Achieving Best Practice through Knowledge Management: Benchmarking and Competitive Intelligence as Techniques for Strategic Decision-Making in Small and Medium Sized Enterprises.

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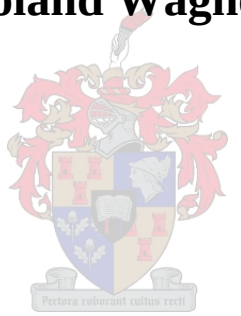

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Declaration

I, the undersigned, hereby declare that the work contained in this assignment is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

Signature: ……..

Date: ……..

Abstract

SMMEs provide opportunities for employment and economic growth for South Africa. SMMEs need to be as prepared as their larger counterparts in the ever-changing local and global business environment. In order to become not only successful but also sustainable, the smaller enterprise must be aware of what is happening in both its external and internal business and operating environment. It is important for these smaller enterprises to take cognisance of changes in the political and legislative environments, as well as changes in customer expectations and competitor behaviour. Knowledge management tools such as competitive intelligence and particularly internal and external benchmarking are vital for the company's survival.

Concepts such as benchmarking for internal and external best practices, as well as competitive intelligence to gain important external decision-making knowledge, can be as beneficial to SMMEs as they are to the large corporate entities. However, knowledge management is largely ignored in the smaller company's decision-making processes, due to financial and time constraints as well as a lack of the necessary skills to utilise knowledge management tools. Knowledge management can therefore be as important and beneficial to the smaller enterprise's operations and decision-making mechanisms as it may be to corporations and large companies.

The broad goal of this study is to review the literature on achieving best practice by implementing knowledge management in organisations. The examination of the literature and the subsequent description of the outcomes could be used to create awareness that, like larger companies, SMMEs need to process internal as well as external information in order to make strategic decisions. The utilisation of CI tools such as SWOT analysis, PEST analysis and benchmarking allow the company to systematically gather and interpret information. By using the Baldrige criteria, a systematic and continuous approach for learning and improvement is developed.

This methodology (the literature review) provides a framework for gaining the knowledge that already exists (in books, journals and on the Internet). By disseminating this knowledge according to the methods described, it is hoped that the research will construct already existing knowledge into a new approach that might benefit the discipline as a whole.

From the results of the study, it should become clear that certain aspects of enhancing CI in smaller enterprises require attention. Although there are organisations that assist SMMEs with relevant information, this information is scattered across various sources in different formats. Not much information and assistance is available to smaller enterprises that provides a clear framework of how to achieve internal CI practices by using the CI tools and business models such as benchmarking within the formal structure of the Baldrige criteria.

Opsomming

Klein en mikro-besighede het die vermoë om geleenthede vir beide werkskepping en ekonomiese groei in Suid Afrika te skep. Sulke klein besighede moet egter net so voorbereid en toegerus wees as makro-besighede om veranderings in beide die plaaslike en internasionale besigheidsomgewing die hoof te bied. ‘n Voorvereiste vir langtermyn lewensvatbaarheid is ‘n deeglike begrip en kennis van veranderinge in beide die interne en eksterne operasionele omgewing. In die opsig moet klein besighede kennis neem van verwikkelinge in die politieke en statutêre omgewing en bewus wees van veranderende markbehoeftes en die optrede van mededingers. In die verband is kennisbestuurinstrumente soos besigheidsintelligensie en interne en eksterne standaardstelling krities vir die voortbestaan van organisasies.

Bestuursinstrumente soos standaardstelling vir die identifisering van optimale praktyke (intern en ekstern), en mededingende intelligensie ten einde besluitneming te fasiliteer, is net so belangrik vir klein besighede as vir konglomerate. In die praktyk vind ons egter dat klein besighede bitter min gebruik maak van sodanige kennisbestuurbeginsels en -prosesse – waarskynlik vanweë gebrekkige kennis van die instrumente en die finansiële en tydsbeperkinge wat sulke klein ondernemings ondervind.

Die oorhoofse doelwit van hierdie ondersoek is om ‘n literatuurstudie te onderneem ten einde optimale praktyke vir die implementering van kennisbestuur in organisasies te identifiseer. Daar word voorsien dat die resultate van die studie gebruik kan word om ‘n bewusmaking onder klein besighede te loods dat hulle, net soos groot besighede, ‘n behoefte daaraan het om interne en eksterne inligting te prosesseer en te verwerk ten einde strategiese besluitneming te fasiliteer. Die aanwending van mededingende intelligensie instrumente soos SWOT, PEST en standaardstelling sal die organisasie in staat stel om inlgting op ‘n sistematiese wyse te versamel en te interpreteer. Deur gebruikmaking van die Baldridge-kriteria word ‘n sistematiese en deurlopende metode van inligting- en kennisverbreding en verbetering ontwikkel.

Hierdie metedologie (die literatuurstudie) bied ‘n raamwerk vir die verkryging van bestaande kennis (soos vervat in boeke, joernale, op die internet, ens.). Deur die verspreiding van sodanige inligting en kennis (deur die metodes soos beskryf), is die verwagting dat bestaande

kennis geherkonstruktureer sal word in ‘n nuwe benadering wat tot voordeel sal wees van die dissipline in geheel.

Die studie behoort voorts daarop te wys dat sekere aspekte van verbeterde mededingende intelligensie in klein besighede besondere aandag vereis en regverdig. Alhoewel daar sekere organisies bestaan wat klein besighede bystaan met inligting, is dit die ervaring dat sulke inligting wyd verspreid is oor verskeie bronne en in verskillende formate – wat die benutting en interpretering daarvan bemoeilik. Dit is voorts duidelik dat daar min of geen hulpverlening aan klein besighede is met betrekking tot ‘n raamwerk vir die aanwending van mededingende intelligensie praktyke en instrumente binne die formele struktuur van die Baldrige kriteria.

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CHAPTER 1
INTRODUCTION

1.1 Introduction

According to the Ntsika Agency (http://www.bulletinonline.co.za/archives/leading/march2003.php), there were 1 080 000 SMMEs in South Africa in 2003. The same study also found that more than half of the gross national product (GNP) in the USA is due to the growth of these types of businesses that did not exist 10 years ago. The business environment today is characterised by constant transformation; and in order to remain competitive and in tune with customers and competitors as well as the external operating environment, a company's overall business strategy must also be flexible enough to adapt as quickly as possible. For a company to adapt and align itself with the latest external developments, the company's ability to constantly learn on an ongoing basis becomes vitally important for its survival.

To learn from the environment and transfer that knowledge within the company, knowledge management tools and competitive intelligence processes are an important function for strategic decision making purposes. Implementing knowledge management tools such as benchmarking and competitive intelligence to improve operations is therefore a tremendous challenge. As with the SMMEs in the rest of the world, South African SMMEs have fast become the mainstream of business. This type of business is growing rapidly, and a leapfrog mind shift is needed with regards to knowledge management within SMMEs. It is a case of adapt to knowledge management and competitive intelligence practices, or die.

1.2 Rationale for the study

According to Malhotra (2000:3), the new era of sporadic change requires continual reassessment of company routines to ensure that business decision-making processes, as well as underlying assumptions, keep pace with the dynamically changing business milieu. This issue poses an increasing challenge as 'best practices' of yesterday turn into 'worst practices'; and core competencies turn into core rigidities. The changing business environment, characterised by energetically sporadic change, requires a reconceptualisation of knowledge management systems.

According to Boxwell (1994:17), benchmarking entails two processes: firstly, setting goals using objective, external standards; and secondly, learning from others. In both instances information is needed. Boxwell also mentions that benchmarking does not replace strategic planning, but rather supports it. Benchmarking can be used to study any company that makes a similar product or performs a similar process.

This benchmarking process highlights the importance of proper knowledge management. Proper knowledge management can extract information that reveals not only the company's strengths and weaknesses, but also, by implementing competitive intelligence analysis tools, the processes and actions of the competitor. This is necessary to make informed decisions and become a competitive world class company.

For this reason, knowledge management is a management tool that enjoys relevance in fortune 500 companies as well as SMMEs. In many of these companies, knowledge management is fixed in the business. This is done through by establishing dedicated and independent knowledge management departments with personnel who arrange and prioritise data and information and turn them into usable and retainable knowledge. This is important for the strategic decision-making process. Knowledge management in these companies also entails utilising and retaining tacit and explicit knowledge (Gill 2000: 106) on an ongoing basis, thereby creating a 'learning company' (Gill 2000:121). Other larger companies usually have dedicated personnel, for example, in the marketing department, who gather and process information from the external environment to make strategic decisions concerning the company's products and services.

Knowledge management is beneficial to both large and small enterprises because the current business environment is characterised by constant and drastic change. This unpredictable milieu demands a new approach by companies to adopt faster anticipatory mechanisms of knowledge creation and retention.

Smaller companies can learn best practices that are already used in larger companies by benchmarking these practices and by using competitive intelligence (CI) for external situation

analysis. Benchmarking and CI can be very beneficial to SMMEs by allowing them to gather enough information from the larger company to learn from their failures as well as their successes. This allows SMMEs to adopt what works well and avoid what does not, eliminating the chances of serious and expensive mistakes.

1.3 Aim of the study

The broad goal of this study is to review the literature on achieving best practice by implementing knowledge management in organisations. The examination of the literature and the subsequent description of the outcomes could be used to create awareness that, like larger companies, SMMEs need to process internal as well as external information in order to make strategic decisions. The utilisation of CI tools such as SWOT analysis, PEST analysis and benchmarking allow the company to systematically gather and interpret information. By using the Baldrige criteria, a systematic and continuous approach for learning and improvement is developed.

1.4 Research question

What effect could the introduction of knowledge management tools and practices such as benchmarking and competitive intelligence have on SMMEs?

1.5 Methodology

The literature review was chosen as the methodology for conducting this study. This methodology provides a framework for gaining the knowledge that already exists (in books, journals and on the Internet). By disseminating this knowledge according to the methods described, it is hoped that the research will construct already existing knowledge into a new approach that might benefit the discipline as a whole.

1.6 Overview of the study

This assignment consists of eight chapters and includes the following:

- Chapter 2 explains the approach undertaken for this study.
- Chapter 3 discusses the concept of knowledge management, what it is and the relationship between information, knowledge and intelligence.

- Chapter 4 provides a brief overview of competitive intelligence (CI) methodology as well as a description of CI tools such as benchmarking.
- Chapter 5 contains a description and definition of SMMEs in the South African context, and explains the importance of growing SMMEs within the local economic development (LED) framework in South Africa.
- Chapter 6 examines the ways in which the smaller enterprise can source crucial information by utilising external resources such as government agencies and research organisations. The smaller enterprise does therefore not exist in isolation or in an information vacuum, but is well supported by organisations that provide these information services.
- Chapter 7 explains what the smaller enterprise can do to extract vital information from the exterior as well as interior business operating milieu. In order to formalise a CI structure within a company, Baldrige (a system that enhances benchmarking practices by allowing the smaller enterprises to follow structured steps, resulting in continuous improvement and perpetual learning) is discussed.
- Chapter 8 contains the conclusion and recommendations of the assignment.

1.7 Conclusion

This chapter has presented the background to the study, including its rationale and aim. The chapter that follows outlines the methodology followed in this study.

CHAPTER 2

METHODOLOGY

2.1 Introduction

The broad goal of this study is to review the literature on achieving best practice by implementing knowledge management in organisations. According to Mouton (2001:179), a study that uses a literature review as methodology provides an outline of the research in a certain discipline through an investigation of trends and debates. This chapter includes a discussion on the research design, databases that were searched, sampling method and data analysis.

2.2 Research design

A non-empirical study in the form of a literature review study was undertaken. Mouton (2001:175) defines non-empirical studies as "the analysis of the meaning of words or concepts through clarification and elaboration of the different dimensions of meaning". A literature review research project examines the material written about a certain topic by analysing current developments and discussions about the discipline (Mouton, 2001: 179). According to Neuman (2000:301), "the researcher can search through collections of information with a research question and variables in mind, and then reassemble the information in new ways to address the research question". In this study, collections of information entailed existing literature on the concepts of learning organisations, knowledge management, competitive intelligence, benchmarking and SMMEs.

The research design for this study thus entailed describing the meaning of particular concepts, providing different dimensions of meaning, presenting current developments and debates about the discipline, and examining material with a specific research question in mind. The information that was collected was reassembled in a new way to address the research question. The section that follows presents the databases that were searched, the keywords that were used for the search, how the texts were sampled and how they were analysed.

2.2.1 Databases searched

The nature of the information gathered on CI, knowledge management, and SMMEs pertained primarily to the South African context. However, it is important to note that most topics that are included in various databases (including Internet search engines such as Google's keyword searches) yield relatively a small percentage of South African literature "hits" (the number of times a record appears after a request is submitted). It seems that South Africa does not publish as much on the subject as, for example, the United States of America, Europe and the United Kingdom.

Ebscohost Business Source Premier[1] played the largest role in facilitating the accumulation of sources. This database contains articles from business-related journals as well as conference papers. All articles that are currently available in South Africa and in the international sphere are indexed in this database. Other databases such as Emerald and Nexus[2] did not reveal as many South African articles. It is not possible to study and assess all available databases and sources of information that may exist, although an attempt was made to research the available material as comprehensibly as possible given the time that was available.

2.2.2 Keywords used in the database search

The following keywords were used to search the various databases:

- *SMMEs in South Africa (background information)*
- *SMMEs AND knowledge management*
- *SMMEs AND competitive intelligence*
- *SMMEs AND business intelligence*
- *SMMEs AND competitive advantage*

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[1] Ebscohost Business Source Premier is a collection of specially designed, business-related, comprehensive full text databases, available online via EBSCO host.

[2] The NEXUS Database System is a collection of databases focusing on the humanities and social sciences in South Africa. It includes a database of current and completed research projects, research organisations, professional association, researchers, forthcoming conferences, research methodology courses and teachers, as well as periodicals' submission requirements. There is almost no information related to competitive intelligence or benchmarking, or any business related topics.

- *Medium businesses external benchmarking*
- *SMMEs AND benchmarking*
- *SMMEs AND knowledge management strategy*
- *Small business knowledge management*
- *SMME business strategy*
- *SMME knowledge strategy*
- *Knowledge management AND small business*
- *Competitive Intelligence AND small business*
- *Business intelligence AND small business*
- *Benchmarking AND small business*
- *Knowledge tools AND small business*
- *Harnessing knowledge in small business*
- *Exploiting knowledge in small business*
- *Using knowledge management in small business (case studies)*
- *Successful knowledge management practices in small business (case studies)*
- *Knowledge management for strategic decision making in small business.*

2.2.3 Sampling method

The purpose of this research was to study the literature to gain information about implementing knowledge management in small organisations. The literature review was approached by examining organisational knowledge management practices in terms of the focus on benchmarking and competitive intelligence in order to identify best practice and enhance the performance of the organisation.

The literature sources included books, journal articles and websites. The research question was continuously kept in mind while searching for relevant material. The research question is concerned with investigating the possible effects of introducing knowledge management tools and practices such as benchmarking and competitive intelligence on the operations, productivity and overall competitiveness of smaller companies, as explored in the literature.

Certain pragmatic considerations also played a role in the kind of material that was selected (Mouton, 2001:180). These included the time frame and the scope of the study. The former consideration refers to the duration of the study. The search for relevant sources began in October 2005 and was completed at the end of 2006. The search included the most relevant and current sources available within the discipline as well as the current environment in which SMMEs find themselves in South Africa. The latter consideration refers to the level of this study, namely, an extended research assignment. In other words, the author had to limit the number of sources that were included in the study to those that were most relevant to the topic, keeping in mind the limited scope of the study.

2.2.4 Data analysis

As Mouton (2001:179) explains, "a review of the literature is essentially an exercise in inductive reasoning, where you work from a "sample" of texts that you read in order to come to a proper understanding of a specific domain of scholarship". The key variable that was studied here is the effect that knowledge management tools such as benchmarking and competitive intelligence have on the improvement of the performance of the organisation. The quality of the literature review is further determined by the representativeness of the sources. Mouton (2001:180) lists the main sources of error in a literature review as being selectivity in the sources, unfair treatment of authors, misunderstanding in the source, selective interpretation to suit one's own viewpoint, and poor organisation and integration of the review. The author considered each of these sources of error while writing the review in an attempt to avoid making these mistakes while coming to an understanding of the topic of investigation.

2.3 Conclusion

This chapter explained the methodological approach of this research. This methodology provides a framework for gaining the knowledge that already exists (in books, journals and on the Internet). By disseminating this knowledge according to the methods described, it is hoped that the research will construct already existing knowledge into a new approach that might benefit the discipline as a whole.

The following chapter expands on the definitions of SMMEs provided in chapter 1, and examines the current status and milieu of SMMEs in South Africa. The chapter also explains how knowledge management and competitive intelligence are tools that can be used to gain a competitive advantage and enhance the productivity of the organisation.

CHAPTER 3

KNOWLEDGE MANAGEMENT

3.1 Introduction

This chapter describes the concept of knowledge management, what it is and why it is important for any small, medium or large organisation. It explains how data become information and how this information, given a context, is translated into knowledge. Ultimately, knowledge that is given meaning becomes intelligence. Furthermore, the chapter discusses the differences between tacit and explicit knowledge as well as knowledge management concepts such as knowledge sharing and communities of practice.

3.2 The difference between data, information and knowledge

In order to understand knowledge management, it is important to make a distinction between data, knowledge and information. Data have no context or significance outside of their existence (Groff & Jones 2003:2). Information and knowledge are interpretations of "various signs, signals and messages from external settings" (Curley & Kivowitz 2001:23-28). Therefore information depends on gathering data that can add value and that has been given a certain context, so that it resides in people who can understand the particular set or sets of information and so apply it in their work context. When that information then becomes relevant, it ultimately becomes knowledge.

3.3 What is knowledge management?

According to Bukowitz and Williams (1999:2), knowledge management is the process by which the organisation generates resources from its intellectual or knowledge-based assets. These resources or "wealth," as the authors describe it, results when an organisation uses knowledge to create more efficient and effective processes. As in the case of re-engineering, it has an outcome impact because it can decrease the organisation's costs and it also can help reduce the cycle time of operations (in a manufacturing context), which may improve the cash flow of an organisation. In other words, it enables the organisation to produce more services and products using the same

or less amount of time. Choo (1998:2) goes on to argue that wealth is created in the organisation when strategic information is used to generate new knowledge. This knowledge allows the organisation to develop new capabilities, design new products and services, and improve existing products and services.

Bukowitz and Williams (1999:2) mention a second definition of knowledge management. This refers to anything intangible or without physical extent that has value or can add value, and that is entrenched in people or derived from processes, systems, and culture associated with an organisation. This may include brands, individual knowledge, intellectual property, licences, and forms of organisational knowledge such as databases and process know-how.

3.4 Why knowledge management?

According to Borghoff and Pareschi (1998:18), the choice of the most appropriate way to organise organisational or business memory depends on how it is used. The main function of an organisational memory is to "enhance the competitiveness of the organisation by improving the way in which it manages its knowledge". The idea of learning organisations is relevant in this context. Also pertinent is the view that "knowledge assets" or knowledge wealth, as well as the continuous learning ability of an organisation, are a company's main sources of innovation and a competitive advantage.

Borghoff and Pareschi (1998:19) also argue for four basic knowledge processes:

- *Constructing new knowledge.* Companies survive through constant progress made by developing new knowledge based on creative ideas, the study of past successes and failures (lessons learnt), and daily experiences. Organisational memories can support these processes by recording failures (lessons learnt) and successes. According to John (2006:13-15), constructing knowledge may occur in a number of ways. A company or organisation could "*acquire existing knowledge*" from an outside source. Such databases would usually have been produced and the information in these databases would be relevant to the purchasing company. An example here would be existing information resources made available to

smaller companies by SEDA and the CSIR[3]. The other way of constructing knowledge is to "tap into the expertise of its own employees – a technique popularised by Japanese strategist Ikujiro Nonaka which seeks to convert the tacit knowledge that exists within employees' minds into explicit knowledge" (John 2006:13) (see 3.5 below). The author furthers states that "this is a technique that is currently used by most private and public organisations globally, and involves tools such as setting up a community of practice" (John 2006:14-15) (see 3.9 below).

- *Embedding knowledge by securing new and existing knowledge.* Individual knowledge should be made available and reachable to other individuals in the organisation that rely on that knowledge. This knowledge must be available at the right time and place. Knowledge stored in organisational recollections may become continual over time and – if properly indexed –can be retrieved easily.

- *Disseminating knowledge.* Knowledge must be actively disseminated to those who need to use it. The turnaround speed of knowledge is increasingly crucial for company competitiveness. To support this process, organisational memory needs a facility which can help decide who should be informed about a particular new part of knowledge.

- *Combining available knowledge.* A company can only perform at its best if all available knowledge areas are combined in its new products. Multidisciplinary and cross-functional teams are increasingly developing products and services. Organisational memories may facilitate this by making it easier to access knowledge developed in all sections of the organisation. In other words, it functions to construct, embed and disseminate knowledge.

Finally, John (2006:15) explains:

> Knowledge needs to be reviewed continuously in order to ascertain its continued relevance to the development challenges at hand. Early attempts at organisational

[3] SEDA and the CSIR's relevance to providing information services to SMMEs is discussed in more detail in chapter 6.

learning, for instance, resulted in expensive ‘data warehouses’ or ‘publication libraries’ being created, which no longer held any relevance for the organisation concerned.

The process of reviewing knowledge is consequently useful for reaffirming a company’s goals and challenges.

According to Bukowitz and Williams (1999:3), information and communications technologies are one set of a number of major forces that has moved knowledge management to the forefront. These relatively new technologies have made it possible for people to share enormous amounts of information unhindered by the boundaries of geography and time. “As floods of information flow through organisations, people begin to ask, ‘Does this information really help me?’ and ‘Is this the best way to get it?” (Bukowitz & Williams 1999:3) The answers to these questions are typically a qualified ‘yes’ because while these technologies are changing the way we create, transfer and use knowledge, they cannot wholly replace low-tech, high-touch methods. (High-touch refers to situations in which people interact directly with one another in a physical environment rather than within the virtual environment of cyberspace.)

Bukowitz and Williams (1999:4) state that the idea of different forms of knowledge was introduced by two of the most influential thinkers in the knowledge management arena, Ikujiro Nonaka and Hirotaka Takeuchi. In 1991 Nonaka authored an article that appeared in the *Harvard Business Review;* in 1995 he published another with Takeuchi. The theories presented in these articles were expanded in their book entitled *Knowledge-Creating Company.* One of the most important contributions that the book makes is the distinction between explicit and tacit knowledge.

3.5 Explicit and tacit knowledge

Frappaolo (2006:10-11) explains that “explicit knowledge is knowledge that people are able to articulate fairly easily using language or other forms of communication”, while “tacit knowledge is knowledge that a person is unable to articulate and thereby convert into information”. Tacit knowledge is therefore more useful to an organisational system if it can be transferred to the other members of the organisation so they can also use it. Transfer of explicit knowledge is relatively straightforward. Transfer of tacit knowledge can be achieved either by first converting

it into explicit knowledge (recorded knowledge) and then sharing it, or by using approaches in which it is never made explicit.

Another way to look at forms of knowledge, which may be more helpful to organisations than the tacit versus explicit distinction, is proposed by Bukowitz and Williams (1999:3) as follows:

"Known knowledge – knowledge that the individual knows they know".
"Unknown knowledge – knowledge that the individual does not know they know because it has become embedded in the way they work".

Both forms of knowledge are significant to the organisation, and knowledge management is concerned with sharing both types in the following manner:

- *Helping organisations share what they know they know*. Knowledge management, especially if the information is technology based, is concerned with known knowledge. What most companies call "turning tacit into explicit knowledge" is not really that at all. Companies typically try to get people to share what they know they know, but have not bothered to share (disseminating knowledge). There are often reasons besides just a lack of time that account for the fact that experts do not share knowledge. Identifying and removing these obstacles is an important part of successful knowledge management.
- *Helping organisations articulate and share what they do not know they know*. Getting experts to articulate unknown knowledge requires skilled observation, facilitation and interviewing techniques, as well as the ability to codify the knowledge in a form that many people can use. Bukowitz and Williams (1999:3) argue that converting unknown knowledge into information may not be the best way to transfer this knowledge. Some types of knowledge lose something in the translation when an attempt is made to represent them as information. Instead of wasting energy 'making tacit knowledge explicit,' organisations may be better served by focusing on tacit-to-tacit forms of transfer. Tacit-to-tacit transfer includes such techniques as mentoring, on the job experiences, and apprenticeships. Its major drawback is that it results in a transfer to only a small number of recipients.

The authors also mention that standard information technologies such as databases and intranets should speed up the delivery of known knowledge throughout the organisation. New technologies that are becoming more prevalent may support the transfer of unknown knowledge, for example, video conferencing via satellite allows people to observe demonstrations and engage in real-time discussion that "approximates the tacit-to-tacit transfer".

According to Kesner (2000:1),

> knowledge management within an enterprise is that process which identifies and brings to bear relevant internal (from within the enterprise) and external (from the environment outside the enterprise) information to inform action, i.e. information becomes knowledge as it enables and empowers an enterprise's staff, known in this context as its knowledge workers.

The information "apparatus" of any knowledge management process as discussed previously therefore comes in one of two forms: explicit knowledge, which is structured and documented knowledge in the form of written reports, computer databases, audio and videotapes, and so on; and tacit knowledge, which is undocumented knowledge in the heads of the enterprises knowledge workers or external third party subject or process experts. The task of a knowledge management process is therefore to organise and disseminate explicit knowledge and to also bring together knowledge workers and the suitable explicit and tacit information required for their work.

3.6 Knowledge sharing

Knowledge Sharing is the interaction of people guided by organisational processes, enabled by technology. At its most basic, Knowledge Sharing is about synthesising the dispersed know-how of an organisation more effectively and distributing it throughout the organisation for use with partners. It is the systematic and continuous capture of know-how built from years of experience inside and outside the institution's institutional boundaries (Ballantyne 2006: 4-5).

Knowledge does not exist in a void, but rather exists in organisation. It is an interactive process between people and organisations on an ongoing basis. Organisations are made up of individuals and are therefore repositories of knowledge.

3.7 Organisations as repositories of knowledge

Kalling and Styhre (2003) argue that one of the core principles of knowledge management theory is that organisations are "social formations" which have access to and control significant amounts of knowledge. They also have the ability not only to develop, share, and transform that knowledge into a competitive advantage or form new knowledge, but also to serve as a medium and milieu where knowledge is developed and used.

Liu (2003) states that

> Most companies have built considerable amount of knowledge over its years of existence and through repeating the tasks it is good at. The amount of know-how, be it tacit or explicit need to be organised so that others in the company know where and who to get it from. Knowledge management is about sharing with the rest of the colleagues and friends or even persons from the same training background. Every company should benefit from knowledge management in many ways. Each company or organisation needs to use its knowledge based on context, environment, and culture and supported by some tools, typically of a computer or network. Knowledge management would bring out competitive and comparative advantages of a company. One needs to realise that knowledge is not physical. It can be generated (and re-used), transferred, learnt (un-learnt) and recorded but not easily moved about. Simply put, knowledge management will form the content of a company.

From the above it is apparent that SMMEs need processes that enable them to share information and act as a conduit from which information, which has been given meaning, becomes knowledge. This knowledge is then passed on to end-users, adding to their insight and ultimately becoming wisdom (see Figure 1).

Figure 1. The knowledge pyramid (adapted from Curley & Kivowitz 2001:23)

Within the knowledge sharing context, the SMME and other agents of knowledge such as regional development agencies or knowledge resource centres for local economic development initiatives (as discussed in later chapters) can act as a communities of practice. They can do this by sharing knowledge and also mediating and facilitating various parties with common interests.

3.8 Knowledge strategy

Many organisations do not have an explicit consolidated knowledge strategy, but rather and implicit and dispersed strategic plan. In this respect they may be similar to many SMMEs. A knowledge strategy details in operational terms how to develop and apply the capabilities required to execute a business strategy. According to Wenger, McDermott and Snyder (2002:7),

> The process starts with strategic goals and required core competencies, business processes and key activities. It analyses these in terms of critical knowledge 'domains'. Finally it identifies the people who need this knowledge for their informational needs and explores how to connect them into communities of practice so that together they can 'steward' this knowledge.

3.9 Communities of practice

Communities of practice are groups that share common concerns, problems and interests in certain topics, and who broaden and deepen their knowledge and expertise in this arena by interacting on a permanent basis. The concept of communities of practice is not new; it was the

first knowledge-based social structure. According to Wenger, McDermott and Snyder (2002), it originated in the days when humans lived in caves and gathered around the fire to discuss strategies that would facilitate hunting. In ancient Rome 'corporations' of metalworkers, potters, mason, and other craftspeople had both a social aspect, by which corporation members would worship the same deities and celebrated holidays together, and a business function, by training apprentices and spreading innovations. In the Middle Ages guilds performed similar functions for artisans around Europe, but lost their influence with the Industrial Revolution. Communities of practice have, however, continued to proliferate to this day in every aspect of human life.

Knowledge resource centres can play a role in SMMEs, and more specifically, perhaps a local economic development (LED) knowledge resource centre. Although it may not be the only competency, the LED knowledge resource centre may to a large degree act as a community of practice. This may provide a medium or forum in which role players, stakeholders, end-users and/or other interested parties can find a platform for obtaining and sharing knowledge and information, and where they can interact with parties that have similar interests. A later chapter examines local economic development initiatives as well as regional development agencies as support mechanisms for SMME knowledge management processes.

3.10 Conclusion

In determining whether there is a difference between knowledge management and competitive intelligence, Barclay and Kaye (2000:160-162) explain that both functions share the outcome of getting relevant information and knowledge to the person requiring that information. Traditionally, knowledge managers argue that intelligence functions are a complement to and result of knowledge management, whereas those involved in intelligence argue that knowledge management is a result of CI functions. Barclay and Kaye (2000:160-162) refer to this as a classic "chicken or egg" dilemma.

The authors further argue that the aim of knowledge management is to be made "actionable". Competitive intelligence was previously a marketing and sales as well as a research and development activity; and knowledge management was an activity associated with upper management. This has changed in recent years. Companies nowadays combine both in functional ways. Intelligence activities include acquiring, analysing, interpreting and directing knowledge

to decision makers and those involved with knowledge management functions; activities take place in order to identify, classify and organise knowledge, and also direct useful knowledge to those who need it to make strategic decisions and solve complex problems. Within the scope of this study, competitive intelligence is seen as an activity that collects and collates information from the interior as well as the exterior environment of the company, and knowledge management focuses primarily on making the company's new knowledge resources (knowledge made known from the CI activities) actionable.

This chapter explained the principal concepts of knowledge management. It also described functions within the knowledge management paradigm such as knowledge sharing and communities of practice. The relevance of knowledge management within organisations (especially SMMEs) was discussed, as was the importance of knowledge as a vital asset that organisations can utilise to make important strategic decisions to remain competitive.

Chapter 4 introduces the concept of competitive intelligence. As mentioned, competitive intelligence is a knowledge management methodology that interprets external information and provides the organisation with a clear and usable tactic to turn this information into knowledge. Knowledge is further converted into intelligence in order for the company to align its business strategy in line with its strategic vision.

CHAPTER 4
COMPETITIVE INTELLIGENCE

4.1 Introduction

As discussed in the previous chapter, every business or organisation requires knowledge to operate and survive in the current competitive and ever-changing business environment. It therefore becomes important to attend to ways of gathering valuable information; giving the information meaning so that it becomes knowledge; and applying insight so that the knowledge becomes intelligence. This process of turning information into knowledge and knowledge into intelligence is called competitive intelligence (CI). This chapter discusses the CI process and argues that it should not be limited to large organisations, but should rather be a process that is used by all organisations, including small and medium enterprises.

4.2 Competitive intelligence

CI is the process whereby a company collects information, mainly from its external environment, in order to make strategic decisions regarding its overall operation and performance. According to Underwood (2002:8), CI is the process whereby strategic and important knowledge is acquired by a process of ethical information gathering and analysis. The results of such an analysis should then be presented to the various internal and external stakeholders, in order to make strategic decisions on various matters relating to the organisation's performance. Cook and Cook (2000:7) describe CI as a form of good 'investigative journalism,' and state that the practitioner should adhere to strict ethical behaviour in order not to cross the line into corporate espionage.

4.2.1 Why competitive intelligence?

According to the American Institute of Certified Public Accountants (AICPA) (2005) companies have recently focused on a "marketing principle" in knowing and satisfying customers. This aims to maintain current customers and the growth of a new customer base (i.e. customer-focused objectives) by developing or selling new products, modifying channels of distribution, improving the company's value chain, reorganising and restructuring internal and external operations. Today, however, companies cannot rely on this marketing principle alone to increase growth and

profitability, but need to understand every aspect of the competitor business as well as the market and industry in which they find themselves and their operational activities.

The AICPA further states that most companies also unofficially gather information on their competitors, markets and industry, but do not apply this limited knowledge in a practical and closely controlled way to achieve some form of competitive advantage. The business world is becoming more competitive every day, and such informal information collection and analysis is not adequate for proactive companies.

Calof and Viviers (2001:62-63) state that competitive intelligence is a proactive and focused process that does not stop at data collecting. Rather, it utilises information that already exists within the organisation in a continuous way. All this information, which is collected and disseminated, gives the organisation a clear indication of why the competitors behave the way they do, so that the organisation can react accordingly.

To substantiate this argument, the AICPA website states that proactive and competitive contemporary companies realise that a more formal and disciplined approach is necessary and vital in remaining competitive on a daily basis. These companies are becoming far more sophisticated at scrutinising their competitors; and they therefore gather more information and spend more time and energy on analysing this information. Therefore an effective competitive intelligence function becomes absolutely necessary for the success of the company in an ever-changing competitive environment.

From the above, it becomes apparent that certain competitive intelligence processes are implemented to serve as foundations on which the company's strategies, objectives and tactics are built, assessed and changed if necessary. The competitive intelligence process within an organisation can therefore provide the company with valuable information on the development of new products and services, identify new markets and industries, and recognise new opportunities.

4.3 The CI process

The company's first phase in undertaking a CI process is determining the precise need for the process. According to Cook and Cook (2000:17), there are four phases[4] or preliminary research areas that need to be addressed in this need assessment:

- Competitive threats
- Industry
- Market
- Duration

Once the preliminary research has been conducted and agreed upon, the actual research regarding the identified need or needs may begin. A 10-stage CI research model may be implemented, which includes the needs assessment as the first stage (Cook & Cook 2000:17 – 27).

The stages of the 10-stage CI research model are arranged as follows:

- *Stage 1 – Needs assessment*. The specific need of the research is determined in this stage, to identify whether the need is a competitive threat, market or industry analysis.
- *Stage 2 – Formulate question*. Once the need for undertaking the project is established, questions may be formulated that can address these needs.
- *Stage 3 –Organise process*. This stage involves organising the research and analysis process. This process examines both means to obtain information and ways to analyse and process this information. It also identifies the resources available in the company in order to achieve the required CI research outcomes.
- *Stage 4 – Gather data*. This involves gathering the data that the company need to effectively complete the CI project.

[4] For the purposes of this study on SMMEs, the two main areas that will be addressed are the market and industry phases as preliminary research. As part of its preliminary research, the SMME will find it important to identify what type of industry it needs to look at, and consider the activities in other industries that could have an effect on the existing industry. Research on markets and which markets to learn more about will give the company a clearer sense of which market segment it needs to better understand.

- *Stage 5 – Organise information*. This stage effectively turns the data collected in stage 4 into information. This stage uses analysis tools to turn data into information.
- *Stage 6 – Sufficient information*. The quality, quantity and reliability of information are determined in this stage. If there are any information requirements that are not sufficiently met, the 'gaps' need to be identified so that the correct and sufficient information may be obtained.
- *Stage 7 – Analyse information into knowledge and intelligence*.
- *Stage 8 – Disseminate to decision makers*. The intelligence is presented to decision makers with a view to planning and action.
- *Stage 9 – Act on intelligence*. Strategic decisions are taken and acted upon.
- *Stage 10 – Evaluate effectiveness*. The outcomes of the project are evaluated by analysing the resulting occurrences both internally and externally.

The process is represented in figure 2 below:

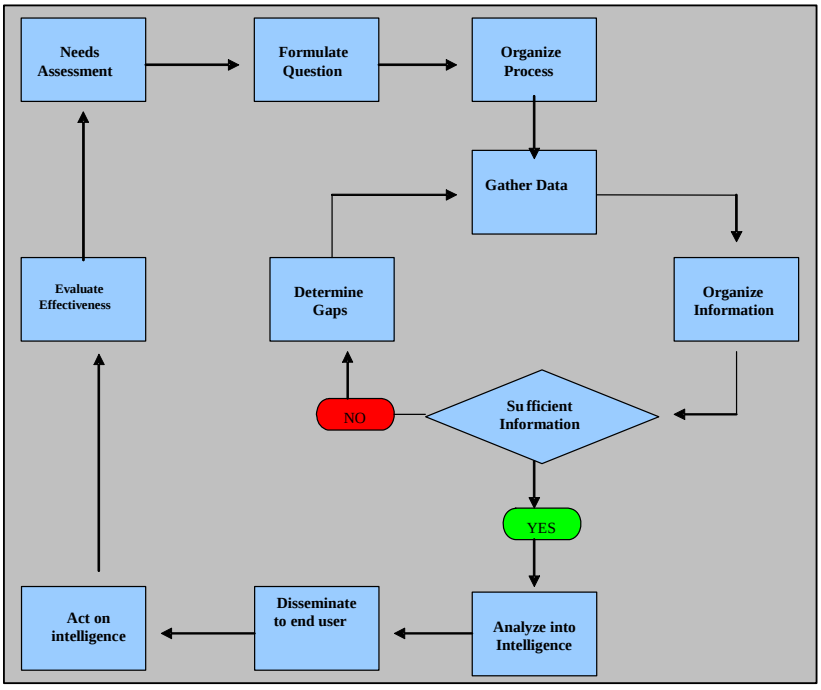

Figure 2. The competitive intelligence model (Cook & Cook 2000:16)

4.4 Benchmarking

A tool that can also be used as a competitive intelligence process is benchmarking. The benchmarking process can utilise a similar methodology or process of gathering information as the above mentioned CI process, but focuses more on learning from others and gaining insight into best practices that may improve the organisation's performance.

4.4.1 What is benchmarking?

The concept of benchmarking is not new, and has been used successfully in companies like Xerox[5] for several decades. According to Boxwell (1994:17), benchmarking has two functions: firstly, setting goals by using objective, external values; and secondly, learning from others. In both cases information is needed. Boxwell (1994:17) also mentions that "benchmarking does not replace strategic planning, but supports it". Therefore, benchmarking can be used to study any company that produces similar products and services and performs similar processes.

4.4.2 Processes in benchmarking

There are numerous ways to practice benchmarking; and many companies and organisations have institutionalised their specific benchmarking processes to meet their needs. Boxwell (1994:25-30) uses the American telecommunications company AT&T's six-step benchmarking process as an example:

- Deciding what to benchmark – identify potential topics to benchmark.
- Planning the benchmarking project – the data collecting process begins here, by answering certain questions, for example, who are the competitors? What is the scope of the study? What characteristics will be measured and what information about the topic is readily available?
- Understanding your own performance – this step is devoted to self-study, by means of gathering data and understanding how those data relate to the most important

[5] Xerox was the market leader in the photocopy technology industry until the early 1980s. Unprepared for the Japanese competition, Xerox realised it was competitively disadvantaged and turned to Fuji to benchmark Fuji's quality process. Xerox implemented what it learned by this benchmarking process and utilised a similar quality process with great success, regaining its market share and leadership role within that industry (Cook & Cook 2000: 149-150).

characteristics being measured in that company. This process itself might reveal new ways to overcome specific barriers.

- Studying others – this involves gathering data on the performance of competitors to understand how they function, who their key customers are and how their performance compares with one's own company.
- Learning from the data – data are analysed to quantify performance gaps and identify which pieces of information might be particularly useful for improving performance.
- Using the findings – here information is turned into knowledge, and knowledge into intelligence. The final point as to how this information from a benchmarking project can be used to enhance the competitiveness of the company.

The American Productivity and Quality Centre (1993) states that benchmarking is an ongoing process aimed at identifying best practices that may be adapted to a wide range of organisations, and ensuring process improvements which ultimately result in increased business performance. Benchmarking can be divided into two distinct categories: *competitive benchmarking* and *process benchmarking*:

- *Competitive benchmarking* measures the performance of an organisation against that of a competing organisation. This type of benchmarking relies on a set of predetermined performance criteria or metrics according to which the competition is measured.
- *Process benchmarking* measures the performance of processes and the overall functioning of organisations that lead in these processes. This type of benchmarking looks for the best process in a particular business process after validating that the performance of that process is world-class. Once that process is understood and validated, it may be adapted and applied within another organisation.

The overall purpose of benchmarking is to provide realistic goals to improve the various processes within organisations. The results of using benchmarking as an organisational strategy should therefore be an improved competitive position.

The benchmarking process discussed here highlights the importance of proper knowledge and information management. The correct type of information must be extracted so that the organisation's own strengths and weaknesses are revealed; and also so that the processes and actions of the competitor become apparent. In this way, informed decisions can be made to build a competitive world class organisation.

4.4.3 Strategic benchmarking

Pegels (1998:13.6–13.7) mentions that benchmarking is increasingly becoming relevant in directing strategy, assessing best practices, and using the results to change and improve the performance of an organisation. He argues that "strategic benchmarking is an extension of traditional benchmarking specifically designed to direct strategic action and organized change for achieving competitive advantage".

The strategic components measured are the customers, competitors and core competencies. These components are analysed by the following processes:

- The process starts when the organisation compares its products and services with the customer's perception and expectations. Factors that compare unfavourably with the customer's expectations are studied more closely to determine a strategic plan of action for improving the product or service.
- The second process involves measuring the competitor's products against the customer's perceptions and expectations of that product. This process fulfils two functions for an organisation. Firstly, it compares its products or services with the "best of the best" of individual competitors, giving a better perception of who is the best in the market, and adjusting and bettering it's products and services accordingly. Secondly, it allows the organisation to understand the customers' wishes and demands, therefore revealing both competitor performance and customer preference.
- The third process involves measuring core competencies by using a survey assessment tool called the "Quality Measurement Index" or QMI. This process permits an organisation to determine how its core competencies measure up against those of similar organisations.

Strategic benchmarking is therefore designed to meet customer expectations, outperform the competitors and utilise previously unavailable core competencies.

Pegels (1998:13.7) adds that most competitive companies take advantage of their core competencies to make growth possible. They do this by establishing a model or criteria for these core competencies. Two such models or criteria are the Malcolm Baldrige National Quality Award and the European Foundation of Quality Management (EFQM)[6]. These models study and analyse the core competencies in an organisation, thus supporting the strategic benchmarking process. The Baldrige and EFQM criteria provide companies or organisations with guidelines according to which they can integrate their core competencies and maximise their organisational performance.

4.5 Conclusion

It seems clear that the CI process prepares organisations for the future through systematic knowledge management processes involving planning, collection, analysis, communication and management. These processes enable the organisation to make strategic decisions (Calof & Viviers 2001:62). The CI process is not limited to large organisations and companies; any organisation that finds itself in an environment with competitors should utilise these processes. SMMEs can use the process to gain insight into the external environment in which they operate. This process could include market or industry related information, as well as an ability to learn from others by benchmarking superior aspects of other organisations.

The following chapters entail the literature review study of material on knowledge management, competitive intelligence and benchmarking, and is undertaken in order to apply this information to SMMEs in the South African context. Chapter 5 explores SMMEs in South Africa.

[6] The EFQM is the European quality framework which is based on the Malcolm Baldrige criterion

CHAPTER 5
SMALL, MICRO AND MEDIUM ENTERPRISES IN SOUTH AFRICA

5.1. Introduction

SMMEs play an important role in the economic development of a country. They also play an integral part in providing employment and upgrading human capital. According to Berry *et al.* (2002:4) SMMEs fulfil economic roles by contributing to a country's national product by manufacturing commodities of value, and by providing services to individuals and enterprises. The provision of commodities and services to foreign customers also contributes to the overall export performance of a country.

Berry *et al.* (2002:4) further state that from a South African perspective, SMMEs have the ability to enhance employment and upgrade human capital by absorbing unskilled labourers into, for example, a manufacturing environment where they are encouraged to follow a process of "learning by doing."

5.2 Definition of SMMEs

Rwigema and Karungu (1999:3) define SMMEs in terms of revenue, assets (excluding fixed property) and number of staff. The definition also varies according to country and industry; however, within the South African context small businesses are considered to be distinct and separate business entities which include cooperatives and non-governmental organisations (NGOs). These business entities can be divided into micro, small and medium-sized enterprises, with micro-enterprises usually consisting of single-person operations. They are therefore not relevant to this study on competitive intelligence and knowledge management practices.

Rwigema and Karungu (1999:3) further differentiate between urban and rural SMMEs. Urban SMMEs can be sub-divided into 'organised' and 'unorganised' types, where the organised type consists of structured enterprises with staff that receive salaries and that have a permanent

premises, and the unstructured type usually consists of self-employed individuals such as artisans who operate without a permanent premises and who might employ help or utilise the services of others on an ad hoc basis. Rural SMMEs are important to the growth of a local or district economy and consist mainly of family groups, individual artisans such as motor mechanics and men or women engaged in subsistence farming and fabric production. This usually occurs in informal settlements.

Furthermore, Layman (2006) mentions that

> the categorisation of businesses into these different size-sectors is subject to definitions to be found in the National Small Business Amendment Act, Act No. 26 of 2003. This recognises an additional category of enterprise, namely "very small", and the criteria for determining the category into which an enterprise falls include the total number of full-time employees, the total annual turnover and the total gross asset value of the business. In view of the variations to be found from one economic sector to another, there is no universal standard, although in all sectors a 'micro' enterprise has five or less employees, a turnover of no more than R200 000 and an asset value of R100 000 or less. A manufacturing company with 50 - 200 employees, turnover of R51 million or less and asset value of no more than R19 million, is considered 'medium', while in the agricultural sector a 'medium' company has 50 – 100 employees and a turnover and asset value of R3 – R5 million. In all sectors, 'small' enterprises have fewer than 51 employees[7] although the qualifying turnovers and asset values vary considerably.

5.3 SMME contribution toward the economy and job creation

Luiz (2001:2) states that the National Act of 1996 classifies small businesses into four categories: micro, very small, small and medium. In 1996 the overall contribution to the national gross domestic product (GDP) was 20.8% for small businesses, 11.9% for medium businesses and 67.3% for large businesses. Also it is important to note that SMMEs are an important contributor

[7] Within the context of this study, micro enterprises will not be applicable from a CI and benchmarking point of view.

to employment. Small enterprises contribute 29.5% to employment, medium enterprises contribute 15.3% and large enterprises make an employment contribution of 55.2%. From this it becomes clear the SMMEs make a positive contribution to both job creation and economic growth.

The small business sector has the ability to create jobs and promote economic growth in South Africa. Luiz (2001:1) mentions that in the 1990s there was a notable shift in the importance of the role of small business development within South Africa's overall economic development strategies and policies. Recently it has been established that SMMEs play an important role in the country's economy, and strategies are formulated internationally as well as in South Africa to expand this SMME sector.

5.4 Further reasons for supporting SMMEs

It is becoming increasingly important for government to realise the potential of SMMEs toward economic growth and development by creating wealth and employment. Rwigema and Karungu (1999:6) argue that SMMEs are more adaptable to market changes and can therefore fill gaps in products and services that are sometimes overlooked by large organisations. Government should be aware of this and should assist SMMEs where possible. SMMEs also add value by:

- showing capacity to absorb largely unskilled labour
- providing a 'nursery' and experimental ground for entrepreneurship and innovation
- producing commodities that reflect local technology and are more likely to satisfy the requirements and needs of poor people through the manufacture of food, shoes, furniture and so on.

5.4.1 Unique contributions of small business

According to Megginson, et al (1994: 11-17) smaller firms make the following unique contributions.

5.4.1.1 Innovation and flexibility

Megginson *et al.* (1994: 11-17) state that smaller firms tend to be "sources of new ideas, materials, services and processes." These "new sources" are sometimes unable to occur within larger firms which are also sometimes reluctant to provide and initiate them. In order to remain successful, smaller firms must constantly strive to be innovative and change their operating procedures by developing and marketing new and innovative products and services. Smaller firms are less tied down to investments in staff and resources than their larger counterparts and are therefore more likely to quickly change and adapt to ongoing changes within their markets or industries.

5.4.1.2 Maintaining close relationships with clients and community

The small firm is in close proximity to its community (and therefore its client base) and thus has an intimate knowledge of the needs of the community and customers. It is also in close touch with its suppliers (Megginson *et al.* 1991: 11-17). This customer knowledge allows the smaller firm to personalise its products and services and therefore do a more individualised job than larger firms. Consequently, it attracts customers by providing specialty products and services.

5.4.1.3 Keeping larger firms competitive

Megginson *et al.* (1991:11-17) state that due to their flexibility and innovation, smaller firms "keep larger firms on their toes" by introducing new products and services, and by offering products and services of good quality design and efficiency.

5.4.1.4 Providing employees with comprehensive learning experiences

Small firms offer greater learning opportunities than larger firms. Individuals hold more specialised jobs in larger firms, which is not the case within smaller firms. Staff in smaller firms perform a larger variety of functions and have more freedom to make decisions. This greater

freedom and flexibility within the work environment enables individuals in smaller firms to become better leaders and managers and thus develop new talents on an ongoing basis.

5.4.1.5 Develop risk takers

Small business owners have the freedom of choice. They can make their own decisions as to whether to start a new business or nor, or whether to expand or not. These decisions usually rely on appropriate research and knowledge, as the business environment is fraught with unforeseen changes, and the business must therefore identify the need for change and make the right decisions.

5.4.1.6 Generate employment

As emphasised elsewhere in this chapter, small businesses generate employment by creating new job opportunities.

From the above it becomes clear that small business not only make a contribution toward a country's gross domestic product (GDP), but they also significantly contribute toward the development of local communities. The study of developing local communities is called local economic development or LED. The South African government understands the importance of the contributions of SMMEs toward generating employment and therefore uplifting local communities, and is serious about local LED initiatives. Currently, various LED initiatives with a strong focus on developing and supporting SMMEs are being undertaken on community level in South Africa.

5.5 The South African government's support initiatives for SMMEs through LED

5.5.1 Local economic development (LED)

According to the European Union's Reconstruction and Development Programme for South Africa (2004:4), LED is a process whereby local entities share and shape the future of their

community. This is a participatory process where partnerships between local entities are encouraged by utilising local resources to uplift the local environment. This is done by providing decent jobs and promoting sustainable economic activities.

Lawson (2005:5) states that LED attempts to promote the growth of a local economy by encouraging local government, the private sector and the local community to work together. The focus of this initiative is to enhance competitiveness by increasing growth. This is done by redistributing this growth through the creation of SMMEs.

LED is therefore a process by which the public, businesses and non-governmental sector partners work together to create better conditions for economic growth and the generation of employment opportunities. The focus of LED is on various parties working together to create new and more job opportunities, and therefore enhancing the overall economic growth and development of an area.

5.5.2 LED in South Africa

Cartwright (2005:3) states that LED currently enjoys a high profile in South Africa, especially since work creation and poverty alleviation became a part of the South African political discourse. However, Cartwright believes that although SMMEs have become an integral part of the LED, not enough SMME support initiatives are found on local level.

The European Union's Reconstruction and Development Programme for South Africa (2004:8) adds that local government's response to enhancing economic growth and poverty alleviation is to stimulate LED by supporting small business. This support should manifest itself in the development of "small business support services". The Department of Trade and Industry has developed a programme to initiate local business support centres. These centres aid entrepreneurs with skills, infrastructure, information, networking, marketing and access to credit.

LED is a relatively new approach to creating new and better economic growth in South Africa. The primary outcome of LED is the alleviation of poverty through a multidisciplinary integrated

approach. These initiatives are done by supporting sustainable economic activities within local government (municipalities), and attempting to integrate the second economy with the first economy.

Local Economic Development (LED) has become an essential means to create more equitable economic growth in South Africa.. LED is an integrated, multidisciplinary approach aimed at poverty alleviation through pro-poor economic growth. “On the one hand this involves supporting sustainable economic activities in municipalities and, on the other hand, it involves integrating the marginalised second economy with the developed first economy”. (Cartwright 2005)

According to Cartwright, the primary approach of LED is support for SMMEs as a source of wealth and job creation. Emphasis is placed on creating partnerships between stakeholders within a provincial economic context, by initiating “location based clusters” and utilising local resources.

In a feasibility study conducted in 2001 (Urban Econ 2004: 1-86) problems that LED needs to address in South Africa were identified. These were:

- High unemployment and poverty
- Public sector provided limited support to sustainable development projects
- No business support services and insufficient commercial skills
- Low private investments in ‘job-rich sectors,’ although there were many business opportunities
- LED environment was not conductive to business, in other words, there was a lack of access to information and bureaucracy
- Limited capacity in public sector to perform the new developmental role

Currently the South African government is guided by the constitution as well as the 1998 White Paper on local government in its attempts to restructure the municipalities to allow a better understanding of LED and supporting LED initiatives. This new approach allows municipalities

to assume a more proactive role in facilitating and supporting LED and creating a favourable business environment.

5.5.3 LED programmes

The Limpopo Local Economic Development Partnership (Cartwright 2005) states that the European Union, together with the South African government, aims to support LED programmes within three provinces: Limpopo, KwaZulu Natal and the Eastern Cape. For example, the Limpopo LED programme is a 34 million euro initiative to undertake LED projects in that province until May 2008. The main aim of the project is to support economic growth and work creation through five core areas:

- *Supporting sustainable community economic development:* This refers to attempts to integrate the second economy with the first to create sustainable jobs for the poorer and disadvantaged members of society.
- *Strengthening local competitiveness of SMMEs:* This focuses on new business development, and strengthening and expanding existing SMMEs within the province, especially through 'cluster development in sectors of comparative advantage: mining, agriculture and agribusiness, tourism, construction and manufacturing.
- *Enhancing the LED environment:* This supports local government in improving the business milieu and encouraging investment.
- *Strengthening LED capacity:* LED role players cooperate and conduct LED-related research, create LED awareness and implement LED. These role players include local government, local service providers and nongovernmental organisations (NGOs).
- *Management, monitoring and coordination:* This entails general management of the LED programme as well as garnering interest from role players. It also includes facilitation and coordination of activities, and measuring and monitoring the impact of LED initiatives in Limpopo.

5.6 Conclusion

SMMEs play a positive role within a national context. This means that economic growth and employment opportunities created by these smaller businesses provide the local economy of a district or region with much needed financial relief, which translates into growth. SMMEs are a catalyst for creating employment within that region. With a focus on the local context, local economic development initiatives take place to enhance the economic growth and development at local level.

CHAPTER 6
EXTERNAL SOURCES OF INFORMATION FOR SMMEs

6.1 Introduction

Competitive intelligence strategies for SMMEs can be divided into external and internal activities. This chapter concentrates on how the external organisation can aid and influence an SMME's strategic decision-making process. External organisations specifically render services to SMMEs by assisting them to access information and advising them on sustainable business development.

As mentioned in chapter 5, the South African government is serious about supporting SMMEs for the reasons mentioned in that chapter. As such, the government renders services (free of charge in many instances) to encourage entrepreneurs to start their firms and assist them with advice and information so that these firms remain competitive. These organisations support smaller firms not only in the start-up phase, but also ensure their sustainable development. Through these agencies and organisations, and through the South African government's LED initiatives, the government is enabling a business-friendly environment that encourages SMMEs to be competitive and thrive.

6.2 Information requirements for SMMEs

As is the case internationally, the South African economy relies heavily on small companies to absorb labour and contribute positively to a district local economy. As with larger organisations, competitiveness within SMMEs requires information and knowledge. Where do smaller companies acquire their information? In assisting smaller enterprises with valuable information for strategic decision making, government has put into place certain mechanisms in various institutions to provide valuable and accurate support for the information needs of SMMEs.

Besides support in the form of funding (which is a crucial function), emphasis is placed upon the sustainable development of small enterprises in South Africa. It is very important that these small enterprises not only start up, but also succeed and prosper. These businesses may sustain themselves in a competitive environment by obtaining relevant information about the external or operating environment.

6.3 The CI process

Liebowitz (2006:20) quotes Helen Rothberg and Scott Erickson from their 2005 book *From Knowledge to Intelligence: creating competitive advantage in the next economy*, in which they discuss the maxim that "knowledge has value, intelligence has power." This quote alludes to CI as an effort by which people find what they need and use what they know. The authors furthermore state that in order to assess whether that business is on the right course toward "competitiveness," the business should answer the following questions:

- Does the business know all it needs to know before making a strategic decision?
- Does the business know where to find what it needs to know?
- Does the business know what to do with the information once it has found it?

To answer these questions, Liebowitz (2006:21) believes that the type of CI system that is available in the company plays an important role.

This abovementioned system is referred to as the CI process, as illustrated in chapter 3. The process consists of the needs assessment, formulating the question, organising the process, gathering relevant data, organising the information, determining whether there is sufficient information, analysing the information into knowledge and intelligence, disseminating this to relevant decision makers, acting on the intelligence, and evaluating its effectiveness.

Before utilising the assistance offered by external institutions, small business owners must prepare certain questions, in other words, they must know what information is needed with regards to the small business's external operating milieu (the needs assessment, formulating the

questions and organising the process stages). The small business entrepreneur must also know where to find relevant information (i.e. how to gather relevant data and organise the information), and must know what institutions currently offer information and research services to SMMEs, such as the Department of Trade and Industry, the CSIR and SEDA. Finally, entrepreneurs must know what to do with the information (this includes determining whether there is sufficient information, analysing the information, learning from the outcomes and acting on the new intelligence, and evaluating the effectiveness of the implemented intelligence).

6.4 CI information providers

External institutions offer clear value-adding services to assist small enterprises in finding relevant information on the enterprise's external environment. The institutions that are discussed in more detail in this chapter are:

- Agribusiness in Sustainable Natural African Plant Products (ASNAPP)
- The Department of Trade and Industry (DTI)
- The Council for Scientific and Industrial Research (CSIR)
- Small Enterprises Development Agency (SEDA)

6.4.1 Methods that assist SMME strategic decision making

The primary methods of analysis utilised by these institutions are the SWOT analysis and macro-environmental analysis (PEST/STEEP). Both the SWOT and PEST methods expose the SMME to a variety of important external information; however, it must be made clear that as far as the SWOT methodology is concerned, the information received by the SMME focuses on the external "opportunity" and "threat". The "strength" and "weakness" part of the analysis are mainly internal focus points and need to be analysed as such.

The website www.12manage.com describes the SWOT analysis as identifying "strengths and weaknesses that are internal factors that create value. They can include assets, skills, or resources that a company has at its disposal, compared to its competitors. They can be measured by using

internal assessments or external benchmarking." (The benchmarking aspect will be discussed in more detail in chapter 7.)

According to the same website,

> Opportunities and threats are external factors that create value or destroy value. A company cannot control them. They emerge from either the competitive dynamics of the industry and market or from demographic, economic, political, technical, social, legal or cultural factors" i.e. PEST.

6.4.1.1 The SWOT analysis

According to Fleisher and Bensoussan (2003:92-93), SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. This process scrutinises both the organisation's internal and external environment. The strengths and weaknesses depict the organisation's own capabilities and constraints, whereas the opportunities and threats examine the organisation's opportunities and possible dangers or pressures from other organisations and external situations. A brief description of the strengths, weaknesses, opportunities and threats follow:

- *Strengths* are what an organisation does well. These are the things that an organisation needs to nourish, build on and use as leverage for competitive advantage.
- *Weaknesses* are things that an organisation cannot do or struggles with, or things that the competitor does better. When identified, these things may need to be eliminated so that the organisation does not suffer from any competitive disadvantage.
- *Opportunities* are potentially favourable situations that may grow the business. These are the things the organisation needs to prioritise and optimise to maximise the existing resources of the organisation.
- *Threats* are potentially external unfavourable situations, which could negatively influence and impact the organisation. These threats need to be identified in order to create an awareness of them, and so that they can be counteracted.

Tiwana (2002:94) describes SWOT as "an objective to prolong the company's strengths, mitigate its weaknesses, avoid threats and grab opportunities". The SWOT analysis is therefore a very

useful tool to gain a better understanding of the business environment in order to make decisions for various situations that may arise internally as well as externally.

The following is an example of typical factors in a SWOT analysis diagram (www.12manage.com):

Strengths	**Weaknesses**
• Specialist marketing expertise • Exclusive access to natural resources • Patents • New innovative product or service • Location of the business • Cost advantage • Quality processes and procedures • Strong brand reputation	• Lack of marketing expertise • Undifferentiated products or services (in relation to competitors) • Location of the business • Competitors have better access to distribution channels • Poor quality of products and services • Damaged reputation
Opportunities	**Threats**
• Developing markets • Merger, joint ventures or strategic alliances • Moving into new attractive market segments • New international market • Loosening of regulations • Removal of international trade barriers • A market that is led by a weak competitor	• A new competitor • Price war • Competitor has a new innovative product or service • New regulations • Increased trade barriers • New taxation on product or service

Figure 3. Example of a SWOT analysis diagram (www.12manage.com)

6.4.1.2 The macro-environmental analysis

The macro-environmental or PEST analysis is used to examine the organisation's external environment. PEST is an acronym for Political, Economic, Social and Technological, and describes the structure of macro-environmental scanning. The PEST analysis tool can be used to

make strategic decisions by promoting an understanding of market growth or decline, business positioning, as well as general directions for operations.

According to Fleisher and Bensoussan (2003:274), the external environment, sometimes termed as the "competitive or market environment," has relatively specific implications for managing an organisation. This external environment has major components such as global or international issues, customers as well as suppliers, competitors, and partners. Furthermore, environmental conditions affect the strategic management process as a whole; therefore the aim of the macro-environmental analysis is to prepare the decision maker with information about accurate and objective trends occurring in the organisation's external environment.

Fleisher and Bensoussan (2003:274) state that another rationale for the macro-environmental analysis is the large amount of information on the external environment that is made available to the small business decision maker. Because of this, the business needs to develop a "filtering process" that allows it to understand the importance of external developments.

The filtering process of this external information is largely conducted and researched by a variety of South African governmental organisations and institutions with the aim of assisting smaller enterprises with this type of external information. The information is filtered in terms of specific areas and packaged in such a way that it becomes relevant to small business. The institutions that provide this type of macro-environmental information to small businesses include the Department of Trade and Industry, the CSIR as well as the Small Enterprise Development Agency or SEDA, to name a few. The role of these organisations in assisting small enterprises is discussed in more detail later in this chapter.

Fleisher and Bensoussan (2003:272-273) describe PEST as follows:

- Political: This relates to the government's attitude toward the various industries. This includes the regulatory climate as well as the legal component of the general environment, which consists of the country's laws that must be followed.
- Economic: This describes the use and distribution of resources within the entire country. This becomes relevant as patterns of consumption are influenced by factors such as

interest rates, inflation and exchange rates as well as credit availability, fiscal and monetary policies, and disposable income. The importance of this analysis is therefore the focus on the variables to which the company's strategic competitive efforts are most sensitive.

- Social: This refers to the characteristics of the society or community in which the small business is embedded. The variables within this analysis include demographics, cultural attitudes, literacy, levels of education, customs, values and beliefs, lifestyle and age distribution. It also looks at aspects such as geographical distribution and the mobility of the population, which contributes to the social component of the community or society.
- Technological: The technological aspects of the analysis examine the advances in science and technology and the impacts of these advances on the business environment. Technological advances may impact the way small businesses produce products and services by utilising new procedures and equipment. The technological aspect can be felt by a small business "from the acquisition of raw materials right through to the repair and recovery of the product after its use by consumers" (Fleisher & Bensoussan 2003:273).

Fleisher and Bensoussan (2003:273) add a further component to the PEST analysis, namely an "Ecological" component. PEST now becomes STEEP. According to the authors, the ecological component looks at both the physical and biological environments in which the small business finds itself. The aspects taken into consideration here include global climate, sustainable development, recycling, pollution, as well as biotechnological advances especially where genetic advances in agricultural products are concerned.

6.5 Support institutions for South African SMMEs

The following organisations and institutions provide support for SMMEs:

6.5.1 The Agribusiness in Sustainable Natural African Plant Products (ASNAPP)

According to the tenets of local economic development (LED), ASNAPP attempts to provide support in developing successful natural product businesses (www.asnapp.org). By doing this

ASNAPP helps alleviate poverty in rural communities. ASNAPP acts as a forum for collaborative cooperation by encouraging knowledge sharing practices with regards to research and development. ASNAPP's research and development is undertaken with research and academic institutions, government, private enterprises, non-profit organisations as well as civil society. The following activities take place:

- Applied research and technology transfer
- Quality assurance
- Development of markets and market linkages
- Enterprise and farmer involvement development
- Management of natural resources
- Policy discourse and promotion

ASNAPP provides information to end-users on a user-friendly information portal website. This site does not contain many graphics, allowing people using low bandwidth to access the information with relative ease.

ASNAPP's mission is threefold, with an economic, social and environmental dimension. The environmental vision focuses on developing the natural plant products of African SMMEs, enhancing products and supporting agribusinesses through utilising the environment in a sustainable manner. The social vision encourages the improvement of quality of life in poverty-stricken rural communities by encouraging entrepreneurship with a special focus on gender equality. Finally, the environmental vision focuses on the economic development of rural communities through productive and sustainable utilisation of the environment.

6.5.1.1 The ASNAPP Model[8]

The ASNAPP model assumes that agribusiness cannot be financially sustainable and viable unless there are markets and customers for their products. ASNAPP's interventions therefore

[8] The ASNAPP model is taken from http://www.tradenet.biz as well as www.asnapp.org.

target the entire value chain, from crop production through to market entry and support. Market demand is a key factor in the success of agribusiness, and ASNAPP assesses and communicates the market needs of the international marketplace back to agribusiness. Through quality management and rural enterprise capacity building, ASSNAP then assists agribusiness and African entrepreneurs to achieve excellence and a supply of high-quality produce that meet international standards.

6.5.1.2 The African Growth and Opportunity Act (AGOA)

AGOA is a key point for entry for African producers from AGOA's signatory countries to the African market. In cooperation with project partners, ASNAPP continuously seek partnership opportunities with, for example, United States trade partners. ASNAPP also ensures innovative new product lines that also fulfil future product demand, and thus ensuring continuous markets for African agribusiness produce sales.

Although many product lines are usually traded informally, ASNAPP attempts to address sustainable enterprise development to increase the effectiveness and efficiency within the market place. ASNAPP assists in formalising the product trade by helping entrepreneurs to gain access to legal entities that can help increase trade within markets and assist farmers in moving higher up the value chain, thus gaining a greater market share for their produce. This enterprise development also promotes the flow of information within the various market sectors and encourages networking amongst farmers, produce processors and exporters.

6.5.1.3 ASNAPP competitive strategy

Part of the competitive strategy in ASNAPP's assistance to African agribusiness is minimising the risk of cost and risk of entry to new entrepreneurs, due to these entrepreneurs' limited resources. This entails "agribusiness development projects to typically start with low entry cost activities". As produce farmers grow and evolve, they are gradually moved toward using more sophisticated technologies in farming methods. Thereafter ASNAPP's assistance focuses on improving market access and removing trade and infrastructure obstacles. According to

ASNAPP, “As an example – ASSNAP acts as in informal trade exchange, encouraging commercial enterprises to work directly with African enterprises as supply source of choice. Strong emphasis is placed on leveraging decision making powers at grassroots level within participating communities, with special attention to the empowerment of female entrepreneurs”.

6.5.1.4 The agribusiness development approach

With the participation of the producers and farmers, a “Generic Assessment Framework” for enterprise development and a Strengths, Weaknesses, Opportunity and Threats (SWOT) analysis is performed to assess the market and customer situation for necessary interventions. Besides the SWOT analysis, further interventions to assist the farmer include monitoring and evaluation and a performance tracking system. These activities entail data collection and analysis. The results of these interventions are clear indicators of market and product development and industry linkages, which give the producer or farmer a clear, holistic view of the external environment. This enhances the agribusiness enterprise development.

Through these ongoing initiatives, the objectives addressed may contribute to sound market intelligence and focus on the following areas:

- The identification and development of market opportunities for the agribusinesses
- The identification of sustainable trade in African natural plant products through a “market driven focus”
- The establishment of long-term trading relationships within identified key market segments, by providing links between the agribusinesses and the markets
- The enhancement of income-generating capacities of agribusinesses
- The provision of critical market information to agribusinesses
- The promotion of African natural products to overseas markets
- The creation of economies of scale

6.5.2 The Council for Industrial and Scientific Research (CSIR) Enterprise Development Centre[9]

6.5.2.1 Background

The CSIR Enterprise Development Centre (EDC) has established a process to support entrepreneurs with innovative ideas by developing these ideas into sustainable business ventures. This approach supports small business development.

6.5.2.2 The EDC process

The CSIR Enterprise Development process consists of five stages. These five stages are as follows:

- A technology outreach programme is implemented in rural and urban areas as an introduction to its enterprise development model. This outreach program creates awareness of the project, and also identifies suitable self-employed individuals with innovative ideas and business proposals that need development support.
- The identified individual entrepreneurs are taken through a basic support process and their innovative idea is tested for its feasibility. The entrepreneur is furnished with knowledge about the risks as well as possible improvements of their specific product idea.
- The third stage is referred to as the technical support stage. Here, the entrepreneur learns about the technical specifications of manufacturing the product with regards to the correct manufacturing machinery required within an industrial-type setup.
- The fourth stage is the production stage. This stage teaches the entrepreneur how to manufacture the product from raw material through to the finished product. Other areas of the manufacturing process as well as quality are also studied.

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[9] The information on the CSIR case study was sourced from CSIR (Council for Scientific and Industrial Research [CSIR] 2005: no page) *EDC capability statement* and CSIR (2002) *The Enterprise Development Centre* (EDC).

- The final and fifth stage is the commercial stage, in which the entrepreneurs bring their product to the market for sale. In this stage, entrepreneurs learn about marketing, customer relationships, supplier relations as well as retail issues to ensure that the product meets the requirements of the market.

As a result of this development model, several SMMEs have already successfully participated in the process with tangible results. An example of a successful collaboration is a company called TC Manufacturing, which produces vinyl and supplies to the Ford Motor Corporation in South Africa.

The CSIR Enterprise Development Centre or EDC has a unit called "Manufacturing and Materials" that focuses on supporting small manufacturing enterprises. The EDC works with national, provincial and local bodies as well as the automotive, metal, mining and agricultural sectors, and training and academic institutions. The EDC is also involved with economic development programmes as well as with local economic development on a community level.

The EDC has these key offerings:

- Techno-economic feasibility studies
- Enterprise creation
- Enterprise support (competitiveness improvement)
- Establishment of enterprise support infrastructure
- Rapid reviews (socioeconomic studies)
- Strategy development and industry studies for local economic development

As a point of departure, the EDC uses the Enterprise Development Process and the Rapid Review Model as process guidelines.

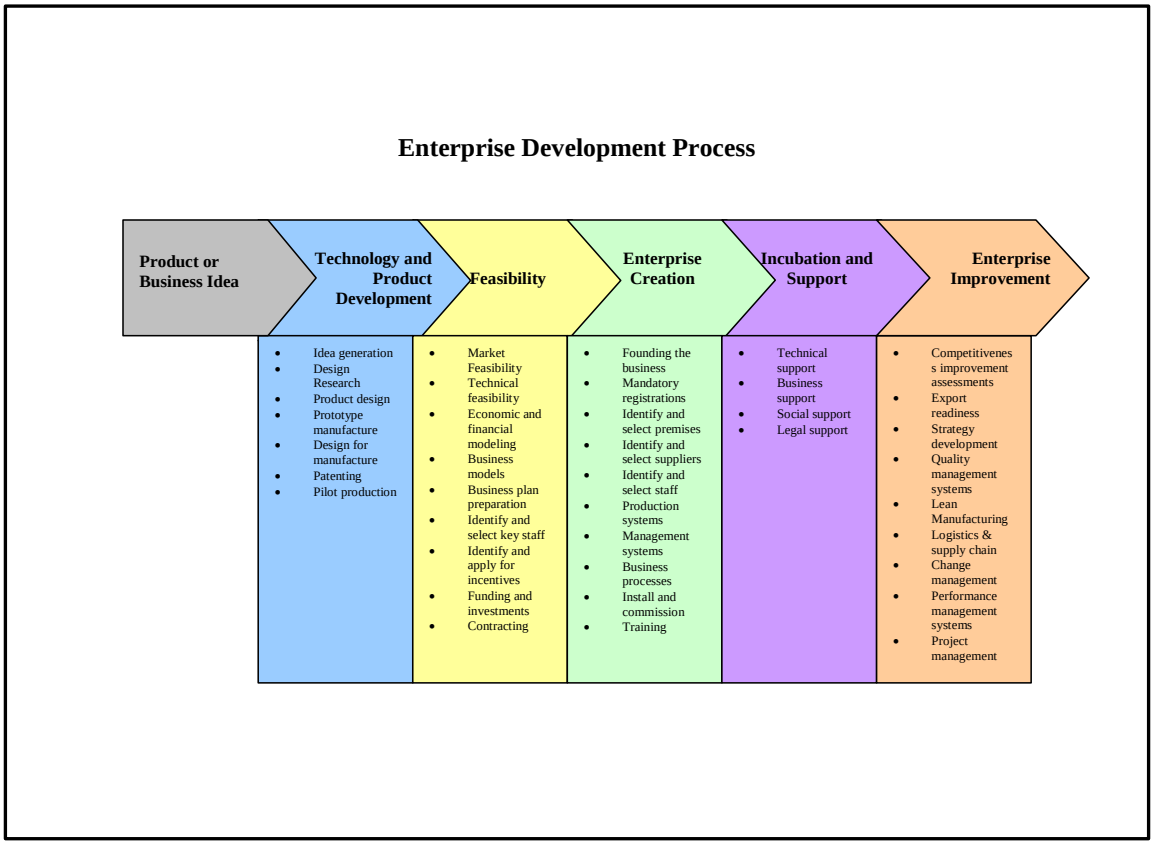

Figure 4. The CSIR Enterprise Development Model (Source: *EDC capability statement* and CSIR (2002) *The Enterprise Development Centre* [EDC]).

The above diagram represents the process used by the EDC on "firm-level" SMME related projects. It is designed in such a manner that a business idea is taken through the various steps and activities to ultimately create the sustainable enterprise. This process was designed in the CSIR and has been applied successfully over a number of years to various SMME projects.

Another model used by the EDC by promoting participation of local communities is the "Rapid Review Model" (see figure 5 below). The model works in conjunction with local economic development (LED) initiatives and is viewed as the "front end" of the enterprise development process. This model is similar to the STEEP analysis in that it studies and rapidly identifies social, infrastructural and economic development opportunities within specific areas and local communities. Individuals with specific expertise, such as sociologists, engineers, agronomists, town planners and so on, are given information about the specific area where they then identify specific opportunities within that area or community. Once these opportunities have been identified, the enterprise development process can then be utilised in order to create sustainable economic activity.

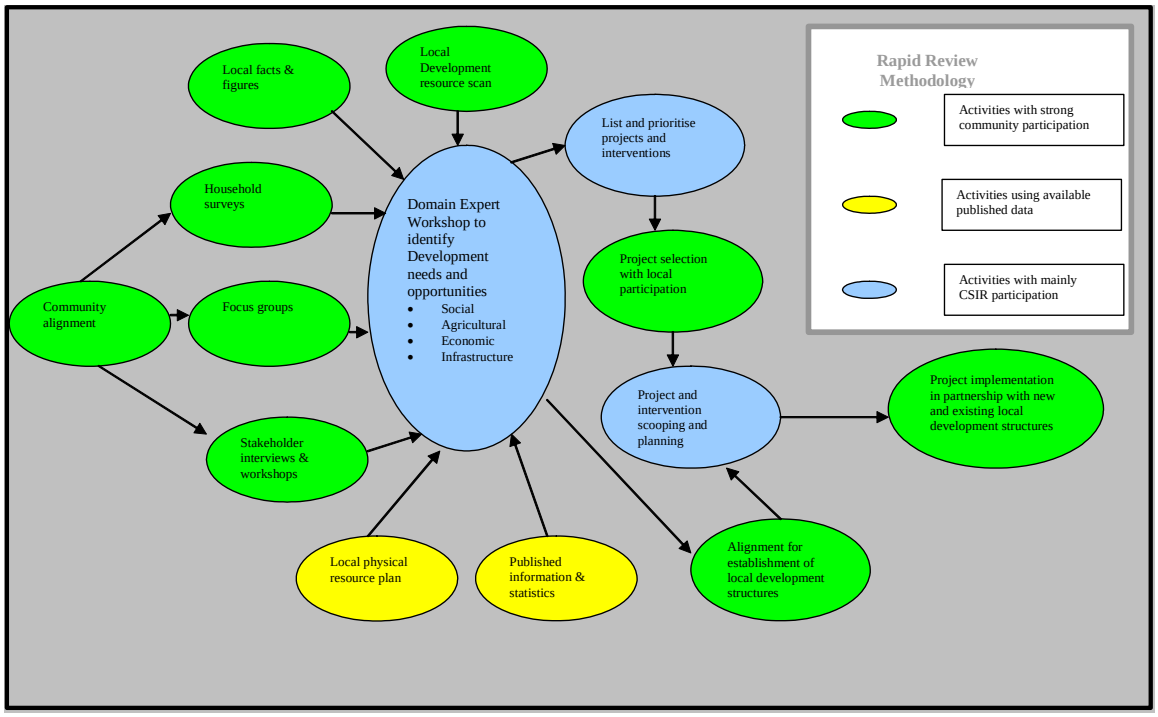

Figure 5. The CSIR Rapid Review Model (Source: *EDC capability statement* and CSIR [2002] *The Enterprise Development Centre* [EDC]).

6.5.2.3 Current projects undertaken

Besides a range of industry and firm level consulting services that entail sector analysis, firm diagnostics, competitiveness improvement interventions, business and operational strategy development for SMMEs, the EDC is also involved with the following projects:

- Feasibility studies relating to establishing a wheelchair manufacturing facility in South Africa
- Feasibility studies in establishing a SMME business incubation centre in Botswana
- A feasibility study for the small fishing boat industry in the Western Cape, done by establishing a business incubator for that industry
- A feasibility study to determine the capacity of communal farmers in the Nongoma district in supplying quality hides to the motor leather seat sector
- A hydroponics expansion project in Beaufort West
- An essential oils project also in Beaufort West

- The establishment of agribusiness enterprises in the Western Cape
- A pilot project for medicinal herbs in the Western Cape
- The Manguzi Weaving Poverty Alleviation Project
- The Leather Poverty Alleviation Project
- The aluminium wheelchair project in Richards Bay
- Establishment and the development of the Godisa Trust
- Establishing a Technology Transfer Centre
- KwaZulu Natal leather and footwear sector study

6.5.3 The Department of Trade and Industry[10]

As part of its mandate, the Department of Trade and Industry (DTI) aims at enhancing the steady growth of the small enterprise sector in South Africa (Department of Trade and Industry [DTI] 2007). It assists these enterprises and entrepreneurs wherever possible by applying certain measures which enable the SMME to access relevant information. These measures include the following focus areas:

- Enabling SMMEs by providing access to finance
- Providing SMMEs with access to markets
- Roll-out of service delivery infrastructure by ensuring a successful Small Enterprise Development Agency (SEDA) roll-out
- Providing a platform for partnerships with the private sector
- Providing access to small business information for SMMEs

6.5.3.1 The Integrated Small Enterprise Strategy

The Department of Trade and Industry (DTI) has a specific focus in supporting SMMEs, namely the "Integrated Small Enterprise Development Strategy". This strategy would like to contribute

[10] Sourced from the Department of Trade and Industry (2007).

to the overall vision for South Africa as a country with an economy that can sustainably meet the material needs of all its citizens.

In summarising the issues raised at the 2006 Annual Business Summit, Director-General Tshediso Matona noted the following:

> In particular, this strategy (the Integrated Small Enterprise Development Strategy) has a vision of South Africa as an entrepreneurial nation that rewards and recognises those who recognize a business opportunity and pursue it, a South Africa with a vibrant and competitive small enterprise sector with enterprises that grow both in size and success. Those who were once excluded from full participation in the economy will have access to support and development services and be fully integrated into the core of the South African economy, with access to local, national African and international markets.

6.5.3.2 DTI's strategic approach

This DTI's strategic approach toward this initiative is divided into three pillars, namely:

- Advancement of entrepreneurship by way of campaigns, leadership training and awards
- Making the business environment more accessible to entrepreneurs by ensuring a more flexible regulatory environment and better access to finance and markets, as well as providing entrepreneurs with good infrastructure and business support
- Boosting competitiveness and capacity through training and facilitating technology transfer

The DTI's core drive is therefore to ensure the substantial strengthening and support for SMMEs in accessing finance, creating an enabling regulatory environment, expanding market opportunities for the different categories of SMMEs and localising SMME support through a network of the DTIs Small Enterprise Development Agency (SEDA) information and advice access outlets. The DTI also focuses on the initiation of a national entrepreneurship drive, expanding the access to education and training for small business, as well as partially co-funding core business facilities and infrastructure in local or municipal areas across the country.

These three pillars of strategy are to be constantly built upon by improving the flow of information and creating a "spread of knowledge" as well as teaching sound management principles to entrepreneurs. This is done through research and communication as well as through the ongoing monitoring and evaluation activities of current support programmes.

Below is the overview of priority areas of interventions in the DTI:

Table 1. Priority areas of interventions (www.dti.gov.za)

Pillar 1	**Pillar 2**	**Pillar 3**
Promoting Entrepreneurship	**Creating enabling environments**	**Enhancing competitiveness and capabilities at enterprise level**
a) Strengthen national awareness about the critical role of entrepreneurship	a) Maintain small business-sensitive business regulation	a) Strengthen managerial, business and technical skills
b) Promote alternative focus on ownership	b) Improve access to finance	b) Facilitate improved quality, productivity and competitiveness
c) Expand franchise opportunities	c) Strengthen access to markets via procurement, exports and business linkages	c) Support technology transfer, incubation and the commercialisation of business services
d) Strengthen business associations and networks	d) Facilitate the availability of business infrastructure and premises	d) Expand SMME focused senior support strategies
	e) Increase the effectiveness of enterprise support	
	f) Localise support infrastructures	
CROSS-CUTTING FOUNDATION SERVICE	**Information, research, monitoring and evaluation**	

6.5.3.3 Targeted beneficiaries

The Integrated Strategy has been designed to address the development and needs of the entire small enterprise sector, which includes micro, small and medium-sized enterprises, based on the following three criteria:

- Market failures and the extent to which they exist in selected segments of SMMEs
- The extent to which certain market segments create opportunities for SMMEs and support the government's special development goals
- The capability of suitable instruments to allow government to impact on these segments

The beneficiaries targeted through the above criteria within the integrated strategy include micro-enterprises, informal enterprises, start-up businesses, black women and businesses owned by young people, as well as small businesses in certain growth sectors such as agriculture and agro-processing, construction, small-scale manufacturing, tourism, crafts and the beneficiation of minerals.

6.5.3.4 Small business development instruments

Due to the large number and extensive range of SMMEs in all sectors of the economy, as well as the variety of problems and constraints that need to be addressed within the SMME context, a wide range of tools and instruments has been developed to enable national government, parastatal, provincial and local authorities and business associations to assist these SMMEs. A diverse set of instruments would focus on a wide range of SMME constraint interventions without duplicating programmes due to insufficient communication. These instruments also focus on creating awareness (through a process of communication) among small enterprises in order to fully utilise these tools.

Table 2 below depicts the range of instruments used for SMME support:

Table 2. Range of instruments used for SMME support (Department of Trade and Industry)

Type of instrument	Examples
Policy framework with the relevance to SMMEs	• Integrated Small Enterprise Development Strategy • Micro-economic reform, poverty alleviation, BEE, local economic development (LED), provincial growth and development strategies, etc.
Legislation	• National Small Business Act • Cooperatives act • Companies act
Regulations and administrative procedures	• Company regulations • Tax regulations • Intellectual property regulations • Procurement regulations • Trade administration
Advisory structures	• National Small Enterprise Advisory Council
Coordination mechanism	• National government coordination structures • Provincial and local government coordination structures • Coordination structures across delivery partners, including private sector, NGO and international assistance
Research	• Baseline sector and area research
Information and advice	• Industry and market information • Information about support services • Information channelled via institutions, mass media, networks etc.

Monitoring and evaluation	• Development of indicators, monitoring systems, evaluation and feedback mechanisms
Institutional capacity building	• Enhancement of small enterprise specialist institutions • Alignment of related institutions dealing with small enterprise issues
Leadership and promotion of SMME concerns	• Public leadership providing direction • Catalytic projects • Piloting initiatives • Interest promotion
Training and capacity building	• Specialist small enterprise training • Sector-based training • Entrepreneurship training
Networking organisation	• Chamber structure • Sector associations • BEE structures • Interfirm supply chain and cluster networks
Provision of finance	• Grants • Loans • Venture capital • Sureties and guarantees
Access to infrastructure and utilities	• Transport (passenger and freight) • Utilities: water, electricity and waste • Information and telecommunications • Security • Street lighting • Property
Targeted projects	• Sector specific projects • Competitiveness projects

	• Technology enhancement projects • Small business incubators

These instruments could be targeted to the full range of SMMEs or may be focused on a particular group such as women entrepreneurs and enterprises in certain growth areas.

6.5.4 Small Enterprise Development Agency (SEDA)[11]

The Small Enterprise Development Agency (SEDA) is the Department of Trade and Industry's agency for supporting small business in South Africa. SEDA was established in December 2004 in terms of the National Small Business Amendment Act. This law merged the previous small enterprise development agencies Ntsika Enterprise Promotion Agency, NAMAC Trust and the Community Public Private Partnerships (CPPP) into a single small enterprise support agency.

6.5.4.1 SEDA mandate

The mandate of SEDA is to design and implement a standard national delivery network that can be applied uniformly throughout the country. Its role includes the support and promotion of cooperative enterprises, particularly those located in rural areas.

The work of SEDA is carried out in line with the Department of Trade and Industry's Integrated Small Enterprise Development Strategy, which aims to:

- Strengthen support for SMMEs' access to finance
- Create an enabling regulatory environment
- Expand market opportunities for specific categories of small enterprises
- Localise small business support through a grid of SEDA-coordinated information and advice access points

[11] Sourced from Small Enterprises Development Agency (2007).

In terms of the above mandate, the services offered by SEDA include the following:

6.5.4.2 SEDA as information provider

A key function of SEDA is to provide information to small enterprises and prospective entrepreneurs that will help and encourage them to start and build sustainable businesses. This is done through a variety of channels that together aim to reach as many entrepreneurs as possible with guidance and discussion on central business issues. The right sort of information is vital to improve the quality of decisions that entrepreneurs make, helping them plan ahead, avoid mistakes and reduce their costs.

6.5.4.3 SEDA information sources

- *National Information Centre:* As a key part of its information services to entrepreneurs, SEDA has a National Information Centre that prospective entrepreneurs can contact via phone, fax or email with questions about starting and running a business.

- *Website*: SEDA's website contains over 500 pages of useful contacts, fact sheets, direction and information that empowers entrepreneurs to run their businesses. This knowledge aims to build skills among entrepreneurs.

- *Business Brief:* This is a free educational newsletter, which is sent out to subscribers by email on a monthly basis. Business Brief is aimed at entrepreneurs and has a section in which updates are provided on the latest business news, information on regulations and special events that may have a positive effect on their business.

- *Daily talk on Ikwekwezi FM*: This radio station interviews SEDA's Senior Manager for Customer Relations and Information every morning between 8:30 and 8:45. These interviews focus on starting and running a business.

- *Brochures online*: The public may download brochures and booklets that focus on issues that are important to small businesses. These brochures and booklets are available at the various SEDA branches as well as on the SEDA website.

- *Technology services*: The SEDA Technology Programme (STP) assists small enterprises involved with technology by providing support services and incubation facilities.

- *Training and Capacity Building:* SEDA is actively involved with delivering a range of support services aimed at teaching and capacity building in small enterprises. The services are web-based programmes, and include relevant information, as well as information on best practices. These support services are linked to appropriate business support organisations registered with SEDA.

6.6 Conclusion

SMMEs do not exist in isolation in terms of support, and more specifically, support in providing relevant information. The methodology utilised to attain information needed to make strategic decisions is the SWOT and PEST analyses. The support and information services offered by organisations such as ASNAPP, the DTI, the CSIR and SEDA make information available primarily to assist the SMME in conducting the SWOT and PEST analyses.

Factors, according to Thompson and Strickland (1998:54-56), that shape a company's strategy are societal, political, regulatory and citizenship considerations as well as the company's market opportunities and external threats. Various institutions offer various types of information; and combinations of the relevant information offered by these institutions make up the criteria for the SWOT and PEST analyses. This chapter found that, besides providing information for the SWOT and PEST analyses, the abovementioned organisations also provide support services for capacity building, and important information regarding funding and business infrastructure.

This chapter focussed on the role of external information service providers in the strategic decision making process of SMMEs. The following chapter focuses on CI initiatives that

SMMEs must perform by themselves to collect, collate and disseminate relevant information for the purposes of strategic decision making.

CHAPTER 7
THE INTERNAL KNOWLEDGE MANAGEMENT PROCESS THAT SUPPORTS CI

7.1 Introduction

Chapter 6 gave recommendations and suggestions for obtaining information and information, more specifically, required by SMMEs, relating to composing a business plan. However, these recommendations do not sufficiently explain how small enterprises actually gather and process information. This includes the kind of information that is required from the competitive external environment, namely, industry, markets, competitor products, services, price, quality and so on.

Competitive intelligence is crucial to any business endeavor. Small business entrepreneurs face unique challenges to their CI initiatives with regards to collecting reliable information and analysing the information into intelligence for the purposes of strategic decision making. Brandau and Young (2000:74) state that small businesses, and especially start-up businesses, face constraints on their financial resources and have limited access to research and analysis as they have fewer staff available to complete these tasks. The smaller company should therefore focus on low-cost resources that are available.

Massa and Testa (2002: 610) state that

> Traditionally, benchmarking has been described as a practice that promotes imitation. However, according to a more recent approach, it is suggested that benchmarking, looking outside the company boundaries and enabling comparison with others, in terms of both practices and performances, enable the process of acquiring external explicit and tacit knowledge. Such newly acquired (constructed) knowledge, once integrated (disseminated and embedded) with previous internal knowledge of the company, creates new knowledge that may give rise to improvements and innovations.

Finally, using the Baldrige criteria ensures that there is some sort of permanent structure within the company, which also enhances the benchmarking practice. Whereas the previously discussed

SWOT and PEST methodologies, as well as benchmarking, focus on gathering information (the CI process), Baldrige is a tool that converts that information into knowledge through a structured and systematic process, which gives the smaller company clear guidelines within a continous knowledge management process. As described in chapter 3, knowledge management and competitive intelligence are different processes. The smaller company therefore utilises CI processes for gathering relevant information. Knowledge management (for strategic decisions) then takes place by utilising the Baldrige criteria in order to give the CI and KM processes in smaller companies structure and continuity.

Baldrige as a model that integrates benchmarking, knowledge management and competitive intelligence is presented as the main result of the research within this chapter.

7.2 Sources of information for CI

Brandau and Young (2000:76-83) explain how a small business can access valuable information that is inexpensive and easy to maintain. Outlined below is a list of the resources that play an important role in assisting entrepreneurs to organise their CI initiatives. These resources are:

- Circulation of market journals
- Trade publications and peer review journals
- Studies and articles
- Industry news
- Quotations from industry leaders
- Upfront presentations
- Ratings/product rankings/surveys
- Trade shows, conventions and seminars
- Courses
- Papers and lectures
- Product demonstrations
- Show specials and new pricing information
- New products

- Sneak previews of developing technology
- New advertising and marketing focus
- Universities
- Media
- Customers and former customers
- Relationships with other smaller companies – (looking at other successful approaches)
- Former employees and co-workers
- Industry entrepreneurs and consultants
- Venture capitalists
- Company web sites
- Stock market and business news
- Financial reports
- Business and industry analysts and market reports
- Public records (patents, real estate purchases, etc.)

From the resources mentioned above it becomes clear that the smaller enterprise has access to information about what others are doing to a large degree. These listed resources would be able to give the small business entrepreneur a clearer picture as to the type information that is required (stage 1 – the needs assessment, as explained in chapter 4). After the need for certain types of information has been established, the entrepreneur must then formulate specific questions to address the needs of the CI initiative (Cook & Cook 2000:17 – 27).

Brandau and Young (2000:830) add that after the relevant data have been collected, the relevance of this new information must be assessed with regards to the small business. This assessment is performed by asking questions relating to how this information impacts the small company's products and "general business strategy." According to these authors, the following questions may be asked:

- What is the effect on our organisation and products?

- What is the effect on our resources (labour, technology, sales and distribution channel, etc.)?
- What is the effect on organisations and products with which we align?
- What is the effect on organisations and products with which we compete?
- What is the effect (if any) on organisations that are industry leaders?
- What is the effect of the external economic and social environments?
- Does this affect our strategy or our tactics?
- Does it change our plan or does it simply make us act differently?
- What is the best way to coordinate our strategy and tactics?
- Are we certain that the information is accurate? Is there a way to verify it?

It must be made clear that the above questions do not fall under the second stage as mentioned in chapter 4 (this stage refers to the questions asked surrounding the type of information which must be collected). Once information resources have been identified and the information is collected, the above questions may be asked to determine the strategic implications of this information on the small business (this would fall within stage 7 as explained in chapter 4).

In light of the above, Brandau and Young (2000:83) say that the information gathering and analysis, and therefore the CI process, in smaller firms is very similar to that of larger enterprises. However, the constraints that smaller firms confront are limited capacity as well as sometimes limited financial resources\. The other setback facing SMMEs is the ad hoc and unstructured approach that is mostly utilised in CI projects or processes. Larger enterprises have dedicated staff and resources and sometimes departments that embark on CI projects. The success and importance to CI therefore lies in the ongoing focus on gathering, disseminating and understanding the implications of the facts that are “out there”.

7.3 CI’s structured approach

In order to maintain a structured approach toward CI, smaller companies need to develop and implement an appropriate management system. One website (http://www.unece.org/indust/sme/unlogo.gif) explains that in smaller companies, there is no

system that provides any structure. Rather, "our way of doing things' is the approach, and "our way" is not necessarily recorded anywhere. This is contrary to larger firms where recorded processes and procedures usually exist to ensure that employees are aware of what is expected of them. This systematic approach is important because it monitors the way that money and other resources are utilised efficiently. It therefore becomes important that smaller enterprises also embrace a systematic approach in running the businesss to ensure an efficient and continuous approach to the company's operations and overall performance.

In order to continually learn and therefore improve the product and service offering of smaller businesses, a structured CI approach should be implemented to study both the internal and external business environment. The approach that is examined within this context is the benchmarking process as a tool for continuous CI initiatives in smaller firms.

As explained in chapter 4, benchmarking refers to a process whereby companies "aim to emulate the way things are done best anywhere, within or outside their firm, industry or sector" (Tiwana 2002:317). According to Tiwana (2002:317), many large firms have embraced benchmarking as an important technique for "measuring the company's performance toward its strategic goals". However, according to Stephens (2000:24), benchmarking techniques are not used as frequently and effectively in small firms as they are in larger firms.

The benchmarking process which is examined in greater detail in the context of the SMME is the "strategic benchmarking" process.

7.3.1 Strategic benchmarking in SMMEs[12]

To summarise (and as described in chapter 4), Pegels (1998:13.6 – 13.7) mentions that benchmarking is important in strategic decision making. This process entails assessing best practices and using the results to change and improve the performance of the small firm.

[12] Stephens (2000: 13) defines SMMEs in terms of employee breakdown: less than 20 employees is very small, 20-99 employees is small, 100-499 is medium-sized and more than 500 is large. From this definition, the Baldrige criteria within the context of this study are applicable to small and medium-sized enterprises.

Strategic benchmarking is therefore designed to understand and meet customer opportunity, surpass the competitor and utilise previously unavailable core competencies within the business (Pegels 1998:13.7)

Strategic benchmarking looks at the interior as well as the exterior of a company. Pegels (1998:13.7) adds that most competitive companies are those that take advantage of their core competencies to make growth possible. This may be achieved by establishing a model or criteria for these core competencies. Two such models or criteria mentioned in chapter 4 are the Malcolm Baldrige National Quality Award and the European Foundation of Quality Management (EFQM).

These models study and analyse the core competencies within an organisation, thus supporting the strategic benchmarking process. The Baldrige and EFQM criteria provide companies or organisations with guidelines whereby they are able to combine their core competencies and take full advantage of their organisational performance.

7.4 The Malcolm Baldrige Award Criteria

In the mid-1980s the U.S. government and many commercial organisations became aware of the importance of improving the quality of products and services in order to increase the international competitiveness of companies and the national economy as a whole. This led to the development of the Malcolm Baldrige National Quality Award for Performance Excellence (Baldrige), which has now been embraced throughout the entire business community, including small enterprises (Stephens 2000:10).

Although Baldrige started as a prize for companies with the best quality programmes, most organisations use the Baldrige Award criteria as a model to evaluate and monitor their advancement toward becoming the best in their field, and to guide their attempts toward continuous improvement (Brown 1999:2). Stephens (2000:11) further argues that “small firms with their limited resources can apply the Baldrige principles with measurable success and without undue expense”. He adds that Baldrige is a business management process developed to

assist firms in inspiring competitiveness. The Baldrige criteria for performance excellence aid companies by continuously enhancing the value of the company's products and services. This performance improvement is made possible by improving organisational performance and capabilities.

7.4.1. Why use the Baldrige criteria?

Many large and small companies use the Baldrige criteria as an indicator of improvement. The benefits of applying the Baldrige criteria are:

- both large and small organisations use the criteria as a guideline for improvement
- more satisfied end users or customers
- more content employees
- improved sales, revenue and market share
- Long-term continued existence

7.4.2 Quality for enhancing the competitiveness of SMMEs

Koffi Annan (cited in http://www.unece.org/indust/sme/unlogo.gif) states that "Globalization is an irreversible process and not an option." As such, SMMEs need to meet the reality and challenges of globalisation and the new knowledge-driven economy (http://www.unece.org/indust/sme/unlogo.gif). The reality of globalisation may therefore have a double impact on SMMEs. Firstly, SMMEs can embrace the new opportunities for further development and increase in size and product or service outputs through the exploitation of the new emerging international market opportunities. The second impact that globalisation may have on the small enterprise may be negative as the trend toward globalisation can bring risk to these companies. SMMEs can survive these new risks by improving their quality, competitiveness and management practices.

The website also states that quality represents a new paradigm of business management, which is based on the general obligation of both the company's management as well as its employees

toward "customer satisfaction and continuous improvement of products and services" (http://www.unece.org/indust/sme/unlogo.gif). Quality is a crucial element of international competitiveness throughout the world. Therefore the certification of quality systems should be essential, particularly for SMMEs, in providing a way to fulfill the requirements of the newly available international markets and economies.

7.4.3 Total Quality Management (TQM)

According to Blakeman (2002) total quality management (TQM) is made up of three parts:

- Collaboration with suppliers to ensure that supply processes are well developed
- Improvement of employee functions and performance by eliminating the variations of work processes
- Close communications with customers to ascertain their product or service quality needs

In general, TQM applies information from within the company and uses internal methods to "improve itself from the inside out". However, this methodology does not compare the company to other companies, which is crucial to benchmarking; and therefore Baldrige is not only about quality and TQM. The word "quality" was removed from Baldrige terminology because it was too restrictive. Brown (1999:3) suggests that "well run companies are concerned with earnings, consumers, human resources, safety, new product and service development, and a whole list of aspects besides just quality. The criterion looks at and helps balance all aspects of performance". Blakeman (2002) suggests that Baldrige includes benchmarking as a process within the seven measurable criteria.

7.5 The seven Baldrige criteria categories

The seven categories in the Baldrige criteria are[13]:

[13] For the purposes of self-assessment, each Baldrige criterion has a point structure and points are awarded to certain functions within the criterion. An example of the point system, which is free of charge to anyone wanting to implement Baldrige within their company, is available and downloadable at www.jaxworks.com.

- Leadership
- Strategic planning
- Customer and market focus
- Information and analysis
- Human resource focus
- Process management
- Business results

Fifty-five percent of the points in the Baldrige criteria focus on how the organisation is run, while the remaining 45% focus on the results achieved. Categories 1 to 6 (550 points) focus on the company's approaches or systems.

"The Baldrige system does not explain how to best run a business, but rather looks for verification of a methodical approach that is tailored to the needs of the business and culture" (Brown 1999:7). Category 7 (business results) requires financial, customer and employee satisfaction performance – all important results for running a business are therefore assessed.

The seven categories of the Baldrige criteria are subdivided into 19 items, which are further subdivided into 27 areas, as illustrated in figure 6 below.

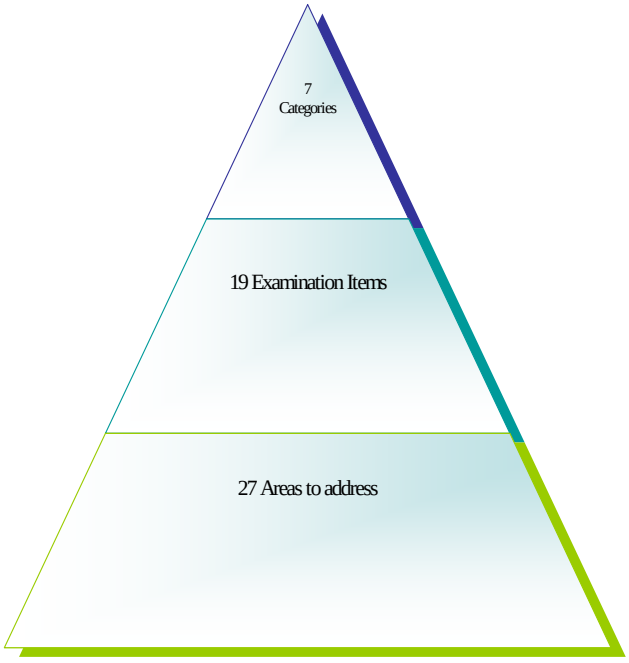

Figure 6. The Baldrige criteria (Brown 1999:7)

7.5.1 The categories as a system

A system is a set or series of processes that are followed consecutively to achieve a preferred result. The components of the system have inputs, processes, outputs of results and should have feedback loops (Brown 1999:1). Figure 7 below illustrates Baldrige as a system:

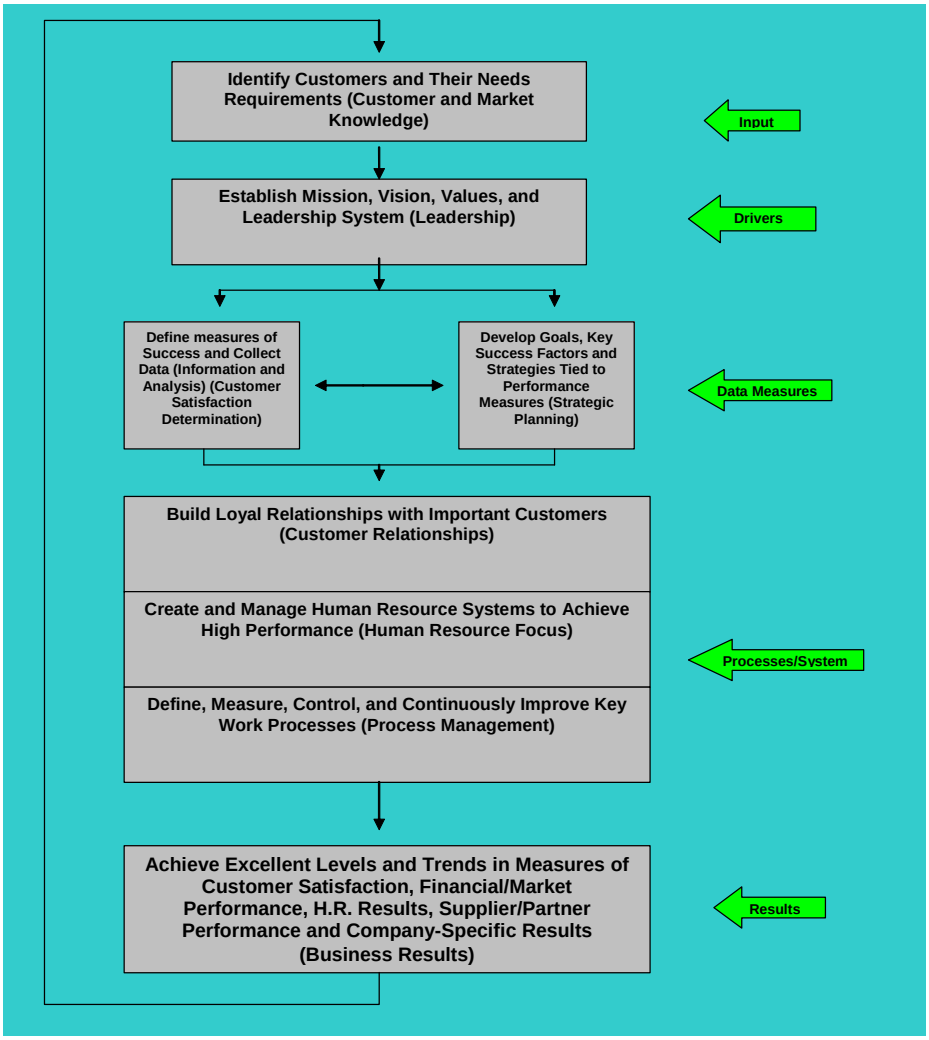

Figure 7. The Baldrige Criteria System (Brown 1999)

In the Baldrige criteria (as depicted schematically above), the acquisition of knowledge according to the end users' wants, needs and requirements is called the input. Once the input has been established, the leadership of the organisation then acts on that input by setting the direction of

the team or company, and setting parameters to establish its mission, information, values, products or services.

The company then decides on its overall strategy for the success of a project, and uses a process of identifying performance metrics to set goals and benchmarks for improvement by learning from others (categories *Strategic Planning* and *Information and Analysis*). Once the performance metrics (measures and plans) have been developed, the company can design systems, procedures and processes for its personnel (*Human Resource* focus), its end-users (*Customer Satisfaction* and *Relationships*), and operations management or work processes (*Process Management*).

According to Garvin (in Pegels 1998:2.4), the activities of a learning organisation should entail the following:

- Systematic problem solving
- Extending the learning culture to include customers, suppliers and other important stakeholders
- Making the human resource development strategy central to the business policy
- Continually undergoing a process of organisational change in order to adapt to the operating environment

Furthermore, Garvin (in Pegels 1998:2.4) states that a system should be in place in order to undertake the following activities:

- Systematic problem solving
- Experimentation with new approaches
- Learning from own experiences (lessons learnt)
- Learning from experiences and best practices from others
- Transfering knowledge quickly and efficiently throughout the company

This schematic approach is improved by using the Baldrige criteria as a system to promote learning. When used and monitored, the Baldrige categories become independent and interrelated systems that produce tangible results, measuring the quality of products and services internally and using external results such as end-user satisfaction. The Baldrige system therefore creates an

enabler for a company where data and information are continuously converted into knowledge. An intelligent system is created by building feedback loops into the categories for continuous improvement.

7.6 Baldrige categories and examination items[14]

The following categories are examined in more detail:

7.6.1 Leadership

7.6.1.1 Organisational leadership

This determines to which extent the senior members of the company are involved in the direction of the organisation or project, in other words, how decisions are made. This component of the category "Leadership" monitors the company's system of communicating direction at all levels, and monitors the actions managers or team leaders take for a project or the company's continuous success. The way the team or organisation is structured and organised is also evaluated here. A lean and flexible structure is preferable to one that is inflexible and bureaucratic (Brown 1999:15-19).

7.6.1.2 Public responsibility and citizenship

The organisation should have systems in place to monitor and evaluate the improved performance. Performance tracking in health and safety, environmental protection and corporate citizenship should take place. The company would be evaluated on the involvement of its participation in schools, community and charities (Brown 1999:15-19).

7.6.2 Strategic planning

[14] The Baldrige criteria are explained in detail in Brown (1999: 1-46): *The Pocket Guide to the Baldrige Award Criteria*.

7.6.2.1 Strategy development

This explains how the company develops its strategic plan, and what that plan is. The company must take into consideration various internal and external factors before developing an excellent plan (see chapter 6). The content of this plan is even more important than the planning process. The company should have a clear vision and specific objectives and goals. These objectives should cover all areas of performance including the customer, staff, and type of information on operations, products and services (Brown 1999:20-21).

7.6.2.2 Strategy deployment

Setting specific targets becomes relevant in this section. Attention is also given to how these targets can be achieved by using the strategic plan discussed in the previous section. Communicating this plan to personnel or members of a team is also very important, as it ensures that the plan is well integrated (Brown 1999:22).

7.6.3 Customer (end-user) and market focus

Customer information is pertinent to the business's long-term competitve strategy. The following aspects are relevant:

7.6.3.1 Customer and market knowledge

This process identifies who the customers are and what they require and expect from the company's products and services. This becomes important to create knowledge about the existing and future customer or end-users, and their expectations and requirements. It is also significant to remember that the desires and expectations of end-users may frequently change. It is therefore imperative to keep track of trends in the market or industry, and how these trends may have an impact on the products and services. This aspect requires continuous monitoring and evaluation to improve methods of identifying end-user requirements (Brown 1999:24).

7.6.3.2 Customer satisfaction and relationships

This item explores how to retain and keep the customer satisfied and happy once the company has secured their business. This process focuses on keeping channels of communication open to and from the customer, thereby gaining positive and negative feedback from the end-user. This item therefore provides a platform from which a team or organisation can measure and evaluate what the end-user thinks or expects of the products or services used. A generic customer satisfaction survey model such as SERVQUAL[15] can be used in order to assess customer satisfaction (Brown 1999:26).

7.6.4 Information and analysis

7.6.4.1 Measurement of organisational performance

This segment evaluates whether the right measuring mechanisms are in place: in other words, is the company measuring the correct things and keeping a balanced scorecard?[16] The measurable item must relate and contribute to the business drivers and adhere to the company's vision and mission. These measures should be well-balanced and include financial metrics as well as end-user or customer and personnel satisfaction information. This segment also requires the company to store information on competitors or other similar teams or departments in order to benchmark performance and processes (Brown 1999:30).

7.6.4.2 Analysis of organisational performance

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[15] Among the most popular assessment tools of service quality is SERVQUAL, an instrument designed by the marketing research team of Berry, Parasuraman and Zeithaml (www.12manage.com). SERVQUAL is a technique used to analyse an organisation's service quality performance against the needs of the customer (see www.12manage.com).

[16] The balanced scorecard that was introduced by Robert Kaplan and David Norton is a performance management tool that links strategic objectives to comprehensive indicators. These indicators are financial performance, customer perceptions and expectations, internal processes and innovation and learning (Flanagan & Finger, 2003).

Strategic decisions are sometimes based on experience and instinct, in other words, tacit knowledge. This occurs although the company may sometimes collect large amounts of data. This segment looks at evaluating the way that the data are used in making strategic decisions. The analysis of organisational performance also serves as an indicator that data on customer satisfaction, operational issues as well as financial information are analysed together to make strategic business decisions. This segment is referred to the "central intelligence item" within the whole Baldrige system (Brown 1999:32).

7.6.5 Human resource focus

7.6.5.1 Work systems

This segment describes the way the organisation or team is structured to aid litheness and work pace. Recruiting the best people for the company also plays an important role here. Job structures are designed to meet the highest standards of efficiency and flexibility; and are designed also to guarantee employee job satisfaction. Compensation by means of financial and non-financial rewards for high employee performance is also evaluated within this segment. Creativity and effort from employees are included in employee acknowledgment methods (Brown 1999:34).

7.6.5.2 Employee education, training and development

Brown (1999:36) states that here, a systematic needs analysis is important to determine who needs what type of training, and when. This information is gathered and followed up to ensure that the newly acquired skills (which are learnt in the classroom) are used effectively on the job. The effectiveness of the learning and training should be measured in terms of how work performance improves after the training was received.

From a knowledge management perspective (mentioned in chapter 3), it also becomes important to convert tacit knowledge into explicit knowledge. The process of converting tacit to explicit knowledge (recorded knowledge and experiences of staff) enables a company to utilise this knowledge in formal training schedules and also work processes.

7.6.5.3 Employee well-being and satisfaction

According to Brown (1999:38), this segment is about how the organisation is structured in terms of employee satisfaction. Information on employee satisfaction with regards to staff turnover, grievances and absenteeism, as well as the softer measures, which would include employee morale, should be gathered.

7.6.6 Process management

7.6.6.1 Product and service processes

This segment requires a structured and systematic approach to designing new products and services as determined by the customer or end-user. The product and services segment also requires the identification and measurement of core operational processes within the company. These processes are then evaluated and opportunities for improvement identified (Brown 1999:40).

7.6.6.2 Support processes

This segment requires the same information as the previous segment, but this information pertains more to support processes (Brown 1999:42). Brown adds that all support functions should be considered, including human resources, finance, information systems, legal, research and development functions. Standards, measures, key processes and control strategies should be defined for each support process. Benchmarking techniques should be used to measure and improve the company's current support processes.

7.6.6.3 Supplier and partnering processes

The company should assist its suppliers or partners with their performance, by defining their requirements of the partners and suppliers. Brown (1999:44) states that suppliers and partners should then know exactly what the company requires from them.

7.6.7 Business results

7.6.7.1 Customer-focused results

Graphs are created to portray customer satisfaction. The results show three dimensions of evaluation, in other words, levels, trends and changeability. Information and knowledge on how the company's customer satisfaction results compare to those of other companies or competitors are also measured. With this comparative information, graphs are created to show the comparative information resulting in certain benchmarks (Brown 1999:46).

7.6.7.2 Financial and market results

Brown (1999:48) states that there are two types of results and data within this segment: market and financial results. Market results include gains and losses in customers and also in market share, while financial results refer to the income, sales and returns on investment. Results are evaluated by looking at exterior trends, levels and changeability.

7.6.7.3 Human resource results

A human resource result identifies trends in human resource behaviour and measures safety, staff turnover, staff morale and absenteeism (Brown 1999:50). Brown adds that this also indicates the results of effective staff training and the implementation of employee suggestions (or lack thereof). Competitor human resource comparisons should also be made available for benchmarking and evaluation purposes.

7.6.7.4 Supplier and partner results

This segment addresses and summarises the organisation's supplier and partner performance results, as well as comparative data from competitors (Brown 1999:52). Hard data such as returns of defective materials and non-deliveries, and soft data such as ratings in courtesy and responsiveness, are to be analysed.

7.6.7.5 Organisational effectiveness results

Brown (1999:54) indicates that this segment considers any result that may not be included in the preceding segments. This may be used to specify certain information that is relevant to a specific

business or industry. Here too it is important to keep data on competitors and industry averages. The benchmarking aspect emerges from these results.

7.7 Baldrige as a self-assessment tool

Kaye and Anderson (1998:486-487) suggest that the Baldrige model is a system compiled of segments, which provides organisations with versatile opportunities for improvement, self-assessment and information sharing. The use of Baldrige as a model in current organisations is more a tool for self-assessment and knowledge sharing than an application for an award. In today's global competitive environment, it is crucial that an organisation has a sense of where it stands relative to its competitors and how it measures up to the best practising companies.

As mentioned, information sharing is a major goal of the Baldrige model. Information sharing or transfer (from a knowledge management viewpoint as mentioned in chapter 3) includes communication within and between organisations, suppliers and partners. The process provides a focus on priorities, and offers a structure and framework for comparing strategies, methods, progress and benchmarks. This interchange of information aims more at the common practices of people rather than the differences.

7.8 Conclusion

Chapter 6 provided insights to attaining information from the company's external environment by using the SWOT and PEST tools. The information extracted from these methodologies gives the organisation's management a clear picture of what is happening within the external operating milieu. This information is given a certain context, and therefore becomes knowledge. The new knowledge from the outside environment, combined with internal processes such as benchmarking using the Baldrige criteria, enables the company's management to obtain a holistic view of the entire operating environment with regards to the internal and external information that has been collected and processed on a continuous basis.

In current times the knowledge-based enterprise exists in a knowledge-driven economy. As such, knowledge management entails expanding on certain concepts such as quality management systems and benchmarking for the purposes of sound organisational decision making. The

Baldrige criteria serve as a methodological tool that examines core processes within an company and benchmarks these processes within the organisation and also in terms of competing companies.

This method becomes a knowledge conversion process where the management of knowledge (and therefore competitive intelligence as explained in chapter 3) entails taking information and turning it into knowledge, which ultimately becomes intelligence. Knowledge management stresses the importance of knowledge creation and knowledge transfer to provide new knowledge inputs for different organisational purposes.

The CI synergies between knowledge management, benchmarking and the Baldrige criteria are therefore complementary. The combined functions of these processes form a cycle of improvement and development, which may lead to organisational excellence. This management of facts – a core value of the Baldrige criteria – counts on the capability of the organisation to obtain, process and compare data and information for the organisation's strategic decision-making process (Zhao & Bryar, 2005).

The final chapter concludes this study. Recommendations are also made with regards to future research in this field.

CHAPTER 8
CONCLUSIONS AND RECOMMENDATIONS

8.1 Introduction

Chapter 1 explains that concepts such as benchmarking for internal and external best practices, as well as competitive intelligence to gain important external decision-making knowledge, can be as beneficial to SMMEs as they are to the large corporate entities. However, knowledge management is largely ignored in the smaller company's decision-making processes, due to financial and time constraints as well as a lack of the necessary skills to utilise knowledge management tools. Knowledge management can therefore be as important and beneficial to the smaller enterprise's operations and decision-making mechanisms as it may be to corporations and large companies.

8.2 Enhancing SMME performance

SMMEs provide opportunities for employment and economic growth for South Africa. SMMEs need to be as prepared as their larger counterparts in the ever-changing local and global business environment. In order to become not only successful but also sustainable, the smaller enterprise must be aware of what is happening in both its external and internal business and operating environment. It is important for these smaller enterprises to take cognisance of changes in the political and legislative environments, as well as changes in customer expectations and competitor behaviour. Knowledge management tools such as competitive intelligence and particularly internal and external benchmarking are vital for the company's survival.

The aim of this assignment was to review the literature to establish clear management tools for SMMEs in a competitive intelligence context. This was done to enhance the company's strategic advantage and competitiveness in the market place. Although many management tools could be used to ascertain company strategy and competitiveness, the main focus of this assignment was the SWOT analysis, the PEST analysis and benchmarking. The Baldrige criteria were identified

as a mechanism that can be utilised in an affordable way. These criteria support benchmarking and the evaluation and processing of SMME relevant information on an ongoing basis.

As an instrument of measurement, benchmarking is an excellent tool for this endeavour, in that it not only gives an indication of past successes and failures, but also serves as an ongoing process of self-assessment. As such, it encourages a process of continuous improvement that could form the foundation for the development of good SMME information practices and policy in a region such as southern Africa.

8.3 Recommendations

From the results of the study, it seems clear that certain aspects of enhancing CI in smaller enterprises require attention. Although there are organisations that assist SMMEs with relevant information, this information is scattered across various sources in different formats. Not much information and assistance is available to smaller enterprises that provides a clear framework of how to achieve internal CI practices by using the CI tools and business models mentioned in this study.

8.3.1 SMME information resource centres

Although organisations such as the DTI, SEDA and the CSIR provide relevant information to SMMEs regarding their external business environment, more emphasis should be placed upon aiding SMMEs with information that they require on a day-to-day basis. SMME information resource centres could provide not only relevant information, but also package relevant information from various sources to prevent duplication. The resource centres should also assist the smaller enterprise with the introduction of business models such as the Baldrige criteria, and assist the company in tailoring the model to fulfil the company's unique requirements. The resource centres could be housed at the various municipalities throughout the country as well as in Multiple Purpose Community Centres (MPCCs) that are currently underutilised, especially in rural areas. These small business information resource centres could also make business consultants available to mentor and coach small and medium business entrepreneurs in various

approaches in achieving CI best practices. This is already happening to a certain degree within the Department of Agriculture, where extension officers assist new farmers with various farming techniques and marketing of their produce, as well as general business activities.

8.3.2 SMME expert system

An SMME expert system should be developed to assist small and medium-sized business entrepreneurs, especially those in secluded rural areas. Like the resource centres, the expert system could be a conduit for constructing, disseminating and embedding business knowledge and concepts. This expert system could be both web-based and utilise cellular phone technology in extracting information that is required by the entrepreneur. The expert system would be an interactive system whereby the entrepreneur could ask certain questions and the logical interface tool of the system would interpret the question and provide the entrepreneur with an appropriate answer, recommendation or solution. This system would also collate the information provided by organisations such as the DTI, SEDA and the CSIR, thus preventing duplication and becoming a "one-stop SMME knowledge shop". The small business resource centre could also promote strategic alliances by acting as a business linkage centre with larger organisations to enhance networking, joint venture and outsourcing opportunities.

8.3.3 Focus on industry research

SMMEs exist within various industries. Research could be conducted to identify specific industry informational needs by interviewing small and medium enterprise entrepreneurs. The outcome of this research would aid the smaller enterprise in identifying the exact nature of the industry that the SMME finds itself in; and identifying the knowledge needs by means of a gap analysis within the various industries. These knowledge gaps could be filled by extensive industry research, and this knowledge fed back to the entrepreneur. Local and international benchmarking studies conducted on various industries could be conducted, thereby identifying local as well as international industry best practice for SMMEs. This could include a description of small and medium companies that are the best in their specific industries. The results of these benchmarking studies could be used to assist the small and medium business entrepreneur to

understand what others in a similar environment do well, and new innovative ideas could possibly emerge.

8.4 Limitations of the research

Most information used in this study was collected on the SWOT and PEST analyses, benchmarking and the Baldrige model, and neglected other tools such as the industry analysis, customer segmentation, balanced scorecard, five forces model, marketing and relationship management, the Deming Circle, the EFQM model, Six Sigma, ISO 9001, value chain analysis and so forth. These are tools that can also add value to the smaller organisation's CI and continuous improvement processes.

Past research, especially on using the Baldrige criteria within SMMEs in South Africa, was not found to be informative for the purposes of this study. Baldrige is a concept that is well-known in larger American firms; however, very little is known about the Baldrige model outside the United States of America, especially within a SMME context.

8.5 Suggestions for further research

- Further research should focus on tailoring the Baldrige criteria specifically to the needs of the South African smaller enterprise.
- An interesting aspect for further research would be to study international cases where SMMEs utilise the Baldrige model, and to measure the impact that the model has on these businesses.
- A national study should be conducted on the awareness of small enterprise entrepreneurs regarding the importance of the CI process within their businesses. If the small enterprise uses CI methods for strategic decisions, it would be interesting to assess the tangible impacts the CI methods have on these business.

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