



# Successful SMEs in South Africa: the case of clothing producers in the Witwatersrand

Christian M Rogerson<sup>1</sup>

*The objective in this article is to examine the key determinants of successful SME development in post-apartheid South Africa. The determinants of successful SME growth are investigated by concentrating upon one specific branch of manufacturing, namely clothing production in the Witwatersrand. The article unfolds through four sets of material. First, a review is undertaken of research concerning the factors influencing successful SMEs in sub-Saharan Africa. Major themes are the elements of successful individual enterprise, successful clusters of enterprises and of available research in South Africa. In section two, attention turns to the case study and outlines key features of the development of the South African clothing industry. Section three presents the findings from 27 detailed interviews conducted with successful clothing producers in the Witwatersrand. Overall, it is concluded that the South African research confirms certain of the findings relating to trajectories of successful SME development in other parts of Africa.*

## 1. INTRODUCTION

In Africa a key issue for policy development surrounding small and medium-sized enterprises (SME) concerns the determinants of successful SMEs. Evidence from a range of international studies points to the fact that while entrepreneurs are generally not in short supply in most African countries, only a small fraction of new enterprises will 'graduate' from birth to become small enterprises with more than 10 workers (Mead, 1998; Mead & Liedholm, 1998; Liedholm & Mead, 1999). In southern African research, it is estimated that only 1 per cent of new micro-enterprises will make the transition to a successful established small enterprise (Mead & Liedholm, 1998). Despite their small numbers, this group of growing and successful SMEs is viewed as offering a critical contribution to the policy goals of employment creation, promotion of economic growth and poverty alleviation.

The objective in this research is to examine the key determinants of successful SME development in post-apartheid South Africa. In particular, the study investigates the extent to which education and training are a core factor in the emergence of successful SMEs. Research conducted by the World Bank in four countries of Asia and Latin America showed that SMEs which are led by educated managers and who train their employees were performing better than other firms in all aspects of business achievement, including having fewer labour problems, engaging in exports and capturing niches in markets often characterised by heavy competition (Levy et al, 1994). In addressing the research task in South Africa, the determinants of successful SME growth will be investigated by concentrating upon one specific branch of

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<sup>1</sup> Department of Geography & Environmental Studies, University of the Witwatersrand, Johannesburg, South Africa.

manufacturing, namely clothing production. The geographical focus for this investigation is the Witwatersrand region of Gauteng province, which constitutes South Africa's economic heartland and major national locus for SME activities (Rogerson & Rogerson, 1996; Rogerson, 1998a).

The report unfolds through four sections of discussion of varying lengths. First there is a review of available research which interrogates the factors underpinning the emergence of successful SMEs in Africa. In section two, attention turns to the case study and outlines key features of the development of the South African clothing industry. At the heart of the report are the findings presented in section three which derive from 27 detailed interviews conducted with successful clothing producers in the Witwatersrand. The final section concludes the study by providing a summary of the core research findings and policy recommendations.

## **2. SUCCESSFUL SMEs IN AFRICA**

It has been argued that the dynamics of small enterprise development can be best understood in the light of pursuing longitudinal studies that seek to monitor the condition of individual SMEs or the small enterprise economy over a period of time (Mead, 1998). Such research examines the problems of enterprises at different phases in their development cycle from start-up, through growth or survival, to potential graduation or closure (Steel, 1994; Liedholm & Mead, 1999). The information generated by such research is especially valuable for policy makers, facilitating the construction of an appropriate mix of support interventions for the small enterprise economy (Farbman & Steel, 1992). The material in this section first draws on a range of recent important research surveys which contribute towards an interpretation of the dynamics of success and failure of small enterprises across a range of African countries. In particular, it is informed by the results of interviews with over 20 000 small enterprises conducted in the GEMINI project across five southern African countries (South Africa, Zimbabwe, Malawi, Lesotho and Botswana), as well as similar studies undertaken elsewhere in sub-Saharan Africa. A second stream of literature pertinent to interpreting the success of SMEs in Africa is reviewed relating to research on the dynamics of enterprise clusters.

### **2.1 Elements of successful SMEs**

The findings on the profile of small enterprise economies in most sub-Saharan African countries suggest that there is no overall scarcity of entrepreneurs; new enterprises are being established at a rapid rate (Mead & Liedholm, 1998; Liedholm & Mead, 1999). The vast majority of new enterprises tend to be one-person establishments, as shown for example in a study of Mathare Valley, the largest concentration of informal enterprise in Nairobi (Mwega, 1991). Enterprise start-ups occur because of either supply-push or demand-pull considerations. The African experience is that the majority of start-ups are the result of 'enforced entrepreneurship' rather than the pull of market opportunities. Nevertheless, there are several local exceptions to this general pattern, such as those found in parts of Kenya (Kinyanjui, 1996). Evidence across Africa suggests that typically these kinds of one-person businesses are the least efficient and least remunerative of small enterprises (Arnold et al, 1994; Mead, 1994a, 1998). Overall, 'they tend to start-up in greater numbers, particularly in low-return activities with minimal barriers to entry, when the overall economy is languishing' (Mead & Liedholm, 1998: 65). By contrast, 'growth by expansion is likely to prove more secure,

as it usually reflects market demand, whereas new start-ups are more likely to be driven by the search for new livelihoods, and to result in single person units, which is the least efficient size of enterprise' (Arnold et al, 1994: vi).

Compared with enterprise start-ups, 'little is understood about the factors which influence the duration of firm survival' (McPherson, 1995: 32). Recent research on hazard modelling on SMEs in Africa points to the specific features of those small enterprises that are most likely to survive (McPherson, 1995, 1996). The analysis disclosed that those enterprises that added workers were more likely to survive than those that remained the same size from start-up (Mead & Liedholm, 1998). In addition, survival rates were shown to vary considerably by sector. As a general rule, manufacturing concerns and enterprises in the service sector were less likely to close than firms in the retail or wholesale sector. Another key determinant of firm survival was the factor of location, with home-based enterprises exhibiting higher hazards and greater closure rates than enterprises which were located in commercial districts (McPherson, 1995).

A number of important gender issues are recognised in terms of investigating successful SME development in Africa. In particular, because domestic responsibilities borne by African women limit the time and scope of their business strategies, women entrepreneurs often have different goals and different business strategies from those of male entrepreneurs. The goal of women, more so than of men, entrepreneurs is to feed, clothe and educate their children (Downing, 1991). To achieve these goals, women seek means to secure their income in diverse ways, whereas men pursue individual strategies, taking business risks in pursuit of profits. Accordingly, for many women entrepreneurs who are fitting business activities around household and child-rearing responsibilities, graduation to a larger business outside the home may not suit their business plan (Steel, 1994: 9).

A critical issue for policy making is to understand the factors which will cause some firms to grow and become successful small enterprises, thus creating sustainable or long-term employment opportunities. A key finding is that the majority of small enterprises do not grow at all as measured by indicators of employment (McPherson, 1996). Among the estimated 20 per cent that do grow, most grow only by a little (Mead, 1994b: 14). An even smaller number will 'graduate' from the micro-enterprise seedbed to become established enterprises (Mead & Liedholm, 1998: 67). An understanding of the elements of growing or successful small enterprises is critical for policy formulation (McPherson, 1996). In particular, this is so because when small enterprises expand by adding even only one or two workers, the evidence suggests that this growth is associated with increases in economic efficiency (Arnold et al, 1994).

A number of broad factors have been isolated as impacting upon enterprise expansion and on the potential for creating successful enterprises. A critical finding is that the level of 'human capital' in the entrepreneur has a positive impact on firm growth (King & McGrath, 1998). In Kenya, for example, Kinyanjui (1996: 157) identifies two types of entrepreneurs; the first, the 'plodders' run undynamic firms; the second have developed large and dynamic enterprises. The most distinguishing feature that marks the divide between these two groups of entrepreneurs is educational qualifications. Overall, those entrepreneurs with larger stocks of human capital, in terms of education and/or vocational training, are better able to adapt their enterprises to constantly changing business environments (McGrath & King, 1996). Education and training are

seen as central to the enterprise's ability for 'learning to compete' in the context of globalisation (Afenyadu et al, 1999).

In addition to education and training, issues of sector and firm location emerge prominently. At the highest level of aggregation, manufacturing and services enterprises are more likely to expand than retailing enterprises (Mead & Liedholm, 1998). However, important issues of local comparative advantage need to be considered for no universal sectoral growth patterns can be isolated. Locational issues are clearly important for firm success. Across a range of studies those firms that benefit from agglomeration externalities show better growth prospects than those operating as home-based enterprises (McPherson, 1996). This finding on the significance of agglomeration and location is further reinforced by research on successful geographical clusters of enterprises in Africa.

## **2.2 Successful clusters**

According to Schmitz's (1990, 1992) basic definition, an enterprise cluster is a group of producers who are engaged in making the same or similar things in close proximity to one another. This definition signifies two types of concentration, namely a spatial or geographical cluster and a sectoral cluster (Schmitz, 1992: 66).

In clusters, spatial proximity is not an end in itself but is useful insofar as it facilitates interaction among enterprises (Schmitz, 1999). One key aspect of interaction is the possibility for technology diffusion and positive learning or imitation effects among small enterprises (Rabellotti, 1997; Van Dijk & Rabellotti, 1997; Knorrninga, 1998). The importance of a sectoral cluster is that it promotes both external economies in terms of well-developed networks of suppliers and buyers, and facilitates potential gains of consciously pursued joint action (Knorrninga, 1998; McCormick, 1998). Although external economies, especially access to markets that arise from having several producers in a single location, are extremely important to small enterprise, Schmitz (1997) argues that the reaping of 'passive benefits' is insufficient to bring about positive cluster and SME development. Instead, clusters 'must be pro-active, consciously pursuing joint action around problems and issues of common concern' (McCormick, 1998: 2). Indeed, Dawson (1992: 34) argues that in Africa the 'degree to which small firms are capable of dynamic and innovative endogenous growth is seen as being primarily dependent on clustering'.

A number of clusters of enterprises have been identified and their growth trajectories analysed in Africa, more especially through examples drawn from Ghana and Kenya (Schmitz, 1990; Dawson, 1992; Ongile & McCormick, 1996; McCormick, 1997a, 1997b; McCormick et al, 1997; Van Dijk, 1997; Sverisson, 1997; McCormick, 1998). Liedholm & Mead (1999: 111) express a degree of scepticism as to the advantages of clusters in supporting African small enterprise development. Nevertheless, the main conclusions from African research reinforce the view that clusters bring about several effects that contribute towards the collective efficiency of SMEs (Schmitz, 1997). In addition, as the advance of industrialisation in Africa generally involves the increasing complexity of production which, in turn, demands greater reliance on others for certain activities (Mead, 1994a, 1994b), McCormick (1997a: 3) argues that 'enterprise clustering can affect industrialisation by making it easier for this process of specialisation and differentiation to take place'. To illustrate this, in the agglomeration of small producers in Kumasi (Ghana), firm foundations have been laid for an indigenous metal working

and engineering industry (Riedel & Schmitz, 1989; Dawson, 1992). As Schmitz (1990: 17) argues 'a sure sign of this is that the industry is beginning to build its own equipment, for example, carbide and electrical welding machines are made from recycled materials'.

In terms of analysing the dynamics of ten African enterprise clusters, McCormick (1997a) highlights that the benefits of clustering may extend beyond industrialisation within the cluster itself to also include the promotion of industrialisation elsewhere. As is shown, events within a cluster and interactions between firms in the cluster and other clusters may promote industrialisation beyond the cluster itself. In furniture and metalworking clusters both in Kenya and Ghana increased demand for locally produced inputs has galvanised industry outside the cluster either to manufacture new products or increase production of existing ones (Sverrisson, 1992, 1997). Macro-economic conditions can also impact vitally upon the trajectory of cluster development. For example, in Ghana the foreign exchange shortages of the late 1970s and early 1980s tilted the balance against a set of existing large-scale import-dependent enterprises instead to favour the growth of the Kumasi small enterprise economy (Dawson, 1992: 35).

Finally, a further key finding from McCormick's (1997a, 1998) studies is that the role and actions of government are significant in terms of successful enterprise and cluster development. Both positive and negative actions taken by governments will be critical for clusters and the firms within their confines. On the positive side, small enterprise clusters in Africa need the government to provide a favourable environment for growth, including a whole range of supportive policies and the provision of necessary physical and institutional infrastructure. In some instances, for example in Ghana, the Kumasi City Council actively pursued a policy of clustering its small enterprises in one geographical area (Dawson, 1992). More important than locational considerations is the making of a favourable macro-policy environment for SME development. On the negative side, governments need to refrain from the sorts of actions that can impact badly upon the economic health of particular clusters, such as the politically motivated clearing of certain small enterprise sites (to favour one group over another), action on the importation of second-hand clothes, or various forms of extortion or corruption that frustrate small enterprises, whether clustered or unclustered (McCormick, 1997a: 30).

### **2.3 Successful SMEs in South Africa**

In South Africa, the current 'state of the art' of research is relatively sparse as regards work on the determinants of success in the small enterprise economy or on issues of enterprise clustering (Kesper, 1998). In respect of enterprise clusters, the only available South African research concerns the rise and fall of a cluster of white-owned jewellery producing establishments in Johannesburg (da Silva, 1999). In terms of individual enterprises, Levin (1997) examined a small group of established white-owned SMEs operating in the furniture and plastics sectors of Gauteng. In addition, research on the emerging SME economy by Manning & Mashego (1993) suggests that the black-owned manufacturing SME economy is dominated by the replication of micro-businesses, a pattern of involution, rather than the evolutionary expansion of existing enterprises, resulting in the increase in the number of employees. This situation results in a pattern of 'growth through replication, or "extensive" growth rather than growth through "intensification" or capital/skill/technology upgrading' (Manning & Mashego, 1993: 16).

There is certain evidence of a positive link between education and training and successful SMEs in South Africa. In a limited exploration of the determinants of success in a sample of emerging black-owned manufacturing SMEs in Western Cape, Sawaya (1995: 118) concluded that the 'rate of success was highly correlated with the level of education attained by the owner'. This finding is endorsed by World Bank (1993) research which shows a direct correlation between education and turnover in South African SMEs. Specifically, this investigation concluded that entrepreneurs 'who have achieved a Standard 10 level of education have average turnover nearly twice that of those who have completed Standard 8', the status of the majority of SME entrepreneurs in South Africa (World Bank, 1993: 18). In another study, the common characteristics of South African businesses that successfully graduated from the micro-enterprise seedbed into the formal economy were identified (Ebony Development Alternatives, 1995). Key elements of successful enterprise were those, *inter alia*, with relatively stable access to markets, with access to capital from outside sources (either NGOs or, in rare instances, banks) and run by entrepreneurs with a capacity to innovate and take risks. As regards entrepreneurship, the major findings related to the success of enterprises whose owners had prior industry experience usually with larger enterprises and to the fundamental importance of a basic level of education as well as some essential technical knowledge (Ebony Development Alternatives, 1995: 22).

Finally, further evidence of a positive relationship between success in the SME economy and the entrepreneurs' levels of skills and training emerges from recent research on manufacturing SMEs in both Gauteng (Rogerson, 1998a) and the Western Cape (Sawaya, 1995). As a result of the legacy of apartheid education, the majority of South Africa's population have not been socialised or educated to become entrepreneurs, but rather to enter the labour market as waged employees (Visser, 1997). This situation underpins the problems faced by emerging black South African entrepreneurs in the face of competition from groups of well-educated and multi-skilled immigrant entrepreneurs who have been establishing production SMEs in the post-apartheid period (Rogerson, 1997, 1998b). It is against this background of existing South African research on successful SME development that attention now turns to the industry case study.

### **3. THE SOUTH AFRICAN CLOTHING INDUSTRY: RESEARCH AND OVERVIEW**

The clothing industry in South Africa is historically well established and caters for a wide range of customer needs. Among a range of manufactures are men's, women's and children's clothing goods, outerwear, underwear and swimwear products (Altman, 1994; Clothing Federation of South Africa, 1998). Nevertheless, clothing market conditions in South Africa are shifting rapidly, particularly in the context of political and economic changes which have given rise 'to a massive black aspirant market that is increasingly demanding and sophisticated' (Harrison & Dunne, 1998: 13). Accompanying the changes in domestic market demand are shifts also in the nature and type of competitors operating in the domestic market, a theme mirrored in changing retailing patterns. The clothing industry displays a dualistic structure with both a formal and an 'informal' element of production (Altman, 1989, 1994; Clothing Federation of South Africa, 1998). The formal component of the industry is governed by institutionalised bargaining council arrangements and is largely concentrated in South Africa's three largest metropolitan areas (Altman, 1994, 1996). The largest clusters of clothing

producers occur in the Cape Town and Durban metropolitan areas (October, 1996; Prinsloo, 1996; Visser, 1998). During the apartheid period, however, a segment of clothing producers relocated their production from the metropolitan areas, either fully or partially, to cheap labour locations, primarily peripheral growth points in or close to Bantustans which received lavish government decentralisation incentives (Altman, 1989, 1996; Harrison & Dunne, 1998). During the early 1990s, wage differentials between formal clothing factories in metropolitan as opposed to decentralised locations were observed as anywhere between three and six, even to nine times greater (Altman, 1996)

Alongside the formal clothing industry, a notable segment of informal production of clothing across the major urban centres of South Africa is emerging (Manning, 1993a, 1993b; Wentzel, 1993; Nobanda, 1998). This type of production activity is manifested in the form of home work, which has been widely observed both in metropolitan Durban and Cape Town (Koch, 1991; Budlender & Theron, 1995a, 1995b) and in the context of the small-scale production of clothing goods in black township areas, such as Soweto (Nobanda, 1998). In addition, the informal economy of clothing production in the Witwatersrand is further reflected in clusters of small producers who occupy surplus office space in inner-city Johannesburg; many of these businesses formerly originated as home-based enterprises in the black townships of the Witwatersrand (Rogerson & Rogerson, 1997a).

Estimates of total employment in the South African clothing sector vary considerably and often fluctuate dramatically. Official statistics reflect total employment in the industry at approximately 140 000 (1998) and the value of production as R8,4 billion (Clothing Federation of South Africa, 1998). More generally, in terms of formal employment, the clothing industry is said to represent between nine and ten per cent of total employment in the South African manufacturing sector (Altman, 1994, 1996). Such figures, however, exclude the burgeoning small-scale or informal clothing industry, which is estimated by the national Clothing Federation of South Africa (1998) as engaging a total of 60 000 workers. Taken together, therefore, the most recent data suggest that the South African clothing industry, formal and informal segments, accounts for 200 000 job opportunities (Clothing Federation of South Africa, 1998: 1). From several studies, it is clear that the recent growth of informal production is inextricably linked to the downturn in the formal clothing economy as thousands of retrenched factory workers have set up their own small clothing enterprise (Manning, 1993a; Wentzel, 1993; Rogerson & Rogerson, 1997a; Nobanda, 1998). The latest element in the informal clothing production economy is the appearance of a rising number of immigrant entrepreneurs from other sub-Saharan African countries who have established small clothing enterprises, mainly in inner-city Johannesburg (Rogerson, 1997, 1998b).

Although the precise statistical picture concerning the size of the South African clothing industry remains somewhat murky, the general trends in the industry are relatively well documented (Altman, 1989, 1994, 1996; October, 1996; Harrison & Dunne, 1998). In particular, Altman's (1994) rich and detailed study discloses that since 1989 the South African clothing industry has been experiencing its longest downswing ever with extensive job-losses taking place in the formal economy. The employment downturn in formal production is not attributed to labour productivity gains, which have remained largely stagnant since at least 1976 (Altman, 1994). Rather, increasing job losses in formal factory production are linked post-1989 to a

massive growth in import volume penetration, particularly from China, Pakistan and India (Altman, 1994; Visser, 1998) and most recently from Malawi, which in 1998 was reported as having overtaken China as the main exporter of (illegal) clothing to South Africa (Raats, 1998).

As a result of increasing import penetration, certain low-income markets are almost completely dominated by imports, while competition is growing in all segments of the market (Harrison & Dunne, 1998). Intensified levels of competition have arisen also from several shifts taking place in the regulatory environment, including changing labour legislation and the opening up of opportunities for black business (Altman, 1994). Since 1996 a small upturn has been reported in South African clothing production, albeit not as yet translating into new job opportunities as instead employers choose 'to move from a short-time to an overtime situation' (Clothing Federation of South Africa, 1998: 2).

Overall, during the past decade it is evident that the clothing sector in South Africa has undergone a metamorphosis as a 'protected domestic market dominated by domestic manufacturers has given way to a market which is increasingly exposed to international competition' (Harrison & Dunne, 1998: 45). In the view of the national Clothing Federation of South Africa, the representative organisation of formal business, currently the 'South African clothing industry is undergoing dramatic changes and is in the process of entering the global market' (Clothing Federation of South Africa, 1998: 3). As the clothing industry remains one of the 'few labour intensive industries' in South Africa (Altman, 1994: 1), its weakened condition since 1989 has attracted considerable attention from several government and policy analysts concerned both with high unemployment levels and the urgent need for employment generation in post-apartheid South Africa. The works of Altman (1994, 1996), October (1996), Prinsloo (1996) and Harrison & Dunne (1998) point variously at the key structural weaknesses existing in the contemporary South African clothing industry, the major growth strategies adopted by formal clothing enterprise, and new opportunities for restructuring and improving enterprise competitiveness.

At the crux of the weakness of the South African clothing industry is the question of low productivity (Altman, 1994, 1996). It is argued by Altman (1994: i) that the industry competitiveness of the clothing sector is depressed by what is termed 'a highly traditional outlook on productivity improvement'. More specifically, most clothing enterprises have chosen to pursue 'static strategies' that relate to one-off changes that fail to enhance a firm's long-term ability to respond to further competitive pressures. The most important of these static strategies relates to labour displacement and to initiatives that emphasise reducing labour costs through relocating production facilities from metropolitan areas to peripheral labour markets with cheaper wages. Such a strategy is seen as static since it offers only a short-term respite to competitive pressures as firms that depend on low-wage pools 'must constantly relocate production with all its attendant costs' (Altman, 1994: iv). Indeed, Altman (1989, 1996) shows that the trend to pursue accumulation strategies that emphasise labour cost reduction through the replacement of vulnerable workers has a long history in South Africa. Moreover, during the apartheid period, the strategy of labour displacement was facilitated by government labour controls which assured that enterprises that decentralised to peripheral areas would enjoy a cheap and compliant workforce. Another key weakness of the clothing industry has been 'its relative passivity' (Prinsloo, 1996: 22). In line with the adoption of static strategies, the industry has tended to react to changes

in its institutional environment and to the crises that beset it rather than acting in line with a clear long-term vision for restructuring.

One alternative kind of strategy that is only beginning to be evidenced in the South African clothing sector is that of subcontracting. For large clothing enterprises, labour displacement through subcontracting production work is one alternative accumulation strategy which offers static improvement to cost structures. Although the works of Koch (1991), Nunes (1994) and October (1996) draw attention to the existence of a pool of cut-make-and-trim (CMT) subcontractors, particularly in the Western Cape, other evidence from Altman's (1996: 394) national investigation highlights that 'South African clothing producers subcontract only a small proportion of industry turnover'. It is argued that the cost advantages normally gained by employing small CMT subcontractors are not present in the South African clothing sector. Moreover, the arsenal of restrictive measures which blocked black entrepreneurship during the apartheid period has meant that the pool of potential skilled subcontracting enterprises has been highly constrained certainly until the last five years (Rogerson, 1998a). Finally, the undeveloped subcontracting economy is further explained by the existence of alternative strategies for cost reduction, in the form of labour displacement to cheaper wage locations outside of South Africa's major metropolitan areas.

In contrast to static strategies are those dynamic organisational changes which occur when enterprises implement practices that permanently address their capacity to respond to changing market circumstances. Among these kinds of strategies are process innovations, organisational changes, and the introduction of new technologies or programmes for skills development that enhance human resource development. Often such changes are interdependent with process innovations. The application of new technologies goes hand in hand with new organisational changes and the encouragement of multiskilling practices. In particular, new organisational forms are seen as consistent with shorter production cycles, modular production, total quality control, reduced stock inventories and more skilled workforces. Moreover, new technologies, such as computer-aided design, mechanised laying-up or cutting, facilitates the adoption of unit production systems, which greatly enhance efficiency. Altman's (1996) research discovered important regional variations across South Africa regarding the extent to which such changes were occurring in factory production. Overall, it was found that clothing firms based in the Witwatersrand or Durban metropolitan areas 'were very slow to implement process innovations or skills development' programmes (Altman, 1996: 393). By contrast, clothing enterprises in the Western Cape, particularly in Cape Town, tended to be more advanced in the introduction of new production technologies and flexible organisational forms. In part, these regional differences are explained by the fact that many Johannesburg and Durban clothing producers have concentrated their production for the lower end of the clothing market compared with the higher income segments of clothing that are targeted by certain Western Cape producers (October, 1996; Harrison & Dunne, 1998; Fusion Africa Network, 1999). Another salient factor, however, is the greater labour displacement options that have existed for Johannesburg or Durban producers than for producers based in the Western Cape (Altman, 1996).

It is evident from the findings of several regional and national studies of the clothing industry in South Africa that as historical options for labour displacement are closed off in a post-apartheid regulatory environment, domestic producers will have to restructure in order to survive in an increasingly competitive global clothing market

(Altman, 1994, 1996; Prinsloo, 1996; Harrison & Dunne, 1998). In particular, a new emphasis upon dynamic changes, increased flexibility, quick response and process innovations is seen as critical. Moreover, domestic enterprises 'will have to learn to "hear" their markets more clearly and respond innovatively and rapidly to shifting consumer demand' (Harrison & Dunne, 1998: 45).

A restructuring programme, developed over a number of years, has been agreed with government and is designed to achieve international competitiveness linked to a seven-year phase-down of tariffs (Clothing Federation of South Africa, 1998). In general, it is expected that the industry as a whole will become more export oriented, focusing on value-added products and niche markets. The central visions of the restructuring programme include the following objectives, *inter alia*, the attainment of international competitiveness within a ten-year time frame; the growth and net creation of jobs in both formal and informal clothing economies; a conscious move out of the lower end of the market, albeit with simultaneous efforts to retain these activities within the southern Africa region; and the acceptance by the industry of greater responsibility for its own future, lessening dependence on the government by improving productivity through human resource development, work organisation and improved technology (Clothing Federation of South Africa, 1998: 2).

The research reported above on the competitive position of South African clothing enterprise, shifting enterprise strategies, and issues of restructuring has focused primarily on the dominant large-firm segment of the South African clothing industry. Essentially, for the successful development of the large-firm segment of formal clothing production, the key issues relate to industrial restructuring and the adoption of dynamic enterprise strategies. The competitive position of SME enterprises clearly cannot be divorced from the fate of the large-firm segment of clothing producers. Nevertheless, it is evident that the key constraints and determinants of success for clothing SMEs in general and for groups of emerging black-owned clothing enterprise in particular, relate to different sets of imperatives (see Koch, 1991; Manning 1993a, 1993b; Manning & Mashego, 1993; Nobanda, 1998; Rogerson, 1998a). Key issues that have been highlighted as factors affecting the performance of emerging manufacturers in South Africa include access to finance, education and training, infrastructure support, and most critically, access to markets. It is against this background and particularly in the fluid competitive environment of the South African clothing industry as a whole that attention turns to our case study on the determinants of successful SME activities in the Witwatersrand.

#### **4. THE WITWATERSRAND CLOTHING STUDY**

In this section, results are presented from the empirical study of clothing manufacturers in the Witwatersrand. A brief background on the position of the clothing industry in the regional economy is given, followed by an examination of research methodology, and findings from the interviews. The results are organised in terms of initially presenting a profile of the key features of successful entrepreneurs and their enterprises. Subsequent discussion turns to the determinants of successful SMEs and how entrepreneurs have overcome the typical constraints on growth, then goes on to important issues of inter-enterprise linkages and cluster development in the Witwatersrand garments industry. Finally, three case studies are detailed for the historical trajectories of successful entrepreneurs and their enterprises.

#### 4.1 The Clothing Industry in the Regional Economy

In terms of national clothing production, the Witwatersrand area is the third most important geographical locus for formal manufacturing, following the Western Cape and Durban metropolitan areas. Nevertheless, earlier research on the clothing industry has shown that the majority of black-owned clothing enterprises in South Africa are situated in the Witwatersrand region rather than in the Western Cape or Durban (World Bank, 1993: 48).

It is evident that high wage levels in the Witwatersrand have been at the root of the historical demise of the garments industry in this region from as far back as the early 1960s. During the 1970s the decline of the regional clothing economy was accelerated further by the introduction in 1968 of the Environment Planning Act which restricted the number of black workers that could be employed by the majority of factories located on the Witwatersrand. This apartheid-inspired legislation was particularly targeted at discouraging the growth of labour-intensive production activities, such as clothing, in South Africa's major metropolitan region (Rogerson & Kobben, 1982). With the offer of generous location incentives in decentralised areas, many clothing producers based on the Witwatersrand chose either to relocate their factories lock stock and barrel to decentralised areas or sought to establish branch plants for the most labour-intensive and least-skilled processes of clothing production. Other producers chose to relocate their factories *in toto* to either the Western Cape or Durban metropolitan areas (Rogerson & Kobben, 1982).

Recent detailed research on the dynamics of industrial change in the Witwatersrand between 1980 and 1994 provides evidence that the regional clothing economy has been in a state of decline (Rogerson & Rogerson, 1995, 1997b, 1999). Throughout this period the formal clothing sector shows a consistent pattern of decline as measured both in terms of the numbers of establishments and total employment. Indeed, between 1980 and 1994 the Witwatersrand region lost nearly 40 per cent of its clothing employment base and 35 per cent of factory establishments. The major area of loss of clothing production was the industrial townships of inner-city Johannesburg, the major locus for clothing production (Rogerson & Rogerson, 1995). By 1994 a total of 206 clothing factories were recorded on the Witwatersrand which were employing approximately 14 000 workers. This remnant of formal clothing production remained strongly concentrated in the core of the Witwatersrand, namely in the environs of inner-city Johannesburg, which accounted for three-quarters of all the region's clothing employment (Rogerson & Rogerson, 1997b). The bulk of this formal production occurred in factories owned by either white or Asian entrepreneurs. Alongside this group of formal clothing producers, however, there has occurred a recent surge of informal clothing manufacturers, particularly situated in inner-city Johannesburg (Rogerson & Rogerson, 1996, 1997a). This new informal clothing economy is highly fluid and primarily dominated by black entrepreneurs, albeit with an increasing segment of production activities run by immigrant entrepreneurs mainly from Francophone Africa, Malawi and Botswana (World Bank, 1993; Nobanda, 1998; Rogerson, 1997, 1998b).

#### 4.2 Research methodology

From October to December 1998, a total of 34 detailed interviews were conducted across the Witwatersrand with the operators of clothing SMEs. The selection of firms to be interviewed initially drew on information provided by the Clothing Federation of South Africa and was supplemented from the listings of enterprises in the University

of South Africa Bureau of Market Research Industrial Register. In addition, further information on 'successful' clothing enterprises was obtained from referrals from several of the interviewees themselves. The selection criteria applied for determining sample interviewees were, *inter alia*, that enterprises had to be owned and run by members of South Africa's historically disadvantaged communities; that enterprises had to have been operating in clothing for at least two years; they had to comply with the official definitions used in South Africa for categorisation as a small (between five and 50 employees) or medium-sized (up to 200 employees) enterprise; and had to show evidence of growth since start-up in terms of numbers of employees and/or net assets and/or turnover. It should be noted that the South African definition of a SME used here differs slightly from that of other countries in that the employment threshold for defining a small enterprise begins at five workers compared with 10 workers in other studies (cf. Mead & Liedholm, 1998).

Based on these criteria, potential interviewees were contacted by telephone to determine if they appeared to fall within the sample criteria and whether or not they would agree to a formal interview. As the interviews were scheduled to occur during one of the busiest times for clothing producers – just prior to the Christmas close-down – a number of refusals for interviews were encountered. Despite this problem, 34 clothing entrepreneurs did agree to participate and allow a formal interview to take place at the firm's business premises. The findings of 27 of these 34 interviews are presented below; the other seven were excluded from the analysis either because the entrepreneur was not from South Africa's historically disadvantaged communities or owing to the fact that these enterprises failed to show clearly that they met the important criteria of a positive growth in terms of employment, assets or turnover. The research procedure used to draw up the sample, applying industry sources as well as a snowball method, was appropriate. Included in the sample were at least two entrepreneurs whose successful businesses had been widely publicised, one featuring in local newspapers on two occasions as 'Entrepreneur of the Month' and a second nominated for an award as Technology for Women in Business, organised by Ntsika Enterprise Promotion Agency.

Overall, the interview schedule covered a range of issues relating, *inter alia*, to family background, work experience, education and training of the entrepreneur, and the historical establishment of the enterprise; the growth and changing organisation of the enterprise; inter-firm linkages with other enterprises and the current trajectory of production. The core objective in these interviews was to obtain a longitudinal profile of the history, expansion and development of clothing SMEs in the Witwatersrand and thereby to provide the basis for isolating the key determinants of what makes a successful SME.

In researching the question of successful SME development, the richest methodology is the application of a longitudinal approach to examining the growth and critical turning points of enterprises over an extended period of time (Kesper, 1998). Such an approach is most appropriately used on an industry branch-by-branch basis rather than by looking across manufacturing as a whole. Within the scope of this limited investigation, it was not possible to re-interview enterprises at different time periods. Nevertheless, the interview schedule did capture the essential trajectories of firm expansion, and, in some cases of decline, from business start-up to present-day, which sometimes spanned an enterprise history of 20 years or more. In particular, the collection of what are essentially 27 case histories of emerging enterprises provides a

**Table 1: Racial and gender comparison of sample**

	Male	Female	Total
Black	6	9	15
Asian	8	2	10
Coloured	1	1	2
Non-South African	4	–	4
Total	19	12	31

Source: Survey.

solid foundation upon which to probe the determinants of SME success in the case of the Witwatersrand clothing economy.

### 4.3 Successful entrepreneurs and enterprises: a profile

Among the group of 27 successful enterprises were a total of 31 entrepreneurs: in four cases the business was a joint operation which was established and run as a partnership between husband and wife or two friends. Table 1 presents a picture of the gender and racial structure of the sample. Using the racial language of apartheid categorisations, 19 entrepreneurs would be classed as black (or African), 10 as Asian and two as coloured. Four of the black entrepreneurs were non-South Africans and recent migrants to the country. The gender breakdown of entrepreneurs was 19 male interviewees and 12 women; strikingly, the majority of Asian entrepreneurs were male whereas the majority of black (South African) entrepreneurs were female. Geographically, the majority of the successful enterprises were situated in premises located in inner-city Johannesburg (21 cases), one was in Soweto, one in Pennyville bordering Soweto, and three cases were situated in the Witwatersrand towns of Germiston, Springs and Nigel. Although six enterprises are in premises owned by the entrepreneur, the majority (20 responses) occupied rented accommodation; one operated from a container.

The range of clothing produced by the 27 interviewees was remarkably wide. The most common forms of clothing manufactured were T-shirts, track suits, school uniforms, corporate work wear and jerseys. Nevertheless, other clothing production included, *inter alia*, lingerie, sleep wear, skirts, lumber jackets, men's joggers, trousers, golf shirts, hats, caps, ties, traditional clothing and specialised embroidery. Many enterprises produced more than one type of clothing with different goods for the winter and summer seasons. It is clear that the majority of enterprises have shifted or modified the goods that they manufacture as the firms have grown. For example, from its beginnings as a producer of church uniforms one enterprise diversified into the production of work wear, making uniforms and shirts. Another example is of a Fordsburg manufacturer who experimented initially with the production of men's trousers, linen goods and skirts before concentrating upon lingerie goods. In most cases, shifts in production activities reflected searches by entrepreneurs for the most profitable niche in the clothing economy. In other cases, however, shifts could have been caused by internal crises. For example, one Johannesburg inner-city producer was compelled to move away from custom-made goods into undertaking cut-make-and-trim (CMT) production work when he ran out of working capital.

In addition to custom-made products, nearly one-third of the sample enterprises were primarily working as CMT manufacturers, usually receiving fabric and patterns from larger enterprises. Such firms are necessarily subcontractors as they do not have their own design capacity; instead they cut fabric, sew garments and attach labels (cf. Nunes, 1994). As indicated above, other clothing producers took in CMT work to 'fill in' during periods of slack business. Several clothing manufacturers stressed that in light of current recessionary conditions, they adjust their factory operations to 'do everything that comes'. For small producers the advantages of CMT work are that the contractor provides the fabric and thus no major working capital is required. Nevertheless, the profit margins on CMT work are clearly very small; in the words of one female inner-city entrepreneur 'CMT has not got real money in it'. Behind the limited profits for producers is the 'cut-throat' competition for work and the dominant bargaining position of the large contractors, who can be agents, wholesalers, retailers or other manufacturers.

In total the 27 successful clothing manufacturers currently provide nearly 800 employment opportunities, three-quarters of which are for women and over 90 per cent for black workers. Twenty-five of the sample of 27 enterprises would be classed as small enterprises employing five to 50 workers; two enterprises fall into the range of medium-sized enterprises with 70 and 200 employees, respectively. Despite recording positive employment growth since enterprise start-up, at the time of the interviews, a high proportion of the sample complained about poor business conditions and of reduced markets owing to national economic downturn and a flood of cheap imported clothing goods from Asia. 'Business is bad' was a general refrain among the group of interviewees and many enterprises were in a process of downsizing and reducing their workforces at the time of the survey. For example, in the case of one Germiston-based work wear producer the following employment profile was disclosed: in 1990 at start-up – four employees, 1993; 27 employees, 1995; 40 employees and late-1998, 19 employees. In a second example drawn from a hat manufacturer in inner-city Johannesburg a similar trajectory of employment growth and decline was given: in 1994 at start-up, only his brothers; 1996, 37 employees and late-1998, 14 employees. Despite these post-1995 downturns in employment, the 27 successful enterprises collectively have multiplied their workforce by a factor of ten since the initial start-up of the enterprises.

Another confirmation of the success of the enterprises derives from the expansion in their net asset base. At start-up the asset base of most of the clothing SMEs was tiny, in many cases amounting to little more than between 1–3 second-hand sewing machines. Indeed, for 18 of the 27 interviewees the value of the asset-base at enterprise start-up was less than R 10 000; in only one instance did the asset base exceed R100 000 at start-up. The estimates given of current enterprise assets is indicative of the successful growth trajectory that has been recorded by these enterprises. At the time of the survey, three of the largest enterprises had assets in excess of R1 million. In one instance (the Entrepreneur of the Month), over a period of 10 years the enterprise had grown from two sewing machines and net assets of R9000 to 30 machines and a net asset base of R 2,5 million. Correspondingly, the employment base of this enterprise expanded from two workers in 1988 to eight in 1993, 20 in 1995 and 23 at the time of the interview. Although this spectacular growth in the asset base was exceptional, the majority of enterprises did succeed in expanding their asset base several-fold based upon the initial assets at start-up.

**Table 2: Aspects of the establishment of enterprises**

Date of origin	Age of entrepreneur (years)			Start-up	
1900–59	1	<21	1	Original start-up	21
1960–69	1	21–30	7	Joined/took over	6
1970–79	4	31–40	9	Family	
1980–89	7	41–50	8	Business	
1990–94	6	51–60	1		
1994–98	6				

Source: Survey.

In parallel with the growth of these enterprises there has been a shift from the use of second-hand machinery to the purchase of new capital equipment, which is often imported from Asia. Of the 27 enterprises, 17 reported that their equipment was purchased new rather than second-hand. In at least one case, business success had permitted the purchase of computer-controlled machines. The cost advantages of buying second-hand equipment were, however, stressed by several entrepreneurs, particularly for relatively simple machinery. In the case of a female Asian manufacturer of women's garments, the purchase of second-hand machinery was sourced through the magazine *Junk Mail* 'for the quarter of the price of what a new one (machine) would cost'.

This group of successful clothing entrepreneurs came from diverse backgrounds. Fifteen of the entrepreneurs were born and bred in the Johannesburg area or the surrounding towns that merge to form the Witwatersrand. Several others, albeit not born in Johannesburg, had spent most of their lives there having migrated to the city at an early age with their parents, including (in three cases) from India. The places of birth of those entrepreneurs drawn from outside Johannesburg included Potchefstroom, Rustenburg, Standerton and Pietersburg. A small number of longer-distance migrant entrepreneurs had moved, often later in their lives, from Durban, Pietermaritzburg and the Eastern Cape. Finally, there was the group of new immigrants to Johannesburg attracted from outside South Africa and coming from Malawi, Zimbabwe and Nigeria. Typically, as in the case of the Nigerian entrepreneur, these international migrants had moved to South Africa for a mixture of both economic and political reasons and had chosen to settle in Johannesburg because of friends, ethnic networks and the city's image as a vibrant centre of opportunity (cf. Rogerson, 1997).

Table 2 presents information concerning the origins of the successful enterprises. In terms of the start-up of the 27 enterprises, the majority ironically were founded during the apartheid period despite the severe restrictions that existed regarding the prospects for SME development by members of South Africa's historically disadvantaged communities. Thirteen enterprises had been born between 1980 and 1994 and eight had been established for a period of over twenty years, originating in the 1960s or 1970s. The profile of the ages of entrepreneurs when they had started their enterprises shows a range of between 18 and 53 years. Nevertheless, across the 27 enterprises, the average age of the entrepreneur at business start-up was 33,6 years.

The occupations of the parents of the successful entrepreneurs provide a first link with the clothing industry. In nearly half the sample, the parents of successful clothing

entrepreneurs had either worked as independent tailors, seamstresses or as clothing machinists in formal factories. In six cases, the entrepreneur had either joined a family-run business or (in one case) had taken over a functioning business from parents after returning to South Africa from a period of exile in the United States. Twenty-one cases were recorded of entrepreneurs founding the business themselves (Table 2).

In terms of the location of the original enterprise, they were almost equally divided between enterprises that had been established at the entrepreneur's place of residence and those in formal rented premises. Fourteen of the 27 enterprises were founded in the home either in the crowded flatlands of Hillbrow or Berea in inner-city Johannesburg or in the townships of Soweto or Lenasia. Typically, the bedroom, the garage or backyard was the starting point for fledgling enterprises that would later become successful clothing manufacturers. In one case, a church backyard rather than the home provided the birthplace for a successful enterprise. Of the group of enterprises that were initiated in formal accommodation, the majority were found in low-cost rental premises in inner-city Johannesburg (Fordsburg, Vrededorp, Jeppe); two were in shared rented premises (hives) established by the former Small Business Development Corporation (SBDC), and one business each was established respectively in a shopping mall, converted office space and at an NGO resource centre. Few enterprises remained in their original place of establishment with the majority of enterprises relocating at least once since their start-up. Multiple shifts in location was a common experience. Indeed, in the case of one clothing manufacturer four changes of location occurred during a period of less than three years. In 1995 the business began at the owner's home in Lenasia, then moved for six months to the Pennyville hive 'to be a bit closer to customers', subsequently again it was relocated to the SBDC City hive in inner-city Johannesburg. These premises were once more found unsuitable because the enterprise was located on the second floor and the business was impacted negatively by dust from furniture manufacturers on the first floor of the hive. Unable to move within the hive, the business shifted to its present premises in former office accommodation in the Johannesburg CBD.

#### **4.4 Enterprise growth and overcoming constraints**

The reasons given for the start-up of enterprises provide the first signals as to the bases for successful enterprise. Of the group of 27 successful enterprises, 20 had been launched because of a perceived market opportunity. In only seven cases were the origins of enterprises linked to cases of 'enforced entrepreneurship' through retrenchment of former workers in clothing factories. Nevertheless, several cases were recorded of entrepreneurs who had formerly worked in clothing factories and left work voluntarily often owing to dissatisfaction with low wage levels. Typically, in the case of one Asian entrepreneur, it was stated that 'his salary was so low, he knew how much he did for his boss. When he threatened to leave, his boss promised him a higher salary'.

As noted above, in many cases family links provided an entry point into the clothing business. This familial linkage usually occurred directly as sons joined or took over the family clothing business or daughters learned the skills of sewing or dressmaking from mothers. Another launch point for successful new entrepreneurs was through the completion of a particular training programme such as fashion design or silk-screen printing which provided the impetus for three highly successful enterprises. To illustrate this, the establishment of a lingerie business which employs 23 workers was the consequence of market opportunities seen by a trained fashion designer who could

not secure formal employment in a design position. In another case a clothing training course allowed one entrepreneur a major shift in work from the former business of running a shebeen. Although the shebeen trade had been highly profitable ('one can never go wrong with that trade'), police harassment and the regular payment of fines led this particular entrepreneur to choose to enter into the Witwatersrand clothing economy.

In the cases of enforced entrepreneurship, the entrepreneurs founded businesses which built on substantial long-term work experience in the clothing industry, sometimes for periods of 20 years or longer prior to their retrenchment. In the case of an Asian-owned embroidery business with assets exceeding R1 million, at age 53 the entrepreneur had been retrenched from a company for which he had worked for 23 years. In another example, the origins of a busy CMT enterprise and overall manufacturer, which employs between 35–43 workers, were also linked to circumstances of unemployment for both the husband and the wife. This family enterprise had been started by the woman whose father had been a tailor and had worked as a cutter for a large enterprise until the factory owners emigrated and the factory was closed. After a working life which had begun as a sandwich seller before formal employment in the metalwork industry and later for the railways prior to retrenchment, the husband had joined the clothing business five years after its inception. Interestingly, in this case, the low levels of formal education of the entrepreneur (Standard 3) have been compensated for by the couple's 'educated children' who have taught them how to operate a computer as well as how to fill in business forms and, most importantly, tender documentation.

Overall, such findings point to a broad relationship that exists between successful enterprise and an original start-up which was due either to perceived market opportunities or circumstances of enforced entrepreneurship in which skilling occurred over an extended period. Moreover, they suggest the significance, at least for successful clothing SMEs, of 'learning by doing' through on-the-job experience rather than formal training by public institutions. Further support for this latter conclusion is provided by analysing the findings concerning levels of formal education and training of the group of successful entrepreneurs.

The general picture which emerges is that the group of successful clothing entrepreneurs is relatively well-educated and that they have undertaken a number of business and technical training programmes. Despite the constraints of the apartheid education system, the results with regard to the highest level of educational attainment by this particular group of entrepreneurs shows a stronger educational and training base than, for example, is disclosed in South African studies of entrepreneurs who are running survivalist hawker enterprises (cf Peberdy & Crush, 1998). In detail, only one entrepreneur (a Malawian) had had no formal education; two entrepreneurs had reached only between Standards 3 and 5. For the majority of respondents (14 in total) the highest level of education was between Standards 6 and 9. None the less, eight interviewees had achieved a school matriculation and two had successfully completed university-level tertiary education (one Bachelor of Commerce from a university in India, one Bachelor of Arts from University of the Witwatersrand). Several occasional post-schooling educational achievements were recorded, including cases of a primary teacher's diploma, computer programming courses, a diploma in nursing, and, in one case of an immigrant entrepreneur, a qualification in dentistry. Indeed, the qualified dentist (from Nigeria) still works on a part-time basis for the State, as well as operating a highly profitable clothing enterprise that currently engages 25 workers.

It is significant to note the small number of entrepreneurs who had undertaken technical qualifications directly related to the clothing industry. Three entrepreneurs had completed courses in fashion design, including one case of a two-year programme undertaken in the United Kingdom, and one example of a highly successful businessman who had undertaken a silk-screening training programme in Switzerland. In addition to these longer-term training programmes, seven entrepreneurs had completed short courses run by the South African Clothing Industry Training Board. Less common than technical training, however, was the undertaking of courses in business management. Overall, only four of the 27 interviewees had pursued any kind of courses or programmes that dealt with small business management.

Despite these programmes of formal training, the overwhelming majority of entrepreneurs stressed the importance of learning by doing and of the significance of work experience in the clothing industry. Indeed, for two-thirds of the successful entrepreneurs the only training that they had ever received was actually in-house and on the job within the clothing industry. As an example, for Irene, who had failed her matric examination and yet now runs a business that employs 26 workers, learning by doing was critical:

I started as a table hand in the factory. I used lunch breaks to sit at a machine and play around until I was made a machinist. I learnt to operate all the machines in the factory, became supervisor and later manageress. There is no machine I cannot operate and repair.

In the words of an Asian entrepreneur who formerly worked for a large clothing distribution enterprise: 'wherever I worked I was stealing – stealing their brains and copying the way they do things'. In many respects, the importance of learning on the job rather than formal training for successful SME clothing manufacturers in South Africa is not surprising given the constraints instituted in the apartheid era on opportunities for formal education and training by members of the historically disadvantaged communities.

From the interview material it is difficult to discern conclusively the extent to which education and training have been a critical factor in allowing these successful clothing enterprise to overcome certain of the key constraints that typically confront emergent SMEs in South Africa. In particular, the issues of improving access to finance and markets have been shown as critical blockages to the expansion of emerging manufacturing SMEs in Gauteng (Rogerson, 1998). When entrepreneurs were asked to reflect on critical turning points in the historical growth of their businesses, the responses often were linked to events which facilitated improvements either in access to finance or new market opportunities for the enterprises.

The historical experience of the successful clothing SMEs in Johannesburg concerning access to finance is not untypical of that of many emerging SMEs in South Africa (Rogerson, 1998a). In the majority of cases, start-up capital was secured either from family, friends or from the entrepreneur's own savings (Table 3). Often the required start-up capital was relatively small in monetary terms, sufficient to cover the purchase of one or a small number of second-hand sewing or cutting machines. In examples of larger start-up enterprises, the source of capital was through establishing a partnership or from the capital from running a small enterprise previously. Although many entrepreneurs complained of financial difficulties at start-up, it was stressed that far greater problems were experienced in terms of securing working capital or loans from formal financial sources in order to finance new equipment or business expansion.

**Table 3: Source of start-up capital**

	No	%
Family	8	30
Friends	2	7
Own savings	15	56
Partnership	2	7

Source: Survey.

A familiar tale emerged of several entrepreneurs refused loans from banks and even from the Small Business Development Corporation (SBDC). In many cases, private loans or family sources (including remittances from exiles) were again used to supplement shortfalls from the formal financial system. In retrospect the case of one entrepreneur with assets now exceeding R2 million, who was refused funding both by banks and SBDC, points to severe shortcomings in the financing of emerging SMEs in South Africa. Often entrepreneurs could secure bank loans only after being in business for several years including, in one instance, for more than a decade. The post-apartheid changes in financial support for SMEs were evident in, at least, one success story where an entrepreneur was able to secure a bank loan which was backed by the Khula credit guarantee programme.

The question of access to markets has been identified as one of the most critical blockages for emerging SME manufacturers in South Africa. Improvements to a firm's market situation are recognised by entrepreneurs as core turning points in the history of enterprises. Several key themes emerged from the interviews. The most common concerned the decision to relocate the business from home to formal premises. In total, 19 of the 27 interviewees perceived this decision as a watershed in the enterprise's growth: indeed, 'moving here was good' was a frequent response to relocation into the Johannesburg inner-city. In some cases, the initial move was to unsatisfactory premises with several entrepreneurs pointing to infrastructural shortcomings, such as heating and water leakages, associated with the township-based hives which were established by the SBDC. As recounted by one former tenant in a SBDC hive:

The move to the industrial park in the townships meant more customers and that they were more exposed to customers. But in the end I realised that most of my customers were white. In addition, for no reason there was sometimes no light in the township; for no reason they blocked the roads, they could not do this or that. I told myself that if I wanted to see my business growing I had to find another place where customers can have access to my factory whenever they wanted to, so I moved again (to Johannesburg CBD).

Often the move to larger premises was accompanied by changes also in terms of factory or workshop organisational layout or the introduction of new production lines, especially in those cases where entrepreneurs had managed to acquire their premises and rebuild according to their own particular requirements. Nevertheless, the move from the township to the Johannesburg CBD rental premises for one entrepreneur meant that 'business picked up and he could buy more machinery'. Overall, the potential role of the crowded inner-city as an 'incubator' (see Rogerson & Rogerson, 1996, 1997a) for small clothing producers was indicated by several interviewees. The

move to the inner-city allowed entrepreneurs to enjoy the benefits of agglomeration economies with enhanced access to customers, potential subcontractors as well as input suppliers (of fabric, thread and so on). Indeed, for emerging SMEs the decision to relocate from the home was a dynamic adjustment which greatly enhanced their long-term access to market opportunities.

Beyond a shift in the location of production, several other strategic decisions made by entrepreneurs sometimes facilitated and expanded their access to new market opportunities. Of critical importance in certain cases (see Morar's story below) was the capacity of entrepreneurs to innovate or produce new designs within the highly competitive garment economy. Design capability or innovative products were often a key to unlocking major growth within enterprises. In addition, decisions concerning the diversification of production ranges and of changes from or into CMT or from fashion or custom-made clothes were prominent for many SMEs as important strategic market choices. For some enterprises an important turning point was the decision made to diversify and make for example, polo shirts as well as jerseys, thus making them less dependent on the winter season. For others, it was a choice to stop producing for the large retail outlets in South Africa, whose market power allowed them to return unsold goods within a certain period. In the opposite direction, a shift away from selling to wholesalers and towards selling through certain retail chains and flea markets was seen as a positive move under certain circumstances.

In two cases the formal registration of the enterprise was viewed as an important turning point as regards market access for it facilitated new opportunities for tendering, including government contracts. Registration was, however, seen as a double-edged sword for it 'doubled the expenses' of another manufacturer without any perceived corresponding benefits. Finally, although export markets were of minor significance for most of the 27 interviewees, in three cases market expansion was linked to the export of goods to surrounding Southern African Development Community countries.

#### **4.5 Clustering and inter-enterprise linkages**

In the above analysis, the emphasis has been upon those factors that have supported the growth and successful expansion of *individual* clothing entrepreneurs and enterprises. The focus now turns to examine the evidence for the *collective* growth of enterprises and for the emergence of a sectoral and geographical clustering of clothing SMEs in the case of the Witwatersrand.

The evidence presented in the interviews provides considerable support for arguing that the Johannesburg inner-city is the focus for an emerging garments cluster or industrial district (cf. McCormick, 1997a, 1998). From the interview material in this investigation, as well as from the findings of other recent research (Rogerson & Rogerson, 1997; Rogerson, 1997), it is clear that the flight of largely white-owned businesses, both offices and manufacturing, from the Johannesburg inner-city opened up considerable new opportunities for emerging SMEs. In particular, a surplus of low-grade office and small factory accommodation has become available for rental both in the Johannesburg CBD and broader inner-city environs. Much of the take-up of this surplus C- and D-grade office space has been through emerging black and Asian-owned SME businesses, with the largest segment of these new producers operating in the garments trade. As noted earlier, a further new and vibrant element in the garments cluster is the appearance of a growing number of clothing SMEs run by immigrant entrepreneurs

drawn to Johannesburg from other parts of sub-Saharan Africa. The size of the Johannesburg garments cluster remains to be precisely determined, but already it is evident that there are several hundreds of emerging SMEs currently operating in the inner-city.

These emerging SME manufacturers benefit from certain agglomeration economies deriving from their collective geographical concentration in one relatively confined area. Indeed, it is evident that running a clothing SME in the 'incubator' of the Johannesburg inner-city confers certain advantages which cannot be reaped by home-based enterprises, particularly those situated in peripheral township areas (cf. Nobanda, 1998). Overall, during the last decade, a dramatic metamorphosis has taken place in the business complexion of the Johannesburg inner-city. One critical element in this changing post-apartheid urban landscape is the appearance and consolidation of an incipient garments cluster or clothing industrial district that encompasses parts of the Johannesburg inner-city.

There are several dimensions of collective efficiency (Schmitz, 1997) that emerge and can be illustrated by the record of clothing SMEs functioning in the Johannesburg inner-city. Supply-side joint actions included the ad hoc borrowing and lending of basic tools or assisting one another in cases of a shortage of a particular raw material (such as thread or buttons). Such cooperation was especially common in multistorey converted office blocks or in the SBDC business hives where it was facilitated by geographic proximity.

A second and more widespread form of inter-enterprise collaboration relates to production joint action through subcontracting. A high proportion of the interviewees of successful enterprises were engaged in some form of subcontracting linkage. In the case of the CMT businesses, they were almost by definition wholly engaged in production joint action either for retailers, wholesalers or other producers. The form of this subcontracting in the Johannesburg inner-city takes two different forms. First, there is capacity subcontracting where economic cycles of boom and decline determine the volume of subcontract work that is available, giving little stability or security for the subcontractor involved in this arrangement (Rogerson, 1993). Several examples were found of successful clothing SMEs who either subcontracted or were contractors for capacity subcontract work, often to firms located in the immediate building or surroundings. The second and seemingly more prevalent form is that of specialisation subcontracting (Rogerson, 1993). This type of subcontracting is either motivated by the desire of large enterprises to reduce costs or because contractors either do not have the capacity to do the work themselves or choose not to carry out a specific function. One good example of the latter specialisation is the subcontracting of embroidery work to certain highly dedicated and focused enterprises which use special equipment.

Marketing as a joint action is also apparent from the evidence of the Johannesburg inner-city. Several firms reported links between their buyers or retailers in terms of the exchange of information about new products, ranges or design techniques. In addition, regular contact (normally telephonic) between competing producers in terms of the exchange of certain market information was acknowledged. Lastly, there were strong links between inner-city producers and street hawkers in terms of marketing the outputs of clothing SME producers. Indeed, this last very prevalent form of linkage was one of the few types of cooperation that crossed the apartheid racial divides between black and Asian communities, resulting in a linkage between Asian producers and black hawkers. In most cases, however, the exchange or sharing of market information

seemingly took place within particular ethnic or racially defined networks rather than across them.

In summary, it appears that elements of inter-enterprise cooperation within a cluster have contributed, at least partially, to the growth of successful clothing SMEs in the Witwatersrand. With the consolidation and continued growth of the cluster, however, there is the potential for possible local policy interventions to further nurture a healthy and vibrant clothing industrial district in inner-city Johannesburg.

#### **4.6 Three case histories**

It is appropriate to close this discussion of successful SME entrepreneurs and enterprises in the Witwatersrand garment economy by presenting three brief case histories which demonstrate the individual nature of trajectories of enterprise growth and graduation. The three vignettes have been selected (and edited) to illustrate different facets of the working history of successful entrepreneurs and their enterprises and are presented in a manner which, at various points, allows the voice of the entrepreneur to be heard in terms of his or her interpretation of enterprise development.

##### **4.6.1 Case 1: Morar's story**

Morar was born in India, came to South Africa with his parents when he was four or five years old and now holds a South African passport. At school he completed Standard 9 and then went on to fashion design school. Unable to secure a job as a designer he worked for many years for British Petroleum (BP) and ultimately became a manager there. Although Morar admits that at BP 'the money was sufficient' and indeed he 'was well paid', none the less he wanted to have his own business. In 1977, at age 35, Morar left BP and founded his own clothing manufacturing business which employed four women. The business began operating in spare rooms at his home and in the backyard. At the start of his lingerie enterprise Morar was fortunate in establishing a relationship that would last for seven years with one of Johannesburg's largest distributors of lingerie products, who offered to buy all Morar's production. With the business growing in strength, more workers were added and after two years of operating from home, the enterprise was relocated to more spacious business premises, subsequently moving again into larger premises which they purchased in the Johannesburg inner-city. By 1993 Morar was employing 45 workers, the majority of whom were Asian women machinists. This complement of 45 skilled workers was retained until mid-1998 when, as a result of falling orders, Morar reduced his workforce to 23 employees.

The enterprise manufactures a broad range of lingerie items, including sleep shirts, camisoles and several types of slips. Fabrics used include satin, polyester, cotton and polycotton. The factory is on two floors but currently the ground floor is empty as his son was operating from there and had just moved out. Morar enjoys a long-term and stable relationship with his suppliers, reputedly 'one of the biggest factories in the southern hemisphere', and markets nearly all his goods through wholesalers. As a result of the strong bond that has developed between Morar and his suppliers he gets extra payment conditions, goods are always delivered on time, and if he forgets an order, an urgent request is met 'right away'. Although when the enterprise was first set up access to finance for working capital and machinery was a 'major problem', currently with

assets of R500 000 to R600 000 and a monthly turnover of between R300 000 and R500 000, Morar has no problems in securing loans from local banks.

Now aged 55, Morar sees the strength of his business in his capacity to stay ahead of his competitors by continually bringing out new ranges of lingerie goods. Indeed, he does not worry about his competitors as many of them follow his designs, albeit often undercutting his prices as they are backyard operations with few overheads. New designs originate from journals, customer ideas and from occasional visits to local trade fairs. Morar sees his design capability as his competitive edge, allowing him to innovate continually and improve the quality of his products. In addition, his many years of experience in the field and contacts within the garment sector are deemed equally critical. Recently, major threats to the competitiveness and health of his business have emerged from a national economic slump and the decline of the Rand which have made material costs rise at the same time as a flood of imports have already been eroding his markets. Despite these threats, Morar still sees a future for his business through new designs and innovation for 'many of the sizes which are imported from certain countries do not even fit South Africans: an XL from Korea is too small for a S in South Africa'.

#### **4.6.2 Case 2: Lucky's story**

Lucky is aged 32 and was born in Soweto. He completed Standard 9 and worked in clothing factories both in Zimbabwe and later back in Johannesburg. It was while working in the clothing industry in Zimbabwe that Lucky obtained his knowledge and experience of the business of clothing production. In addition, he benefited from the fact that his sister ran a sewing school and taught him the basic principles of design. On his return to Johannesburg, Lucky became a supervisor in a clothing factory but after 'problems with other people working at that factory' in 1994 he was retrenched and subsequently decided to start his own business.

At start-up the business was a family affair with just Lucky and his brothers as helpers. Their machinery consisted of a cheap Chinese second-hand machine. His former employer had given Lucky some pieces of leather and with this material he produced a few caps at his flat and sold them to some retail outlets in the Johannesburg inner-city, close to his home. On securing his first order from a retailer, Lucky used the money to purchase additional machines. Eventually, as a result of the increased production of hats and caps, Lucky had nine machines at home, 'but that was a bit much for the flat' as he no longer had a sitting room.

Because of the cramped premises at home, Lucky looked for an 'open space' and moved his business to rental premises on the third floor at the top of a former small office block in the Johannesburg CBD. Over 30 workers were taken on to produce hats and caps in summer and jackets for the slower winter season. All the workers were trained in the factory by him. Lucky has experienced problems with some of his South African workers: 'some of them do not want to work, they need money or have a problem and expect me to help, they think I am doing the wrong thing and want to fight me'. His relationships to these workers were described as 'sometimes difficult'. Lucky stated that he wants them to work hard but that they are too slow and therefore he screams at them ('a little bit only to make them understand'). As a result of such problems, Lucky has recruited a number of foreign workers, mainly from Zimbabwe, whom he sees as 'better, they work hard and, are very experienced in clothing'.

Interestingly, many of his ex-South African employees have started their own small enterprises also in the Johannesburg CBD resulting in more competition. Despite recent retrenchments Lucky's total number of employees has grown from start-up to 14 workers. The actual numbers of employees would be higher but three weeks ago the enterprise was divided within the family as it was 'decided that his wife must have her own business', which is situated in premises downstairs from Lucky's business. His wife functions mainly as a subcontractor to Lucky.

Lucky designs the hats, often speaking to his workers and asking them what style they like, and then makes 10 samples to show to retailers. Most of his finished goods are sold to retailers in the Johannesburg inner-city, but an increasing number are sold directly to hawkers. Lucky sees the move into larger premises, allowing more space for growth, as a major turning point in his business, stating that 'this place is safe and close to home. The building has not too many people, it is not crowded and it is smarter than operating from a flat.' Major strengths of his business are viewed as the quality of his goods, using good fabric, personal contact with his customers and the absence of debt. After four years as an informal producer, the business was formerly registered during 1998. Chinese imports of cheap hats now are a major threat to his business so although 'I am very good in hats' ('one of the biggest in the CBD'), over the Christmas period Lucky was working on new pattern designs in order to make 'real clothing'. Recently, he has tried trouser production ('it is moving well') but still remains undecided as to the strategic direction that he will pursue in 1999 for diversifying his business away from hats.

#### **4.6.3 Case 3: The Manga's story**

The Mangas are second-generation clothing entrepreneurs operating a business which was handed down from the husband's Asian parents. Although the clothing enterprise was founded in 1965, the husband and wife partnership took it over only in 1995, relaunching the enterprise on a smaller-scale basis and operating from smaller premises than previously. Mr Manga had grown up in the clothing industry and received all his training from his father. Mrs Manga worked as a bank clerk before the family left South Africa for a period of 13 years in the United States. On their return in 1990 they both started working in the family business, taking it over five years later.

At the relaunch of the business the Mangas started to upgrade some of the outdated machinery but preferred to purchase new 'old style machines' which they felt worked better than computerised machinery. The enterprise was moved into smaller rented premises in Fordsburg, where the former business had been operating. The major advantage of the present location is its proximity to the Johannesburg CBD, which allows for quick and frequent deliveries from their suppliers. They inherited certain customers from the family business and 'won a few new ones'. One long-standing contract was the export of goods to a company in Botswana. Overall, the succession process and takeover 'was rather smooth' as both husband and wife 'had already been involved in the running of the business for years'. At start-up, three years ago, the enterprise had 18 workers and a net asset value of R700 000; currently (1998) the business employs 35 workers and with estimated net assets of R800 000. The business produces a range of corporate wear and men's uniforms and also undertakes CMT work on a subcontractual basis. This CMT work, mainly for women's clothing, is viewed as 'beneficial' as 'it keeps them busy'. Within the factory, workers are trained in-house and are multi-skilled being 'moved around from one thing to another so that they can learn more'. The quality of the goods is maintained as the Mangas are

on the production floor 'all the time', constantly checking that the standard of their goods is high.

The core strengths of the Manga's business are considered to be the good quality of their clothing goods and excellent relationships with their major customers and buyers; often they get information from these sources and assistance in their business if needed. In addition, the Mangas enjoy good relationships with their workers, the majority of whom are highly skilled machinists. Nevertheless, it was stressed that 1998 was a 'very bad' business year. Future planning centres on the possible opening of a factory shop to sell overruns from CMT manufacturing, further market diversification, and undertaking additional government tenders. Since they are operating in a highly competitive environment, one of their major problems is that as they are busy all the time and hence have little opportunity 'to get information about possibilities out there and how to overcome the problems of imports'.

## 5. CONCLUSIONS

The South African clothing industry represents a sector of manufacturing that has been historically dominated by large and primarily white-owned enterprise. Against a background of the current decline and restructuring of this industry, considerable difficulties confront emerging small enterprises, particularly as regards market expansion. Nevertheless, there are also many new opportunities for the emergence of successful SMEs, particularly in the context of the changing regulatory environment and of the opening up of the Johannesburg inner-city to new or emerging entrepreneurs. The results from the Witwatersrand interviews suggest that conditions in the clothing economy are in a state of considerable flux with many of the former accumulation strategies no longer in evidence (cf. Altman, 1994). In particular, the study shows the emergence of a notable CMT economy of subcontracting producers, as well as a group of successful clothing manufacturers from communities previously disadvantaged under the repression of apartheid.

The Witwatersrand study confirms several findings concerning patterns of successful SME development in other parts of Africa. Five sets of conclusions emerge from this investigation. First, the study suggests that enterprises have a higher propensity to graduate if they are established as a result of demand-pull rather than supply-push considerations. Although the push of unemployment or retrenchment may result in the initiation of what later may become a successful enterprise, a much stronger basis for long-term success is in the pull of new market opportunities.

Secondly, geography matters. Along with the works of Mead (1998) and McPherson (1996), it is clear that those enterprises that move out from the home into larger premises in commercial areas are at an important watershed in their development, often overcoming some of their key constraints concerning access to markets, infrastructure and information. Indeed, relocation from the home represents a dynamic adjustment strategy for small South African clothing producers which opens up considerable new opportunities for market expansion as well as production reorganisation. In particular, the importance of geography is underscored by the possibilities of benefiting from the external economies of locating in an incubator zone, such as Johannesburg's crowded inner-city.

Thirdly, education and training are positive influences on the emergence of successful SMEs. The experience of the Witwatersrand clothing enterprises confirms that the level of human capital of the entrepreneur (and if applicable, the partner) will have a direct

impact on firm growth. In particular, the capacity to design, to undertake specialised production processes or to innovate new ranges is invariably linked to issues of successful education and training. The interviews caution that technical skills built up by entrepreneurs learning on the job may be equally, if not more, important than formal education or training. Overall, however, the clothing research underscores the connected nature of education, training and small enterprise development and points to the notion of learning-led competitiveness (Afenyadu et al, 1999). Indeed, the Witwatersrand study shows that 'smart entrepreneurs' in clothing have been able to respond to the challenges of a highly competitive market environment, making strategic decisions which have allowed their clothing enterprises to graduate successfully from the micro-enterprise seedbed and confront the challenges of working in a globalising industrial environment.

Fourthly, there is strong evidence that many of the newest 'smart entrepreneurs' are immigrants to South Africa from other countries in sub-Saharan Africa. In earlier research it was demonstrated that immigrant entrepreneurs, particularly those from outside the SADC, were highly skilled, well-educated entrepreneurs, who were well connected in terms of global networks (Rogerson, 1997). The Witwatersrand clothing economy shows the highly positive influence being exerted by groups of successful immigrant entrepreneurs, notwithstanding the xenophobia that these people have to confront in post-apartheid South Africa (Rogerson, 1998b).

Fifthly, the study discloses the importance of clusters as a vehicle for the promotion of cooperation for competitiveness and correspondingly for successful SME development. The potential for joint action, positive learning and imitation are greatly enhanced in the circumstances of a sectoral and geographical cluster of enterprises, which appears to be in the process of consolidating in the inner-city of Johannesburg. This recognition of an incipient industrial district in Johannesburg suggests in policy terms the need for a coordinated set of interventions to nurture the advance of the cluster as a whole. From the rich research on clusters and on African clusters in particular, several positive interventions have been suggested to enhance cluster development. Some of these might be considered for the Witwatersrand: *inter alia*, the facilitation of association formation; dissemination of information about potential subcontracting partners, providers of specialised services, new technologies or market opportunities; strengthening of the cluster's physical and/or financial infrastructure; facilitating contacts between small and large firms, especially when the large firm is not within the cluster (or network); facilitating exchange visits to other enterprises to enable entrepreneurs to view better technology, management practices or marketing; the organisation of local trade fairs to showcase the products and services of small enterprises; and underwriting the development of local technology (cf. McCormick 1998). Taken in combination with enhanced education and skills training in South Africa, this policy agenda for cluster enhancement holds great potential for boosting further the potential for successful SME development in the clothing economy of the Witwatersrand.

Finally, this study asserts the critical importance of differentiating between and researching the support needs of different categories of SMEs. The focus here has been upon the success stories of a category of SME that exhibits a growth trajectory at the upper end of the performance scale for small enterprise. Below these firms are those other groups of SMEs which are (a) established enterprises that fail to grow (the situation with the majority of SMEs), (b) newly established enterprises in which the principal short-term challenge is survival, and (c) established enterprises that are growing but only slowly, posing different policy challenges from those of the high

growth enterprises. In the final analysis, as Liedholm & Mead (1999) show, it is crucial to recognise that these different forms of SMEs have very different contributions to make to the dual objectives of poverty alleviation and growth, not least in the circumstances of post-apartheid South Africa.

## ACKNOWLEDGEMENTS

Grateful thanks are extended to Anna Kesper for research assistance with the interviews for this investigation, to Kenneth King and Simon McGrath at University of Edinburgh for their support, to the British Department for International Development and the University of Edinburgh for the funding of this research project, and to the comments received on an earlier draft of this paper from two anonymous referees.

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