition of new technology, for example. Regulatory reforms include, for example, the recent procurement reform with an affirmative small, medium and micro enterprise participation programme [RSA, 1997].

Nevertheless, so far, no clear differentiation between promoting dynamic firms on the one hand and survivalist activities on the other – which would rather be the focus of welfare than industrial policies – has been made. And there are indications that - in launching the implementation of several programmes - the South African government severely underestimated the problems of establishing a whole set of new support institutions, the capacity of these institutions to deliver, and the capacity of the existing NGO network in South Africa to become involved in the highly ambitious set of programmes that were to be implemented [Hirsch and Hanival, 1998; Rogerson, 1998c; Bloch and Kesper, 2000a;b].

4.3 Preliminary research findings: SMME sector with limited capacities despite governmental support

The political attention of post-apartheid South Africa given to SMMEs as an “important vehicle to address the challenges of job creation, economic growth and equity“ [RSA, 1995:5] continues to be a benchmark for examining the situation of small enterprise development, particularly of black- (or African-) owned enterprises in South Africa [Rogerson and Rogerson, 1997]. There has been an explosion of literature on micro enterprises which has mainly emanated from cross-section surveys with a focus on growth constraints [for example, Levy, 1992; Cattell, 1993; Riley, 1993; TaskGro, 1993; Eichler, 1994; Hirschowitz et al, 1994; Manning and Mashigo, 1994; Horn, 1995; Sawaya, 1995; Rogerson 1996; 1997; Rogerson and Reid, 1997; Rogerson and Rogerson, 1997]. Literature on established successful SMMEs, by contrast, is rather sparse [Levin, 1997; Rogerson, 1999; Kesper, 2000b], and few researchers have commented on the effectiveness of the various SMME support measures implemented since 1995 [Manning, 1996; Rogerson, 1998c; Bloch and Daze, 2000].

Nevertheless, the common thread running through the emerging body of literature on South African SMMEs suggests that a mismatch exists between the model of the SMME sector used by South African policy makers and its reality. Indeed, the removal of SMME constraints is considered sufficient to unleash their dynamism, while research findings indicate (with regards to employment creation), however, that:

- SMME performance does not only depend on the removal of constraints by means of supportive supply-side measures, but decisively on macro-economic conditions and industrial or market structures, in particular high concentration, which are deeply rooted in the South African economy [Altman, 1994; 1996; Manning, 1996]. The policies aimed at upgrading emerging and supporting established SMMEs have hence not been able to create “the enabling environment conducive to SMME growth”, and the delivery of supply-side measures suffers from poor or cumbersome implementation [Hirsch and

Hanival, 1998; Kaplinsky and Morris, 1999; Rogerson, 1998c; Bloch and Daze, 2000; Bloch and Kesper, 2000a;b].

- The majority of South Africa's SMMEs are micro and survivalist enterprises (and predominantly retail activities) with no signs of enterprise growth, while the most dynamic SMMEs responsible for the majority of SMME employment are medium-sized, but only a minority [Levy, 1996; Manning, 1996; Ntsika, 1999a]. Hence, the contribution by (now existing SMMEs) to employment *growth* is expected to remain low - both because the majority of micro-enterprises lack the dynamism to grow beyond one-person operations during their existence and because, in the late 1990s, even the more dynamic established enterprises have seemingly adopted a strategy of 'jobless growth' [Rogerson, 1992; Lall, 1993; Budlender and Theron, 1995; Horn, 1995; Macun, 1997; Pearsall, 1997; Rogerson, 1999; Bloch and Kesper, 2000a;b].
- The bulk of employment creation by South African SMMEs is likely to emerge from new micro-enterprise formations. However, most of these operations are started out of necessity rather than choice, and only a minority of the 'enforced' entrepreneurs manage to make their micro-enterprises survive the first two critical years of existence [Horn, 1995; Levy, 1996; Rogerson and Rogerson, 1997; Rogerson, 1998a;c; Kesper, 1999a;b]. Moreover, wage and working conditions in emerging micro-enterprises are reported to be uniformly poor both for owners and their employees which places at least a question mark at the sustainability and quality of the employment generated [Manning and Mashigo, 1994].

While South Africa's SMMEs are likely to show a better performance (than they presently do) under more favourable macro-economic conditions, and with effectively delivered supply-side measures, research findings indicate that the SMME economy is unlikely to fulfil all of its assigned roles [see above]. Indeed, only a small segment of the entire SMME economy has or will develop the capacity to create employment at socially desirable levels, and these SMMEs are generally run by highly-educated and experienced entrepreneurs with skilled labour [Levy, 1996; Levin, 1997; Kesper, 1999b]. Given the country's history of dualism and discrimination, strong SMMEs and highly-skilled labour are unlikely to emerge in substantial numbers, and in the near future, from formerly disadvantaged segments of the population [Levy, 1996; Rogerson, 1999]. Hence the goal of job creation might only be achieved at the expense of economic empowerment and income re-distribution. It is therefore argued that a hierarchy of importance needs to be established among these partly conflicting goals and support interventions adjusted accordingly, while South Africa's macro-economic performance and high concentration of industries, retail and financial sectors need to be addressed [Levy, 1996; Manning, 1996; Rogerson, 1998c; Kesper, 1999b].

5 Researching established SMMEs and their contribution to employment growth in South Africa

5.1 Theoretical considerations

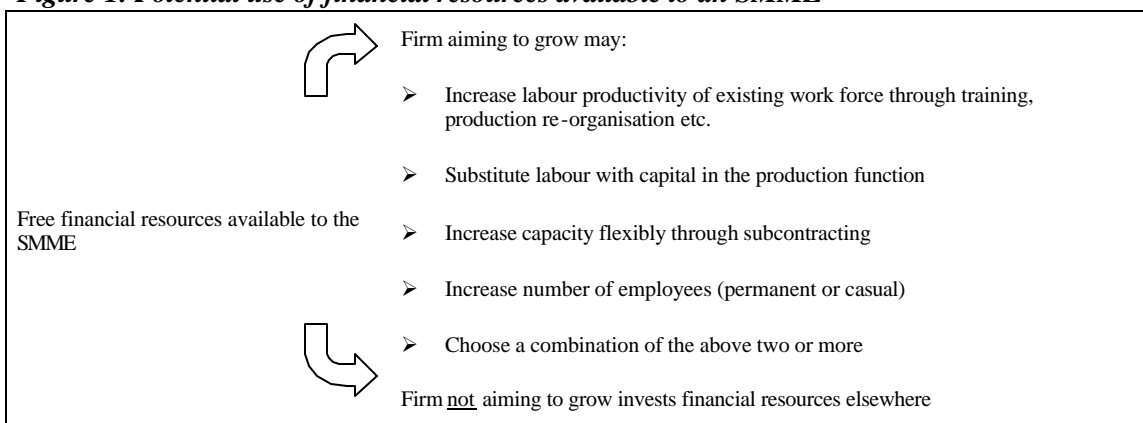
SMMEs' contribution to employment growth is both a result of new firm formations and employment increases by existing SMMEs [Mead and Liedholm, 1998]. Limiting this investigation to employment growth by existing SMMEs, two questions need to be answered in this regard. First, which are the necessary conditions for employment growth in an SMME, and second, whether these preconditions suffice to explain employment growth or if there are additional factors which determine this outcome.

Employment growth is usually conditioned by the availability of internally or externally generated 'free' financial resources⁴, viz., operational profits or borrowed capital, and (perceived) favourable market conditions. The owner-manager of an SMME borrows capital for expansion if the total costs of the loan are lower than the *expected* future returns. The owner-manager's assessment is based on his/her perception of the macro-economy, current market conditions, and his/her future aspirations [Bamberger, 1994; McCormick et al, 1997]. Operational profits, by contrast, accrue to a firm as a result of a multiplicity of internal and external factors. There is hence no limited set of factors which will explain it, and all theoretical approaches developed so far (ranging from Neo-classical Economics to the New Institutional Economics [North, 1987;1994], or the industrial district literature [Becattini, 1990; Nadvi, 1994; Schmitz, 1994;5], for example) are fragmentary in that they overemphasise the importance of a specific aspect while underrating or omitting others [McCormick, 1999; Kesper, 2000b]. Hence, this paper starts from the premise that one can conceptualise the necessary conditions of employment growth, but, *ex ante*, only tentatively identify factors which impact upon them – which are (among others) 'favourable' macro-economic conditions and low real interest rates on the one hand and operational and transactional efficiencies (which, in turn can be variably explained) on the other.

Free financial resources available to an SMME, however, do not translate invariably in its employment creation – as Figure 1 illustrates [Mason, 1985]. Production output may be increased by higher productivity of current employees as a consequence of training, for example, instead of increasing the number of employees [STRATOS-Group, 1987]. Alternatively (or in addition), production capacity is increasable by upgrading or adding equipment as today's divisible and more flexible technologies allow SMMEs to use their scopes fully *while* running short production runs [Coriat, 1992]. In an SMME, it is generally the owner-manager taking the strategic decision on how to grow the firm. Apart from mere factor cost comparisons, the entrepreneur's strategic choices are based on his perception of the business environment and aspirations – which may cause him not to grow the SMME at all – despite favourable market conditions [Bamberger, 1994].

⁴ Except for family members being 'employed' out of social rather than economic considerations.

Figure 1: Potential use of financial resources available to an SMME



One therefore has to conclude that employment growth is only one of various possible growth processes of a single firm. The SMME entrepreneur seemingly enjoys a crucial role in deciding whether capital is borrowed to expand operations, whether profit growth translates into employment growth of the SMME and finally, what form this employment growth takes, viz., whether casual or permanent staff is employed.

5.2 Methodological considerations

Using secondary data on SMMEs in South Africa to assess their contribution to employment growth?

Secondary data on the South African SMME economy originates mainly from company registers or censuses [Ntsika, 1999a]. While these are data sources used to assess the structure and employment contribution of the *entire* SMME economy, they only describe a static picture of the sector (i.e. SMMEs' contribution to employment at a specific point in time) and do often not reflect the dynamics of SMME births and deaths at that particular point in time. Due to administrative problems, the BMR Industrial Register, for example, contains a large number of inactive enterprises. Moreover, much of the available SMME data by size-class needs to be re-processed because the varying size-classes used differ from those defined in the Small Business Act [RSA, 1996],[Ntsika 1997; 1999]. Statistics South Africa (SSA) covers different portions of the SMME sector depending on the survey it undertakes. The Manufacturing Census, for example, uses formal establishments as units of analysis while the OHS captures (self-) employment which helps to inform about the more informal, emerging micro-enterprises.

Nevertheless, SMME databases in South Africa are prone to inconsistency, and the information obtained thereof is hence to be interpreted as an approximation to the actual state of SMMEs only. Data recorded by the SSA Manufacturing Census, for example, on the total number of formal manufacturing SMMEs in Gauteng, their employees and their distribution over the four SMME size classes, vary greatly from those derived from the BMR Industrial Register [Table 1].

Table 1: Data on formal Gauteng manufacturing SMMEs

Data source	Establishments		No. of employees	
	[SSA]	[BMR]	[SSA]	[BMR]
Micro	1 699	379	3 977	758
Very small	4 084	2 277	40 990	15 939
Small	2 011	1 332	62 938	19 980
Medium	1 345	1 178	129 842	85 994
Total	9 139	5 166	237 747	122 671

Source: BMR Industrial Register, 1999; Manufacturing Census SSA, 1993, cited in Bloch and Kesper, 2000b

Indeed, in terms of absolute overall SMME manufacturing employment in Gauteng, the BMR estimate is about half the one by SSA. In relative terms, however, both data sources indicate similar trends, for example, that the group of medium-sized establishments is relatively small, but constitutes the majority of SMME employment.

It is now widely agreed upon that the available secondary data on South African SMMEs is, in general, poor and that it is little suitable to reflect changes occurring in the SMME economy.

Using primary research to assess SMMEs' contribution to employment creation?

Primary research is always limited in scale, but permits the investigation of dynamics or processes such as employment growth in the SMME economy. Longitudinal studies collect either retrospective, current and projected data from specific SMMEs, or monitor firms over a period of time [Boomgard et al., 1992]. While the first approach relies heavily on the projections of the informant at the particular time of the survey (which might, in the end, not become true), the second delivers more accurate data, but is more time-intensive and requires that firms are traced over a period of time. As in both cases, only a sample of the entire SMME economy can be surveyed, limiting the investigation to one sector and region allows a greater degree of vigour in the exploration of sector-specific trends while prohibiting generalisations [Boomgard et al., 1992; Manning, 1996; Mead and Liedholm, 1998]. This paper focuses on SMMEs in the manufacturing sector in three South African regions, namely the Western Cape, the Vaal Triangle and Gauteng/the Witwatersrand. While the first three surveys collected retrospective and projective information from SMME owner-managers largely by means of telephone interviews, the survey of 120 SMMEs in the Witwatersrand was conducted personally in 1998 and repeated in August 2000.

When collecting data on small firms, one has to consider that these firms are – in their majority – privately-owned firms. They are often not keeping detailed records and are not obliged to reveal firm-specific data to the public. Hence, small firms are often not able or willing to pass on firm-specific data, but to inform about trends such as growth or decline (which, however, may be equally quantifiable on an ordinal scale). If not quantified, these trends permit only an indication of the overall trend in the sample as it cannot be assessed

whether negative trends outweigh positive ones or vice versa.

SMME owner-managers are most informed about their businesses, but are often not able to identify *all* factors which impact upon their operations and/or overrate the importance of certain factors while understating others (especially internal weaknesses) [Manning, 1996; Rogerson, 1998b; Bloch and Kesper, 2000a;b]. Owner-managers' identifications of SMME constraints, for example, need to be analysed against findings concerning the technological and organisational capabilities of their firms (obtainable through factory visits, for example, or type, age and use of equipment).

Defining SMMEs

The definition of small and medium-sized enterprises varies from country to country. Criteria range from qualitative criteria such as independent ownership and formal registration to quantitative, statistical criteria such as the number of employees, annual turnover or total assets.

The studies undertaken followed the definition of manufacturing SMMEs in terms of numbers of employees as outlined in the National Small Business Act [RSA, 1996] (albeit ignoring the multi-factor definition for purposes of simplification) which differentiates between four size classes presented in Table 2:

Table 2: Defining four size classes of manufacturing SMMEs by numbers of employees

Size class	Micro	Very small	Small	Medium
No of employees	0-4	5-19	20-49	50-200

Source: National Small Business Act [RSA, 1996:20]

Given South Africa's history of previously disadvantaged individuals (PDIs), a differentiation between emerging and established SMMEs is made. The former term refers to firms which are owned and managed by PDI entrepreneurs while the latter refers to white-owned and – managed firms. Most emerging SMMEs are assumed to be informal and most established ones formal – although these categories overlap.

6 Tracing trajectories of manufacturing SMMEs in South Africa

This section presents some of the findings from four surveys on manufacturing SMMEs in three South African regions (namely, the Western Cape, the Vaal Triangle and Gauteng/the Witwatersrand). All sample SMMEs are ‘established’ firms, i.e. formally registered, and their permanent labour is protected by current labour legislation. The SMMEs interviewed are – in their majority – privately, white-owned enterprises and older than three years. The first three surveys were undertaken to reveal growth trajectories and support needs of manufacturing SMMEs in certain regions, and the samples are hence representative of the sub-sectoral and size-composition of these regional economies (as reflected in the BMR Industrial Register). By focusing on three dominating industries in the Witwatersrand, the last survey, by contrast, used a sub-sector approach and moreover targeted successful SMMEs – which reported to have experienced some kind of growth in the period 1994 to 1998. Both the BMR Industrial Register and referrals were used to identify potential interview participants. The quality of the data generated in the above surveys, however, allows only for a description of trends in South Africa’s SMME economy and tentative explanations thereof – based on the SMME entrepreneurs’ perceptions.

6.1 SMME manufacturers in the Western Cape

Western Cape manufacturing is the third most important contributor to national manufacturing output and employment and the dominating private sector in the province accounting for 19.7 % of provincial employment and 24 % of provincial output [Table 4].

Table 3: Manufacturing in the Western Cape: Establishments, Employment and Output

Region/Province	Establishments	% of SA	Total employment	% of SA	Gross Output [‘000 R]	% of SA
Western Cape	4 146	19%	236 109	18%	31 235 137	15%
Kwazulu-Natal	4 383	20%	318 091	24%	46 104 144	22%
Total South Africa	22 354	100%	1 344 066	100%	210 771 498	100%

Source: Manufacturing Census 1993, SSA, cited in Bloch and Kesper, 2000a

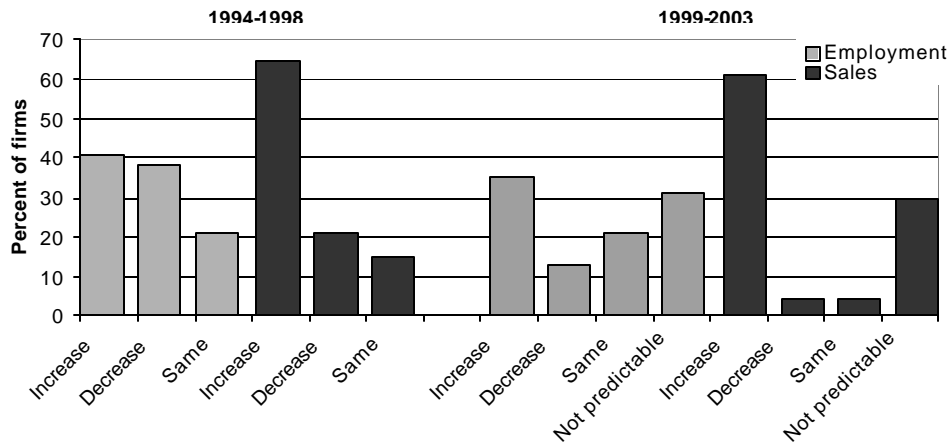
SMMEs constitute the majority of manufacturing firms in the Western Cape. Nevertheless, the Western Cape SMME manufacturing economy does not show a strong industry dominance as, for example, Gauteng does. The group of the most prominent sub-sectors with regards to output and employment and with more than 300 establishments includes *Basic and Fabricated Metal Products; Clothing and Footwear; Pulp and Paper Products; Food, Beverages and Tobacco; Wearing Apparel; Chemicals, Rubber and Plastics; and Furniture.*

The survey of 82 established manufacturing SMMEs was undertaken in the Western Cape in July 1999 to inform about their growth trajectories and support needs [Bloch and Kesper, 2000a]. The findings related to the employment dynamics in the Western Cape manufacturing SMMEs economy are presented in the following.

Growth experiences and projections of manufacturing SMMEs in Western Cape

The recent performance (over the period 1994-1998) and projected future performance (for 1999-2003) of the group of the sampled enterprises measured through the indicator sales offers a generally positive outlook on the state of the Western Cape SMME manufacturing economy.

Figure 2: Growth experiences and projections by formal manufacturing SMMEs in Western Cape [N=82, own interviews]



In terms of employment growth, however, only 41 % of the sample firms increased their labour force in the period 1994 and 1998, while 38% decreased the number of their (permanent) employees. Although data for the net employment change has not been recorded, there are indications that the increase in sales between 1994 and 1998 reported by 65% of the sampled SMMEs (against 21% which experienced a decrease) has only been accompanied by a marginal employment growth. This phenomenon of ‘jobless’ growth seemingly perpetuates in the near future with 61% of SMMEs projecting sales increases and only 35 % of the sample firms planning to add on to their labour force. For several established manufacturing entrepreneurs, however, high uncertainty is attached to their volatile markets which precludes comments on changes in their work force (by 20%) and sales (by 12%).

Failing or not aiming to grow? Why Western Cape SMME manufacturers do not grow or grow ‘jobless’

About two thirds of the Western Cape sample firms did not experience any growth over the period 1994-1998, and projections for the near future are similarly pessimistic. Being asked to identify their key constraints, market development and increasing labour and other input costs were mentioned most frequently. Prioritising problems in final product markets and, to a more limited extent, in labour markets (where they would like to pay lower wages) and other input markets is a typical response by SMMEs to the reality of a recently liberalised South African economy. SMMEs seemingly believe that the key to their threatened survival lies external to their firms [Morris and Kaplinsky, 1999; Kesper, 1999a,b]. As more than 75 % of production output of the sample SMMEs is absorbed by the Western Cape home market, SMME growth prospects could, indeed, increase with exploring new markets. Nevertheless, manufacturing SMMEs in Western Cape have shown little initiative to technically improve their production capacity through acquisition of new equipment, labour and management training and specialised subcontracting, for example, and largely lack standardised quality control procedures [Bloch and Kesper, 2000a]. Research evidence on technology upgrading of SMMEs in South Africa suggests that more attention to improving internal operations is required [for example Eichler, 1994; Barnes, 1997; Harrison and Dunne, 1998; Dunne, 1999; Kaplinsky and Morris, 1999; Kesper 1999a,b]. Hence, even if Western Cape manufacturing SMMEs are to defend their *present* market position only, both internal and external

constraints need to be addressed.

The majority of SMMEs in the Western Cape have grown their turnover and plan to grow it further, but only about half of those aim to increase their work force. Reasons ranged from 'preferring the SMME to be a manageable size' and 'increasing efficiency through training and restructuring instead' to 'being scared because of the new Labour Laws and wage agreements which turn the employee into high fixed costs with unpredictable returns'. Despite the relatively high interest rates, several manufacturers indicated that they would rather invest in computerised equipment which could be sublet and used flexibly according to demand than in more permanent staff which had neither of the above advantages (partly because of the Labour Relations Act). Other SMMEs rely on subcontracting or casual labour as a means to increase production capacity during times of high demand. And especially elderly entrepreneurs do not aim to grow their businesses further because of the risk involved and because they are close to retirement.

6.2 Manufacturing SMMEs in the Vaal Triangle

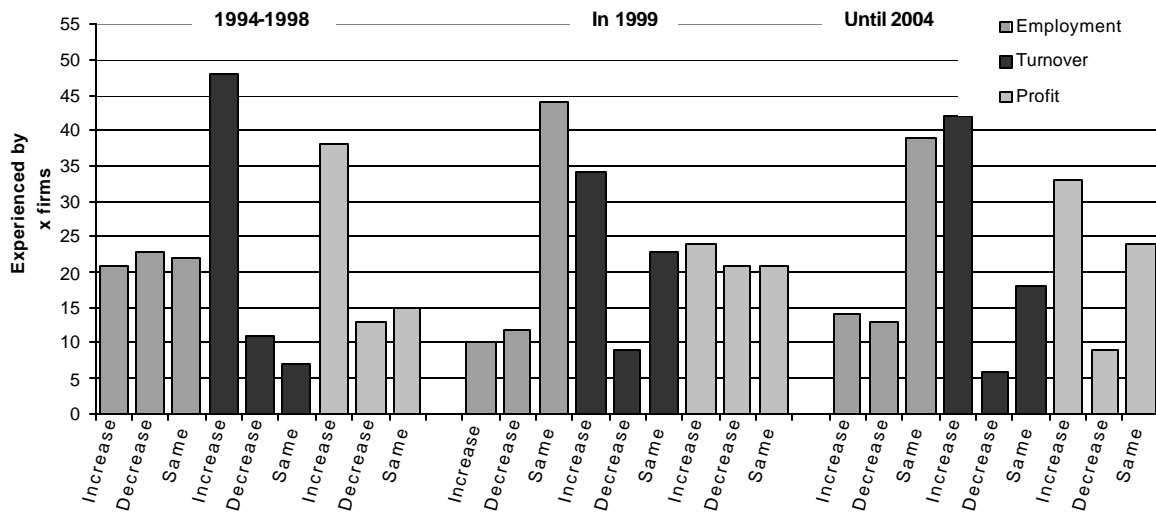
The Vaal Triangle has long been considered South Africa's "power house" hosting production plants of major players of the steel-minerals-energy complex (SMEC), such as ISCOR and SASOL, and their smaller subcontractors. Nevertheless, the once vibrant economy of the Vaal Triangle⁵ is currently struggling to adjust to the consequences of global competition. In particular, the need to become internationally competitive provoked ISCOR (and other large corporations) to restructure with the consequence of direct job losses in the Vaal region. Moreover, their smaller subcontractors find themselves suddenly exposed to lower demand levels both in the regional and national markets and increased pressure to improve quality to measure up to international competitors. The Vaal Triangle hosts about 550 manufacturing SMMEs with metalworking and the non-metallic minerals sub-sector dominating as manufacturing activities. A survey of 66 manufacturing firms in the Vaal Triangle was undertaken in March 2000 to contribute to the formulation of a 'revival' strategy for the region by permitting insights into the growth experience, future plans and perceived problems of manufacturing SMMEs in the Vaal Triangle [Kesper, 2000a].

Growth experiences and projections of manufacturing firms in the Vaal Triangle

Overall, the majority of sample firms in the Vaal Triangle reported positive growth in turnover and profits for the period 1994-1999, and project this trend to continue over the next five years [see Figure 3]. Nevertheless, "the election year 1999 was difficult" for many of them and has left 'very small' firms more doubtful about their future. Moreover, 35% of the sample firms reported to have *decreased* their work force over the past four years, and only 15% increased the number of employees in 1999. The majority of sample firms are optimistic about their future performance in terms of turnover and profit growth. Nevertheless, only 21% of all sample firms foresee an employment increase accompanying turnover and profit increases over the next four years, which indicates that the growth which is and will be taking place in the Vaal manufacturing economy is largely 'jobless'.

⁵ Vaal refers in the following to the Vaal Triangle including the Vereeniging, Vanderbijlpark and Sasolburg magisterial districts. This regional approach crosses provincial boundaries by including Sasolburg albeit being part of the Free State.

Figure 3: Growth trajectories of and future projections by sample manufacturing firms in the Vaal [n=66, own interviews]

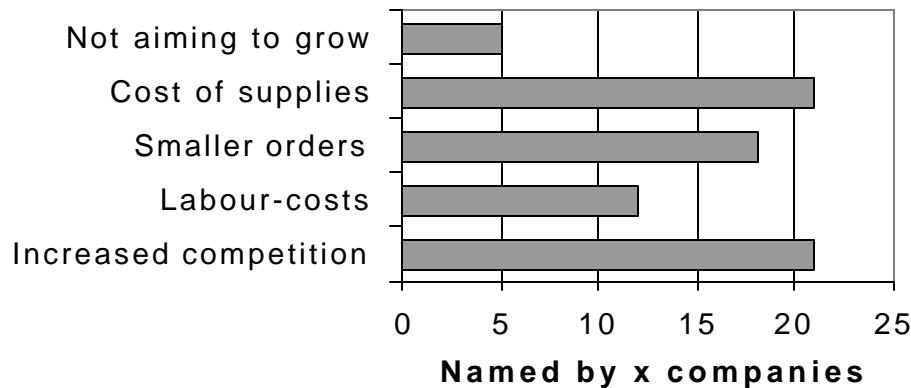


Among the sample firms, micro and very small enterprises constitute nearly all non-growing businesses in the Vaal Triangle which experience(d) no change or a decline in profits, turnover and numbers of employees. Eight of the nine largest SMMEs, by contrast, have grown and are growing in terms of turnover and profits (but not in numbers of employees).

Failing or not aiming to grow? Plans and constraints of manufacturing SMMEs in the Vaal Triangle

Manufacturing firms in the Vaal Triangle were probed to explain why they had not grown over the past five years (which applied to 58% of all firms).

Figure 4: Growth constraints named by sample firms(multiple answers possible) [n=66, own interviews]

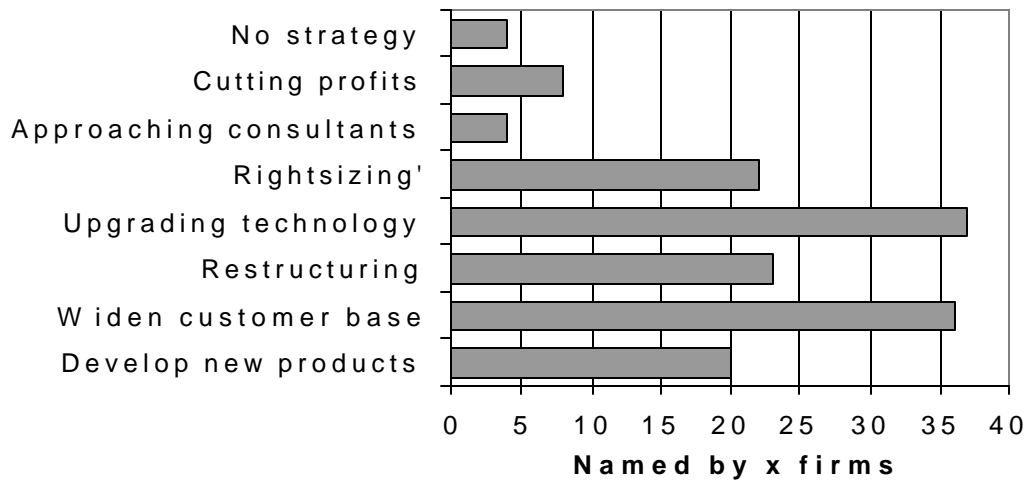


The survey findings presented in Figure 4 reveal that manufacturers largely consider factors external to their firm as major impediments to their growth, i.e. increased competition in output markets and rising costs in input markets (partly caused by increasing transport costs). The Vaal manufacturing SMME economy is, indeed, a very much ‘self-contained’ region with regards to sourcing intermediate products and absorption of end products [Kesper, 2000a].

‘Very small’ enterprises complained about strong competition in a declining regional market from former ISCOR employees who have started their own businesses and operate from their backyards or ‘bakkies’ with little to no overheads. Furthermore, the higher than export prices of steel and aluminium scrap sold domestically are perceived to erode the competitiveness of metalworking firms in the Vaal Triangle. Nevertheless, a certain segment of the Vaal’s small enterprise economy does not aspire to growth at all and would prefer if “government left [them] alone”.

While about 20% of the sample firms are willing to reduce their labour force and/ or cut profit margins as a re-action to declining demand, manufacturing firms in the Vaal Triangle largely recognise the need to adopt pro-active growth strategies [Figure 5].

Figure 5: Strategies planned by firms in the Vaal(multiple answers possible) [n=66, own interviews]



Nevertheless, these strategies aim to increase their production capacity in quality rather than quantity. Hence, upgrading equipment, reorganising production and developing new products to be able to penetrate new markets is prioritised over employing more staff in the Vaal manufacturing SMME economy. This can be partly explained with the majority of SMMEs being metalworking firms which need to emulate the sub-sectoral trend of using more CNC equipment, and is seemingly not due to a skills shortage in the region as highly-skilled former ISCOR employees constitute a large proportion of job seekers.

6.3 The Gauteng manufacturing SMME economy

Gauteng is often referred to as South Africa's industrial heartbeat [Rogerson and Rogerson, 1995; Rogerson, 1998a]. The province hosts about 43 % of all South African manufacturing establishments which contribute 38% of overall manufacturing employment and 41% of manufacturing gross output [Table 4].

Table 4: Manufacturing in Gauteng: Establishments, Employment and Output

Province	Establishments	% of SA	Total employment	% of SA	Gross Output ['000 R]	% of SA
Gauteng	9 654	43%	508 196	38%	86 725 269	41%
Total SA	22 354	100%	1 344 066	100%	210 771 498	100%

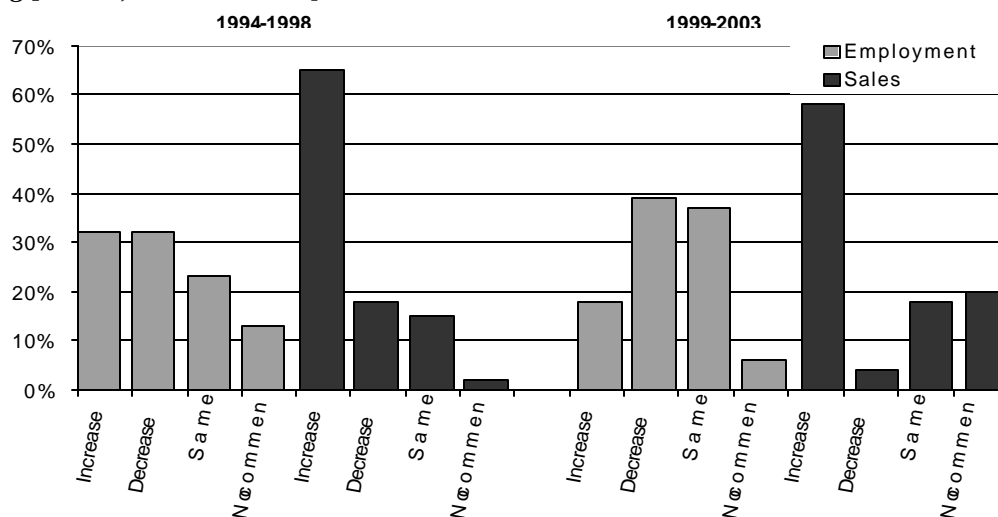
Source: Manufacturing Census 1993, SSA, cited in Bloch and Kesper, 2000b

Metalworking is the dominating activity in Gauteng with regards to output and employment (more particularly, using three-digit ISIC codes, *Fabricated Metal Products and Metalwork Service Activities, Special Purpose Machinery, General Purpose Machinery and Structural Metal Products* emerge as dominant industries). Prominent industries of other sub-sectors include *Printing, Wearing Apparel and Other Textiles, Plastic and Other Chemical Products, and Furniture*. SMMEs constitute the majority of Gauteng's manufacturing firms and make a substantial contribution to provincial employment, but seemingly require targeted assistance for their facing up to global competition and contributing more to economic growth [Rogerson, 1998a;c; Kesper 1999a;b]. A survey of 102 manufacturing SMMEs was undertaken in May 1999 to inform about the growth experiences and support needs of SMMEs in Gauteng's dominating industries [Bloch and Kesper, 2000b]. An extract of the survey findings regarding the SMMEs' employment growth or decline, and the reasons behind it are presented in the following section.

Growth experiences and future aspirations by SMMEs in Gauteng

The recent performance and projected future performance of formal manufacturing SMMEs offers a relatively optimistic outlook on their growth prospects. About 60% of the formal SMME manufacturers believe that – after having “survived the first years of trade liberalisation and inroads into their markets” – they continue to grow turnover-wise. For several established manufacturing entrepreneurs, however, high uncertainty is attached to their volatile markets and precludes comments on their future performance, while especially elderly entrepreneurs do not aim to grow their business further, but instead prefer it to maintain its current “comfortable” (manageable) size. Overall, the number of SMMEs indicating recent or planned employment growth is well below this of firms experiencing turnover increases, which is indicative of ‘jobless growth’ taking place in Gauteng's manufacturing SMME economy.

Figure 6: Growth experiences and projections by formal manufacturing SMMEs in Gauteng [N=102, own interviews]



Research findings on the Gauteng manufacturing SMME economy suggest furthermore that exporting firms (which constitute 44% of the sample) are not experiencing more intense employment growth than non-exporting firms. While these SMMEs may be more likely to survive and hence offer more secure employment, the need to remain internationally competitive precludes any employment increases and requires firms to use current labour and capital equipment more efficiently instead.

Aiming or failing to grow? Explaining the phenomenon of ‘jobless growth’ in Gauteng

Gauteng’s SMMEs have become less optimistic about their future performance, with 58% of the sample firms projecting turnover growth. A stagnant economy and increasing import penetration as well as “first world labour regulations” are seen to lie at the heart of SMME manufacturers’ problems. Nevertheless, entrepreneurs recognise, for example, that “[they] have missed out on establishing good labour relations in prosperous times and now have to deal with both a more demanding labour force and a shrinking market at the same time” and hence express a strong concern for the improvement of ‘labour relations’ and HRD apart from market development [Bloch and Kesper, 2000b]. There are, moreover, indications that many owner-managers overrate the importance of market development *per se* and underestimate the need to increase competencies internally to be able to compete in these markets successfully – for example, by increasing labour productivity through motivation and training, production re-organisation and upgrading of equipment.

Among the 58 % of the sampled manufacturing SMMEs which plan to increase their sales in the near future, only every third projects to increase production capacity by taking on additional workers. More strikingly, about 40 % of all manufacturing SMMEs interviewed plan to decrease their work force, although only about 5 % foresee a decline in turnover. These SMMEs indicate that they aim to find alternative means to increase production capacity such as adding on equipment or subcontracting. Manufacturers reason that current wage agreements are not bound to productivity increases, but rising costs of living, and that retrenchment procedures have become cumbersome and costly, while introducing a multi-shift working day requires consultation with the trade unions which prohibit performance-

related remuneration. These allegations are indicative of the more subtle 'labour-productivity' problem surrounded by those of labour motivation, loyalty and skills, which is pertinent in many South African SMMEs. Growing SMMEs in Gauteng largely seem to consider it more viable to grow production capacity 'jobless' than to address these problems.

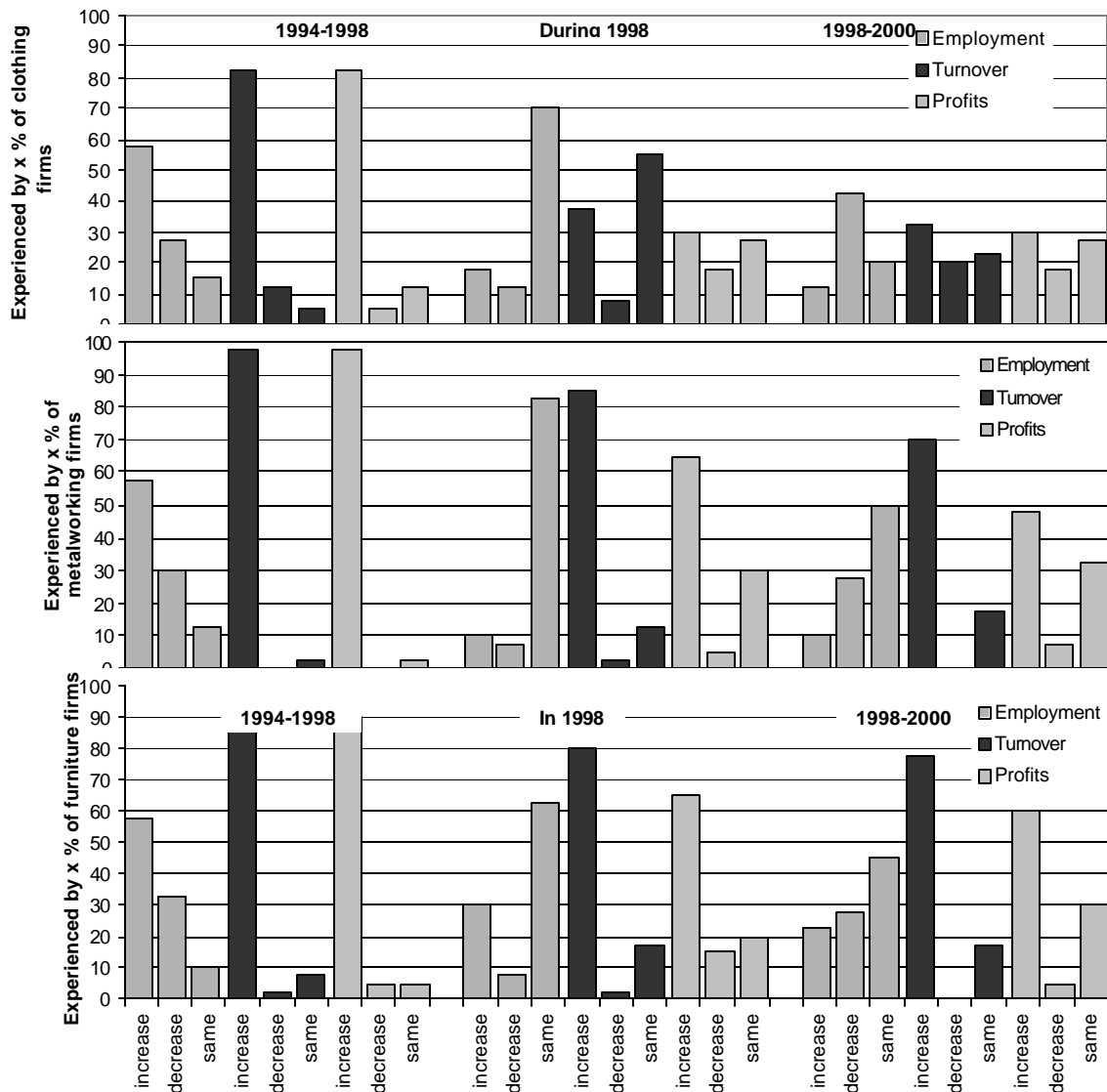
6.4 Successful SMMEs in the Witwatersrand – not aiming or failing to grow?

The survey of 120 SMMEs in three of the dominant industries in the Witwatersrand, namely clothing, furniture and metalworking was aimed at identifying success factors of SMMEs, and therefore investigated firms which had experienced some kind of growth in the period 1994-1998. Nevertheless, the assumption that manufacturing SMMEs which have experienced growth in turnover and/or employment in the recent past continue to do so in the future is seemingly a fallacy. Research findings indicate that even these 'successful' established SMMEs need to adopt more competitive strategies to maintain, not to mention grow their operations in the future.

Growth experiences by clothing, furniture and metalworking SMMEs in the Witwatersrand

Overall, the SMMEs interviewed show similar growth patterns for the period 1994-1998. The large majority of the sample firms had experienced turnover and profit increases in the period 1994-1998 [Figure 7]. Nevertheless, about one third of these firms grew 'jobless' over this period which applies to all industries under investigation. Indeed, 80% of the furniture and 90% of the metalworking firms as well as 80 % of the clothing SMMEs interviewed reported to have invested their profits in new equipment, which may be indicative of labour being replaced with capital. During 1998, by contrast, several of the metalworking and furniture SMMEs experienced some decline in turnover and, more markedly, profits, but not as many as in the clothing industry. Research findings indicate that more and more of the sample SMMEs in clothing undergo a period of decline – both turnover- and employment-wise. Nevertheless, employment losses are only partly explainable by turnover decreases, as 42.5% of clothing SMMEs reduced their labour force between 1998 and 2000 while only 20% reported falling turnover levels. There are, moreover, indications, that labour has not been replaced with capital as capital investments were equally on the decrease. While 32% of the clothing SMMEs increased assets during 1998, only 7% did so between 1998 and 2000. Nevertheless, even metalworking SMMEs become seemingly more hesitant to purchase new equipment, with only 40 % undertaking new capital investment in 1998 and 30% between 1998 and 2000. Markets are perceived to be less stable than before as "there are more months of running below capacity"; and 20 % of the metalworking SMMEs reported to have had to increase their sales just to yield the *same* profit margins due to higher input costs. Here again, however, employment losses can only be partly conditioned by shrinking markets as, for example, 28 % of metalworking SMMEs reduced their labour force between 1998 and 2000 while none experienced a loss in turnover and only 8 % decreasing profits. Most of the furniture firms have been able to retain their turnover and profit levels between 1998 and 2000. While 30 % of the sample firms took on additional workers in 1998, the period 1998 to 2000 has seen a nearly equal percentage of furniture SMMEs reducing their labour force, and this despite relatively stable turnover and profit levels for most of the firms. The fact that 53% of the sample firms reported to have invested in new equipment in 1998, and 48% did so between 1998 and 2000 suggests that labour may have been replaced with capital.

Figure 7: Growth experiences and projections by clothing, metalworking and furniture SMMEs in the Witwatersrand [$n_{\text{clothing}}=n_{\text{metalworking}}=n_{\text{furniture}}=40$, own interviews]*

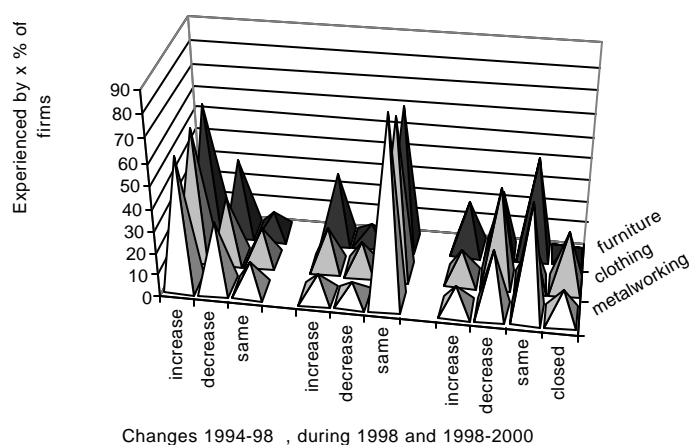


*Note: Percentages for the period 1998-2000 do not add up to 100% as 25% of the clothing, 12.5% of the metalworking and 5% of the furniture SMMEs went into liquidation during this period.

Employment losses in clothing, furniture and metalworking SMMEs in the Witwatersrand

Isolating employment changes from the SMME trajectories presented above reveals the following picture [Figure 8].

Figure 8: Employment changes in metalworking, clothing and furniture firms [n=120]



The period 1994 to 1998 has seen similar employment dynamics in all three industries. The majority of SMMEs increased the number of their permanent employees, while about a third of all firms undertook retrenchments. Since 1998, however, the employment changes of the sample SMMEs are less uniform which may be related to their industries undergoing different structural, technological and market changes [see below].

Indeed, 25% of the clothing firms interviewed closed down between 1998 and 2000 and contributed to a negative employment growth of minus 621 jobs for the 40 sample firms [Table 5]. Only 5 % of the furniture SMMEs, by contrast, went into liquidation during this period, and net employment losses between 1998 and 2000 amount to 191. On average, however, every seventh of the 120 sample SMMEs closed, and 1274 jobs were lost altogether.

Table 5: Employment losses and firm closures between 1998 and 2000 [n=120, own interviews]

SMMEs in	Clothing [n=40]	Furniture [n=40]	Metalworking [n=40]	Total [n=120]
Net employment loss	621	191	462	1274
Firm closures	10 (25%)	2 (5%)	5 (12.5%)	17 (14%)

Why clothing, furniture and metalworking SMMEs grow ‘jobless’ or not at all

In the Witwatersrand, SMMEs in clothing and metalworking, and to a lesser extent in furniture manufacturing are finding it increasingly difficult to grow in a more liberalised South African economy, and despite a more regulated labour market. The common thread running through the interviews with SMME manufacturers is that demand has shrunk, and (illegal) imports are “cutting local SMMEs’ piece of the cake even smaller”. Moreover, rising labour costs are said to lie at the heart of retrenching unskilled labour (while retrenchments have also become more costly) or encouraging former employees to become subcontractors. In particular, under current “unstable” product market conditions, the prolongation of paid sick leave and the uncertainty about HIV infected workers and their future performance makes SMME employers even more hesitant to take on additional employees on a permanent basis.

Nevertheless, there are indications that SMMEs have as much in common with their peers in terms of size as well as in terms of their industry. The reasons behind slack SMME growth in general, and negative employment growth in particular, are hence also conditioned by trends specific to the respective industries. Some of the clothing manufacturers interviewed, for example, had focused on the lower end of the South African market where they were little competitive [see also Altman, 1994], and now find it difficult to identify a 'higher-end' market niche and to restructure their firm accordingly. The sample knitwear companies supplying the higher-end, by contrast, face decreasing domestic demand, and their efforts to penetrate export markets largely failed – due to using technology outdated overseas and poor quality also conditioned by the yarn used. Nevertheless, several cut-make-and-trim (CMT) manufacturers seemingly benefit from their proximity to designers and end markets, and managed to grow by identifying niches – even at the lower end. About two third of these 'growing' firms, however, subcontract more or 're-organise' current labour and equipment instead of taking on additional permanent employees. These SMME clothing manufacturers argue that although skill levels and supply are satisfactory and their remuneration reasonable, current product market instability together with the inflexibility of the labour market preclude taking on more permanent staff.

Most small furniture firms of the sample are serving, or are shifting to serve, the higher end of the South African market, while especially larger SMMEs are found to supply various budget and exclusive target markets. With furniture being a voluminous consumer product (South Africans do not buy knock-down furniture), import penetration of the market has been relatively modest. Nevertheless, falling demand levels are reported by both furniture SMMEs serving the higher and the lower end of the South African market. Production of quality furniture requires imported raw-materials and craftsmanship, and both have become more costly for South African manufacturers, which widens the gap between their turnover and profit levels. Several larger SMME furniture manufacturers have therefore followed the international trend to use CNC machinery in formerly labour-intensive production stages such as carving, but this option is too costly for smaller firms. Current skill levels and costs of training are of great concern to these manufacturers who aim to serve the higher end of the market. It is argued, for example, that the Employment Equity Act⁶ precludes firms from optimally staffing positions as the "right colour mix" meets their skills requirements sub-optimally. And the Skills Development Act⁷ seemingly discourages smaller SMMEs from intensifying training efforts. These SMMEs feel burdened with the administration costs of recovering levies in the form of grants for training undertaken, the costs of designing a workplace training programme as an alternative to using external training institutions, and the relatively high charges by private training institutions after the closure of the former industrial training boards which had been directly subsidised through levies from the industry [Ntsika, 1999b]. As most SMMEs do not seek legal advice and are hence ignorant of the flexible aspects that exist within South African labour legislation, these mere perceptions impact to a significant extent on their willingness to create jobs.

The metalworking industry comprises a wide range of activities and is marked by inter-industry trade [Kesper, 1999b]. Rising interest rates, a declining mining and stagnating

⁶ The Employment Equity Act 55 of 1998 aims to prevent unfair discrimination by employers on the basis of race, gender or health status, and obliges companies with more than 50 employees to develop and implement an Employment Equity Plan to ensure the equitable representation of previously disadvantaged individuals (PDIs) in all occupational categories and levels in the workforce.

⁷ The Skills Development Act 97 addresses the problem of skill-levels in the South African labour force and legislates that industrial training boards were replaced by sector education and training authorities (SETAs) in March 2000. SETAs receive 80% of the payroll levy of currently 0.5% from firms with total remuneration costs higher than R 250 000, i.e with about 10 employees, paid to the National Skills Fund with which the development of a sector skills plan, approvals of workplace skill plans, and the promotion of "learnership" contracts for would-be or current employees are funded.

automotive industry and less capital investment in general are named as main reasons for shrinking local demand, while mass component markets are penetrated by more price-competitive imports. More importantly, the fact that competitors abroad have access to cheaper inputs (paradoxically including those originating from South Africa) is of major concern to small manufacturers who have been unable to establish direct vertical linkages to the main local steel suppliers. Many very small 'jobbing' enterprises have not been able to generate the capital necessary to move out of mass markets and went into liquidation or reduced staff to a minimum. Highly specialised metalworking SMMEs or those manufacturing their own products have been able to grow turnover-wise by widening their range, becoming more focused or upgrading their design capacity, but have largely refrained from taking on additional labour. Technology upgrading in general, and investing in CNC machinery in particular, is considered essential to stay in the market and does often not require more labour. If additional employees are recruited, they are skilled to highly-skilled to operate this new technology.

Being prompted to comment on the available support measures manufacturers admitted to be largely unaware of any of the measures or schemes administered by the DTI, for example. Those few firms which reported to have applied for assistance, complained about the red tape involved and lack of commitment on the side of government officials. Overall, the attitude towards government (at various levels) is rather negative. The perception prevails that government increasingly burdens small firms with regulations without delivering services in return.

6.5 Summary of findings

Research findings on manufacturing SMMEs in three South African regions indicate that quite a substantial number of these SMMEs have not been able to grow since 1994. They report neither a profit nor turnover increase, nor – as one would then expect – employment growth. It is argued that both poor macro-economic conditions and more price-competitive imports penetrating the domestic market result in smaller and less frequent orders. As most of the sample manufacturing SMMEs have never exported and rather adjusted the size of their operations to the market size than taking on the risks involved, market development is seen as a solution to their survival. Moreover, these SMME owner-managers lament that rising wages are not reflecting productivity increases and erode their price competitiveness even further.

In all four SMME samples, however, the number of firms decreasing their workforce is larger than the number of firms experiencing decreasing turnover or profits. Research findings indicate that the growth that does take place in these SMME economies is, to a large extent, jobless. Firms which needed to increase their production capacity have largely done so by streamlining/re-organising production, by turning employees into subcontractors or subcontracting to other firms and replacing labour with capital. Other SMMEs have shifted their market focus towards smaller, but more profitable niche markets and upgraded equipment, retrenched unskilled and re-trained higher –skilled workers. Although sub-sectoral differences in the labour-intensity of production exist, they can only partly explain the more or less job-intensive growth taking place in the SMME economies under investigation. The availability of divisible and flexible technology for the specific industry on the one hand as well as labour market regulations on the other seemingly impact upon the growth trajectory an SMME takes. The perception of labour as a rising cost factor with unpredictable returns is shared by many of the SMME owner-managers interviewed who argue furthermore that the 'Labour Laws' do not allow firms to react flexibly to market changes [see also Macun, 1997:4]. The recently introduced Skills Development Act is reported to discourage SMME

owner-managers from investing in staff training rather than encourage it, which might result in SMMEs which aim to move up the value chain to replace more labour with capital.

7 Conclusions and recommendations

The 1970s and 1980s have seen a revival of the small firm discussion in both industrialised and developing countries. The experience in many of those countries has been that SMMEs resolve the persistent problem of insufficient employment growth while being highly efficient in flexibly serving increasingly segmented consumer markets. The small firm discussion has been taken up in South Africa where SMMEs hold a numeric majority and are expected to contribute positively to the social and economic transition after Apartheid. While it is now widely agreed upon that the South African manufacturing SMME economy is an important part of domestic economic activity, it is less clear *to what extent* South Africa's SMMEs are able to contribute to economic and employment *growth*. Secondary data on SMMEs is generally poor, and preliminary primary research poses at least a question mark at considering SMMEs as *the* panacea to tackle the problems of employment growth and income distribution in South Africa. Given the above, continuous primary research may reveal a more updated and exact picture of trends in (at least certain segments of) the SMME economy. This paper aimed to contribute to the SMME discussion in South Africa by describing the growth trajectories of manufacturing SMME economies in the Western Cape, the Vaal Triangle and Gauteng/the Witwatersrand.

Research findings reveal that turnover growth has generally slowed down since 1998 in the manufacturing SMME economies of the four regions under investigation. Manufacturers relate this trend largely to shrinking product markets which they explain with both a stagnant economy and rising import penetration. Nevertheless, the majority of the sample SMMEs in all four regions are able to increase their sales (and to a lesser extent profits), but this turnover growth is not accompanied by employment growth. Although no absolute figures were generated, the overall change in employment in the above manufacturing SMME economies is seemingly one of decline, and this trend is projected (by manufacturers) to prevail in the future.

The above findings indicate that part of the slack employment growth in SMMEs is conditioned by them not being able to increase sales and profits. SMME manufacturers relate this largely to product and labour-market conditions. Nevertheless, it is typical for owner-managers of small firms to believe that the solutions to their problems lies external to their SMMEs. Research findings on weak internal competencies such as quality control and production organisation indicate, for example, that SMME manufacturers would have to develop these internal competencies in order to be able to serve new markets, while improving labour relations is seemingly another cornerstone of SMME growth in South Africa.

SMMEs generally lack the resources necessary to overcome the above constraints, and the South African government has launched a series of support measures to offset these market imperfections. The apparent problems of implementation make it difficult to assess the effectiveness of these policy measures. There are, however, indications that structural distortions which are inherited from Apartheid and prevail in input, final product and financial markets need to be equally addressed if promotive policies are to be effective, and that SMMEs are more likely to show signs of growth under more favourable macro-economic conditions.

Nevertheless, research findings on the manufacturing SMME economies of the Western Cape, the Vaal and Gauteng/the Witwatersrand also suggest that part of the slack employment growth in SMMEs is *not* conditioned by them not being able to increase sales and profits.

Indeed, the majority of the sample manufacturing SMMEs experiences turnover and profit growth, but refrains from increasing their labour force. The (perceived) inflexibility of the labour market induces SMME owner-managers to rely for their firm's flexibility on casual labour or capacity subcontracting in times of rising demand, which can be discarded in times of falling demand. It is, moreover, argued that current labour legislation renders labour a more costly and less reliable factor of production than capital. The phenomenon of 'jobless' growth leads one to conclude that assistance to SMMEs (even if effectively implemented and complemented by modifications of related policies) may result in SMMEs contributing more to economic growth, but does not automatically translate into employment creation – as and if labour legislation is not (perceived) conducive to choose this expansion strategy.

Given the above, it seems adequate to suggest a redesign of current SMME policies and their implementation. From the outset, it needs to be clarified which of the numerous objectives outlined in the White Paper [RSA, 1995] SMMEs are most desired to fulfil. In accordance with such a hierarchy of importance of objectives, SMME supply-side measures (and allocation of resources) need to be realigned. Support measures need to be actively marketed to their target groups, and a wider institutional network which includes, for example, industry-specific consultants needs to be established and encouraged to become involved in the implementation process. Parallel to this redesign of SMME policy itself, the weakening or supporting effect of related policies such as macro-economic policies, competition policy, and labour legislation need to be assessed and – depending on priorities – revised accordingly.

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