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**Article**

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South African Journal of Business Management

**Provided in Cooperation with:**

University of Stellenbosch Business School (USB), Bellville, South Africa

*Suggested Citation:* Bradley, Elisabeth (1982) : Small business: Views, opportunities and challenges, South African Journal of Business Management, ISSN 2078-5976, African Online Scientific Information Systems (AOSIS), Cape Town, Vol. 13, Iss. 1, pp. 38-40, <https://doi.org/10.4102/sajbm.v13i1.1169>

This Version is available at:

<https://hdl.handle.net/10419/217789>

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## Interfaces

### Small business — views, opportunities and challenges

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Lecture to the Alumni Association of the University of South Africa School of Business Leadership, Johannesburg, November 18, 1981

A discussion of a matter often starts off with a definition. I believe that the more or less official definition of a small business is one whose:

- Assets are less than R1 million
- Annual turnover is less than R5 million
- Employees number less than 200.

I do not agree with this definition, certainly not if all three criteria have to be met, and would like to take a somewhat different view. I include in my view some businesses very much smaller than that definition, but also some that are considerably larger.

To my mind a small business is one of such a size that the chief executive officer, who of course sometimes also is the owner, can maintain direct control over all aspects of the business (or in some cases partners who share management). Since some people possess extraordinary powers of management, control and decision-making, there are some quite large businesses which are run in exactly the manner of a small business by one person, to whom all executives are directly responsible.

Apart from a small spate of developments like the formation of the Small Business Development Corporation or the African Bank in recent times, small businesses have been largely ignored in South Africa for the last few decades. Our times have truly been those of the large corporations and the multi-nationals. To a considerable extent this has been the natural effect of a period of quite extraordinary technical development. As technical developments became more and more sophisticated and complex, those concerns with the financial strength to buy the products of new technologies and to afford the equally specialized people to manage the applications, prospered to the detriment of those without sufficient funds or managerial and technical expertise.

The multi-nationals and the super corporations were the glamour boys of this era and many people predicted that they would truly inherit the earth. On paper of course, they had everything going for them: true economies of scale, the ability to develop and buy the most advanced and efficient means of manufacture and both the standing and profits to attract the very best managers.

Yet small businesses did not disappear and I don't think they will. And I would like to try and interest you, who are by background and training more big business-oriented, to consider sympathetically the case of the survival of small businesses.

There are several reasons why I think small businesses should survive in South Africa, and why they should be positively encouraged to survive and prosper.

Firstly, in spite of the sophistication of a considerable part of our industry and commerce, South Africa still has many conditions in common with Third World countries and a large part of our population is still almost completely rural and untouched by modern technological developments. Yet it is important for good deployment of resources as well as the general improvement in living standards, that an increasing number of un- and under-employed rural workers be brought into the orbit of industrial development. Until very recently attempts were made mainly at persuading larger concerns to decentralize and to train completely unskilled workers. I feel that, because many smaller concerns constitute a less high-powered technological environment, and expose their workers to a greater variety of actions, they could give valuable opportunities of advancement to those gifted rural workers, who have the ability to learn in spite of their background handicaps. In a small business those people will probably far more quickly bridge the gap between worker and supervisor or junior management. Because such development of people is so important in South Africa, this function of small business should be encouraged and supported by the government.

Secondly, the exposure to many facets of management in a small business provides a very valuable training ground for managers as well as workers. In a small business, and especially where the executive may also be a partner, it is virtually impossible not to obtain an insight into all aspects of operation. This is of course especially true where a small business is built up almost from scratch. This training is not business school stuff and in its trial and error type of base is often not the fastest way of learning, but it is extremely valuable as it helps the young executive to keep the wood in mind, and not concentrate on single trees. It also teaches very forcefully the importance of care and precision; in a concern of limited financial strength one stupid error could literally mean the difference between survival and demise. The very smallness of such a concern also encourages flexibility and open-mindedness, both attributes which are sometimes lost in large corporations where the planning is minutely detailed, but where most executives are involved only in divisions.

Thirdly, smaller businesses, because they simply cannot afford the luxury of unfounded discrimination, have been and will continue to be more willing not only to employ white women and black men and women, but to promote them and to entrust them with greater responsibility. This is especially true where both these large groups are very often willing to work for lower salaries and to be less insistent on perks to compensate for their real or self-perceived lack of desirability. Since it has become quite clear that white males alone can no longer supply all the managerial, professional and technical skills for our economy, this is a very encouraging trend, and one will hopefully find that all women and men of colour will also slowly move out of small businesses into the higher management strata of large corporations.

Lastly, and this is probably a case of the right result for the wrong reason, small businesses are very often not only relatively labour intensive, but they are less efficient in their usage of labour and they are far less likely to become mechanized. They are therefore employers of numbers of people out of proportion to their size of operation. Of course they have to compensate for this inefficiency in other ways, often by lower wages paid, but also by lower overheads. Where South Africa's tremendous under- and unemployment problems are a source of

great concern, the value of this contribution should not be underestimated.

Hoewel ek aanvaar dat klein sakeondernemings 'n goeie bydrae tot ons sosiale en ekonomiese lewe maak en 'n baie nuttige opleidingsfunctie vir werker en bestuurder vervul, moet 'n mens ook nie die probleme waarmee hulle te kampe het, onderskat nie. Min besighede is klein bloot omdat hulle klein wil wees. Hulle kan klein wees:

- omdat hulle in 'n beperkte veld werksaam is waar daar werklik nie geleentheid vir groei bestaan nie; of
- omdat hulle nog nuut is en nog nie geleentheid gehad het om te groei nie,
- maar gewoonlik is hulle klein omdat hulle eienaars en bestuurders nie die vermoë of oordeel of moed gehad het wat ander ondernemings in staat gestel het om te groei nie.

Dikwels kan hulle werklik nie — veral in die geval van vervaardigde goedere — op die gebied van pryse, of kredietterme, of selfs betroubaarheid van kwaliteit met groter ondernemings meeding nie; en uit die aard van die saak is dit gewoonlik vir hulle moeilik of onmoontlik om besonder groot bestellings uit te voer.

Tog bly hulle nie net voortbestaan nie, maar hulle eienaars en bestuurders maak soms 'n baie goeie lewe omdat hulle sekere ander voordele kan aanbied:

- Klein besighede is dikwels in staat om veel vinniger op 'n besondere aanvraag of markomstandighede te reageer. Hulle is in staat en gewillig — soms selfs gretig — om van standaardgoedere of -dienste af te wyk en 'n enkele klant van 'n betreklik klein hoeveelheid goedere of 'n heel ongewone diens te voorsien. Dit is presies dié soort bestelling wat groot ondernemings gemaklik van die hand wys, omdat dit hulle kostestruktuur en beplanning versteur. 'n Klein sakeonderneming kan ook vinnig op versoeke reageer, omdat hulle besluite nie deur spanne ondersoek, deur bestuurskomitees oorweeg en deur rade goedgekeur moet word nie. Dikwels word al hierdie funksies deur 'n paar mense of selfs een man vervul en hy het bepaald nie nodig om vir maandelikse, of selfs kwartaalvergaderings, te wag om besluite te neem en dan te implementeer nie.
- Verder help klein ondernemings om 'n groter keuse van goedere en dienste aan te bied, wat geweldig baie bydra tot die verryking van ons lewensomstandighede. Die feit dat die mens 'n kieskeurige wese is, 'n individualis wat graag raakgesien en onthou wil word, is seer sekerlik die sleutel tot die voortbestaan en die soms besondere finansiële sukses van klein ondernemings. 'n Vryemarkstruktuur moedig individualisme aan en maak dit moontlik om goedere en dienste te bekom, gewoonlik deur meer te betaal, wat nie noodwendig enigsins beter is nie, maar wat wel die gebruiker 'n bietjie onderskei van die kliënte van die reuse-ondernemings. 'n Mens hoef net te dink aan die saaiheid van lewe in 'n plek soos Sjina of Rusland, waar die staat as monopolistiese verskaffer keuses streng beperk, om te besef watter bydrae klein sakeondernemings tot geestelike, meer as materiële, welvaart maak.
- Laastens, en van groot belang in ons lewensomstandighede, is dit feitlik net klein sakeondernemings wat nog bereid is om skraal-bewoonde dele hoegenaamd te bedien en so die totale ontvolking van die platteland teenwerk. 'n Mens kan jou maar te goed indink hoe die beplanners van reuse-uitrusters 'A', of supermarkketting 'B' heel korrek met hul kompers gaan uitwerk dat hulle definitief nie in Pofadder of

Kiepersol wil handel dryf nie; en tog moet die mense daar ook eet en klere dra.

Having, I hope, persuaded you that our lives would be a lot more drab and considerably impoverished in terms of choice and means of expressing individuality without small businesses, I would like to suggest some action which would positively encourage them, and in particular at this point in time, small black businesses.

Most importantly, I feel very strongly that, in order to allow them to compete at all with large corporations, these concerns should be subjected to the minimum of restrictive measures, for instance:

- *Compulsory minimum wages.* I appreciate very well that a compulsory minimum wage which enables a worker to maintain a decent standard of living somewhat above the breadline, is socially and politically desirable, all the more so in our society where the vast majority of workers are not able to move around freely and offer their labour to the highest bidder as is possible in a true free enterprise society. But in spite of this, I feel that small concerns should be treated very leniently in this regard, both because it will assist the firms in establishing themselves, and because it will give those workers — be they young, unskilled, black, or female — who are considered less desirable, a chance to enter on the lowest rung of the ladder of the job market.

In a country with vast unemployment like ours, a poorly paid job is better than no job; and there are many people, perhaps because they are additional breadwinners in a family, along with other workers, for whom only part of a legally laid down minimum wage is still an attractive proposition.

Perhaps I can remind you of how a whole generation of penniless Irish, Polish and Italian immigrants worked long hours at pitiful wages in the sweatshops of America, but managed in that way to learn a new language, familiarize themselves with new customs and acquire new skills which they could only then use to claw their way up the economic ladder.

- The same applies for the establishment of trading areas and specifically the provision of trading rights in residential areas. When I recently visited Soweto again, I was still struck by the lack of commercial activity. Yet there must be many opportunities just waiting to be grasped. It is, however, essential that small businesses there be allowed to achieve a measure of competitiveness by being allowed to trade exactly where the market is. I was appalled to hear that the S.B.D.C. appears to plan for centralized light industrial areas away from residential areas. I accept that certain noxious industries cannot be situated where people live, but I think a great many commercial and service outlets, and also light industry, could and should be situated as near as possible to their point of sales.
- Rules regarding specified trading hours should also be waived or very leniently applied to small businesses to allow them to compete in convenience where they lack the price competitiveness of scale.
- Fourthly, I would like to plead for a fresh and innovative look at incentives for the establishment of small businesses.

Most investment incentives come in the form of tax rebates, sometimes as in the case of certain training concessions for perhaps twice the amount spent. But tax rebates are not much good to a small struggling concern which is not going to make a taxable

profit for several years, or to the entrepreneur who does not benefit from tax rebates at a time when his need for help is at its greatest.

I am sure that the Small Business Development Corporation is considering this matter most carefully. They will naturally consider loans at attractive rates of interest and for extended periods. I hope they will also consider the free provision for a limited period of training facilities and especially of business training for the owners and managers of their clients, of legal advice and of assistance in obtaining trading rights and all the other licences and permits required to open even the smallest of small businesses in a proper manner.

I would like to conclude with a suggestion that large businesses could also assist greatly in the development of small businesses, without sacrificing their own competitiveness.

I would like to quote a practical example of what one of the companies in our group has done. This particular company is Toyota, which builds vehicles and distributes them through the retail trade.

Some years ago management decided that special concerted efforts would be made to develop vehicle dealers in black areas, and particularly black-owned dealerships. By the nature of our circumstances this has turned out to be a small business development programme. The decision was not taken as a charitable gesture, but on business grounds. It was felt that future growth in sales would come mostly from sales to black people, since the white market is virtually saturated; and that early attention to this market would be lucrative at a later stage.

Development was quite slow because it was difficult to find owners of suitable premises interested in becoming car dealers, even more difficult to find managers, and virtually impossible to find technical people to run workshops. The company, however, persevered and now have in full operation ten wholly black-owned dealerships as well as six where a national development corporation is involved. These 16 dealers have sold over a thousand units during the first ten months of 1981, a small but meaningful contribution. Next year six more black dealers will be added.

Toyota has not invested money in these dealers, but a great deal of time and effort in providing training, assistance in finding staff and constant supervision. The return on such an investment in the short term is difficult to quantify. I can only say that everyone connected with the programme is eager to expand it.

In the same way, I am convinced, many large companies will find that if they look carefully at the possibility of developing and assisting small businesses — particularly if these are either suppliers or distributors of the large firm — they will not only fulfil their social responsibilities and contribute to the growth and stability of the South African economy; they could also reap financial benefits for their own company.

## Socio-economic priorities: Focus on food for the future

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Talk at Mercabank Focus Seminar: Socio-economic priorities for the year 2000. Johannesburg, October 26, 1981.

### Introduction

The dire Malthusian warnings of the 1950s and 1960s regarding food shortage have waned. A world population reaching 6 000 million by the year 2000, and possibly stabilizing at between 11–12 000 million in the year 2050, can now be viewed with some equanimity.

Indeed, man's ability to go beyond the nuclear holocaust appears rightly more challenging and problematic. But in South Africa, while housing and education have rightly received enormous attention and too little action, the problem of providing sufficient food by the year 2000 has possibly not received enough attention in our dualistic society. The Focus Report<sup>1</sup> brings this challenge into perspective by firstly forecasting a food expenditure growth of two and a half times in the next 20 years, against a growth of 100% in the last 20 years; secondly by focusing on black urban growth linked to socio-economic expectations and demands; thirdly, by questioning by implication whether South Africa can remain a nett exporter of food and, if it became a potential nett importer, whether or not food would be available from elsewhere in the world where a distribution, not volume, problem would remain. Finally, it is not being over-dramatic to remember that most, if not all, the world's great revolutions, of which Poland could be the next, have sprung directly or indirectly from a failure to adequately provide and distribute food.

I would like to pose certain questions and indicate some answers to this challenge under three headings — food supplies, consumer demand patterns, distribution and subsidy requirements.

### Food supply

Focus rightly draws the distinction between primary production and industrial food production and indicates that overall they believe the capacity of both these aspects of food provision are satisfactory. I would agree with this conclusion. South Africa is a current exporter of food, mainly maize, fruit, vegetables and sugar and imports chiefly only rice, tea and coffee. The food production industry has made tremendous strides in the last four to five years. The advances in primary production have been less than promising. Two points should, however, be made: first, food can be divided basically into carbohydrate and protein supplies.

### Balancing carbohydrates and proteins

Carbohydrate products in this country offer no real problems. Sugar and maize will easily meet the demands forecasted. A shortfall of wheat seems probable if the likely urban black demand for wheat increases and that for maize reduces, but most seem to agree that, tackled