

Supplier development funds as merger remedies: an ex-post review
of the Walmart-Massmart merger remedies

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requirements for the degree of Master of Business Administration.

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i Abstract

The purpose of this research was to conduct an ex-post review of the Walmart-Massmart merger remedy, focusing on the impact of the supplier development fund on the SMMEs it supported. The research also considered the impact of the supplier development fund on Walmart-Massmart as the buying firm as well as the use of a panel of experts in designing the fund and how this affected the outcomes achieved. This qualitative research was conducted as a single-sample case study. Interviews were conducted with a representative of Walmart-Massmart, some of the suppliers who participated in the fund, and one of the experts who was on the panel of experts used by the Competition Appeals Court. The research found that the supplier development fund assisted the suppliers with funding for capital expenditure, working capital, access to markets, improved governance and operational efficiencies. As a result, the suppliers grew and were able to hire more employees. The research also found a positive benefit for Walmart-Massmart. Finally, the research found that the panel of experts played a critical role in the design and development of the fund which was important given that this was the first condition of its kind in South Africa.

ii Keywords

Supplier Development Fund

Merger Remedies

Small, medium and micro enterprises (SMMEs)

Walmart-Massmart

Competition Regulation

iii Plagiarism Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Chapter 1: Introduction to Research Problem

1.1. Background to the Problem

This research conducted an ex-post review of the Walmart-Massmart merger remedy, particularly focusing on the impact of the supplier development fund on the small, medium and micro enterprises (SMMEs) it supported. The purpose of the research was to explore the role that supplier development initiatives can play in supporting SMMEs in South Africa. In particular, as is discussed in more detail below, this research considered whether supplier development programmes can contribute to a reduction in the high failure rate of SMMEs while also improving the prospects of SMMEs being able to achieve sustainable growth and development. The research also considered the impact that supplier development initiatives can have on buying firms such as Walmart-Massmart.

Entrepreneurship through SMMEs is widely regarded as one of the tools through which individuals can escape from poverty (Rambe, P & Mosweunyane, 2017). In a country such as South Africa with significant levels of poverty and unemployment, entrepreneurship becomes even more central. When an economy exhibits low growth rates, it is likely that large private businesses would not be able to create sufficient employment opportunities to eventually reduce poverty.

The South African government has explicitly highlighted venture creations as an avenue through which opportunities can be created. The country's primary industrial policy document, the National Development Plan, aspires to a world in which SMMEs create 90% of all new jobs by 2030 (National Planning Commission, 2012). The NDP also aims for the government to create or at least oversee the creation of 11 million jobs. Although ambitious, it does signal the high regard in which the government holds SMMEs. The recently amended Competition Act is also a symbol of government's continued support for SMMEs. The amended Competition Act introduced various provisions aimed at protecting SMMEs against anti-competitive conduct by large, dominant firms.

Research however finds that a majority of small businesses fail in their infancy. According to Bushe (2019), more than 70% of SMMEs fail within 7 years of their birth. There are a number of reasons that have been proposed for this, and these will be discussed in the Literature Review. It can be accepted that such poor performance

is likely to be inconsistent with government's aspirations for SMMEs to be a key contributor to employment creation in the long-term. This suggests that focus should be given not just to initiatives that encourage venture creation, but also to interventions aimed at supporting existing SMMEs in order to improve their longevity. Initiatives should not only focus on avoiding failure but also ensuring that SMMEs are able to grow and develop, allowing them to create jobs.

Supplier development programmes may be able to contribute to this issue. According to Arráiz, Henríquez & Stucchi (2013), supplier development programmes can refer to any activities taken by a firm in order to improve its smaller, less established suppliers and build sustainable commercial relationships. This notion is premised on the existence of established customers who have sufficient resources (financial, capabilities etc.) to support suppliers who are still in the infancy stages of their development. This suggests that supplier development programmes may be able to contribute to the reduction of the high failure rate of SMMEs while also assisting SMMEs to grow and develop into competitive firms.

With the above context, it may seem obvious that increasing the number and impact of supplier development programmes is likely to increase the prospects of SMMEs being able to avoid failure and achieving sustainable growth. However, literature also suggests that buying firms may be reluctant to commit significant resources to supplier development fund as these are generally seen as corporate social responsibility. To the contrary, research suggests that there may be advantages for buying firms that support their suppliers through supplier development programmes. In particular, supplier development programmes may allow firms to develop their suppliers in a way which gives them (the buying firm) a competitive advantage over their rivals.

The Competition Authorities (which are the Competition Commission, the Competition Tribunal and the Competition Appeals Court) have made efforts to introduce supplier development programmes as conditions to merger proceedings. These are generally the result of intervention in merger proceedings by the government. These have involved firms committing millions into funds as well as other resources for the support of their SMME suppliers. Given the socio-economic challenges highlighted above, research such as this becomes particularly important.

1.2. Research Problem

The merger between Walmart and Massmart (“Walmart-Massmart”), which was notified to the Competition Commission in 2010, was the first merger in South Africa to be approved subject to conditions which included a requirement that the merging parties establish a supplier development programme. In 2010, Walmart expressed an interest in acquiring an equity stake in Massmart. Ultimately, Walmart made an offer for 51% of the entire share capital of Massmart, an offer which was subsequently accepted by the shareholders of Massmart. At the time of the merger, Walmart was the largest retailer in the world with over 11 000 stores in 27 countries and sales of more than US\$450 billion.

For a number of reasons, several stakeholders made submissions to the Competition Authorities in opposition to the merger (Boshoff, Dingley & Dingley, 2012). The concerns raised by the stakeholders largely centred on Walmart’s global procurement network and logistical capabilities. The concern was that Walmart may use this procurement network to substitute local goods for cheaper foreign goods and that this would result in job losses and negatively affect SMMEs supplying or looking to supply Massmart (Boshoff, Dingley & Dingley, 2012).

Following protracted hearings before the Competition Tribunal and the Competition Appeals Court (“CAC”), the merger was approved subject to conditions. Although a number of conditions were imposed on the merger, the condition most relevant to this research was that the merged entity was required to set up a supplier development fund for no less than R200 million which was to be dispersed over a period of five years (CAC, 2012).

The purpose of the Walmart-Massmart supplier development fund was for Walmart-Massmart to assist existing and prospective suppliers to develop their businesses to a level at which they could be integrated into the Walmart global supply chain. The Walmart-Massmart supplier development fund would therefore allow suppliers improved market access and capacity development. The Walmart-Massmart supplier development fund would also particularly focus on businesses that are relatively labour-intensive to create employment as well as businesses owned by historically disadvantaged individuals (HDIs) (Mandiriza, Sithebe and Viljoen, 2016).

This kind of intervention signalled an alternative approach by government regarding the interplay between competition regulation and industrial policy. In several mergers since Walmart-Massmart, government, generally through the Economic Development Department (“EDD), has intervened in merger proceedings to argue for similar funds. As a result, supplier development funds have been imposed as conditions in mergers involving large corporations such as Coca Cola, Old Mutual and South African Breweries to name just a few, resulting in billions of Rands in investment commitments.

At this stage, following the expiration of the Walmart-Massmart supplier development fund, it is necessary to consider its impact against its stated objectives. Further, and more importantly, it is necessary to consider whether this supplier development fund contributed to solving the challenges highlighted out above – firstly, whether the supplier development fund was able to contribute to reducing the failure rate of the SMMEs that accessed the fund and allowed them to grow and develop into competitive firms; and secondly, whether the supplier development fund allowed Walmart-Massmart to benefit from superior suppliers which may have given it a competitive advantage.

The Literature Review below presents research arguing for an alternative approach to supplier development which acknowledges the strategic benefit which supplier development programmes can bring for firms. This is a deviation from how supplier development programmes are generally perceived as corporate social responsibility programmes implemented for compliance with legislation (and social goodwill) for the exclusive benefit of the suppliers involved. The Literature Review shows that supplier development funds can create significant benefit for the large buying firms involved.

This research also considered the process that was followed in developing and administering the supplier development fund with the intension of highlighting learnings which may be implemented in the development of future programmes. Considering the potential importance of this tool from a competition regulation perspective, and in the context of supporting SMMEs, this research will consider whether the Competition Authorities should consider developing guidelines for the development of supplier development fund conditions. This may not be possible without an academic consideration of previous supplier development funds and the

efficacy of the process employed in their development and administration. As will be shown in the Literature Review, there is limited amount of research that has been conducted on supplier development funds in the context of merger remedies, particularly in South Africa. This research will seek to partially fill this research gap.

1.3. Research Motivation

This research is motivated by two distinct issues. Firstly, by the high failure rate of SMMEs and their inability to achieve sustainable growth. This will be explored in more detail under the Literature Review. This paper focused on supplier development programmes as a way in which this high failure rate can be mitigated. Although there is a myriad of reasons for the inability of SMMEs to become viable, research suggests that supplier development programmes can provide the necessary support that can allow SMMEs space to grow and develop.

Secondly, this paper is motivated by the high number of mergers that are approved subject to conditions. This creates opportunities for the Competition Authorities to intervene in these mergers in a way that achieves long-term industrial policy goals in line with the purpose of the Competition Act, particularly section 2 (e). The Competition Act (1998) requires that, following an assessment, the Competition Authorities make a determination of whether a merger should be approved, prohibited/blocked or approved subject to conditions/remedies. This decision can be made either on competition or public interest grounds.

Merger conditions or remedies are legally binding obligations placed on parties to a merger by competition regulators. These are generally imposed in order to remedy some form of harm that has been identified during the assessment of the merger (Polemis & Oikonomou, 2018). A merger remedy would therefore allow a merger that raises significant concerns to still proceed subject to certain commitments on the part of the merging parties (Wang & Rudanko, 2012). Merger remedies are particularly important to merger regulation as a disproportionate number of mergers where concerns are identified are approved subject to conditions/remedies. This is shown in the figure below.

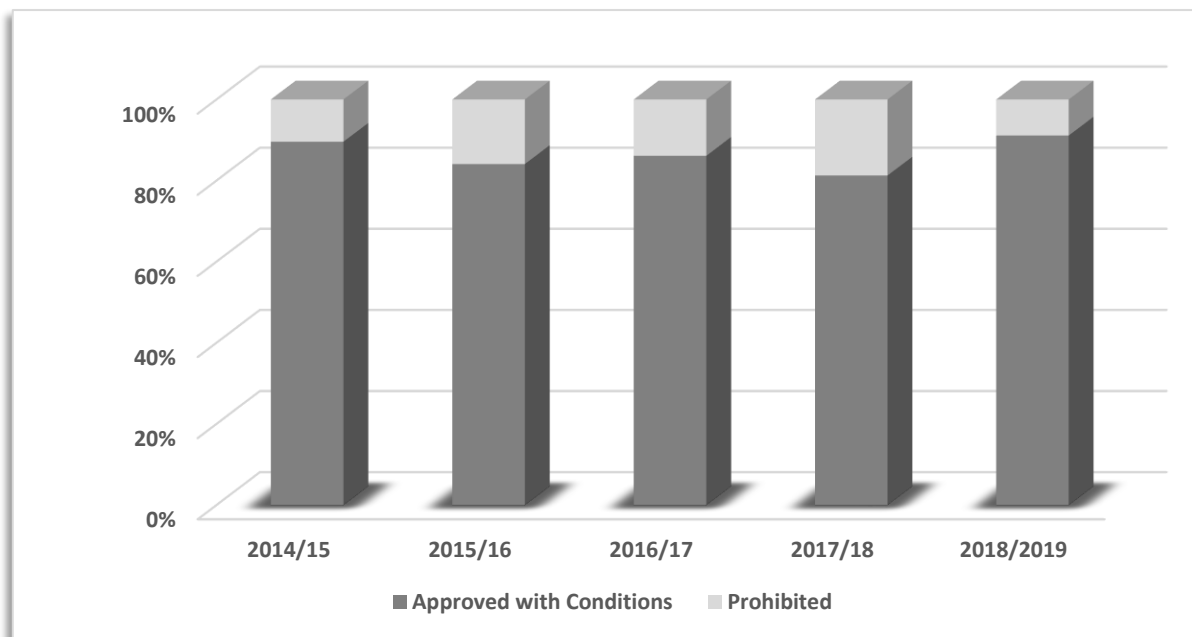


Figure 1: Mergers with competition and public interest concerns

Source: Competition Commission (2019)

Over the past 5 (five) financial years, on average, 86% of the mergers in which the Competition Authorities have identified either competition or public interest concerns were approved subject to conditions. This suggests that the Competition Authorities regularly preoccupy themselves with designing and imposing merger remedies which will have an impact on firms and markets for a number of years. For this reason, it is imperative to ensure that conditions are structured in a way that maximizes the likelihood of successful implementation.

This paper is therefore motivated by the idea that ex-post reviews, such as this one, serve a key purpose in allowing for a better understanding of how supplier development funds that have been imposed as mergers remedies have performed. This will serve to improve the design and development of future supplier development funds. This research is therefore particularly important given the significant role that supplier development programmes can play in increasing the prospects of growth and development for SMMEs. Considering the socio-economic challenges faced by the country, this research may have far-reaching implications.

1.4. Research Objective

The primary purpose of this research was to conduct an ex-post review of the supplier development fund resulting from the Walmart-Massmart merger remedies,

assessing its impact on the SMMEs supported by the fund. As the period of the supplier development fund has expired, it is necessary to consider its impact against the stated objectives. It is necessary to consider whether the supplier development fund contributed to improving the prospects of the SMMEs that accessed the fund being able to achieve sustainable growth and development. Further, it is necessary to consider whether the supplier development fund allowed Walmart/Massmart to benefit from superior suppliers which may have given it a competitive advantage. This particular aspect may strengthen the business case for supplier development programmes going forward.

The research also looked at the process used in developing the fund with the aim of identifying learnings for future processes of a similar nature. In particular, the use by the CAC of a panel of experts in determining the details of the fund should be assessed for effectiveness and efficiency. Merger remedies are a central part of merger regulation and should be designed with significant caution (Polemis & Oikonomou, 2018). It is necessary to regularly review their effectiveness in order to improve future remedies.

A similar study was done by Mandiriza, Sithebe and Viljoen (2016). However, this study was limited particularly in the time period considered. The study was conducted prior to the expiry of the Walmart-Massmart supplier development fund and focused only on the period 2013 to 2015 whereas the Walmart-Massmart supplier development fund was in place until 2018. Further, the study was done based on only the reports submitted to the Competition Commission and did not include interviews of any of the stakeholders involved in the matter. This research will aim to expand on the work started by Mandiriza, Sithebe and Viljoen (2016).

The objectives of this research can be summarised as follows:

- A consideration of the direct economic impact of the Walmart-Massmart supplier development fund on the suppliers it supported. This will involve an assessment of the features of the supplier development fund and how it benefitted the suppliers that accessed it.
- A consideration of whether the Walmart-Massmart supplier development fund created sustainable commercial relationships between Walmart-Massmart and the suppliers. This will include a consideration of whether the supplier development fund allowed Walmart-Massmart to access a type or quality of

supplier that it would not have accessed in the ordinary course of business and whether this may have created a competitive advantage for Walmart-Massmart.

- A consideration of the effectiveness of the process that was used in developing the supplier development fund. This will include assessing the impact of the panel of experts which was used by the CAC in developing the supplier development fund and whether similar panels should be used for future supplier development fund merger remedies? In addition, the research will consider the approach employed by Walmart-Massmart in administering the fund to identify learnings and any areas of improvement for future supplier development funds.

Ultimately, the findings of the research will contribute to research on whether the Competition Authorities should develop a guideline for designing and implementing supplier development funds in merger remedies. Improvements in how these conditions are developed will have far-reaching implications for SMMEs in South Africa.

1.5. Scope of Research

This research will be limited in scope to the Walmart-Massmart supplier development fund only. The research will only consider Walmart-Massmart's supplier development activities which are the direct result of the supplier development fund. Previous supplier development programmes, though referenced, are not assessed. The reasons for this are set out below:

- Although there are a number of other mergers that have been approved subject to conditions, these would not have probative value for the research;
- Although a number of mergers have also been approved subject to conditions which included the imposition of similar supplier development funds, the majority of these are still active and have not been finalised; and
- In order to conduct the review of the Walmart-Massmart supplier development fund at the level of detail required to answer the questions above, it is necessary to focus exclusively on this fund. Research looking into supplier development fund conditions in general, while valuable, would be too broad

to answer the questions above and would not allow for the necessary level of detail.

1.6. Conclusion

This research conducted an ex-post review of the Walmart-Massmart supplier development fund. South Africa has a high rate of poverty and unemployment, however government has noted the role that SMMEs can play in creating alternative opportunities for economically inactive citizens and growing the South African economy. This notwithstanding, literature suggests that SMMEs have a high failure rate and struggle to grow and develop. This suggests that measures may need to be put in place to support SMMEs and increase their likelihood of survival in the medium to long term. Supplier development programmes can play this role if designed and executed appropriately.

This research considered the results of the supplier development fund that was imposed as a condition to the Walmart-Massmart merger. The aim was to consider its results but also the methodology employed in its development. This assisted in determining whether there are learnings in the approach which may be used for future funds of this nature. The research focused on this supplier development fund exclusively to ensure that the research is conducted with the appropriate level of detail.

This research proceeds as follows: Chapter 2 presents a detailed Literature Review of the key concepts to be considered in this research, this will provide the necessary context for the rest of the research; Chapter 3 briefly outlines the research questions this research sought to answer; Chapter 4 sets out the Research Methodology employed in answering the research questions; the results of the research are set out in Chapter 5; and discussed in Chapter 6; and Chapter 7 concludes the research.

Chapter 2: Literature Review

2.1. Introduction to Literature Review

This chapter presents a detailed review of the literature relevant for the research. The focus of the literature was on relevant concepts and their implications for the research. Firstly, the research discussed SMMEs with a particular focus on the challenges they face. Secondly, the research considered literature on supplier development programmes and the roles that they may be able to play in addressing the challenges faced by SMMEs. This section also considered literature on the role that supplier development programmes may play as a tool for creating competitive advantage for large, established firms.

Thirdly, the research considered literature on merger remedies. As discussed above, the research considered the use of supplier development programmes within the context of merger remedies. It is important to understand the theoretical underpinnings of mergers remedies. Fourthly, the research considered literature on ex-post reviews and their motivations. Lastly, the research presents a detailed outline of the Walmart-Massmart supplier development fund. This will give the research methodology context.

2.2. SMMEs as Alternative Economic Opportunities

South Africa has very high levels of poverty and unemployment. According to Statistics South Africa (2019), more than half of all South Africans are considered poor. Close to half of the South African population suffers through chronic poverty in terms of the upper-bound national poverty line of R 992 per person per month in 2015 prices (World Bank, 2018).

South Africa also has particularly high unemployment. According to Statistics South Africa (2019b), South Africa has an unemployment rate of 29% according to the official definition of unemployment and an unemployment rate of 38.5% according to the expanded definition of unemployment which includes people who are unemployed, are willing and able to work, but have not searched for work (because they may be discouraged). Data collected by the International Labour Organisation shows that South Africa's unemployment rate is three times higher than the

international median based on data from 90 surveyed countries (Nattrass, 2014). The lack of employment opportunities is likely to reinforce the problems of poverty.

In addition to this, South Africa suffers from high income inequality. According to World Bank (2018), South Africa inherited high income inequality from apartheid, and it has increased since. The same report notes that South Africa had a GINI coefficient of 0.63 in 2015, one of the highest in the world. In addition, South Africa also has high opportunity inequality. World Bank (2018) notes that the primary determinants of economic opportunities in South Africa are race, parent's education, and father's occupation. These are likely to reinforce income and wealth inequality over time. High opportunity inequality is likely to also slow down poverty reduction efforts as economically excluded citizens are unlikely to be afforded the opportunities to escape poverty.

Entrepreneurship through SMMEs is widely regarded as one of the tools through which individuals can escape from poverty (Rambe, P & Mosweunyane, 2017). According to Sahut & Peris-Ortiz (2014), small business provides an environment that is conducive for entrepreneurs to innovate in way not always possible in large corporations which is important for sustainable economic growth.

The definition of SMMEs varies depending on the sectors they operate in, however it is measured according to the number of employees and annual turnover. SMMEs range from micro enterprises which include sole proprietors with annual turnovers of just a few thousand Rands, up to medium enterprises which may employ up to 250 people and have annual turnover figures of up to R220 million (Department of Small Business, 2019).

SMMEs account for 42% of gross national product and 61% of total employment in South Africa (Rambe & Mosweunyane, 2017). This important role played by SMMEs is reflected in government policy positions aimed at the promotion of entrepreneurship. Government has highlighted venture creation as an avenue through which opportunities can be created. In 2014, government established the Department of Small Business, a government department aimed at facilitating the growth of small businesses in South Africa. The National Development Plan aspires to a world in which SMMEs create 90% of all new jobs by 2030 (National Planning Commission, 2012). This may be an implicit acknowledgement that the public sector and large private sector are unlikely to be able to absorb the high number of youths

that enter the labour market each year. SMMEs are therefore seen as an alternative to traditional economic opportunities.

This is not limited to the South African market, in Australia, small businesses are considered to play a key role in employment creation and contribution to GDP. Small businesses are often referred to as the 'engine of the economy.' (Valadkhani, Chen & Kotey, 2014). In the USA, small businesses account for approximately 50% of total employment, 60% of new employment, and 40% of total output in the private sector (Krishnamurthy, 2015).

Notwithstanding the value placed on SMMEs, there seems to be challenges in ensuring they are able to achieve sustainable growth. According to Bushe (2019), more than 70% of SMMEs fail within 7 years of their birth. According to Cressy (2006), more than half of small businesses die within the first two and a half years of existence. According to Everett & Watson (1998), between 30% and 50% of small business failure is the result of macro-economic factors. Even in instances where SMMEs do not fail, as seen in this research below, there are challenges which restrict SMMEs' ability to achieve sustainable growth and development. Such poor performance is likely to be inconsistent with government's aspirations for SMMEs to be a key contributor to employment creation in the long term.

There are three potential reasons why any business fails or struggle to grow, macroeconomic-based risk, market-based risk and firm-based risk (Everett & Watson, 1998). According to Everett & Watson (1998), the most cited reasons for small business failure are a lack of the necessary management skills and not having sufficient capital. Lack of funding was also cited as one of the primary challenges faced by small businesses in Australia (Valadkhani, Chen & Kotey, 2014). Small businesses are generally not able to meet the stringent requirements for sourcing finance through traditional financial markets.

In addition to capital finance, SMMEs are also noted for having challenges with working capital. SMMEs experience unsatisfactory working capital management which leads to cash shortfalls and high stock-out positions (Orobia, Byabashaija, Munene, Seijaaka & Musinguzi, 2013). Teruel and Solano (2007) found a statistically significant negative relationship between poor working capital (defined as high debtors and inventory days) and SMME profitability in Spain. Businesses that are unable to manage their working capital are likely to have liquidity challenges as they

are unable to meet their short-term debt obligations such as paying suppliers and employees (Orobia, Byabashaija, Munene, Seijaaka & Musinguzi, 2013). This can be fatal for SMMEs.

Neuberger & R athke-D oppner (2015) submits that management know-how plays a critical role in determining the success of small businesses. Firms which are managed by experienced entrepreneurs with some form of vocational training are likely to survive for relatively longer periods (Cressy, 2006). This suggest that entrepreneurs that have no experience and no vocational training may not have the necessary skills to ensure their SMMEs are able to survive beyond the short-term.

According to Small Enterprise Development Agency (2018), the high failure rate of SMMEs is because of a number of factors including a lack of capital and lack of skills including management skills, business acumen and negotiation skills. According to a study done by Bobson College (2016) in the USA, approximately 60% of the small businesses surveyed highlighted challenges in understanding and managing regulations relevant to their business. For the majority of the respondents, regulatory issues are addressed by the founder/owner. This may result in challenges in being compliant.

Another challenge generally faced by SMMEs is difficulties in accessing markets. SMMEs may struggle to access orders from large customers in both the public and private sectors (Small Enterprise Development Agency, 2018). Companies in Ghana noted challenges in accessing markets due fierce competition, including from imported products (Robson & Obeng, 2008). Challenges in accessing markets can also be due to strategic conduct by dominant incumbent firms (Banda, Robb, Roberts & Vilakazi, 2015). This may be one of the challenges in South Africa as the Competition Commission has found that a majority of South African market are characterised by high concentration (Buthelezi, Mtani & Mncube, 2018).

Based on the above, SMMEs struggle to become competitive in markets. In addition, SMMEs generally struggle to reach levels of cost efficiency necessary to compete against established firms. This is mostly because they are at a cost disadvantage (Lutz, Kemp & Dijkstra, 2010). This may be the result of lack of know-how, lack of skilled employees and poor access to superior technology (G unalp & Cilasun, 2006). The lack of management skills noted above can also manifest itself through various operational inefficiencies. It is also important to understand the interconnectedness

of the challenges identified above (Aidis, 2005). For example, poor management skill may result in operational inefficiencies, which leads to uncompetitive pricing and an inability to access orders from large customers.

SMME failure can never be completely avoided. Business failure is a natural consequence of competitive interaction. In competitive markets, less efficient firms will eventually be competed out of the market. Policy should not preoccupy itself with protecting these firms. Rather, the focus should be on creating solutions which will ensure that firms that are efficient or have reflected a likelihood of being efficient in future, are given the space to reach the necessary levels of efficiency to compete in the long run.

In the context of SMMEs, the focus should be on ensuring that SMMEs are able to navigate some of the pitfalls noted above such as an inability to access capital, lack of appropriate human capital and difficulties in accessing markets. A number of authors have proposed potential solutions for assisting SMMEs to remain viable. Valadkhani, Chen & Kotey (2014) note that charging small businesses relatively lower interest rates may have a positive impact on their prospects of success over time. This will reduce finance costs for small businesses allowing them to reinvest more of their profits into growth initiatives.

Giving small businesses better access to finance is also likely to result in small businesses being able to take up projects that would ordinarily be out of their reach, allowing them to grow at a higher rate (Krishnan, Nandy & Puri, 2015). This is particularly important for this research because a key aspect of the Walmart-Massmart supplier development fund was funding which was primarily used for capital projects by the SMMEs. These are SMMEs which would have been unable to access finance through traditional capital markets.

Certain countries also have exemptions for small businesses. For instance, Brashares, Knittel, Silverstein & Yuskavage (2014) note that, in the USA, small businesses below a certain threshold are exempt from paying value added tax. In South Africa, firms with an annual turnover of less than R20 million can register as Small Business Corporations which allows them to pay tax at lower rates than larger companies (South African Revenue Service, 2018).

Krishnamurthy (2015) looks at the impact of banking regulation on the ease of small businesses to solicit credit. This author finds that deregulation in the banking sector in the USA has allowed for better integration in the banking sector allowing small businesses to access finance more effectively. These kinds of interventions are aimed at incentivising entrepreneurship but ensuring that small businesses are supported while they are still in their infancy.

Strelcová & Janasová (2018) promote clustering as a way in which small businesses can reduce risk by working together. This would allow small businesses to share resources which may be too capital intensive for individual small businesses. Government can assist by creating platforms through which small businesses can collaborate and share resources as they develop into independent businesses.

Small business incubators are recent developments aimed at subsidising similar costs for small businesses in their infancy. Business incubation refers to programmes that “provide various targeted business support and technical support services aimed at growing emerging... business enterprises into financially and operationally independent enterprises” (Masutha and Rogerson, 2014, S48). Thillairajan & Jain (2013) describe business incubation through a chicken metaphor in that incubators help nascent enterprises to hatch, grow and leave.

In South Africa, business incubators are managed by both government and private firms. The Small Enterprise Development Agency generally leads these efforts for government. Small Enterprise Development Agency (2018) notes that its business incubators are aimed at assisting SMMEs in dealing with challenges identified above including lack of capital, lack of skills and access to markets. If designed and administered effectively, business incubators can be a strong tool for supporting SMMEs.

Notwithstanding the above, it is necessary to understand the limitations of small business incubators in South Africa. According to the Department of Trade and Industry (2014), small business incubators have three key features: (i) focus on early stage SMMEs; (ii) offer services aimed at strengthening the capacity of SMMEs to operate on their own; and (iii) are temporary. Although small business incubators may in certain instances provide funding, this is not their primary function. Importantly, small business incubators are not likely to solve the challenges identified above such as access to substantial funding for SMMEs and access to markets.

Although small business incubators play a critical role in the development of SMMEs in South Africa, they are not designed to solve the main challenges faced by SMMEs identified above.

In addition to the initiatives mentioned above, the South African government has recently made amendments to the Competition Act, which now includes various sections aimed at ensuring that SMMEs and/or businesses owned by historically disadvantaged individuals can effectively participate in the economy (Competition Amendment Act, 2018). These amendments are aimed at improving the ability of SMMEs to grow in the economy by not being exposed to exclusionary or exploitative behaviour by large firms.

Rogerson (2013) notes two distinct routes through which businesses owned by HDIs can access new market opportunities for growth, these are through accessing private sector supply chains and through accessing public procurement. The South African government has various legislation and regulations aimed at allowing SMMEs and businesses owned by HDIs to access public procurement. This includes the Preferential Procurement Policy Framework Act and accompanying regulations (National Treasury, 2017).

The European Union has also implemented programmes aimed at improving the ability of SMMEs to participate in public procurement (Kornecki, 2011). This is similar to the approach taken in the USA. The USA congress has put in place minimum procurement levels from small business aimed at ensuring that the federal government buys from small business. The federal government must ensure that at least 23% of all federal government prime contract dollars are awarded to small businesses (Moore, Grammich & Mele, 2014).

Ultimately, it is unlikely that government would be able to provide a consistent stream of business for SMMEs to grow. This research focused on the role that supplier development programmes can play as tools to support SMMEs in their efforts to achieve sustainable growth. The focus is therefore on supplier development programmes which are operated by private companies.

2.3. Supplier Development Programmes

Supplier development refers to activities undertaken by a firm to strengthen its suppliers (Arráiz, Henríquez and Stucchi, 2013). Chidambaranathan, Muralidharan & Deshmukh (2009) describe supplier development as “as any effort by an industrial buying firm to improve the performance or capabilities of its suppliers.” These definitions are deliberately broad as supplier development encompasses a wide range of activities.

It is usually unfeasible for firms to insource every aspect of their value chains. For example, a vehicle manufacturer such as Ford Motor Company or General Motors is unlikely to be able to manufacturer every component that is installed in their vehicles. In fact, supplier development as it is currently understood, can be traced back to the vehicle industry in the mid-1900s (Albisua & JI Igartua Lopez, 2018).

According to the Chartered Institute of Procurement and Supply (2013), “supplier development is the process of working with certain suppliers on a one-to-one basis to improve their performance (and capabilities) for the benefit of the buying organisation.” This definition is incomplete; as discussed below, supplier development programmes are likely to benefit both the supplier and the buying firm/customer. In fact, as will be shown below, businesses have historically viewed supplier development programmes as a form of corporate social responsibility (or charity) aimed at SMMEs/suppliers with no regard for the return achieved by the buying firm.

When a customer has outsourced an aspect of its value chain but the supplier is unable to meet the customer’s requirements, the customer has three distinct choices it can make: (i) insource the input i.e. start manufacturing the product in-house; (ii) find an alternative supplier; (iii) assist the existing supplier to meet the customer’s requirements (Handfield, Krause, Scannell & Monczk, 2000). In taking the third route to assist a supplier to meet its requirements, a customer is engaging in supplier development.

These activities are generally initiated by established firms seeking to develop less established suppliers to both firms’ ultimate benefit. Supplier development efforts are wide in scope and may include various efforts by a firm to improve the capabilities of its supplier with the aim of empowering the supplier to better meet the customer’s

needs (Pooe, 2016). Unlike business incubators, supplier development programmes are generally directed at specific firms. An initiative as straightforward as a supplier code of conduct is an example of a supplier development programme (Gimenez and Sierra, 2013).

Supplier development programmes can also be classified according to complexity and the level of the buying firm's involvement in the supplier's activities. Sanchez-Rodriguez, Hemsworth & Martínez-Lorente (2005) characterised these as basic, moderate, advanced with basic programmes being of elementary complexity and requiring limited involvement by the buying firm. Advanced programmes, like the Walmart-Massmart supplier development fund, involve complex problem solving and extensive participation by the buying firm in the supplier's business.

A good supplier development fund is likely to have several key features. According to Inemek & Matthyssens (2013), in order for a supplier development programme to promote greater innovation by suppliers, it must include inter-firm knowledge sharing, relationship-specific investments and governance mechanisms.

Communication between the supplier and the buying company is particularly important. Carr & Kaynak (2007) describes two levels of communication, traditional communication and advanced communication. Traditional communication refers to communication through face-to-face contact, phone calls, emails etc. Advanced communication refers to communication through enterprise resource planning, electronic data interchange or any other types of technological links. Advanced communication is likely to be more suitable for the advanced programmes described by Sanchez-Rodriguez, Hemsworth & Martínez-Lorente (2005) above as these allow for embeddedness at a level appropriate for complex problem solving and extensive participation by the buying firm in the supplier's business.

2.3.1. Impact on SMMEs

Notwithstanding the descriptions above, supplier development programmes vary in makeup. There is no single approach to supplier development, and it will differ according to the nature of the businesses involved. By deciding to help the supplier to better meet the buying firm's requirements as described in Handfield, Krause, Scannell & Monczk (2000) above, the buying firm has improved the prospects of the supplier, an SMME, being able to continue to operate. A decision to insource or find

an alternative supplier means the SMME supplier loses a key customer but is also not afforded the opportunity to become a higher quality supplier going forward.

Supplier development programmes may also be aimed at improving the quality of a supplier's production by improving the supplier's operations. This may allow the supplier to produce at a lower cost and hence supply at a lower price point (Shokri, Nabhani & Hodgson, 2012). The supplier is likely to be able to achieve higher profitability in this way. Supplier development may, as was the case with the Walmart-Massmart supplier development fund, provide finance for suppliers to work on improving the quality of their operations and manufacturing processes.

The introduction of quality management systems in an SMMEs is also likely to result in the SMME gaining a competitive advantage over rivals. This is also likely to allow the SMME to participate in export markets (Priede, 2012). As noted above, SMMEs are likely to have compliance challenges as owners/founders grapple with understanding and managing regulation which is relevant to their businesses. Supplier development funds which include some form compliance support are likely to allow SMMEs to receive the necessary level of training for them to service larger, more sophisticated and possibly international customers (Kutnjak, Miljenović & Mirković, 2019).

Arráiz, Henríquez and Stucchi (2013) conducted a review of the Chilean Supplier Development Programme, a state-run supplier development programme. The programme was aimed at promoting long-term business relationships between SMMEs and large buying firms. The study found that SMMEs benefited from increased sales, employment and sustainability.

The challenge is that a number of firms continue to view supplier development as a social responsibility as opposed to a strategic tool which can create competitive advantage (Albisua & JI Igartua Lopez, 2018). This thinking is understandable. Long-term relationships with large established buying firms can allow SMMEs to grow. Cooperation sustained over a long period can allow suppliers to upgrade themselves in terms of the quality of their products, processes, functions and value chain (Gancarczyk and Gancarczyk, 2016). These may be seen as social responsibility contributions for large firms.

The discussion that follows however explores how the buying firm can also benefit from these relationships.

2.3.2. Impact on Large Buying Firms

Supplier development can ensure that a buying firm cooperates with its suppliers, allowing for better efficiency and lower prices. Importantly, for a firm that outsources aspects of its value chain, supplier development gives the firm comfort that suppliers will deliver products at the appropriate specifications, allowing the buying firm to focus on its key competencies (Tayauova, 2012). By outsourcing non-complex aspects of a firm's value chain, the firm can focus on innovating to achieve and/or protect its competitive advantage.

According to the Chartered Institute of Procurement and Supply (2013), supplier development programmes can be aimed at price reduction, improved quality, improved logistics, improved product performance, new product development, improved support and any other improvements. Importantly, these changes are likely to directly benefit the buying firm. In fact, effectively designed and implemented supplier development programmes should be able to lower supply chain costs and improve the profitability of all the firms involved (Pooe, 2016).

Using a survey of 153 manufacturer-supplier relationships, Joshi (2009) found that continuous communication leads to improvements in supplier performance. In particular, the author finds that continuous communication between manufacturers and their suppliers leads to suppliers having a better understanding of the manufacturer's (their customer's) needs. Further, suppliers are more likely to develop a higher commitment to the manufacturer. Learning and knowledge sharing activities are also likely to improve the quality of products supplied by suppliers as they can use this additional knowledge in product development (Gupta and Polonsky, 2014)

Supplier development initiatives are likely to result in suppliers having a better understanding of the strategic objectives of the buying firm which will positively influence procurement effectiveness (Pooe, 2016). The study by Arráiz, Henríquez and Stucchi (2013) mentioned above also found that large buying firms benefitted through increased sales and they were able to become exporters through participation in the supplier development programme.

For firms looking to gain a competitive advantage over rivals, supplier development programmes can serve as a tool to improve the firm's performance by affording it access to superior quality suppliers (Zeng, Wang, Li, Zhou, Wu & Le, 2019). This is only possible in a world where firms look beyond their own firm and consider the extent to which they can influence the behaviour and performance of key stakeholders such as suppliers.

As more firms have started to focus on strategic competencies, suppliers have taken up a more prominent role in value creation. This means that now, more than ever, improvements in the performance of a firms' suppliers will affect its bottom line (Li, 2013). Li (2013) gives an example of how a car seat manufacturer made manufacturing improvements which ultimately benefitted car manufacturers significantly in the USA. In fact, the famed *lean manufacturing processes* popularised by *Toyota* relied extensively on subcontracting and supplier development (Mejza, Laosirihongthong and Prajogo, 2013).

In order to have these kinds of relationships, it is necessary to make medium to long term commitments to customer-supplier relationships, going beyond perceiving these relationships as short-term and transactional (Arráiz, Henríquez and Stucchi, 2013). However, buying firms may in certain instances be reluctant to share knowledge and internal information with suppliers for fear of leaking confidential information to competitors as well as the risk of their suppliers, armed with the buying firm's competitively sensitive information, may choose to integrate downwards to become their direct competitors (Yen & Hung, 2017). This thinking however overlooks the competitive advantage that the customer receives from having superior suppliers (Bai and Sarkis, 2011).

Li (2013) proposes having a smaller database of suppliers such that significant resources can be dedicated to ensuring maximum performance. Although there is merit in this approach, it is important to guard against the disadvantages of having a concentrated value chain serviced by large firms who can exercise market power (Padilla & O'Donoghue, 2013).

The discussion in this research focused on whether supplier development funds imposed as merger remedies can lead to positive outcomes for SMMEs and the buying firms involved, which are usually the parties to a merger. The next two sections of the Literature Review consider theory on merger remedies (2.4) and ex-

post reviews (2.5) before presenting a brief description of the Walmart-Massmart supplier development fund which is the case study through which the subject matter is studied.

2.4. Merger Remedies

In instances where a merger has been identified as one that may result in some form of harm, Competition Authorities essentially have access to two potential decisions, either prohibit the merger from proceeding or alternatively allow the merger to proceed subject to conditions (Wang & Rudanko, 2012). Although the most expedient approach to deciding mergers which result in harm may initially appear to be prohibition, this is not necessarily the most appropriate approach for two key reasons. Firstly, mergers often involve firms with a number of divisions operating in independent product markets. Harm may have been identified in one or only a few of the markets the companies operate within. It would be inappropriate to prohibit an entire merger due to harm identified in only a few markets (Steiner, Huschelrath & Weigand, 2011). Secondly, mergers, even those resulting in some harm, may simultaneously be efficiency enhancing (Ashenfelter, Hosken & Weinberg, 2014). For these reasons, it is necessary to consider alternatives to the prohibition of a merger. Merger remedies fill this gap.

Merger remedies or conditions are obligations imposed on the parties to a merger which serve to remedy concerns identified to allow the merger to proceed (Cary & Bruno, 1997). These are generally placed on the parties to the merger in order to remedy some form of harm that has been identified during the assessment of the merger (Polemis & Oikonomou, 2018). According to Cosnita-Langlais & Tropeano (2012), merger remedies are commitments which are meant to restore the nature and structure of competition to how it prevailed prior to the merger. Wang & Rudanko (2012) note that the purpose of merger remedies is to alleviate the competitive harm arising from a merger while preserving any efficiency enhancing aspects of the merger.

In instances where appropriate merger remedies cannot be identified by both the parties to the merger and the Competition Authority, the merger falls to be prohibited (Wang & Rudanko, 2012). The consideration and design of appropriate merger remedies involves complex legal and economic analysis (Federico, Motta & Papandropoulos, 2015). Most of the discussion on merger remedies revolves around

the advantages and disadvantages of different types of merger remedies: structural remedies and non-structural (behavioural) remedies.

A structural remedy is a once-off permanent change in the structural composition of the market with the intention of restoring pre-merger competitive conditions (Steiner, Huschelrath & Weigand, 2011). A common example of a structural remedy is a divestiture or divestment in which the parties to the merger are requested to dispose of a portion of the merged business in order to restore competition (Morgan, 2002). For example, in February 2013, the Competition Tribunal approved the merger between Nestle and Pfizer on condition that Nestle divest the infant formula business of Pfizer in South Africa to an independent third party. This was to ensure that competition would be protected in the infant formula market (Competition Tribunal, 2013).

Motta, Polo and Vasconcelos (2007) note that the European Commission prefers structural remedies. This is because they are likely to deal with the identified concerns directly and permanently (Vasconcelos, 2010). Structural remedies also do not require post-merger monitoring and enforcement.

This is not to say that structural remedies are without their shortfalls. The ICN (2006) noted that there are risks that competition authorities should be wary of when implementing structural remedies – the composition risk, the purchaser risk and the asset risk. These risks essentially arise due to the misalignment of incentives that exists between the merging parties and the competition authorities.

Further, there are difficulties that arise in instances where the purchaser of the divested assets is expected to have a commercial relationship with the merged entity. The merged entity may have an incentive to ensure that the divested assets are packaged in a manner that will limit the purchaser's future success, as the purchaser will be a competitor of the merged entity (Federico, Motta & Papandropoulos, 2015). In addition to this, by losing the divested assets, there is a risk that planned efficiencies may no longer be achieved (Ormosi, 2012). This may reduce the chances of the merger being considered successful.

Cary and Bruno (1997) show how an ex-post assessment of nine divestitures (done by the FTC Bureau of Competition and Bureau of Economics) revealed that the divestitures process was not as effective as it could have been. The study revealed

strategic conduct by the parties to the merger in selecting relatively weaker buyers. Davies and Olczak (2010) use a sample of 62 European mergers that were cleared with structural remedies to show that the resultant market structures would not have been cleared by the competition authorities if they were being proposed as mergers.

Behavioural remedies on the other hand are commitments by the merged firm that are aimed at ensuring their post-merger conduct addresses concerns that have been identified in the investigation of the merger (Motta, 2004). A common example of this is the use of supply commitments in vertical mergers which raised input foreclosure concerns. In this instance, the merger is allowed to proceed on the undertaking that the merging parties will continue to supply their customers who will also be their rivals post-merger. Behavioural mergers therefore require some form of post-merger monitoring by the Competition Authorities (Kartner, 2016). By regulating the behaviour of firms post-merger, behavioural remedies can be seen in a similar fashion to economic regulation where regulators stop firms (e.g. natural monopolies) from acting on their incentives (Kwoka and Moss, 2012).

The discussion above, led by the definitions of remedies by Wang & Rudanko (2012) and also Cosnita-Langlais & Tropeano (2012) limit merger remedies to commitments aimed at restoring competition and improving efficiency i.e. commitments made in order to remedy identified competition harm. This is understandable as the majority of competition law around the globe only considers the impact of mergers on competition. South Africa on the other hand includes a public interest aspect to the consideration of mergers. Section 12A (3) of the Competition Act (1998) requires that:

“When determining whether a merger can or cannot be justified on public interest grounds, the Competition Commission or the Competition Tribunal must consider the effect that the merger will have on –

- (a) a particular industrial sector or region;*
- (b) employment;*
- (c) the ability of small businesses, or firms controlled or owned by historically disadvantaged persons, to become competitive; and*
- (d) the ability of national industries to compete in international markets.”*

From a South African perspective, merger remedies extent to the impact of mergers on the public interest. The Walmart-Massmart merger, which is the subject of this research, was approved subject to merger conditions which were imposed in order to remedy public interest harm.

A recent development in the field of merger remedies which bears mention is the emergence of remedies aimed at protecting innovation. Remedies considered by the European Commission in the mergers involving Bayer/Monsanto on the one hand and Dow/DuPont on the other hand were designed with an explicit mandate to protect innovation (Haucap, Rasch & Stiebale, 2018).

Ultimately, the nature of the concerns identified is likely to be the main determinant of the type of remedy imposed and this should be considered on a case-by-case basis (Wang & Rudanko, 2012). Competition Authorities should ensure that “remedies are necessary, clear, enforceable, effective, sufficient in scope and capable of being effectively implemented within a short period of time” (Polemis & Oikonomou, 2018, p.217). Merger remedies are uncertain in conception and implementation, but they may have far-reaching consequences on market features such as competition and innovation (Kartner, 2016). It is therefore important to ensure that they are imposed with significant care. The discussion below sets out why it is necessary to conduct ex-post reviews, such as the one conducted through this research.

2.5. Ex-post Reviews

Welde (2018) notes that ex-post evaluations are carried out to improve future policy actions by studying any lessons learned, to assess whether there were deviations from initial forecasts and for accountability. This ensures that it is possible to assess whether a project was a success or failure as well as the reason for the outcome. Failure to conduct ex-post reviews that consider the quality and performance of policy actions creates risk that poor outcomes can be repeated (Meunier & Welde, 2017).

Ilzkovitz and Dierx (2015) submit that “...there should be a continuous loop of evaluation and that impact assessments and evaluations should complement each other around the policy cycle.” It is necessary, for the appropriate allocation of resources, to continually assess the impact of previous action. The results of ex-post reviews can feed back into future project design to improve performance (Meunier &

Welde, 2017). In particular, an evaluation of previous action is instrumental to any kind of policy design (Kovacic, 2006).

Ex-post evaluations have also become commonplace in the area of competition regulation. In a world where the need for competition regulation may be questioned, it is important for competition authorities to continually show the impact of their interventions (Kovacic, 2006). This ensures that the allocation of state resources to competition regulation can be continuously be justified.

Ilzkovitz and Dierx (2015) presents four (4) main reasons for why competition authorities conduct ex-post evaluations, these are given as: (i) to improve decisions and enforcement practice; (ii) to improve the effectiveness of competition law; (iii) to set internal priorities; and (iv) to defend the legitimacy of competition policy enforcement. Neven and Zenger (2008) argue that it may be even more important to set priorities and also defend the competition authorities' legitimacy in instances where there are resource constraints.

With specific regard to merger regulation, the need for regular and detailed ex-post reviews is imperative. Merger regulation (in South Africa) is ex-ante regulation, i.e. regulating before the fact. This means the Competition Authorities have to make judgements on the likely impact that mergers will have on competition, prior to the merger being consummated. The Competition Authorities must forecast how the market will evolve over time, how rivals will react to the merger, whether there will be new entry, how technology will develop and other key features of competition in a market. This creates challenges of not having complete information when the decision is made (Ottaviani & Wickelgren, 2011).

Cosnita-Langlais & Tropeano (2012) also note that asymmetric information between the parties to a merger and the Competition Authority reduces the prospect that remedies will be effective. Due to this lack of complete information in merger regulation, it can be expected that errors may be made. Salop (2015) speaks of type 1 and type 2 errors in merger decisions by Competition Authorities. Importantly for merger regulation, Salop (2015) identifies a type 2 error which would involve anti-competitive mergers being approved without conditions or with inadequate conditions. The lack of complete information suggests that particular care should be taken in making decisions. Further, it is necessary to conduct ex-post assessments of merger decisions. This is likely to improve the efficacy of decision making.

A number of studies have been conducted on the impact of competition regulation decisions. A study by Mncube (2013) looked at the impact of the detection and prosecution of the South African wheat flour cartel which operated between 1999 and 2007. Mncube (2013) was able to show that the cartel was able to overcharge customers by as much as 42% in certain instances, highlighting this as the positive benefit that flows from the Competition Authorities' intervention in ending this cartel. Similarly, Khumalo, Mashiane & Roberts (2014) show that the precast concrete products cartel was overcharging customers by up to 57% in certain instances. The study was therefore able to show the benefit of the intervention on consumers. Maphwanya (2017) looked at the deterrence effect of the Competition Commission's previous cartel busting work. Theron, Jafta, Boshoff, Sutherland & Moolman (2006) looked at the impact of competition policy in general in the food sector. Internationally, ex-post reviews show similar results. Connor (1997, 1998 and 2001) has done significant work studying the vitamin cartel which overcharged US consumers by approximately \$70 million in the 1990s.

A significant amount of research has also been focused on evaluating the effect of previous merger decisions. OECD (2011) argues that the predictive nature of merger regulation makes ex-post reviews imperative. This supports the arguments made above on the impact of incomplete information on merger regulation.

Garcia & Azevedo (2019) considered the impact of conglomerate mergers in Brazil. These authors find that conglomerate mergers create multiunit firms which improve some quality indicators although the impact on price and quantity was indeterminate. Coccorese & Ferri (in press) study whether mergers among Italian mutual cooperative banks between 1993 and 2013 have been efficiency-enhancing. These authors find that only 5% of these mergers were efficiency enhancing.

Dukhanina, Massol & Lévêque (2019) considered the merger of two gas trading zones in France enhanced efficiency and competition in the market. The authors showed that the merger improved the market's spatial equilibrium which is an efficiency gain. Brealey, Cooper & Kaplanis (2019) considered the impact of bank mergers on changes in risk in the banking industry in the United States between 1981 and 2014.

Carlton, Israel, MacSwainc & Orlov (2019) assess a series of legacy airline mergers in the United States to determine the impact on competition and consumers. These

authors find that the mergers have been procompetitive, with no significant increase in fares and a significant improvement in passenger traffic and capacity. Chen & Gayle (2019) study the impact of two airline mergers in the United States on quality. The authors find that, consistent with economic theory, the mergers lead to reductions in quality in markets where the airlines compete pre-merger. Yan, Fuc, Oum & Wang (2019) conduct an ex-post review of a series of mergers between small airlines in China in the early 2000s. Their research finds that the mergers led to increased productivity by Chinese airlines.

Buccirossi, Ciari, Duso, Fridolfsson, Spagnolo & Vitale (2008) conducted an ex-post evaluation of previous European Competition Commission merger decisions. Their findings broadly supported the decisions made at the time. Davies and Olczak (2010) conducted an ex-post review of the effectiveness of structural remedies in the European Union. These authors found that structural remedies in the European Union sometimes resulted in market structures that would be considered anti-competitive if they were the result of mergers.

Mandiriza, Sithebe and Viljoen (2016) considered the impact of the conditions imposed in Walmart-Massmart, however, as noted above, the research done had certain limitations. These papers reveal that ex-post reviews in the context of merger regulation are not only common, but they are necessary.

Ilzkovitz and Dierx (2015) further make a critical distinction between the direct and indirect economic impact of competition policy. Competition intervention has a direct impact on competitive conditions in a market. For example, the prohibition of an anti-competitive merger preserves competition in that market. On the other hand, increased competition is likely to, through allocative, productive and dynamic efficiency, facilitate economic growth and development. This paper will as much as possible, focus on the direct impact of the fund. The paper will therefore not consider the broader macro-economic implications of the Walmart-Massmart supplier development fund.

2.6. Walmart-Massmart Supplier Development Fund

In 2010, Walmart expressed an interest in acquiring an equity stake in Massmart. Ultimately, Walmart made an offer for 51% of the entire share capital of Massmart, an offer which was subsequently accepted by the shareholders of Massmart. At the

time of the merger, Walmart was the largest retailer in the world with over 11 000 stores in 27 countries and sales of more than US\$450 billion. Massmart was a wholesaler and retailer operating mostly in South Africa. Although Massmart was already a significant South African business, at the time of the merger, Walmart was approximately 60 times larger than Massmart in revenue. Walmart was previously not active in the South African market apart from a small procurement arm which sourced local goods for its global retail business.

On 3 November 2010, the two parties notified the proposed merger to the Competition Commission. Following its assessment of the potential impact of the merger on competition and the public interest, on 11 February 2011, the Competition Commission recommended to the Competition Tribunal that the proposed merger be approved without conditions.

At the hearing before the Competition Tribunal, several stakeholders made submissions in opposition to the merger (Boshoff, Dingley & Dingley, 2012). These included government ministers and trade unions representing the employees of Massmart. A number of concerns were raised, however, those relevant to this research were largely centred on Walmart's global procurement network and logistical capabilities. The concern was that Walmart may use this procurement network to substitute local goods for cheaper foreign goods and that this would result in job losses and negatively affect SMMEs that rely on Massmart as a customer and the economy in general (Boshoff, Dingley & Dingley, 2012). Further, Walmart-Massmart would be able to achieve lower procurement costs through relying on imports, and rivals may decide to replicate this importing approach in order to compete, resulting in further shift from South African products to cheaper imported products (Competition Tribunal, 2011).

To remedy these concerns, one of the conditions considered by the Competition Tribunal was imposing an import quota on the merged entity, however this was eventually disregarded due to the several complications it would raise. At the hearing, the merging parties proposed an investment remedy which would entail them spending R100 million over 3 years aimed at developing suppliers including SMMEs (Competition Tribunal, 2011). The Competition Tribunal noted that this remedy would allow local suppliers to develop to the level where they can compete with international suppliers, as opposed to a quota which simply insulates them from international

competition. On 31 May 2011, the Competition Tribunal imposed this fund as a condition of its approval of the merger.

One of the trade unions and the government ministers took the decision of the Competition Tribunal on appeal and review in the CAC. Both the review and the appeal were rejected however the CAC gave significant consideration to the 'investment remedy' accepted by the Competition Tribunal. The CAC raised issue with the apparent limited consideration the Competition Tribunal gave to the details of the fund including how it would operate, its quantum and potential effects (CAC, 2012a). In this regard, the CAC ordered the trade union, the government ministers and Walmart-Massmart to appoint economic experts who would prepare a report for the CAC on the details of the fund. This would ensure that the CAC is able to develop a comprehensive investment remedy which addresses the concerns raised.

The CAC envisaged that these economists would form a panel of experts which would act independently, accountable to the CAC and collectively submit a report to the CAC. Walmart-Massmart appointed Professor Mike Morris, an economics Professor from the University of Cape Town. The government ministers appointed Professor Joseph Stiglitz, a former Chief Economist of the World Bank and economics Professor at Columbia University in the United States. The union appointed Mr James Hodge, former senior lecturer at the University of Cape Town, former Managing Partner at Genesis Analytics. These three experts constituted the panel of experts.

On 9 June 2012, two expert reports were filed by the panel instead of one. One by Professor Morris and the another jointly by Professor Stiglitz and Mr Hodge. The court noted the difference in opinions between the two reports regarding the purpose and scope of the fund.

Following further deliberation, the CAC concluded that the purpose of the fund should be to "...to ensure that a programme may be developed and adequately funded to empower local SMMEs which may be effected by this merger to take advantage of the global chain of the merged entity..." (CAC, 2012b, p. 13). The CAC also held that Massmart would play a key role in project identification and implementations. Particularly, the CAC noted that Hodge and Stiglitz identified that the buyers within Massmart are the appropriate people to identify relevant suppliers. The CAC also held that the Competition Commission would monitor the implementation of the fund

to ensure it is in line with the conditions. The CAC ultimately increased the quantum of the fund from R100 million over 3 (three) years to R200 million over 5 (five) years.

This kind of intervention signalled an alternative approach to merger remedies and the interplay between competition regulation and industrial policy. In a number of mergers since Walmart-Massmart, government, generally through the Economic Development Department (“EDD”), has intervened in merger proceedings to negotiate for similar funds. Similar funds have been imposed as conditions in mergers involving large corporations such as Coca Cola, Old Mutual and South African Breweries to name just a few resulting in billions of Rands in investment commitments.

2.7. Conclusion of Literature Review

The Literature Review provided a critical assessment of the literature relevant to the research. As noted above, this research sought to conduct an ex-post review of the supplier development fund which was imposed as a remedy in the Walmart-Massmart merger. The research considered the impact of the remedy (supplier development fund) on the SMMEs it supported.

In this regard, the literature review considered literature on SMMEs, looking at the positive role they are able to play in an economy. Particularly, this research highlighted arguments that SMMEs can provide alternative economic opportunities to economically marginalised citizens. The South African government has acknowledged this explicitly in various policies and legislation.

Notwithstanding, SMMEs suffer from a high failure rate, largely resulting from a lack of necessary resources and opportunities in the market. The Literature Review presented literature which shows that supplier development programmes can bridge this gap by providing support, resources and market access. Further, supplier development programmes may be able to give the buying firm a competitive advantage.

The Literature Review also considered literature on merger remedies. The Walmart Massmart supplier development fund was the first instance in which the Competition Authorities imposed a supplier development programme of this nature as a remedy to a merger. The research considered the effectiveness of this approach and whether

this is something the Competition Authorities should look to replicate going forward. To make this determination, the research conducted an ex-post review of both the development of the supplier development fund and its outcomes. Literature on ex-post reviews is presented for this purpose. The literature makes a compelling case for conducting ex-post reviews particularly for merger decisions which are generally made with incomplete information.

The research below seeks to bring these concepts together by conducting an ex-post review which explores whether a supplier development programme imposed as a merger remedy can contribute to solving the challenges faced by SMMEs and buying firms. A description of the Walmart-Massmart merger is provided for context as this merger decision is used as a case study to answer the research questions.

Notwithstanding the subject matter tackled by this research, the research does not attempt to present supplier development programmes in merger remedies as a comprehensive solution to the challenges faced by SMMEs in South Africa. Indeed, the CAC noted that competition policy (and particularly merger regulation) should not be seen as “a surrogate for a coherent industrial policy which by its very nature involves a series of polycentric decisions ill-suited to judicial interventions.” (CAC, 2012b, p.7). This paper merely seeks to consider the extent to which these remedies can be used as a tool to contribute to the broader efforts to improve the economic prospects of SMMEs in instances where these concerns are identified in mergers.

The Chapter that follows presents the research questions.

Chapter 3: Research Questions

As noted above, the primary purpose of this research was to conduct an ex-post review of the supplier development fund resulting from the Walmart-Massmart merger remedies. The ex-post review assessed the fund's impact on the companies it supported. The research also considered the impact of the fund on Walmart-Massmart in order to determine whether the fund allowed Walmart-Massmart to gain a competitive advantage. The research further looked at the process used in developing the fund with the aim of identifying learnings for future processes of a similar nature.

The paper therefore sought to answer the following research questions:

Question 1: What was the direct economic impact of the Walmart-Massmart supplier development fund on the suppliers it supported?

This research question sought to consider whether the Walmart-Massmart supplier development fund had an economic impact on the suppliers it supported. The literature considered in Chapter 2 presented a number of challenges faced by SMMEs in remaining viable beyond the short-term. This research question considered whether the SMMEs that participated in the Walmart-Massmart supplier development fund have experienced these challenges in the past and whether the Walmart-Massmart supplier development fund assisted in solving these challenges. This research question essentially sought to capture the impact that the Walmart-Massmart supplier development fund had on the supplier regarding aspects such as access to capital, working capital, market access and various skills which were presented in the Literature Review.

Question 2: Did the Walmart-Massmart supplier development fund create sustainable commercial relationships to the benefit of both Walmart/Massmart and the suppliers?

This research question expanded on the discussion in research question 1 by considering the sustainability of the support given to the SMME suppliers. In particular, the research considered whether the support given to the SMME suppliers has upgraded their capabilities such that they will be able to compete going forward. Further, this research question considered the impact of the supplier development

fund on Walmart-Massmart and whether the fund has allowed Walmart-Massmart to form relationships with suppliers of a higher quality which may give the company a competitive advantage.

Question 3: What impact did the panel of experts have in developing the supplier development fund and should similar panels be used for future supplier development fund merger remedies?

This research question focused on the development and administration of the supplier development fund. The purpose of this question was to understand the process followed in the design and development of the supplier development fund with the intention of analysing the impact of the approach on the outcomes achieved. Particular focus is given to the use by the CAC of the panel of experts and the research considers the impact of this approach on the outcome. Finally, this research question considered whether the approach used in Walmart-Massmart can be used as a yardstick for future merger remedies of this kind.

Chapter 4: Research Methodology

As noted above, this research conducted a detailed ex-post review of the Walmart-Massmart merger conditions. The research project was carried out in the form of a single-sample case study focusing exclusively on the Walmart-Massmart supplier development fund. The research questions were answered through semi-structured interviews with the parties involved in or affected by the Walmart-Massmart merger conditions. Secondary data was also be collected. The discussion below presents the main features of the research methodology.

4.1. Choice of methodology

In selecting the appropriate research method, the researcher considered the fact that the area of research in question is largely unexplored. As noted under the literature review, significant research has considered the impact of supplier development programmes on various stakeholders. Further, there is a significant body of literature on ex-post reviews of competition interventions. The author however identified a gap in the knowledge regarding ex-post reviews of merger remedies involving supplier development conditions in South Africa. As this research area is largely unexplored, qualitative research was the most appropriate research methodology (Saunders and Lewis, 2012).

In determining the research philosophy, research by Ryan (2018) was considered. According to Ryan (2018), there are three broad types of research philosophy – positivism, interpretivism and critical theory. Positivists value objectivity and hence believe that research should be data driven and free of value judgements. Positivism uses the rules of natural sciences in its reliance on an evidence-based approach and views truth as singular and objective (Green, 2017). A positivist research philosophy is therefore consistent with quantitative research which uses large sample sizes that generate statistical data.

Interpretivism on the other hand believes that there is an element of subjectivity in the world in general and in research in particular. With interpretivism, truth and reality are not objective and to be discovered but rather subjective and to be generated through social interactions (Green, 2017). With interpretivism, it is not possible to generate objective truth as the process and hence the outcomes are clouded by the researcher's preconceptions (Walsham, 1995).

Based on the research above as well as the definition of the research problem in Chapter 1, this research adopted an interpretivist philosophy to research. As noted above, the research used a sample of one, which is the Walmart-Massmart merger condition and conducted semi-structured interviews in order to answer the research questions. The research was supported by the views of the interview respondents regarding their experiences with the Walmart-Massmart supplier development fund which the researcher interpreted. According to McGrath, Palmgren & Liljedahl (2019), qualitative interviews are most appropriate for this kind of study as they afford the researcher the opportunity to explore subject matter with each respondent in detail, allowing the respondents to also highlight their own unique experiences.

The research approach was deductive. According to Saunders and Lewis (2012), “deduction is a research approach which involves the testing of a theoretical proposition by using a research strategy designed to perform this test.” As noted above, the literature suggests that supplier development can have benefits for both suppliers and customers/buying firms. My research will aim to test this theoretical proposition using a case study.

Saunders and Lewis (2012) further set out the 5 (five) sequential steps of deductive research, which are summarised as: (i) defining the research questions from theory; (ii) operationalising these questions and how they may be answered (i.e. interview instrument; (iii) collecting data; (iv) analysing the data; and (v) confirming or rejecting whether the results are in line with existing theory. This research included all 5 (five) of these steps.

The type of case study used was descriptive. According to Baxter and Jack (2008, p.548), a descriptive case study “is used to describe an intervention or phenomenon and the real-life context in which it occurred”. As described above, this research considered the impact of the Walmart-Massmart supplier development fund on the various stakeholders. The research therefore sought to describe an intervention and the context within which it occurred. A descriptive case study is the most appropriate case study type for this research. The results were also analysed deductively in that they were tested against largely established theory on supplier development.

The research was qualitative, the methodological choice is a mono-research methodological choice. The research considered the period from implementation of the fund until its expiry – 9 February 2013, with a five-year term to 9 February 2018.

4.2. Population

This research was an ex-post review of a merger remedy that was imposed by the Competition Authorities of South Africa. The research however focused on specific types of merger remedies, being merger remedies that included some form of supplier development programme. The population for this research is therefore mergers that have been approved with supplier development conditions by the Competition Authorities in South Africa.

With regard to the subjects of the interviews, the population is the stakeholders that participated in the Walmart-Massmart supplier development fund. This included Walmart-Massmart as the buying firm and host of the supplier development fund, the SMME suppliers who were supported by the supplier development fund, and the panel of experts that were involved in the design of the supplier development fund. These three groups of stakeholders were considered to be able to provide responses to the interview questions which would answer the research questions.

4.3. Sampling method and size

As noted above, the research used a single-sample case study. The research used this case study (i.e. sample of 1 (one)) because of the seminal nature of Walmart-Massmart in developing these kinds of conditions. Prior to Walmart-Massmart, the majority of public interest merger conditions were related to employment and protecting jobs.

The intervention by the EDD (and the unions) in Walmart-Massmart resulted in the supplier development fund which set precedent for these kinds of conditions. Following Walmart-Massmart, similar funds have been imposed as conditions in mergers involving large corporations such as Coca Cola, Old Mutual and South African Breweries resulting in billions of Rands in investment commitments. The challenge is that most of these conditions are recent and mostly still active. The commitments made are generally over several years such that it may be premature to study their impact.

Further, as noted above, the process followed by the CAC in developing the fund was unique in that a panel of experts was constituted to develop the details of the fund. This approach has not been used since Walmart-Massmart. The research

considered the efficacy of this approach with the aim of assessing its impact on the outcomes achieved. The research sought to make recommendations to the Competition Authorities on whether they should aim to use a similar approach in future. The research therefore sought to conduct in-depth research of this single case study. A single-sample case study approach is the most appropriate in this context.

A total of nine interviews were conducted. The author acknowledges the limited number of interviews conducted in this research, however, there are a number of reasons for this. Firstly, and most importantly, the research was designed as a single sample case-study research; this limited the number of respondents that could be interviewed to only respondents with direct knowledge of the Walmart-Massmart supplier development fund. Interviewing respondents beyond this group would have been unhelpful.

Secondly, the interviews were limited to face-to-face interviews as the researcher was of the view that this would ensure engagement at the appropriate level of detail. Due to the sensitivity of the business information discussed during the interviews, the researcher was of the view that respondents would not be forthcoming in a telephone interview. Telephone interviews are only recommended in instances where the researcher has already met the interview respondent, built rapport and gained their trust (Saunders and Lewis, 2012). According to Vogl (2013), face-to-face interviews are the most common method of conducting semi-structured interviews. This limited the potential respondents to those located within driving distance of the researcher.

The researcher therefore used a combination of purposive sampling and convenience sampling. According to Saunders and Lewis (2012), convenience sampling refers to non-probability sampling according to which the researcher chooses a sample based on respondents that are easiest to find. Saunders and Lewis (2012) discourage the use of this method of sampling because it may result in selecting a sample which is not best placed to answer the questions. This was not the case in this research as the researcher used purposive sampling to select the preliminary sample. Purposive sampling refers to non-probability sampling in which the researcher intentionally selects a sample based on their judgement of who is best placed to answer the research questions (Saunders and Lewis, 2012). The researcher therefore used purposive sampling to select only those people with

intimate knowledge of the supplier development fund. Based on this preliminary sample, convenience sample was then used to select a final sample for interviews.

Handcock & Gile (2011, p. 369) describe convenience sampling as useful when “*collecting a sample from a population in which a standard sampling approach is either impossible or prohibitively expensive...*” Based on the prohibitive financial expense involved in engaging stakeholders located outside Gauteng, the author elected to employ convenience sampling and focus on stakeholders in Gauteng. The use of non-probability sampling however means the research did not have an unbiased random sample (McCreesh et al., 2012).

As noted above, there were three groups of respondents – representatives of Walmart-Massmart, the panel of experts and the suppliers supported by the supplier development fund. With regard to Walmart-Massmart, it would have been unnecessary to interview more than one person. In addition, Walmart-Massmart volunteered a Group Executive for the interview. The views expressed were on behalf of the company and were sufficiently detailed and exhibited extensive knowledge of the inner workings of the supplier development fund.

As discussed above, there were three experts on the panel. The researcher however found that only one is based in Gauteng, South Africa. The others are based in the Western Cape, South Africa and the United States of America. The researcher therefore used convenience sampling and interviewed the one expert based in Gauteng, South Africa.

With regard to the suppliers, the researcher notes that during the 5 (five) year period, the supplier development fund worked with 41 suppliers in total. This includes all the suppliers who participated in the supplier development fund from its inception until its expiry. Of these 41 total suppliers, only 26 were based in Gauteng. As discussed in more detail in Chapter 5 below, throughout the 5 (five) year period, some of the suppliers were graduated from the supplier development fund while others were exited. Some of the suppliers who were exited have ceased to exist. At least 1 (one) of the suppliers from Gauteng who exited has also ceased operations.

Ultimately, the maximum number of suppliers that could have been interviewed was the 25 suppliers based in Gauteng who continue to operate. The researcher interviewed 7 (seven) of these suppliers, a response rate of 28%. In any event, the

researcher noted that the interviews had reached saturation after at least 5 (five) interviews with the suppliers. At this point, the researcher noted that no new data was being generated by the additional interviews with suppliers (Guest, Bunce & Johnson, 2006). An additional two interviews were conducted and these confirmed that there would be no probative value in continuing to interview additional suppliers.

The researcher considered interviewing the 6 (six) supplier who were discontinued/exited from the supplier development fund however 4 (four) of these are based outside of Gauteng. Of the 2 (two) based in Gauteng, one (1) is no longer operating and the researcher was not able to secure an interview with the other. This would have allowed the researcher to collect information from suppliers who may have had a less positive experience with the supplier development fund. Nonetheless, the researcher notes that these suppliers are in the minority.

4.4. Unit of analysis

According to Baxter and Jack (2008), a unit of analysis represents what exactly your research seeks to analysis – the primary focus of the case study. The research studied the impact of the Walmart-Massmart supplier development fund. This was studied through engagements with various stakeholders involved with the supplier development fund. Notwithstanding, the analysis is conducted at the level of the supplier development fund such that the supplier development fund was the unit of analysis.

4.5. Measurement instrument or Discussion Guide

Data for the case study was collected through a series of semi-structured interviews with several of the relevant stakeholders. This included:

- a representative of Walmart-Massmart;
- representatives of the suppliers that received funding from the fund; and
- one of the experts that formed part of the panel of experts.

The interview instruments for each category of stakeholder are attached as Annexures A, B and C respectively. The questions in the interview instruments were designed in order to answer the research questions as supported by the literature (Saunders and Lewis, 2012). Put differently, the Literature Review informed the

research questions which then informed the specific questions asked in the interviews.

4.6. Data gathering process

According to McGrath, Palmgren & Liljedahl (2019), the most appropriate way of collecting qualitative data is through interviews and surveys. The data for this research was collected using semi-structured face-to-face interviews with the various stakeholders listed above. The questions focused on getting insight into their experiences as part of the fund. The table below reflects the details of the interviews conducted.

In total, nine interviews were conducted. A summary of the interviews is presented below. To protect the confidentiality of the discussions, the identities of the interview respondents are withheld, and the suppliers are code-named.

Table 1: List of Interviews

No.	Company	Designation	Date	Duration
1	Massmart	Group Executive	22 Aug 2019	52:27
2	Supplier 1	Owner/MD	10 Sept 2019	24:48
3	Supplier 2	Owner/MD	11 Sept 2019	20:46
4	Supplier 3	Owner/MD	12 Sept 2019	41:50
5	Supplier 4	Owner/MD	12 Sept 2019	29:22
6	Supplier 5	Owner/MD	17 Sept 2019	36:06
7	Supplier 6	Owner/MD	23 Sept 2019	26:06
8	Supplier 7	Owner/MD	25 Sept 2019	15:59
9	The Expert	Economic Expert	14 Oct 2019	27:06

The average interview duration was 30:30 with the shortest interview being 15:59 and the longest being 52:27. All the interviews were organised via email and phone-calls and were largely scheduled at least a week in advance. The interview respondents were also given a copy of the interview schedule for them to consider and prepare for the interview. All the interviews were conducted at the respondents' place of work for their convenience (McGrath, Palmgren & Liljedahl, 2019).

Each respondent gave informed consent after considering and signing a participant consent form. A copy of the consent form is attached as Annexure D to this report. The interviews were recorded using two recording devices for redundancy. The data

collected was in the form of voice recordings which were then transcribed by the researcher.

In addition to the interviews, secondary data was also collected through the conditions compliance reports which were submitted to the Competition Commission as part of the conditions monitoring obligations imposed by the CAC. The compliance reports detailed various aspects of the supplier development fund such as the administration and government of the fund, the capital invested into the fund during each year, the suppliers supported, the nature of the support and Walmart-Massmart's understanding of the impact of the fund.

Each of these data pieces were considered together to form as complete a picture as possible of the impact of the supplier development fund. This is consistent with the "pieces of the puzzle" approach recommended by Baxter and Jack (2008).

4.7. Analysis approach

According to Baxter and Jack (2008), there are several approaches to analysing qualitative research; these include: pattern matching, linking data to propositions, explanation building, time-series analysis, logic models, and cross-case synthesis. The analysis approach that was used by this research included mostly linking data to the research questions.

The interview questions were designed in a fashion that guided respondents towards specific discussion points although the respondents were free to discuss any other issues relevant to the research topic.

In analysing the data, the researcher took the data from the interview transcripts and it was coded using Microsoft Excel™. The codes were largely predetermined based on the literature reviewed in Chapter 2 above, which is to be expected in deductive research. Based on these codes, the frequencies were prepared and ranked. This made it possible to identify any common themes that emerge in the data. In most instances, the themes could be directly linked to issues identified in the Literature Review and could be used to answer the research question. Annexure F shows an extract of the coding and analysis in Microsoft Excel™.

The data collected from the compliance reports was used as supporting data in the analysis. The reports provided critical factual information regarding the supplier

development fund; information largely unavailable publicly. This allowed the research to present a more complete picture of the supplier development fund; much more complete than would have been possible by relying only on the interviews and publicly available information.

4.8. Research Quality & Controls

Qualitative research suffers from several biases. These can generally be summarised into researcher bias and respondent bias. Galdas (2017) defines bias as any influences which result in the distortion of results. Bias is an element of subjectivity. Subjectivity is described as resulting from an individual's world view, which is unsupported and is biased/prejudiced (Roulston & Shelton, 2015). Summers (1969) noted that bias can be identified at each stage of the data gathering process including sample selection, instrument design, capturing responses and processing the responses captured. Beyond data collection, there can be bias in the interpretation of the results.

Bias, particularly in qualitative research is not avoidable; researchers should not preoccupy themselves with eliminating bias. Rather, researchers should acknowledge their biases and those of the people involved in their research (Roulston & Shelton, 2015) and put in place measures to manage this. Roulston & Shelton (2015) further argue that bias is an integral part of contemporary qualitative research which focuses on "... critical, constructivist, interpretive, participatory, and post-modern paradigms..." These authors argue that subjective participants are a critical feature of knowledge building in this area of research such that their subjectivity should not be viewed as creating distortion. For example, this research sought to understand the impact of the Walmart-Massmart supplier development fund on the suppliers it supported. It would be unsustainable to describe that impact outside of the subjective views of the owners of these businesses.

Notwithstanding this acknowledgement, the researcher took active steps to manage bias and subjectivity in the research in order to improve the validity of the research. Baxter and Jack (2008) notes that in order to improve the validity of case study research, a researcher must do each of the following:

- the research questions are clearly written, and the propositions and questions are substantiated;

- the case study design is appropriate for the research question;
- data are collected and managed systematically; and
- the data are analysed correctly

Most importantly, the researcher ensured a constant link between the literature, the research questions, the methodology and the results of the research. A number of methods were used to ensure the validity and trustworthiness of the data collected. Baxter and Jack suggested respondent triangulation as one way for ensuring validity. This refers to collecting data from different kinds of respondents (Reeves, Kuper and Hodges, 2008). As noted above, data was collected by conducting interviews with a representative of Walmart-Massmart, representatives of the suppliers supported by the fund and lastly with an expert that served on the panel of experts who developed the details of the fund.

In addition to the respondent triangulation described above, the research also made use of data triangulation, which involves using different types of data. In addition to using the primary data referred to above (interviews), the research also collected secondary data from conditions compliance reports which are submitted to the Competition Commission as part of conditions compliance requirements for the merging parties. This approach is likely to have increased the validity of the data collected.

4.9. Limitations of the Research

There are certain limitations to this research which are worth noting. Firstly, similar to most qualitative research, aspects of the research are not quantifiable and may be difficult to prove objectivity. Secondly, it may not be possible to generalise the findings across the population of mergers identified above (Kuper, Lingard and Levinson, 2008). For example, the Walmart-Massmart merger is the only merger of its kind where a panel of experts was used in developing the fund. This may make it difficult to generalise the findings across other merger conditions where a panel of experts was not used. This inability to generalize is often noted as one of the disadvantages of case-study based research (Tierney & Clemens, 2011). Notwithstanding this limitation, there is significant merit in considering this one case study given its seminal position for these kinds of conditions. Tierney & Clemens

(2011) helpfully highlight the role that qualitative research can still play in policy development by focusing on individual and nuanced aspects of policy challenges.

Thirdly, the researcher notes that none of the 6 (six) supplier who were discontinued/exited from the supplier development fund were interviewed which may be viewed as a limitation. This was because 4 (four) of these suppliers are based outside of Gauteng. Of the 2 (two) based in Gauteng, one (1) is no longer operating and the researcher was not able to secure an interview with the other. This would have allowed the researcher to collect information from suppliers may have had a less positive experience with the supplier development fund. Nonetheless, the researcher notes that these suppliers are in the minority (i.e. 6 (six) of 41).

Fourthly, the researcher only interviewed respondents based in Gauteng. This use of convenience sampling may mean that the sample may not necessarily be representative and there could have been an element of geographic bias. Fifthly, the research did not consider any other aspects that may have affected the performance of the suppliers on the fund. As noted in the Literature Review, SMMEs can also be affected by market and macro factors, respectively. The research does not consider these as potential variables that may explain the performance of these SMMEs. It should however be noted that a number of the SMMEs explicitly ascribed their performance exclusively to the supplier development fund.

Lastly, the researcher notes that the respondents, particularly the suppliers, may have been inclined to present a positive image of the supplier development fund given the support they were given. This may have biased their responses regarding their experience with the fund. The researcher however used data and respondent triangulation to limit the potential impact of this bias.

4.10. Ethical Considerations

The researcher ensured that the research was conducted in an ethical manner. This was particularly important in the data collection stage of the research which involved interaction with human subjects. The researcher was given ethical clearance to collect data in this way. A copy of the ethical clearance is attached as Annexure F to this report. As noted above, the respondents also signed informed consent forms.

Chapter 5: Results

5.1. Introduction to Results

The purpose of this research was to conduct an ex-post review of the Walmart-Massmart supplier development fund. This would allow the researcher to answer questions regarding the impact of supplier development funds on SMMEs and on buying firms. Further, the research considered the role that Competition Authorities play in designing and developing supplier development funds. Particularly, the research sought to consider whether the use of a panel of experts similar to the one used in the Walmart-Massmart hearing by the CAC could be a model used for other mergers where there are similar considerations.

As noted in the Research Methodology above, the research was conducted in the form of a single-sample case study using the Walmart-Massmart supplier development fund to answer a set of research questions. The results below are from two distinct data collection endeavours. Firstly, the researcher conducted interviews with various stakeholders with knowledge of the supplier development fund; these included a representative from Walmart-Massmart, the suppliers who were supported by the supplier development fund and one of the experts who formed part of the panel of experts used by the CAC. Secondly, the researcher collected and analysed a set of compliance reports submitted to the Competition Commission in compliance with the monitoring obligations set by the CAC.

The reports detail the activities and results of the supplier development fund. The results of both of these data collection exercises are presented in this Chapter.

5.2. Results from Interviews

5.2.1. Overview of the sample

As noted above, the research questions were answered through the study of a single-sample case study, the Walmart-Massmart supplier development fund. In studying this case, interviews were held with, a representative of Walmart-Massmart, 7 (seven) of the suppliers that participated in the supplier development fund, and 1 (one) of the three experts that made up the panel of experts employed by the CAC.

The author acknowledges the limited number of interviews conducted in this research. However, as discussed above, there are a number of reasons for this. Firstly, and most importantly, the research was designed as a single sample case-study research which limited the number of respondents that could be interviewed to only respondents with knowledge of the Walmart-Massmart supplier development fund. Interviewing respondents beyond this group would have been unnecessary.

Secondly, the interviews were limited to face-to-face interviews. The researcher considered literature in Chapter 4 on the reason face-to-face interviews were most appropriate for this research which limited the potential respondents to those based within driving distance of the research. For example, of the three experts used by the CAC, only one is based in Gauteng with the others based in the Western Cape and the United States of America. Further, it was unnecessary to interview more than one person from Walmart-Massmart. This also limited the number of suppliers that could be interviewed to those that are within the Gauteng Province.

During the 5 (five) year period, the supplier development fund worked with 41 suppliers in total. Of these 41 suppliers, only 26 were based in Gauteng. A number of suppliers have graduated from the programme while others have discontinued/exited. Some of the suppliers who were exited have ceased to exist. At least 1 (one) of the suppliers exited in Gauteng ceased operations.

Ultimately, the maximum number of suppliers that could have been interviewed was therefore the 25 existing suppliers based in Gauteng. The researcher interviewed 7 (seven) of these suppliers, a success rate of 28%. In any event, the researcher noted that the surveys had reached saturation after at least 5 (five) interviews with the suppliers. At this point, the researcher noted that no new data was being generated by the additional interviews with suppliers (Guest, Bunce & Johnson, 2006). An additional two interviews were conducted in this regard and it was confirmed that it would not have been helpful to continue interviewing additional suppliers.

5.2.2. Results from Massmart Interview

This section presents the results of the interview with a Group Executive of Walmart-Massmart. A key issue is worth noting prior to presenting these results. The interview with Walmart-Massmart was the first piece of evidence collected i.e. this was the first

interview conducted and it was conducted prior to the assessment of the compliance reports. The researcher noted the potential for bias in the responses of Walmart-Massmart. As the custodian of the supplier development fund, Walmart-Massmart may be inclined to paint the programme in a positive light. The evidence presented by Walmart-Massmart was therefore compared to the rest of the evidence collected. As noted in the Research Methodology, the research used data and respondent triangulation to strengthen to reliability of the data.

The discussion below presents the results of the interview with Massmart.

Question 3: Did Walmart-Massmart have supplier development programmes in general in the past? Provide details.

On this Walmart-Massmart noted that its previous efforts at supplier development were largely unsophisticated and only involved giving small businesses access to the company's procurement. On this, Walmart-Massmart said: *"The other programmes we had in the past were focused on small business and it was mostly about providing access to the supply chain. So, there wasn't a whole lot of support that went with it. The support only included things like early payments for goods, taking goods on consignment, paying the supplier as the goods sold."*

Question 4: What was Walmart-Massmart's motivation for using supplier development programmes? Provide details.

Regarding the motivation, Walmart-Massmart confirmed that these were largely focused on compliance with Black Economic Empowerment (BEE) codes. On this, Walmart-Massmart said: *"There was no broader strategic perspective and in fact, after the Competition Commission, and the Competition Appeal Courts ruling that we need to set up a fund, again, in the first few years, it was simply to comply with this ruling."*

Question 5: Did Walmart-Massmart have supplier development funds in the past? Provide details.

Walmart-Massmart confirmed that these previous initiatives were not specifically funded apart from funding through preferential rates.

Question 6: Was the process followed in developing the Walmart-Massmart supplier development fund unique or was it consistent with Walmart-Massmart's previous experience in similar projects? (Particularly the use of a panel of experts to design the details of the fund).

Walmart-Massmart submitted that the panel of experts played no further role beyond the CAC process. On the setup of the fund, Walmart-Massmart said: *"So the setup of the fund is divided into two parts. The first part was a supplier development person appointed to the executive committee to set up the fund. But it was a very bureaucratic process...there was no technical expertise or organizational assessment. If anything, it was politically informed. Our government talks a lot about our smallholder farmers in rural areas, let's go spend money on smallholder farmers in rural areas and will procure from them. It wasn't integrated into the business, it was run as a separate area of the business, the buyers weren't involved. It was simply a case of let's spend the money and make sure we spent it all by the end of five years..."*

Question 7: Has Walmart-Massmart adopted a similar approach in other supplier development initiatives since the Walmart-Massmart supplier development fund?

Walmart-Massmart submitted that the process changed following the first two years and the supplier development fund was considered in a more strategic manner. On this, Walmart-Massmart said: *"After two years, we looked at the fund, and we said, wait a minute, this is not really what we anticipated doing. And we don't think it's what the Competition Appeal Court thought we should do... The first thing we did was to conduct a review in the business... we looked at it strategically. ...we worked with the buyers... we asked them where we have shortages of product in our supply chain..."*

Following this, Walmart-Massmart noted that it identified two specific market situations resulting in shortages in the stores, firstly markets where Walmart-Massmart was served by firms with market power and secondly markets where Walmart-Massmart was served through imports. Walmart-Massmart submits that these market scenarios were creating supply shortages. On this, Walmart-Massmart said: *"The first decision we took was, we were only going to invest in suppliers where there was an import substitution project, or where in our view, there was a market concentration."* According to Walmart-Massmart, it also decided at this point to focus

on general merchandise and not on groceries as *“most groceries are sold by well-established brands and are very difficult to compete with those well-established brands.”*

Question 8: What criteria did Walmart-Massmart use in choosing the sectors and/or firms to be part of the supplier development fund? Provide details.

In addition to the above, Walmart-Massmart noted that another criteria it used was that it would not invest in greenfield projects. According to Walmart-Massmart, *“that was through bitter learning. We invested in two greenfield projects and we lost a lot of money. The main reason was that the entrepreneurs in both those businesses actually weren’t entrepreneurs, they were ex corporate guys that had a good idea, but they had no idea how to run a business.”*

This suggests that Walmart-Massmart placed significant weight on the characteristics of the entrepreneur in which it invested. In this regard, Walmart-Massmart that I asked itself: *“...do we have really good psychometric testing and protocols in place to identify if someone's entrepreneur? Or do we rather say, if you've been running a small business, and you've been running it successfully, for a minimum of three years, we think probably you've passed the entrepreneur test.”*

Further, Walmart-Massmart noted: *“And we don't mind that the business doesn't produce what we need. As long as they've got the basic processes to be able to produce what we need. So, if they do moulding, and we need cooler boxes, but they do plastic moulding for cups, our view is that's fine. We will help you expand your business to be able to mould and develop our cooler boxes.”* Finally, Walmart-Massmart added: *“The other decision we took was that we would give preference to black small owned business. The majority of our businesses are black small businesses.”*

Question 9: What nature of support did Walmart-Massmart provide to the suppliers on the Walmart-Massmart supplier development fund?

9.1. Was the support only financial? Provide details

9.2. Was the support once-off or ongoing?

In response to this question, Walmart-Massmart explained that the process was largely led by the buyers as they identified the products where there were shortages. Regarding the nature of support, Walmart-Massmart identified six prominent areas of support:

- Firstly, capital investment for plant and materials.
- Secondly, Walmart-Massmart noted that it would provide funding for working capital as most small businesses would struggle with working capital to purchase raw materials for large orders from Walmart-Massmart.
- Thirdly, Walmart-Massmart indicated that it provided support through a team of industrial engineers for the businesses to meet the specifications required by Walmart-Massmart from a quality and pricing perspective. The industrial engineers would also assist with relaying the plants to achieve efficiencies;
- Fourthly, Walmart-Massmart provided support regarding ensuring the suppliers met regulatory requirements;
- Fifthly, Walmart-Massmart submitted that it provided merchandising support in stores for the suppliers; and
- Finally, Walmart-Massmart submitted that the supplier development team would mentor suppliers on how to deal with buyers. The suppliers would get coached on how to negotiate with the buyers who are notoriously shrewd.

Once these measures have been implemented, Walmart-Massmart submitted that it would allow the supplier to start supplying single stores before eventually scaling up. On this, Walmart-Massmart said: *“We start them with one store which is the closest store... We get them just used to how retail works because retail is difficult... It’s about getting them used to all those disciplines, one store, then one region, then one province, then national. Nationally is a little difficult because mostly, you’ve then got to go through distribution centres, that’s a whole new set of skills that you have to learn... and then we moved them to new brands. So, you supply Builders, now we think we’d like you to supply Game. And we generally do the same thing... we get them used to working with a few Game stores, because our stores don’t all work in the same way.”*

Question 10: What has been the impact of the Walmart-Massmart supplier development fund on Walmart-Massmart? Provide details – e.g. increased employment, increased profitability, access to superior suppliers etc.

In response to this question, Walmart-Massmart identified a few areas where it has benefitted as a result of the supplier development fund. These are summarised below:

- Firstly, Walmart-Massmart noted that it was able to get products in its stores which it could not get in the past. Walmart-Massmart gave the example of a it was not able to get because the supplier refused to supply it. The supplier was concerned that a retailer the size of Walmart-Massmart would commoditise the product. Through the supplier development fund, Walmart-Massmart was able to use one of its suppliers to manufacture the product;
- Secondly, Walmart-Massmart noted how it was able to achieve better prices. Walmart-Massmart notes that as it worked directly with the suppliers to achieve efficiencies and lower costs, it had been able to achieve lower price points;
- Thirdly, Walmart-Massmart noted that it had been able to grow its private label as a result of the fund. On this, Walmart-Massmart said: *“Almost everything we do now is in our private label. It's helped us build our private label programme. It's improved our sales because our in-stock position in the lines that we've chosen is much better than it's ever been.”*; and
- Finally, Walmart-Massmart submits that the supplier development fund has assisted it to be more innovation. In this regard, Walmart-Massmart said the following: *“...what we've learned is when you just buying something from suppliers, innovation is in their hands, whereas when we've got our own industrial engineers looking at stuff, they will say to us, if we did this, here's how much better the product would be or, have you ever thought of incorporating this additional feature into the product.”*

As a result of these benefits, Walmart-Massmart noted that Walmart has decided to implement a similar programme in its Indian business. Further, Walmart-Massmart indicated that the business has plans to continue operating the supplier development programme even though the period of the fund has legally expired.

Question 11: Has the Walmart-Massmart supplier development fund given you access to a quality of suppliers that were not previously part of the Walmart-Massmart value chain? Kindly explain

Walmart-Massmart responded that it had been particularly impressed by SMMEs' dedication to quality noting that they are usually reluctant to reduce quality to meet a certain price point. Walmart-Massmart also noted that the SMMEs are much more responsive than its larger suppliers.

Question 12: Do you believe that the Walmart-Massmart supplier development fund gave you a competitive advantage over your rivals in any market you are active in? Kindly explain

In responding to this, Walmart-Massmart made use of examples through which the supplier development has allowed it to be more competitive.

- Firstly, Walmart-Massmart noted that through the supplier development fund, it was able to develop an alternative supplier of charcoal. This ensured that it was not affected by the regional shortage of charcoal as the large charcoal manufacturers are now more focused on the more profitable export market;
- Secondly, the supplier development fund allowed Walmart-Massmart to develop its own brand of detergent under its private label. Walmart-Massmart was previously concerned about stock shortages in this category; and
- Finally, Walmart-Massmart gave the example of how it developed a company which was only supplying one plastic product into a company with a wide range of plastic products. The supplier now supplies Walmart-Massmart with ammo crates and various sizes of cooler boxes under its private label.

Walmart-Massmart submits that the supplier development fund has given it a competitive advantage over its rivals as they continue to be negatively affected by the same stock shortages it has solved through the fund.

Question 13: Are the suppliers required to supply Walmart/ Walmart-Massmart exclusively or can they supply any other firm including your competitors? Kindly provide the motivation for this.

Walmart-Massmart confirmed that the suppliers supported by the supplier development fund are not expected to supply Massmart exclusively although they are not allowed to sell under the Walmart-Massmart private brands. Notwithstanding the fact that the suppliers are not expected to supply Walmart-Massmart exclusively, Walmart-Massmart noted the following: *"there's a normal commercial relationship,*

but implicit in that commercial relationship is we're trying to fix up the issues of supply and reliability. If overtime, you don't help fix the problem, we're going to work with other people as well. So, we won't take our work away... but we would find other small businesses that we can set up doing the same type of products. Because of that, I think the guys automatically give us preference."

In addition, Walmart-Massmart indicated that it is not interesting in the suppliers being exclusive to it. In this regard, Walmart-Massmart said the following: *"We also don't want to be exclusive, because, if the guy's entirely reliant on our procurement, that's a big responsibility for us. We want them to be able to supply to other people so we can spread the risk around."*

Question 14: Are there any other comments you would like to make regarding the Walmart-Massmart supplier development fund?

Walmart-Massmart noted that the supplier development fund has been a success. It has also allowed the company to build a relationship with government. Walmart-Massmart and government are in discussion regarding how the programme can be expanded to involve more exports. Buyers from Walmart's international business are also coming into the South African market to identify products for export.

Walmart-Massmart also noted that by earlier in 2019, the business has officially procured products of a value of more than R 1 billion from the suppliers in the supplier development fund which is a significant milestone.

5.2.3. Results from Supplier Interviews

The results of the supplier interviews are presented below. For better flow, the results are not necessarily presented in the same order as they were presented in the interview instrument. Certain questions have been clustered as they speak to similar subject matter. As the interviews were semi-structured, respondents were given freedom to speak outside of the confines of specific questions. The researcher has in certain instances attributed responses to questions where they are most appropriate, even if the respondent did not mention the point in response to that specific question.

In deriving these results, the researcher took the data from the interview transcripts and established codes using Microsoft Excel™. The codes were largely

predetermined based on the literature reviewed in Chapter 2 above, which is expected in deductive research. Based on these codes, the frequencies were counted and ranked.

Question 3: When was your company started? Provide details i.e. who started it, where, to provide which products, services?

Table 2: SMME Ownership

Rank	Ownership	Frequency
1.	Started by current owner	6
2.	Not started by owner/Acquired	1

A majority of the SMMEs interviewed were started by the owners. Only one of the SMMEs was acquired by the current owners.

Table 3: SMME Incorporation Date

Rank	SMME Incorporation Date	Frequency	Percentage
1.	before 2005	3	86%
2.	2005-2007	2	
3.	2010-2008	1	
4.	After Supplier Development Fund	1	14%

A majority (86%) of the SMMEs that were interviewed were founded prior to the commencement of the supplier development fund. Only one of the SMMEs was founded following the commencement of the supplier development fund. This is in line with submissions from Walmart-Massmart that a decision was taken to not focus on greenfield investments.

Table 4: Changes to Product Line Since Incorporation

Rank	Product Changes Since Incorporation	Frequency	Percentage
1.	Products Never Changed	6	86%
2.	Complete Change	1	14%

A majority (86%) of the suppliers interviewed have supplied the same products throughout the existence of the SMME. Only one supplier has made significant amendments to its product range, moving from supplying copper plumbing products to supplying ladders.

Question 4: How did you become aware of the Walmart-Massmart supplier development fund?

Table 5: Awareness regarding the Supplier Development Fund

Rank	Joining the Supplier Development Fund	Frequency
1	Through the media/took initiative	5
2	Invited by Walmart-Massmart	3
3	Through a third party	1

Several of the suppliers gave more than one response on how they became aware of the supplier development fund. A majority of the suppliers took the initiative to contact Walmart-Massmart having found out about the supplier development fund through the media. Being invited by Walmart-Massmart was mentioned as a reason by 3 (three) suppliers while one supplier was advised to apply by a third party.

Question 8: Have you had prior experience with other supplier development initiatives in the past? Kindly explain.

The purpose of this question was to determine whether the suppliers have had previous experience with supplier development initiatives. This would have allowed for further probing on the quality of the Walmart-Massmart supplier development fund compared to other programmes they have participated in.

Table 6: Previous Experience with Supplier Development

Rank	Previous Experience with Supplier Development	Frequency
1	No	5
2	Yes	2

Most of the suppliers interviewed have never participated in supplier development initiatives in the past. Supplier 1 has participated in government-led supplier development initiatives however these were fairly limited and only provided basic services such as printing businesses cards. Supplier 1 also noted previous unsuccessful efforts to join the supplier development programme of one of South Africa's large grocery retail chains. Supplier 3 has previously participated in a business incubator. Supplier 6 tried to join supplier development initiatives offered by government but was not successful. All the supplier interviewed confirmed that they had never participated in a supplier development programme of this scale and scope.

Question7: Was the Walmart-Massmart supplier development fund your first endeavour into entrepreneurship?

7.1 Provide details, what have you tried before and how did it end up.

7.2 What were the challenges you faced in your previous endeavours into business?

The purpose of this question was to understand whether the entrepreneurs that participated in the supplier development fund had previous business experience. This information will allow the research to consider their likely level of competence as entrepreneurs. Further, the second part of the question presents information on challenges they have previously faced as entrepreneurs and this can be compared to support that was given by the supplier development fund.

Table 7: Previous Entrepreneurship Experience

Rank	Previous Business Experience	Frequency
1.	Extensive previous experience	6
2.	No previous experience	0

A majority of the suppliers interviewed have extensive experience as entrepreneurs. This is the outcome of having operated the specific SMME which participated in the supplier development fund, or alternatively through experience operating other businesses. For example, Supplier 5 noted that *“I had my first business in primary school, actually. I was making handmade key rings and I was selling them at the market back in the day...”* Supplier 5 further noted that *“I’ve had a lot of work experience. I’ve actually been working since high school, I didn’t need to, but I did it because I wanted to. So, I’d literally work at retail stores, I used to work at Aca Joe in Sandton every weekend in grade 11. I also had an internship at a radio station, I tried everything. And then I started another business, which was a clean energy business with four partners. An incredible time, taught me a lot.”*

Supplier 3 spoke at length around how he started his business from his garage in 2005. Supplier 6 also spoke about his extensive business experience. On this he said: *“So I was in electronics, and then my friend... started a business doing interior and exterior landscaping. I raised some money and bought shares into his business and we became partners. We grew that business to the largest interior landscaping business in the world. In a period of 15 years, we had 3 farms, 3000 customers, we started to franchise, 60 vehicles, 300 people working for us. We then sold the business to a public company.”* One supplier did not answer this question.

The table below shows the challenges the suppliers faced in their previous business endeavours.

Table 8: Challenges Faced in Previous Businesses

Rank	Challenges Faced	Frequency
1.	Lack of funding (Capital)	3
2.	Working capital	2
3.	Market access	1
4.	Compliance	1

Table 7 above shows the challenges that were faced by the entrepreneurs in their previous business endeavours. Not all the suppliers answered this question while other mentioned more than one challenge. The most frequently mentioned challenge was funding, both capital funding and working capital. Supplier 3 spoke of the difficulties of not being able to secure significant orders due to not having sufficient working capital to fulfil them. On this, he said: *“I met Brian Leroni at the exhibition for SMMEs in Midrand and he introduced himself and he said I should bring my products into Builders Warehouse. I was not able to get finance to get working capital to supply so I lost the opportunity.”*

Supplier 5 also spoke about the challenges of not having sufficient working capital. When the business was fairly new, it was funded entirely through retained profits, which was challenging. She spoke of an incident where material was damaged by an inexperienced staff member and how this nearly sunk the business. Supplier 4 also spoke about the challenges of securing funding from banks when the business was initially incorporated.

Previous challenges with market access and compliance were mentioned by one supplier, respectively.

Question 6: What nature of support did you received from the Walmart-Massmart supplier development fund?

6.1 Was the support only financial? Provide details

6.2 Was the support once-off or ongoing?

The purpose of this question was to understand the structure of the supplier development fund, particularly the nature of support that was granted to the suppliers regarding duration and scope. These responses will be compared to the literature in Chapter 2 above on extensive participation and advanced programmes.

Table 9: Was the support only financial?

Rank	Code	Frequency
1	Other Support	7
2	Only Financial	0

All the supplier interviewed confirmed that the support granted by the supplier development fund was not just financial. As discussed below, the support encompassed various aspects of their business.

Table 10: Was the support once-off?

Rank	Code	Frequency
1	Ongoing	7
2	Once off	0

All the suppliers confirmed that the support was ongoing and not a once-off exercise. On this, Supplier 2 said: *“I see somebody from the support office once a month at least...in general, we see each other once a month, either I go to Massmart for a meeting or they come here. Most of the time they come here and we discuss anything that they need us to do or to help us with.”* Supplier 1 also confirmed that the support has been ongoing and appears to be continuing even though the term of the supplier development fund has expired. On this, Supplier 1 said: *“We still put our labels on by hand, but Massmart committed to assist us with a labelling machine, barcoding machine and all that.”*

Supplier 3 said: *“...it wasn't just financial, and it wasn't once off. All those things I mentioned were over time. There is other stuff which we have discussed which they will do for me in future.”* This is notwithstanding the fact that the supplier development fund as mandated by the CAC has expired.

Question 5: Which aspect of your business was supported by the Walmart-Massmart supplier development fund?

This question was central to the research. The purpose of this question was to understand the different aspects of the suppliers' businesses which were supported by the supplier development fund. The purpose of this and the rest of the questions is to assess the impact of the supplier development fund on the suppliers' businesses.

Table 11: Areas supported by the Supplier Development Fund

Rank	Areas supported	Frequency
1	Capital	7
2	Operational	6
3	Compliance	5
4	Market Access	3
5	Working Capital	3
6	Management Training	1

The responses from the suppliers were vast regarding the areas supported by the supplier development fund. From the table above, the areas which were mentioned the most by the suppliers were support with capital expenditure and operational support. Assistance with compliance, market access and working capital were also mentioned by the suppliers. These are discussed below.

Capital Expenditure

On capital expenditure, Supplier 1 said: *“They bought me new equipment. My guys used to fill bottles by hand and now we auto fill. Massmart bought this equipment.”* Further, Supplier 1 noted that: *“...Massmart decided to buy me the equipment needed.... They spent...to buy me the machine and I now have the only state of the art ...machine in the country, in the Southern Hemisphere I think.”*

Regarding support for capital purchases, Supplier 2 said: *“Most of the support that was given to us was capital purchases, equipment to increase production, make production more efficient and be able to manufacture different types of products.”* Further, Supplier 2 said: *“The development fund got involved in our business in 2014/2015 and they assisted us to move to this factory. We started in a 40 square metre building and we managed to move to 1000 square meters. They bought a mixing machine, forklift and a filling machine. They really took us to the next level.”* Supplier 3 expressed similar sentiment when he said: *“They also bought me some machines, tanks and other equipment.”*

On capital expenditure, Supplier 5 said: *“Financially, I was able to buy new machinery, and also get some specialized machinery, which definitely helped with the quality of how we produce.”* Supplier 7 spoke of how Walmart-Massmart essentially bought them a factory they required to manufacture the new products Walmart-Massmart needed.

Ultimately, all the suppliers confirmed that Walmart-Massmart has assisted them with capital expenditure mostly around buying the necessary equipment to produce.

Operational Support

A majority (86%) of the suppliers confirmed that they received operational support from Walmart-Massmart. Supplier 4 confirmed that Walmart-Massmart sent in a team of Industrial Engineers to assess his operations and identify areas of improvement. On this, Supplier 7 said: *“...they got some people that came to look at our whole manufacturing process and they gave us some suggestions on how we can streamline the whole process.”*

Supplier 5 also mentioned receiving assistance regarding processes. On this, Supplier 5 said: *“...at a later stage, [engineering company] did help me reconfigure my factory so that we can create efficiency.”* Supplier 1 also mentioned that: *“They sent engineers who assisted with keeping our costing in check.”*

Although not all the suppliers confirmed this during the interview, the research has found that Walmart-Massmart kept a company of Industrial Engineers on retainer for the period of the supplier development fund. The purpose was for these Industrial Engineers to assist the suppliers in improving their manufacturing processes which would allow them to be more competitive.

Compliance

In addition to the above, several suppliers mentioned how Walmart-Massmart assisted them in improving their compliance. This was most pronounced in the interview with Supplier 1. Supplier 1 spoke extensively about how he had challenges in getting his product accredited by the South African Bureau of Standards (SABS) largely as a result of the SABS not having the appropriate equipment to test the product. On this, Supplier 1 said: *“The guys from the supplier development programme took my product and we went to different labs around South Africa, but these also did not have the equipment needed... but Massmart decided to buy me the equipment needed... They spent...to buy me the machine and I now have the only state of the art ...machine in the country, in the Southern Hemisphere...”*

Supplier 2 also noted this as an area in which support was given. On this, Supplier 2 noted: *“Other support they gave us was funding for compliance, to start Quality*

Management Systems and funding to comply with all of Massmart requirements, regulations, industry standard regulations.” Supplier 3 spoke about how Walmart-Massmart has been assisting him to develop labelling with different languages in preparation for the export market. These are compliance requirement for participating in the export market.

Supplier 6 also mentioned compliance as one of the focus areas of the supplier development fund. On this, Supplier 6 said: *...because they're an American based company, you have to have compliance. There's a book that you fill in every year, which covers every single aspect of your business, your staff, your machine, all the laws around cleanliness of environment, the people that supply you as well. They can't be seen to be wanting in any area, because it's such a huge organization.”*

Market Access

Supplier 2 spoke about the support received through the supplier development fund through providing access to markets. On this, Supplier 2 said *“...they help us to speak to various chains within the Massmart Group, set up meetings with buyers. So, they did not just help with grants for equipment, they actually assisted us through their support system by opening doors for us, by seeing buyers, other chains.”* Further, Supplier 2 said: *“Many supplier development programmes fail because if they haven't got the support of the buying team, then you could have a R3 million factory but if the buyers are not buying your product then you will fail.”*

Similar sentiments were expressed by Supplier 3 regarding the importance of having access to the market. On this, Supplier 3 noted that: *“They also supported me in terms of the market because they gave me the market. It would be useless if they gave me funding but no market”.* Supplier 5 also mentioned the value of having access to such a significant customer. On this, Supplier 5 mentioned that: *“Massmart and Makro were my first big order; it's country-wide whereas before, I just had small orders that I would cater to.”*

Working Capital

Several the suppliers also spoke about the support they received with working capital. Supplier 5 spoke on this: *“They help out, they literally give you capital to start the order...They also understood that doing that once is not good enough to get the*

wheel rolling. They gave me capital twice in the beginning because while you finished with Massmart, all the money is stuck there and you have to start something else, and then you're kind of stuck again.”

Supplier 3 also spoke of receiving assistance with working capital. On this, Supplier 3 said: “...Brian Leroni connected me with another guy who offered me an opportunity, but again I did not have working capital, so they helped me join the SDF and gave me the capital I needed.” Supplier 6 mentioned support through working capital indirectly. On this, Supplier 6 said: “Then they give you a few incentives, like the rebates that other suppliers will have to pay, they maybe drop that or they pay for you. At the distribution centre, they'll maybe give you a preferential rate on the distribution of the product as well.” These were all aimed at ensuring the suppliers retained a positive cash position.

Question 9: What has been the impact of the Walmart-Massmart supplier development fund on your business? Provide details – e.g. employment, increased profitability, upgrading nature of business etc.

Table 12: Impact of Supplier Development Fund

Rank	Impact of Supplier Development Fund	Frequency
1	Capital Equipment	7
2	Employees	7
3	Revenue/Profit	5
4	Market access	5

Most of the supplier indicated that the primary impact on their businesses has been capital equipment and increases in employment. The evidence on the impact of the supplier development fund on capital equipment was largely discussed above and will not be repeated here. Suffice to say, all the suppliers noted in their interviews that they benefitted through Walmart-Massmart assisting them to make capital purchases which have helped their businesses grow and develop.

On the number of employees, Supplier 3 noted that: “when we started, it was just 3 of us, it was myself, my wife and one guy, now we have more than 10 people.” Supplier 4 submits that, as a result of the supplier development fund, “we were able to get a lot more staff on board.” In addition, Supplier 4 noted: “We started off with about 10 staff, and we're sitting now with about collectively probably about 60. Over a couple of years though, it hasn't just been overnight.” Supplier 6 expressed similar sentiments

regarding the impact of the fund on employment; in this regard, Supplier 6 said: *“I think before, we had 35 guys before they came on board. And now we’ve got 50.”*

Regarding the number of employees, Supplier 2 noted the supplier development fund has allowed them to appoint more people, *“they even helped us employ a chemist who we pay a retainer every month. They paid for the first six months then we took him on.”* Overall, the supplier development fund has allowed the suppliers to grow their businesses and appoint more staff.

The suppliers also confirmed that the supplier development fund allowed them to grow their revenue and profits. Supplier 4 noted that: *“...year on year our turnover has increased exponentially. On some of the lines, we’ve been growing up to 60% year on year.”* Supplier 3 noted that turnover has grown however margins remain under pressure because of tough competition. Regarding the impact of the supplier development programme, Supplier 6 said: *“Massive, absolutely massive.”*

Supplier 2 did not speak explicitly about increases in turnover. However, Supplier 2 noted that: *“When we started with the Supplier Development Fund, we only made one product. We had about 12 different products which were manufactured externally, and we only distributed. Since they got involved, we probably have over 60 which we all produce [internally] into four different brands for four different customers.”* This almost five-fold increase in product range can be interpreted to have been accompanied by an increase in turnover. This is especially so considering the increase in employee headcount noted above. The same can be said about Supplier 7 who noted that they have grown and employ more people, this can be interpreted to represent at least some increase in turnover.

The evidence regarding market access will be discussed in Question 10 below to avoid repetition.

Question10: Has the Walmart-Massmart supplier development fund given you access to the Walmart/Massmart value chain?

Table 13: Access to Walmart-Massmart Value Chain

Rank	Access to Value Chain	Frequency
1	Yes	6
2	No	1

Most of the suppliers spoke positively around the impact of the supplier development fund on their ability to access the Walmart-Massmart value chain. Supplier 1 submitted

that it has started supplying Makro ever since the supplier development fund allowed it to solve its compliance challenges. Supplier 2 noted that as a result of the supplier development fund, it supplies both Marko and Builder's Warehouse. Currently, Massmart makes up 90% of its businesses.

Regarding market access and access to the Walmart-Massmart value chain, Supplier 3, which supplies Builder's Warehouse, said: *"They started me with one store, Edenvale. From there they gave me another four stores. In 2015, I started all the stores in Gauteng. In 2016, I started supplying through the distribution centre. This year, they have requested that we supply the KZN and Cape Town DC."* As noted above, Supplier 3 considers access to the Walmart-Massmart value chain to have been the most important aspect of the supplier development fund, saying: *"They also supported me in terms of the market because they gave me the market. It would be useless if they gave me funding but no market."*

Supplier 4 noted that it largely supplies Builder's Warehouse whereas the business with Makro is small. Supplier 4 also noted that it is in discussions with Game, another Massmart store. Walmart-Massmart constitutes approximately 90% of Supplier 4's business.

Regarding access to the Walmart-Massmart value chain, Supplier 6 noted that: *"...because we part of the fund and Walmart has based themselves on developing local suppliers in the country, they put pressure on their buyers and everybody down the line to use the guys that the fund is supporting."* Supplier 6 already supplies Builder's Warehouse, further it noted that: *"So we'll be seeing Game... We'll be introduced to the buyer and we will take some (new) products along with..."* Supplier 6 suggested that the buyers are encouraged to deal with the suppliers from the supplier development fund.

The evidence submitted by the suppliers regarding market access has however also been mixed. Supplier 4 noted that: *"So that's a bit of a tricky one right... they do give you access but ultimately the people that make the final decision are the buyers... Buyers are shrewd. Everybody knows that buyers are all about the pricing point."* This suggests that although the supplier development fund does give supplier some access to the value chain, it does not guarantee that the buyers will chose to always order from them.

Supplier 7 was even more pronounced in criticizing this aspect of the supplier development fund. On this, Supplier 7 said: *"It's actually been a bit disappointing. They are trying but it's not actually getting there. I think that the buyers are not aware of what"*

the impact of the fund was, so they are actually not making full use of the assistance that was given to us. So, we are not working at full capacity to them... The planners and the buyers need to understand the impact that such assistant has on the small suppliers so they can actually make more use of it." Supplier 7 is disappointed that the supplier development fund did not translate into consistent orders from the buyers. It may be for this reason that Supplier 7 has the greatest number of significant alternative customers even though Walmart-Massmart takes up 60% of its business.

Question 11: Has the Walmart-Massmart supplier development fund allowed you to access the value chains of other established customers? Kindly explain

Table 14: Access to Other Established Customers

Rank	Access to Other Established Customers	Frequency
1	No	5
2	Yes	2

A majority of the supplier confirmed that they have not accessed the value chains of other established customers, particularly those of competing retailers. However, it appears that this is largely by choice. All the supplier mentioned that Walmart-Massmart does not require them to supply it exclusively and that they are free to supply whoever they want. Notwithstanding the non-exclusive nature of their relationship with Massmart, Supplier 7 noted that 60% of its business is with Walmart-Massmart. Suppliers 2, 3 and 4 all confirmed that more than 90% of their business is taken up by Walmart-Massmart.

Regarding selling to alternative customers, Supplier 1 said: *"...we supplied a childproof cap for the first time to Massmart. Massmart has paid...for the mould but they don't stop me from supplying anyone else. I can put this cap tomorrow on the Pick n Pay bottle, which is also blue by the way. It's not a problem."*

Supplier 3 and 5 in particular noted that they are careful about taking on additional business as this may create a burden for their business. Supplier 3 has had bad experiences in the past around non-payment by customers and is trying to avoid these kinds of customers in future. Supplier 5 is concerned about not having the capacity to handle additional work.

Notwithstanding the above, two of the suppliers interviewed noted that they supply competing companies such Pick n Pay, CTM and Takealot.

Question 12: Has the Walmart-Massmart supplier development fund allowed you to access the export market or markets in other geographic areas? Kindly explain

Table 15: Access to Export Markets

Rank	Access to Export Markets	Frequency
1	Yes	5
2	No	1

Most of the suppliers confirmed that they are involved in some form of exporting either with Walmart-Massmart or through other means. Suppliers 2, 6 and 7 confirmed that they are exporting through the Massmart distribution centre. Suppliers 3 and 5 confirmed that they are in engagements with Walmart-Massmart regarding exporting. Supplier 3 also mentioned that Walmart-Massmart is assisting with labelling products in Portuguese and French in preparation for exports into the rest of Africa. Suppliers 1 and 3 confirmed that they have exported through other means in the past. One of the suppliers did not answer this question.

Question 13: Are there any other comments you would like to make regarding the Walmart-Massmart supplier development fund?

When asked this question, several the suppliers gave glowing reviews of the supplier development fund. Supplier 2 referred to the Walmart-Massmart supplier development fund as an opportunity of a lifetime. In support of this, Supplier 2 said: *“We’re doing amazing and big numbers which we would not have been able to do without Massmart.”*

On this, Supplier 4 said: *“I’d like to say that they are a great company to work for, besides the Supplier Development Fund, they’re very open to assisting us in any which way they can to remain as productive as possible. They’re not the type of company that’s going to sit back while you struggle along. They will assist you.”* Supplier 5 said: *“I think it must be the best supplier development programme in this country. If I’m not mistaken, it’s the best. These guys know what they’re doing, and you can tell that they really care.”*

Other observations from Supplier Interviews

The overall theme of the supplier interviews was positive with most of the suppliers expressing gratitude for the support they have been afforded. An important issue which was highlighted by a number of the suppliers and bears mention is the manner

in which Walmart-Massmart chose to go about providing assistance to the suppliers. A number of suppliers confirmed that Walmart-Massmart asked them to identify their developmental needs for them to be able to supply Walmart-Massmart. Walmart-Massmart did not just grant the suppliers a blank cheque or try to impose what they needed to do, the suppliers themselves identified their needs and Walmart-Massmart ensured that these needs are met.

On this approach, Supplier 5 said: *“So it was actually very smart how they did it, and I liked the way they did that. It wasn't just, here's a contract, and make us the items, let's put it in stores in stores and sell it? They were more like, okay, we're going to grow this thing. What do you what do you need?”* Similarly, Supplier 4 said: *“The way it worked is that we had to actually ask them, we had to put it to them how we felt the fund could benefit us. And we were given guidelines, you can't just get a lump sum of money and stick it in the bank. We had to put forth a proposal requesting assistance, and how this would work for the business.”*

Supplier 6 expressed similar sentiments, saying: *“And what they do is they basically look at your business, and they say, you're supplying this this to us, what do you need to grow this business? So, you basically put forward a programme on growing that particular side of the business.”* This approach meant each business was supported in the most appropriate manner instead of employing a blanket approach to the support.

5.2.4. Results from Expert Interview

This section presents the results of the interview with the Expert, one of the three on the panel of experts used by the CAC to develop aspects of the merger condition which led to the establishment of the supplier development fund.

Question 3: How did you become involved with the Walmart-Massmart supplier development fund?

The Expert explained that he was initially brought it as an economic expert for one of the stakeholders involved in the hearing. In explaining his role as an economist in the hearing, the Expert said: *“...in terms of just the case itself, this was the first case that looked beyond employment for public interest and so, I think the economics was*

quite central in framing some of the discussion around how the impact of switching to imports would ripple through the economy or what effects it has...

The Expert further explained that the primary discussions regarding the different kinds of remedies that could be used to address the import substitution concern was largely at the Tribunal stage. In this regard, the Expert said: *"...in the hearing, one of the issues they looked at was import quotas on Massmart-Walmart as an option and if one did, what sort of impact might that have. And so, in some respects, at least at the trial stage... there was at least some exploration of some of the side effects and potential side effects of going down this road."* Once the Tribunal settled on the supplier development fund, the deliberation at the CAC were about the quantum and design of the fund.

Question 4: What were the terms of reference for the panel of experts that developed the Walmart-Massmart supplier development fund?

The Expert explained that there were no official terms of reference however the CAC felt that it could benefit from advice on how to structure the fund in order to deal with the issues identified regarding potential import substitution. On this, the Expert said: *"...the CAC said each party can appoint an expert and we should work collectively towards a report."* Further, the Expert said: *"...the brief was around the design and the quantum of the fund."*

Question 5: What was your specific role on the panel of experts that developed the Walmart-Massmart supplier development fund?

Regarding his specific role on the panel of experts, the Expert explained how the CAC expected the panel of experts to work as a team in developing the details of the supplier development fund. In this regard, the CAC expected the experts to act as experts for the CAC and not necessarily for the parties that appointed them.

The panel of expert however could not reach consensus on certain aspects resulting in a split of the panel. Regarding this, the Expert explained: *"So, we did meet and discuss on the phone but eventually there was a split. Mike Morris developed his own report for Massmart and Stiglitz and myself put together another report. We tried to find a sort of common ground, but I think there was maybe a difference in approach."*

Question 6: What was the process that was followed in developing the Walmart-Massmart supplier development fund?

The Expert explained how the panel tried to work as a collective for as long as possible however this proved challenging. In describing some of the issues the panel was considering, the Expert explained that ultimately there were a few issues of contention which the panel was considering:

- Firstly, some of the panel were concerned about the prospect of the supplier development fund being used to simply substitute corporate social investment which Massmart was going to invest in any event. The Expert explained how they were adamant that the supplier development fund should be in addition to Massmart's already planned corporate social investment;
- Secondly, there was also dispute regarding the quantum as there was evidence suggesting the quantum that was being considered would be insufficient. Ultimately, all three of the experts were not agreeing on the quantum of the fund;
- Thirdly, the Expert explained that there were deliberations regarding the nature of the products to be included in the supplier development fund. Particularly there were deliberations regarding tradeable and non-tradeable products. Regarding the ongoing supplier development initiatives Massmart had already put in place, the Expert said: *"They were focused on fresh produce grocery, which arguably, in my view, at least, much of it was non-tradable anyway or South Africa held a competitive advantage so they wouldn't have gone abroad anyway. So, there was a real question as to whether this is stopping the import substitution, and what they're putting up as the success would have happened in any event."*; and
- Finally, there were deliberations regarding the administration and oversight of the fund. The Expert explained how, at the time, he preferred a co-administration model. *"There was a recognition that the business and the buyers are in a better position to understand where the gaps may be. So, you have to run it with the business. But... they may try and select things which they would have bought locally anyway. So, I think having that oversight or at least some involvement from an outside committee is at least to ensure that this isn't just a meaningless process..."*

Although the CAC was not prescriptive regarding the process to be followed in developing the supplier development fund, the Expert explained how the panel of

experts focused on (i) whether the fund should be separate from Massmart's corporate social investment, (ii) determining an appropriate quantum, (iii) whether there should be explicit focus on tradeable products, and (iv) administration and oversight.

Question 7: What literature or guidance did the panel rely on in developing the Walmart-Massmart supplier development fund? Did the panel rely on previously accepted models for developing similar supplier development funds?

Regarding literature, the Expert explained that one of the other experts relied on value chain economics literature. Further, the Expert explained that: *"...any economist in South Africa is schooled in more development first and industrial policy so that's part of your knowledge and learning. And as I said, the sort of input substitution issues and incentives around that."*

Question 8: How were the criteria developed for choosing suppliers for the Walmart-Massmart supplier development fund?

The Expert explained that the panel of experts was not tasked with determining specifics around how Massmart would engage with specific suppliers. Regarding the criteria for choosing suppliers for the programme, the Expert said: *"...only in terms of... just ensuring that this isn't just swapping non-tradeable, so it was more about the product. Also using the buyers' knowledge to identify areas where local supply is feasible but having some checks on how they spend before they spend it."* The panel understood that the Massmart buyers were best placed to select the suppliers who would form part of the programme.

Question 9: Did the panel consider the benefits for Walmart/Massmart of having the supplier development fund? Were synergies with the Walmart/Massmart supply chain a consideration or was the focus only on the suppliers?

In response to this question, the Expert made it clear that the panel was not concerned with ensuring that the supplier development fund benefits Massmart. On this issue, the Expert said: *"No, the condition was placed because of the threat of import substitution so it wasn't about how to give it [Massmart] an advantage or anything. And the fact that it may have, with hindsight, found some benefit in this is great. I think the questions at the time was does this tie its hands and make it less*

competitive?” The panel was focused on addressing the import substitution issue and not necessarily on giving Massmart a competitive advantage. The panel however ensured that the condition was designed in a way that did not disadvantage Walmart-Massmart compared to its rivals.

Question 10: Do you believe that the use of a panel of experts allowed for a better-quality supplier development fund than would have been possible absent the panel?

The Expert is of the view that the CAC benefited from the use of a panel of experts. On this issue, the Expert said: *“I think it was useful in the first supplier development fund to thrash out some of the issues through the panel. Then after we can maybe follow a formula...”* The Expert was however adamant that the panel of experts is not the reason for the success of the Walmart-Massmart supplier development fund. On this, the Expert said: *“The Walmart-Massmart [fund] has been more successful than the others, probably because of the position Massmart is in where it needs to buy the stock, unlike the others which were one-sided where there was no vested interest in its success. Massmart wanted to spend money and get an outcome not just comply. I think it was important to do the initial design, but you can’t do that on every case.”*

Question 11: Considering the costs and benefits, would you recommend the use of a panel of experts as a standard feature of developing supplier development funds for merger remedies?

Regarding employing a panel of experts for future mergers of this nature, the Expert said: *“I think it’s expensive, it’s time consuming and there are questions of whether it is necessary. I mean this was the first one and it did benefit from some kind of framing. I think it would also benefit from looking back. We can tick it to say that it has been successful and that’s ok, but the design may not work for all circumstances. There has to be proper reviews and that review may actually benefit from a panel. We should have a framework on the right questions to ask.”* The Expert is of the view that it would not be feasible to employ a panel of experts for every condition of this nature, even though it was necessary to do so for the first case.

Question 12: Would the Competition Authorities benefit from developing a guideline document for supplier development funds in merger remedies?

Regarding the development of guidelines for supplier development fund conditions, the Expert was not unsupportive, speaking of the need to understand the correct questions to ask in developing these funds but at a later stage. In this regard, the Expert said: *“I think there is a role for a panel in the design of the first one then a panel once we know where we are to design guidelines once we have lessons from a number of them.”* The Experts is therefore suggesting that more ex-post reviews of this nature should be conducted before the Competition Authorities can consider drafting guidelines.

In addition, the Expert said: *“...there could be a checklist that you could use. Are there buyers for these products that fulfil the demand? Do you need to be in complementary products? Just finding the businesses that you could sponsor, generate and grow. How to make them sustainable.”* Further, the Expert noted that: *“...Walmart-Massmart probable gives us a number of lessons, but we shouldn’t just stop there. I think before one just signs off on an agreement, this approach of saying the parties are happy so we should not stand in the way is not the right approach. There should be a check that this is meaningful. It’s either you have identified an issue, or you haven’t and if you have then there’s something to be fixed and you need to make sure this fixes it...”*

5.3. Results from Analysis of Compliance Reports

This aspect of the results presents the results of the researcher’s consideration of the compliance reports which were submitted to the Competition Commission in compliance of the merger conditions. The results will be presented for each year separately. The financial year end for the supplier development fund was initially set at 30 September however this was later changed to 31 December.

5.3.1. Supplier Development Fund Annual Report 2013

This was the first report submitted to the Competition Commission regarding the supplier development fund. This report covered the first year of operations from the launch of the supplier development fund on 9 February 2013 to the end of its first financial year on 30 September 2013. The report also provides valuable information regarding the incorporation of the fund.

Administration and Governance

The report clarifies that the supplier development fund had been established as a separate cost centre within Walmart-Massmart. On this, the report notes that Walmart-Massmart has established “...two cost centres for the fund: one for operations and administration expenses with Massmart and one for project expenses with related beneficiaries and service providers.”

Regarding the governance of the fund, the report notes: “Other operational activities finalised during the year include establishing an internal controls process flow, adopting a standard beneficiary and service provider application form that accounts for Massmart's anti-corruption compliance requirements, adopting standard grant and service provider agreement templates, and aligning financial records management between the fund and Masstores Finance. An internal audit of the fund was completed by Massmart internal audit services in August 2013.”

By the time the CAC order was made, Walmart-Massmart had already started its supplier development initiatives. The company had already committed approximately R42 million on these initiatives. The CAC noted that this expenditure would not be accounted for in the R200 million supplier development fund. Although this spending is included in the first report submitted to the Competition Commission, this is not assessed in this research and is only included for completeness. The report sets out important features of the fund which are summarised below.

The report sets out the purpose of the supplier development fund as “*designed to assist:*

- *Existing and potential South African suppliers to Massmart; which fall within and outside of Massmart's priority supply chain developments*
- *Highly focused clusters of micro-enterprises (existing or new) to upgrade their capabilities and give them access to the merged entity's supply chain.”*

The report also sets out how the supplier development would be governed through an internal Fund Committee and an external Advisory Board. The Fund Committee, which the CAC referred to as the fund board in its final order would be tasked with the day-to-day operations of the fund and was made up of the following positions although advisors were also brought in were necessary:

- Group Supplier Development Executive (Fund Manager, Fund Committee Chairperson);
- Fund Committee Secretary;
- Group Legal Executive (Legal Representative);
- Group Audit Executive (Audit Representative);
- Finance Executive (Finance Representative);
- Marketing Executive; and
- Merchandise Executive.

The Advisory Board, which was also mandated by the CAC was comprise of the following positions:

- Two representatives chosen by Walmart-Massmart;
- One representative chosen by the ministers of Economic Development, Trade and Industry and Agriculture, Forestry and Fisheries;
- One representative chosen by the South African Commercial Catering and Allied Workers Union (SACCAWU);
- One representative chosen by the South African Small Medium and Micro Enterprises Forum (SASMMEF); and
- Advisory board secretary.

In addition to the Fund Committee and the Advisory Board, the supplier development fund would also be staffed with eight full time staff members. The report also noted that external auditors had been appointed. The external auditors of the supplier development fund were not the same firm which served as auditors for Walmart-Massmart. Finally, the report sets out the application process for suppliers looking to participate in the supplier development fund.

In addition to the above, the report sets out details of the internal controls implemented by Walmart-Massmart for the fund. Of the funds available, 20% were set aside for the governance and administration of the fund with the balance (80%) set aside for the beneficiaries. The financial year end for the supplier development fund was initially set at 30 September however this was changed to 31 December from 2014.

Suppliers Supported

The table below summarises the funds that had been disbursed by the supplier development fund by 30 September 2013. This information was released publicly by Walmart-Massmart and is not confidential.

Table 16: Total Funds Disbursed by 30 September 2013

Investment area	Funds disbursed	Percentage
Direct farm	R 16 859 827	88%
Manufacturing SMMEs	R 773 689	4%
Services projects	R 721 738	4%
Services to suppliers	R 775 630	4%
Total	R 19 130 884	100%

Source: Competition Commission

As at the end of the first financial year, a total of R19 million had been disbursed. A majority (88%) of these funds were to farming projects largely in Limpopo, KwaZulu-Natal, Gauteng and Mpumalanga. The report notes an intention to roll out this support to the rest of the country over the 5 (five) year term of the supplier development fund.

The Direct Farming aspect of the supplier development fund was launched in August 2012, prior to the official launch of the supplier development fund. As noted above, this aspect was not assessed in line with the directive of the CAC. The manufacturing SMME investment area included the development of wine brands which was launched in January 2012. This was also not assessed as it was launched prior to the official commencement of the supplier development fund. Adjusting for these exclusions, this table is reproduced below.

Table 17: Qualifying Funds Disbursed by 30 September 2013

Investment area	Funds disbursed	Percentage
Manufacturing SMEs	R 264 640	15%
Services projects	R 721 738	41%
Services to suppliers	R 775 630	44%
Total	R 1 762 008	100%

Source: Competition Commission

The manufacturing SMMEs included suppliers producing general merchandise and processed food for Walmart-Massmart. Service projects included "limited support to

enable SMEs to trade with Massmart or the open market. These include projects that can be classified as social development support for micro-enterprises which need to be incubated and developed before they can formally supply directly to Massmart.” Services to suppliers included any “*services procured by the fund on behalf of its beneficiaries to support retail readiness. This ranges from technical assistance for facility and product audits, training suppliers, service providers that conduct due diligence of factories and businesses, transportation and distribution support to marketing and merchandising services.*”

The report sets out a number of suppliers who have joined the fund and the sales of these suppliers' products through Walmart-Massmart do date. By the end of the first financial year (30 September 2013), the supplier development fund had 6 (six) suppliers it was supporting. By the end of the 2013 financial year, R264 640 had been disbursed to manufacturing suppliers through the supplier development fund. These suppliers had already generated R670 368 in sales for Walmart-Massmart. In addition to the above, R1 497 368 was disbursed for services projects and services to suppliers.

The support provided to the suppliers included funding to acquire machinery (including advanced machinery to automate factories), raw materials, assistance with compliance including but not limited to SABS compliance, funding for working capital, listing and merchandising and in certain instances funding to acquire existing factories to expand production to meet demand from Walmart-Massmart. In addition to the above, the suppliers also benefitted from additional support services described above such as training through institutions such as GIBS.

5.3.2. Supplier Development Fund Annual Report 2014

During the 2014 financial year, Walmart-Massmart changed the financial year end of the supplier development fund from 30 September to 31 December. The 2014 report therefore reported on the period 1 October 2013 to 31 December 2014. By the end of the 2014 financial year, the fund had grown to comprises 24 SMMEs representing five manufacturing clusters; this includes the 6 (six) suppliers from 2013 i.e. an additional 18 suppliers were added in 2014. The report notes that “*19 of the 24 participating SMMEs are black-owned – 6 (six) of which are owned by black women.*” This is in line with the CAC order that the supplier development fund give preference but not be exclusive to businesses owned by historically disadvantaged individuals.

From a reporting perspective, Walmart-Massmart created two groups of suppliers, (i) Manufacturing; and (ii) Direct Farming. Direct Farming was explicitly reported under the 'legacy fund'. The focus of the research going forward will be exclusive to the Manufacturing suppliers.

Regarding its approach to supporting the SMMEs, the report reads: *"In 2014 the Fund focused on developing its manufactured products portfolio. For example, the Fund clearly defined "clusters" aligned with unmet business demand and with the Massmart Group procurement needs."* It appears 2014 signalled the beginning of a more considered approach to the supplier development by Walmart-Massmart.

Walmart-Massmart introduced 5 (five) clusters for the manufacturing products which are (i) Building materials; (ii) Bricks; (iii) General merchandise; (iv) Processed foodstuffs; and (v) Clothing and textiles. This manufacturing portfolio received more than R30 million in disbursements during the financial year ended 31 December 2014. An additional R5 million was used to fund support services for the suppliers. Unlike the 2013 report, the 2014 report did not provide details of the amounts received by each supplier. The table below reflects the number of suppliers in each sector.

Table 18: Suppliers in Each Cluster as the 31 December 2014

Cluster	Number of Suppliers	Percentage
Bricks	5	21%
Building Materials	5	21%
Clothing & Textiles	2	8%
General Merchandise	7	29%
Processed Food	5	21%
Total	24	100%

Source: Competition Commission

From the inception of the supplier development fund until the end of the 2014 financial year, these 24 suppliers had generated more than R100 million in sales for Walmart-Massmart. In addition, since the inception of the funding, the suppliers had increased their aggregate number of employees by 147 (from 1270 to 1417).

5.3.3. Supplier Development Fund Annual Report 2015

This report presented details of the fund's performance for the financial year running from 1 January 2015 ending 31 December 2015. At the end of the 2015 financial

year, Walmart-Massmart had disbursed R80 million to the supplier development fund.

The number of suppliers supported *during* the 2015 financial year was 33, an increase of 9 (nine) suppliers as a result of the addition of 9 (nine) new suppliers in the building material cluster (2); General Merchandise (5); Processed Food (1); and Clothing and Textiles (1). Further, 4 (four) suppliers were graduated from the programme General Merchandise (3) and Processed Food (2). Finally, 2 (two) suppliers were discontinued from Bricks (1) and General Merchandise (1). Suppliers are graduated when they are considered to no longer need support from Walmart-Massmart as they have achieved the stated targets. Graduated suppliers continue to supply Walmart-Massmart but on an arm's length basis. Suppliers are discontinued if they are not performing in line with the stated targets. At the end of the financial year, there were 25 suppliers active in the programme. This is summarised in the table below.

Table 19: Suppliers in Each Cluster as the 31 December 2015

Cluster	Suppliers	Percentage
Bricks	4	15%
Building Materials	7	27%
Clothing & Textiles	3	12%
General Merchandise	8	31%
Processed Food	3	15%
Total	25	100%

Source: Competition Commission

A majority of the suppliers supported by the fund were in the General Merchandise cluster. The estimated procurement from the suppliers in the supplier development fund was approximately R165 million. In addition, since the inception of the funding, the suppliers had increased their aggregate number of employees by 309 (from 1270 to 1417).

5.3.4. Supplier Development Fund Annual Report 2016

This report presented details of the fund's performance for the financial year running from 1 January 2016 ending 31 December 2016. At the end of the 2016 financial year, Walmart-Massmart had disbursed R134 million to the supplier development fund.

In the 2016 financial year, the supplier development fund worked with 33 suppliers of which 26 were active (i.e. already supplying Massmart) while another 7 (seven) were in progress. No suppliers were graduated or discontinued in the 2016 financial year. This is summarised in the table below.

Table 20: Suppliers in Each Cluster as the 31 December 2016

Cluster	Suppliers	Percentage
Bricks	4	12%
Building Materials	9	27%
Clothing & Textiles	3	9%
General Merchandise	13	39%
Processed Food	4	12%
Total	33	100%

Source: Competition Commission

A majority of the suppliers supported by the fund were in the General Merchandise cluster although there was an increase in the number of suppliers in the Building Materials cluster. The estimated procurement from the suppliers in the supplier development fund was approximately R300 million since the fund's inception. The 2016 report notes that 7 (seven) of the suppliers supported are import substitution projects.

5.3.5. Supplier Development Fund Annual Report 2017/2018

This report presented details of the fund's performance for the financial year running from 1 January 2017 ending 31 December 2017 as well as the 3 (three) months ending 31 March 2018. This was the final report of the supplier development fund. By 31 March 2018, the supplier development fund had disbursed approximately R170 million with another R16 million approved but not yet disbursed. When consideration is given to the administration costs, it appears the expenditure of the fund exceeded the amounts mandated by the CAC.

In the 2018 financial year, the supplier development fund worked with 30 suppliers following the exit of 4 (four) suppliers in Bricks (2), General Merchandise (1) and Processed Food (1) and the addition of 1 (one) suppliers in General Merchandise. This is summarised in the table below.

Table 21: Suppliers in Each Cluster as the 31 March 2018

Cluster	Suppliers	Percentage
Bricks	2	7%
Building Materials	9	30%
Clothing & Textiles	3	10%
General Merchandise	13	43%
Processed Food	3	10%
Total	30	100%

Source: Competition Commission

There was a reduction in the number of suppliers in the programme however a majority of the suppliers supported by the fund remain in the General Merchandise cluster. The estimated procurement from the suppliers in the supplier development fund since the fund's inception was approximately R600 million. The 2018 report notes that 8 (eight) of the suppliers supported are import substitution projects.

5.3.6. Overview of Compliance Reports

The evidence from the compliance reports shows that Walmart-Massmart worked with 41 suppliers during the 5 (five) year period. A majority of these suppliers were in General Merchandise and Building Materials. The reports largely confirm the data collected from the interviews with Walmart-Massmart and the suppliers. The reports confirmed that the suppliers were supported through capital investment, support with working capital, regulatory and compliance support, access to the Walmart-Massmart value chain and operational support to improve their efficiency.

The reports also confirm that the Walmart-Massmart was an advanced programme as described by Sanchez-Rodriguez, Hemsworth & Martínez-Lorente (2005) above as it allowed for complex problem solving and extensive participation by the buying firm in the supplier's business. Ultimately, the reports confirmed that Walmart-Massmart invested significant resources (both time and money) into the supplier development fund.

5.4. Conclusion of Results

This Chapter set out the results of the data collection. The results were split into two sections. The first section presented the results of the interviews. Interviews were conducted with a representative of Walmart-Massmart, with one of the experts that made up the panel of experts used by the CAC and with a number of suppliers who

were supported by the supplier development fund. Interviewing these different groups of stakeholders is part of the data and respondent triangulation approach used by the researcher to improve the reliability of the research.

The second section of the results presented the results of the researcher's consideration of the compliance reports submitted to the Competition Commission by Massmart in compliance of the monitoring obligations imposed by the CAC. These reports include details of the supplier development fund, the suppliers supported by the fund as well as the administration and governance of the fund.

Chapter 6 below will analyse the results above, in the context of answering the research questions in Chapter 3.

Chapter 6: Discussion of Results

6.1. Introduction to Discussion of Results

This Chapter presents the researcher's analysis of the results presented above. The analysis below was informed by the literature presented in the Literature Review and aimed to consider the extent to which the results answer the Research Questions. For this reason, all the literature noted below originally appeared first in the Literature Review. As noted in Chapter 3, the research considered three research questions, each of these questions are considered below.

The first research question considered the direct economic impact of the Walmart-Massmart supplier development fund on the suppliers it supported. The discussion below considered whether the results in Chapter 5 above contributed to answering this question and particularly whether they support the literature in the Literature Review. This discussion relied on the interviews with the suppliers, the interview with Walmart-Massmart as well as the compliance reports.

The second question considered whether the Walmart-Massmart supplier development fund created sustainable commercial relationships to the benefit of both Walmart-Massmart and the suppliers? This extended on the discussion in question 1 (one) by also considering the impact of the supplier development fund on Walmart-Massmart. This discussion also relied on the interviews with the suppliers, the interview with Walmart-Massmart as well as the compliance reports.

The last question considered the impact that the panel of experts had in developing the supplier development fund and whether similar panels should be used for future supplier development fund merger remedies. The discussion largely focused on the design and development of the supplier development fund. This discussion mostly relied on the interview with the economic expert that was one of the experts on the panel of experts.

Ultimately, the analysis finds that the data collected answers the research questions. There are however areas of further research which will be noted in Chapter 7 below.

6.2. Research Question 1

What was the direct economic impact of the Walmart-Massmart supplier development fund on the suppliers it supported?

This research question sought to consider whether the Walmart-Massmart supplier development fund had an economic impact on the suppliers it supported. The literature considered in Chapter 2 presented a number of challenges faced by SMMEs in remaining viable beyond the short-term. These challenges are considered below, particularly assessing whether the Walmart-Massmart supplier development fund was able to provide solutions for the SMMEs it supported.

6.2.1. Funding/Capital

According to literature by Everett & Watson (1998), noted above, one of the main reasons SMMEs struggle to remain viable is lack of capital. This was also supported by literature from Valadkhani, Chen & Kotey (2014). Ultimately, there is a theoretical foundation to the submission that SMMEs generally struggle to secure sustainable funding from traditional capital markets. This suggests that SMMEs are generally not able to make the necessary capital investments such as acquiring machinery and factories. This is particularly important for SMMEs looking to manufacture products at a quantity and quality necessary to supply large established customers such as Walmart-Massmart.

The discussion with Walmart-Massmart addressed this aspect. As noted above, the first area of support which Massmart targeted was investment in plant and equipment. This was generally done through grant funding through which suppliers were given funding to acquire the capital they required. This is also confirmed in the various compliance reports assessed in this research. In fact, a significant majority of the funding provided to the suppliers was used for capital purchases.

The evidence from the suppliers' interviews also supports this. For example, Supplier 1 noted that Massmart paid for its acquisition of filling equipment. This allowed the supplier's employees to stop filling by hand and start auto filling. This is likely to have increased Supplier 1's output. Supplier 2 also noted this as the most important support they were given – capital purchases which bought equipment to increase production, made production more efficient and the supplier was able to manufacture

different types of products. Supplier 5 noted the direct link between the machinery that Massmart acquired for them and the quality of product they are now able to produce. The supplier development fund bought a factory for Supplier 7. In fact, all the suppliers interviewed confirmed that they received some support for capital purchases.

This means the Walmart-Massmart supplier development fund had the impact of solving one of the main challenges facing SMMEs in South Africa – access to capital finance. Various authors noted that solving the funding problem for SMMEs is likely to improve their chances of survival. Valadkhani, Chen & Kotey (2014) noted that charging small businesses relatively lower interest rates may have a positive impact on their prospects of success over time. The supplier development fund played this role for the suppliers by providing them access to cheap and in certain instances grant (free) capital funding.

6.2.2. Working Capital

Another issue faced by SMMEs is working capital shortages. Orobia, Byabashaija, Munene, Sejjaaka & Musinguzi (2013) noted that poor working capital management leads to SMMEs having cash shortfalls and high stock out positions. Teruel and Solano (2007) found a negative relationship between poor working capital (defined as high debtors and inventory days) and SMME profitability. Effective working capital management requires established frameworks with clearly define tasks and measurable outputs. Most SMMEs do not have the capacity to implement such structures (Orobia, Byabashaija, Munene, Sejjaaka & Musinguzi, 2013).

One of the areas supported by the supplier development fund was working capital. In the interview with Walmart-Massmart, it was noted that the suppliers would immediately find themselves with working capital challenges as soon as they received a large order from Walmart-Massmart. Walmart-Massmart therefore ensured that the supplier development fund covered this gap. This was through providing funds for raw materials and also ensuring the suppliers received favourable payment terms such as earlier than usual payment and favourable rebate structures.

The suppliers also mentioned this as a benefit of being part of the supplier development fund. Supplier 5 noted the positive impact of receiving working capital support at least twice until the business had sufficient cash in the system to sustain

itself. Supplier 3 also noted that one of the first challenges addressed by the supplier development fund was working capital to acquire raw materials. This was a challenge the firm had been dealing with and it had up to that point prohibited the supplier from acquiring significant business. Supplier 3 also spoke about previously dealing with customers that did not pay on time and how this had crippled its businesses in the past. By receiving favourable payment terms from Walmart-Massmart, this problem was resolved for Supplier 3.

Further, as discussed in more detail below, the supplier development fund included some degree of management training which is likely to have improved the entrepreneurs' ability to create and manage the kind of working capital structures mentioned by Orobia, Byabashaija, Munene, Sejjaaka & Musinguzi (2013) above.

6.2.3. Market Access

SMMEs generally have challenges in accessing markets as noted by Small Enterprise Development Agency (2018) and Robson & Obeng (2008). Challenges may be technical such as not having access to the technology which is required to compete for orders of a certain size, however, they may also be the result of strategic conduct by incumbent firms (Banda, Robb, Roberts & Vilakazi, 2015). Unless SMMEs are able to access markets, it is likely that they will remain unprofitable. Robson & Obeng (2008) in particular noted challenges in accessing markets faced with competition from imported products which was the main public interest concern identified in Walmart-Massmart.

The Walmart-Massmart supplier development fund provided a solution for this problem for a number of the suppliers by addressing the concern that Walmart would start to import products from cheaper sources in Asia which would make it difficult for the SMMEs to compete. During the interview with Walmart-Massmart, it became clear that Walmart-Massmart set out to address both of these barriers to market access for SMMEs. The criteria employed by Walmart-Massmart in choosing suppliers for the supplier development fund focused on two issues. Massmart focused on suppliers who could fill gaps in its supply which were the result of imported products or the result of market concentration, both of which were noted above.

Walmart-Massmart noted that it was suffering stock-outs for certain products which were supplied either through imports or by firms with market power. This suggested that these markets were suffering from insufficient competition which was resulting in supply constraints. SMMEs are unlikely to have been able to access these markets. With specific regard to products facing competition from imported products, by the end of the supplier development fund, at least 8 (eight) of the suppliers were on import substitution projects.

Importantly, as Walmart-Massmart explicitly set out to fill gaps in its supply to prevent stock-outs, this meant that the suppliers being supported were always likely to receive significant orders from Walmart-Massmart once they were able to deliver. Further, the interviews with the suppliers noted the value they placed on being able to access a company such as Walmart-Massmart as a customer. In particular, Suppliers 2, 3 and 5 noted that being able to access a customer of this size has been one of the main benefits of the supplier development fund.

Further to this, the suppliers also confirmed that they had started engaging Walmart-Massmart regarding exporting into the rest of Africa. Walmart-Massmart has a footprint across the African continent. The supplier development fund has allowed the suppliers to access this vast customer network which is unlikely to have been possible absent the supplier development fund.

6.2.4. Governance, Management Skill and Regulatory Compliance

These issues are discussed together as they are related in that they ultimately affect how the business is operated. A number of authors noted lack of management know-how as one of the reasons why SMMEs fail. Neuberger & R athke-D oppner (2015) argued that management know-how plays a critical role in determining the success of small businesses. Cressy (2006) argued that firms which are managed by experienced entrepreneurs with some form of vocational training are likely to survive for relatively longer periods. Lack of skills such as management skills, business acumen and negotiation skills were also noted by Small Enterprise Development Agency (2018) as one of the challenges facing SMMEs. Bobson College (2016) particularly noted that SMMEs generally have challenges understanding and managing regulatory compliance. Due to the size of SMMEs, these challenges are ultimately the responsibility of the owner.

Walmart-Massmart acknowledged the importance of management skill in several aspects of its approach to the supplier development fund. Firstly, one of the criteria it used in choosing suppliers for the supplier development fund was that these should not be greenfield projects. In other words, Walmart-Massmart was not looking to support start-up companies. In explaining the reasoning for this, Walmart-Massmart argued that it had identified value in working with entrepreneurs with experience. Walmart-Massmart wanted to work with entrepreneurs who 'knew what they are doing'. Of the suppliers interviewed for the research, only 1 (one) started operating their business after the commencement of the supplier development fund. However, upon closer scrutiny, the researcher noted that the entrepreneur had decades of entrepreneurial experience.

Secondly, although Walmart-Massmart chose entrepreneurs with experience, it also extended significant support to ensure the suppliers' skills were developed. During the interview with Walmart-Massmart, it was confirmed that the suppliers were sent to training programmes and courses with institutions such as GIBS in order to improve their business management skills. Some of the suppliers interviewed confirmed this and it was noted in the compliance reports assessed by the researcher. Further, Walmart-Massmart's supplier development team provided training to the suppliers on how to deal with the buyers, focusing particularly on negotiation skills. The Walmart-Massmart supplier development fund therefore provided significant support to improving the level of management skill of the entrepreneurs.

In addition to the above, the supplier development fund offered specific support aimed at ensuring that the suppliers were compliant with the relevant regulations. The most prominent example of this was mentioned by Supplier 1 who noted that Walmart-Massmart bought testing equipment to ensure that the supplier could comply with SABS regulations. Supplier 2 noted that Walmart-Massmart gave it support to start Quality Management Systems and other compliance. Other suppliers, including Suppliers 3, 5 and 6 noted that Walmart-Massmart emphasised the need to comply with regulation through various annual audits. Although this is partly aimed at protecting Walmart-Massmart from being found to be dealing with non-compliant suppliers, it has also led to the suppliers being better equipped to deal with regulatory compliance requirements.

Ultimately, the supplier development fund had a positive impact on the suppliers by improving their management know how. Firstly, by improving their ability to solve day to day business problems and secondly, by providing them support with compliance. These are skills the suppliers will carry with them beyond the term of the supplier development fund.

6.2.5. Operational Efficiency

Another challenge faced by SMMEs is operating at a cost disadvantage (Lutz, Kemp & Dijkstra, 2010). This may be the result of lack of know-how, lack of skilled employees and poor access to superior technology (Günaip & Cilasun, 2006). The lack of management skills noted above can also manifest itself through various operational inefficiencies which are likely to make SMMEs uncompetitive against their more established rivals.

The interview with Massmart provided evidence that the supplier development fund supported the suppliers by improving their operational efficiency. Massmart retained the services of a firm of Industrial Engineers who were at the disposal of the suppliers. The Industrial Engineers would assist the suppliers to reduce costs and achieve efficiencies in their factories. In addition, the Industrial Engineers assisted some of the suppliers to meet product specifications required by the Massmart buyers. The suppliers confirmed that they were able to benefit from the use of the Industrial Engineers.

6.2.6. Overall Impact on SMMEs

The discussion above highlighted the specific benefits that the supplier received from being part of the supplier development fund. These included support with funding for capital expenditure, working capital, access to markets, improved governance and operational efficiencies. This kind of support was only possible because the supplier development fund was an advanced programme (Sanchez-Rodriguez, Hemsworth & Martínez-Lorente, 2005) which involved complex problem solving and extensive participation by the buying firm in the supplier's business. The fund was operated over a period of 5 (five) years and suppliers were given support over a number of years throughout the different phases of their development.

Importantly, the suppliers noted that Massmart did not take a blanket approach to the supplier development fund. Each supplier was asked up front what they needed in order to develop into a business capable of supplying Massmart. Each supplier was therefore serviced according to its own requirements. This was an acknowledgement on the part of Massmart that SMMEs have different challenges and are likely to require tailored support in order to grow although ultimately the challenges are likely to fall within a small number of issues highlighted in the theory.

6.3. Research Question 2

Did the Walmart-Massmart supplier development fund create sustainable commercial relationships to the benefit of both Walmart/Massmart and suppliers?

The literature presented in the Literature Review argued that supplier development initiatives can have a positive impact on both the suppliers and the buying firm. The benefits achieved by the SMME suppliers were discussed in detail above and will not be repeated here. It is however worth commenting on the sustainability of the support given and what it means for the suppliers going forward.

As the supplier development fund was an advanced programme over a 5 (five) year period, it solved problems at a deeper and more sustainable level. Walmart-Massmart noted that its previous efforts at supplier development were largely unsophisticated and only involved giving small businesses access to Massmart's procurement. The support only included aspects such as early payments for goods and taking goods on consignment. These kinds of superficial interventions are unlikely have resulted in sustainable development by the suppliers involved. Importantly, it is unlikely that these interventions would have been sufficient to elevate the suppliers to a level in which they can supply customers such as Walmart-Massmart a consistent basis.

The supplier development fund was rather focused on elevating the supplier to the next level. All the suppliers confirmed that the conversation with Walmart-Massmart regarding the supplier development programme was focused on growth – what do the suppliers need to do to grow their businesses. This means, by the expiry of the fund, the suppliers had developed through the acquisition of capital equipment, working capital management, operational efficiency and management know-how.

This allowed the suppliers to supply larger and more sophisticated customers including but not limited to Walmart-Massmart. The supplier development fund has therefore developed the suppliers in a sustainable manner which allows them to form sustainable relationships with customers.

At the time of the interview, Walmart-Massmart noted that it has procured more than R1 billion worth of stock from the suppliers in the supplier development fund. Considering the fact that by 2015, Walmart-Massmart had only procured approximately R165 million from the suppliers, this is significant. Although there have been marginal increases in the number of suppliers, the relationship between the suppliers and Walmart-Massmart has been characterised by significant growth for the suppliers.

Literature cited above also noted that supplier development programmes have historically been considered as corporate social responsibility, essentially charity. For this reason, buying firms were not likely to expend significant resources for these programmes. This was the approach taken by Massmart in the past. In the interview, Walmart-Massmart indicated that previous supplier development initiatives were done for compliance reasons, with no strategic or commercial considerations in mind.

The supplier development fund was the first instance in which Walmart-Massmart considered supplier development from a strategic perspective. From the perspective of Walmart-Massmart, the supplier development fund has allowed it to fill gaps in its supply chain. During its interview, Walmart-Massmart noted that it focused the supplier development fund on products where it was experiencing stock-outs. This was the result of concentrated markets and imported products. As noted above, at least 8 (eight) of the suppliers in the supplier development fund were import substitution projects. This means Walmart-Massmart has been able to directly fill these supply chain gaps through supplier development.

In addition to filling gaps in its supply chain, supplier development can lead to a firm having better quality suppliers (Bai and Sarkis, 2011). Walmart-Massmart noted in its interview that the suppliers it gained through the supplier development fund are more responsive and accessible. Walmart-Massmart also noted that it is able to be more innovative as it has suppliers it can actively work with to develop improved products. In addition to new product development, Walmart-Massmart noted that it is not able to achieve better pricing as it works directly with its suppliers to achieve

efficiencies and lower costs. Walmart-Massmart has also been able to grow its private brands which has increase revenue.

One of the reasons buying firms are reluctant to invest in advanced supplier development which involves sharing commercially sensitive information with suppliers is the risks involved. Supplier may use the information to integrate downwards in competition with the buying firm (Yen & Hung, 2017). Further, the suppliers may use the information to produce for competitors of the buying firm. There is therefore a risk that the buying firm may not be able to internalise the investment.

Walmart-Massmart however noted that it was not necessarily concerned about the risk of not being able to internalise its investment. Walmart-Massmart confirmed that it did not require the suppliers to supply it exclusively. This was also confirmed by the suppliers. Walmart-Massmart however ensured that the suppliers understood that it was working with them in attempts to fill gaps in its supply chain. For this reason, Walmart-Massmart would look to other suppliers in the event that the suppliers were no longer able to meet its needs.

In practise, the suppliers appear to give Walmart-Massmart first preference and have expressed reluctance to supply other customers. It may be that the support the suppliers have been given has resulted in them having a sense of loyalty towards Walmart-Massmart. Further, the suppliers appear to appreciate the sense of certainty resulting from knowing Walmart-Massmart is invested in their continued viability. The risk of not being able to internalise its investment has not stopped Walmart-Massmart from investing in the suppliers and it appears to be reaping the benefits.

Ultimately, although there are several reasons why the Walmart-Massmart supplier development fund has resulted in positive outcomes for the suppliers, Walmart-Massmart has also benefitted substantially. Although the Expert made it clear that this was not one of the stated objectives. Nonetheless, by investing appropriate resources in the supplier development fund, Walmart-Massmart has benefitted through gaining better suppliers and reducing its supply chain challenges. These are benefits that appeal to Walmart-Massmart's profit motive. Although companies have historically viewed supplier development as corporate social responsibility, the

Walmart-Massmart supplier development fund shows that these can be profitable investments as well.

6.4. Research Question 3

What impact did the panel of experts have in developing the supplier development fund and should similar panels be used for future supplier development fund merger remedies?

6.4.1. Impact of the Panel of Experts

The panel of experts used by the CAC was the first of its kind in South African competition regulation. The panel was requested by the CAC in an environment where there appeared to be agreement that there was need for a supplier development fund. This was in order to address the concerns regarding imports by Walmart-Massmart blocking or displacing local businesses, particularly SMMEs. At the stage when the panel of experts was brought in, the CAC was concerned that there was insufficient argument supporting the design and quantum of the supplier development fund. The CAC therefore requested that the panel of experts assist with providing the necessary assessment upon which the CAC could base its decision.

The evidence collected appears to show that the panel of experts satisfied this mandate. According to the Expert, there were a number of issues that needed to be clarified before the CAC. First among them was whether the fund should be considered as part of Massmart's already planned corporate social investment – which it was not. It should be noted that Massmart had previously taken the approach of not specifically funding supplier development initiatives in the past with poor results. Secondly, there were deliberations regarding the quantum of the fund. The CAC required expertise to consider the motivation for the quantum of the fund based on the economic implications of the threat of Walmart-Massmart increasingly relying on cheap imports from Asia. The panel of experts provided significant input into this discussion although there was disagreement across all three experts regarding the final amount.

The third issue considered by the panel of experts was the nature of the products to be considered for the supplier development fund. As noted above, the Expert was adamant that the supplier development fund should be limited to tradeable products.

These are products which Walmart-Massmart could conceivably import into the country such that a legitimate risk of local suppliers being displaced by imports existed. Walmart-Massmart had already started investing in supplier development for farming projects which the CAC ultimately ruled should be considered outside of the supplier development fund.

Lastly, there were deliberations regarding the governance of the fund. In particular, the CAC needed to decide on whether the company should be left to its own devices regarding the administration of the fund or whether, as favoured by some of the panel members, there should be some form of joint administration. According to this joint administration, Walmart-Massmart would be charged with operating the fund but with the existence of some oversight by an external body. The CAC ultimately accepted this joint administration model.

Walmart-Massmart did not speak about panel of experts during its interview and noted that the panel played no role beyond the CAC. This is consistent with the submissions by the Expert who noted that the panel of experts were neither expected to nor interested in interfering in how Walmart-Massmart would ultimately interact with the suppliers. The panel of experts was clear that this would be the responsibility of Walmart-Massmart and its buyers.

Notwithstanding, it may be the case that Walmart-Massmart underestimated the value of the panel of experts on the operation of the fund. The type of suppliers which Walmart-Massmart supported in the supplier development fund were mostly suppliers of tradeable products as recommended by the panel of experts. Although Walmart-Massmart also chose these products to solve supply chain gaps, the panel of experts ensured that the conditions imposed were addressing the concerns identified.

Further, when asked to explain the administration of the supplier development fund, Walmart-Massmart spoke of the existence of the internal Fund Committee and the external Advisory Board. However, these are structures that arose from the order to the CAC based on the advice of the panel of experts. Although the panel was not actually involved in the administration of the fund, it directed a significant amount of the deliberations regarding how the fund should be designed and governed. This is likely to have had an impact on how the fund ultimately performed.

6.4.2. Guidelines and Future Applications

In determining whether a similar panel of experts may be employed in future transactions of this nature, it is necessary to note the evidence of the Expert. The Expert noted that it was necessary to have the panel of experts in the Walmart-Massmart merger because it was the first of its kind. Prior to Walmart-Massmart, no other merger had resulted in the imposition of similar public interest conditions. In this regard, it was necessary to frame the discussion and ensure that the correct questions are being asked. This was done in Walmart-Massmart.

However, not every aspect of the panel of experts was successful. As the panel was made of experts appointed by the various parties involved in the hearing, there are questions to be asked regarding independence. It is not obvious that an economic expert appointed to present evidence on behalf of a client would be able to participate in an independent process which may yield results which disadvantage their client's case. This may be one of the reasons why the panel of experts eventually separated with the expert initially appointed by the merging parties going one way and the experts initially appointed by the government Ministers and the trade unions going another way. It may be the case that the a truly independent panel would have been one appointed directly by the CAC with no prior involvement in the matter however this may be costly for the court.

The evidence collected also suggests that it may be too costly and time consuming to use a panel of experts for every merger of this size. The Walmart-Massmart merger took close a year from the time it was notified to the Competition Commission to the time the CAC issued it final order. No doubt significant fees were also paid to the attorneys and economic experts throughout this period. It may not necessarily be cost effective to follow this model for all cases.

With regard to whether it was an opportune time to consider the development of guidelines regarding the appropriate approach to supplier development funds, the Expert suggested and the researcher is inclined to agree that more of these kinds of ex-post reviews must be conducted in order to determine the impact of all the supplier development fund. Walmart-Massmart was a particularly successful supplier development fund however it may be necessary to also study some of the less successful ones. This will allow for a better understanding of the features of these programmes that work and those that did not before best practise can be agreed

upon. This is a common limitation of this kind of qualitative research as it is difficult to generalise which is necessary for policy considerations.

6.5. Conclusion to Discussion of Results

The results to the first research question reflect the positive impact that the supplier development fund had on the suppliers it supported. The supplier development fund supported the SMME suppliers through the provision of funding for capital expenditure, working capital, access to markets, improved governance and operational efficiencies. These are the challenges generally faced by SMMEs according to the Literature Review. Importantly, the supplier development fund provided tailored support to the suppliers based on the supplier's stated requirements. This is important as a blanket approach to supplier development is unlikely to be successful. The supplier development fund was successful in solving pertinent challenges for the SMMEs.

The results to the second research question showed that the Walmart-Massmart supplier development fund supported suppliers in a manner which is likely to improve their long-term competitive position. The suppliers are now in a position to form sustainable relationships with large customers such as, but limited to, Walmart-Massmart. The results to this question also showed that Walmart-Massmart benefitted a great deal from the relationships it formed with the suppliers on the programme. The fund allowed Massmart to fill gaps in its supply chain as well as having suppliers it is able to work with in the development of innovative new products and finding ways to keep costs at a manageable level.

The results to the third research question showed that significant value was achieved from the use of the panel of aspects. The economists on the panel provided significant guidance to the CAC regarding a number of issues that should be considered in designing and implementing the supplier development fund. A number of the recommendations of the panel of experts were implemented in the fund. Nonetheless, it is likely to be costly and time consuming to employ this same kind of panel for all mergers of this kind going forward. Ultimately, several other ex-post reviews similar to this one must be conducted in order to find features that work and those that do not before guidelines can be developed. This will be noted as an area of future research below.

Chapter 7: Conclusion

7.1. Introduction

Chapter 7 presents the primary findings of the research report in line with results presented and discussed in Chapters 6 and 7 respectively. These findings are considered in the context of the Literature Review with the aim of identifying the implications of the research and making recommendations to the relevant stakeholders. These include government, buying firms, competition regulators and SMMEs.

The purpose of the research was to conduct an ex-post review of the Walmart-Massmart merger remedy, particularly focusing on the impact of the supplier development fund on the SMMEs it supported. The research also considered the impact that the supplier development fund had on Walmart-Massmart as the buying firm. The principal findings of the research are presented below, and any important implications and recommendations are noted.

7.2. Principal Findings

The overarching finding of this research has been that the Walmart-Massmart supplier development fund provided significant support to the SMME suppliers. Further, the supplier development fund provided significant benefits to Walmart-Massmart. The main findings are summarised below.

7.2.1. Impact on the Suppliers

The research found that the Walmart-Massmart supplier development fund provided tailored support to the suppliers who participated. Each supplier was asked up front what they needed in order to develop into a business capable of supplying Walmart-Massmart. This was an acknowledgement on the part of Walmart-Massmart that SMMEs have different challenges and are likely to require tailored support in order to grow although ultimately the challenges are likely to fall within a small number of issues highlighted in the theory.

Following this period of self-diagnosis on the part of the suppliers, the research found that the supplier development fund assisted the suppliers with funding for capital

expenditure. This allowed the suppliers to acquire capital infrastructure that would have been out of their reach due to an inability to source capital through traditional capital markets. The Literature Review confirmed that capital funding is one of the most cited reasons for why SMMEs are not able to achieve their goals.

In addition to the above, the suppliers received support with working capital, access to markets, improved governance and operational efficiencies. This kind of support was only possible because the supplier development fund was an advanced programme which involved complex problem solving and extensive participation by the buying firm in the supplier's business. The program was active for a period of 5 (five) years with the majority of the supplier involved for at least 3 (three) years.

As a result of the support received from the supplier development fund, a number of the suppliers confirmed that they have grown significantly from a revenue and profitability perspective. In addition, a number of the suppliers confirmed that they have been able to hire more employees. The overall impact of the supplier development fund on the SMME suppliers has therefore been largely positive. The supplier development fund has allowed the SMME suppliers to successfully navigate the challenges generally faced by SMMEs as highlighted in the Literature Review.

In addition, the research found that the support afforded to the suppliers by the supplier development fund is likely have allowed them to grow in a sustainable manner. In other words, the supplier development fund did not have a short-term outlook and rather ensured that the suppliers would achieve sustainable growth and development. The suppliers supported by the fund are in a much better position to compete against larger more established firms going forward.

7.2.2. Impact on Walmart-Massmart

The research also found a positive benefit for Walmart-Massmart as the buying firm. In particular, the fund has allowed Walmart-Massmart to develop suppliers with the specific aim of filling gaps in its supply chain. The research found that Walmart-Massmart specifically chose suppliers for the fund with the intention of solving stock-out problems it was having. This was largely in products which were serviced by dominant firms and also in products serviced by imports, which spoke directly to the issues raised in the merger assessment. The supplier development fund has

therefore allowed Walmart-Massmart to improve its in stock position and have security of supply.

In addition, the supplier development fund has also allowed Walmart-Massmart to be more innovative. Through working closely with these suppliers, Walmart-Massmart has been able to develop innovative products which may not have been possible in a traditional arm's length relationship. The suppliers, following support from Walmart-Massmart, are more receptive of requests for product development and design changes by Walmart-Massmart. During the interview, Walmart-Massmart gave a number of examples of products which have been developed in collaboration between Walmart-Massmart and the suppliers. These products are generally supplied through Walmart-Massmart's various private brands.

Finally, the research found that the supplier development fund has allowed Walmart-Massmart to be more competitive from a pricing perspective. By working with the suppliers (with the assistance of a firm of Industrial Engineers), Walmart-Massmart has been able to assist its suppliers to achieve operational efficiencies which allow the suppliers to produce with lower costs. These lower costs are ultimately passed on to consumers by Walmart-Massmart. Overall, the supplier development fund has been largely beneficial to Walmart-Massmart.

7.2.3. Panel of Experts and the Design of the Fund

The research also found that the use of the panel of experts by the CAC was largely beneficial to the design and development of the supplier development fund. As this was the first merger in which the Competition Authorities considered a supplier development fund as a merger remedy, it was necessary to have a panel with the expertise to design and develop the details of the fund.

The panel of experts was able to assist the CAC with various issues including whether the fund should be considered as part of Massmart's already planned corporate social investment – which it was not. The panel also assisted the CAC in determining the quantum of the fund. The panel of experts also assisted the CAC with setting out the nature of the products to be considered for the supplier development fund. Lastly, the panel of experts assisted the CAC in setting out the administration and governance of the fund.

Importantly, the panel of experts explicitly acknowledged that it (the panel) should not be involved in the day-to-day running of the fund and particularly in choosing the specific suppliers to participate in the fund. Although there would be some oversight, the panel of experts recommended that the buyers be the ones to select suppliers for the fund based on their expertise with Walmart-Massmart procurement decision. The research therefore found that the panel of experts played a critical role in the design and development of the supplier development fund.

7.3. Implications and Recommendations

The findings above raise a number of implications for the various stakeholders affected. These are considered below as well as recommendations. It should be kept in mind that, as noted under the Research Methodology, this research is a qualitative single sample case-study research. This means there are limitations with regard to its ability to be generalised. Any recommendations below should therefore be considered with caution and may require wider consideration prior to implementation. Nonetheless, the research made important findings with implications for government, buying companies, competition regulators and SMMEs.

7.3.1. Government

The findings of this research present government with an opportunity. Although this research was conducted within the context of competition regulation, the findings may be valuable for supplier development in general. For government, these findings solidify the view that supplier development initiatives can support SMMEs in their attempts to grow and avoid some of the pitfalls noted in the Literature Review. As noted above, the South African government is invested in facilitating the growth and development of SMMEs as an avenue for job creation.

In more practical terms, government is one of the largest customers/buyers in the country. This applies to government departments but also to state-owned enterprises (SOEs). Government is in a unique position (in terms of scale) to use SOEs to further its SMME growth and development agenda. This research shows that a properly funded and supported supplier development programme can provide significant support to SMME suppliers. This would allow government to lead the way in the development of SMMEs, setting an example for private businesses. There may be value in government using its significant resources to solve some of the challenges

faced by SMMEs. This would assist government in its efforts to reach goals set out in the National Development Plan regarding SMMEs and job creation.

In addition, if government is able to achieve similar results to those achieved by Walmart-Massmart, there could be significant commercial benefits for the SOEs (which are generally struggling commercially). In other words, a properly designed and implemented supplier development programme may allow SOEs to achieve supply chain efficiencies similar to those achieved by Walmart-Massmart which is likely to positively impact the bottom line. Government should therefore consider supplier development programmes as one of the tools to improve the commercial performance of SOEs.

7.3.2. Buying firms

This research also has significant implications for buying firms. As noted above, companies generally perceive supplier development programmes as corporate social investment. This was also the view taken by Massmart historically. This means companies may have been reluctant to commit significant resources to these programmes given that they were seen to be of no strategic (commercial) value. This research however presents evidence to the contrary.

A critical implication of the research for buying firms is that supplier development programmes can be used to solve challenges in a firm's supply chain. This may include challenges such as stock-outs similar to Walmart-Massmart but may also include other supply chain challenges. For example, a firm may support a SMME supplier in its efforts to introduce a new technology which may not necessarily be supported by firms with entrenched market power looking to protect their market position. It is important for buying firms to realise that getting involved with their suppliers in this manner gives them an opportunity to influence the relationship in a way which would not be possible in a traditional arm's length relationship.

Importantly, supplier development programmes allow buying firms to participate in and possibly drive innovation. Walmart-Massmart was able to work closely with its suppliers to introduce innovation to its product line. Firms that understand the value that these programmes can bring are likely to be able to gain competitive advantage over rivals who wait for suppliers to unilaterally drive innovation.

Finally, buying firms will also ensure that the money they spend on these programmes is not wasted. When supplier development is viewed as corporate social responsibility, firms are not likely to expect a return from the money spent. By designing a programme with set targets and measurable outcomes, buying firms are able to improve the likelihood of achieving a return from the investment. The money spent on the programme can still be claimed as corporate social responsibility however it will also generate a return.

7.3.3. Competition regulators

This research also presents an opportunity for Competition Authorities. As noted above, a number of mergers which raise competition and public interest concerns are resolved through merger remedies. Remedies such as supplier development programmes present an opportunity for Competition Authorities to intervene in markets in a sustainable way. The Walmart-Massmart supplier development fund led to long-lasting changes to the market position of a number of firms. By supporting SMME suppliers and enabling their growth and development, the supplier development fund increased competition in these markets.

Further, Competition Authorities can use these kinds of conditions to achieve industrial policy goals, as set out in the purpose of the Competition Act. As noted above, the South African government has placed emphasis on the role that SMMEs can play in job creation. Through these types of merger remedies, Competition Authorities can make active contributions to the government's developmental imperatives. This is a valuable contribution in an environment where Competition Authorities (like all public entities) are expected to justify the resources invested in them.

Further, this research offers valuable learnings regarding the approach to these remedies. Competition Authorities are involved in the design and development of supplier development conditions. A key finding of the research is the role played by the panel of experts in designing the programme. As noted under the results, it may not be necessary to have a panel of experts for each case going forward however the results presented in this research provide guidance regarding the kind of questions that should be asked in designing and developing supplier development remedies. These include the amount of resources to be committed to the programme, the types of products to be considered, how the support should be provided, how

suppliers should be chosen and how the programme should be administered and governed. Although the answers to these questions are likely to differ depending on the firms/markets involved, this research nonetheless sheds light on the necessary considerations Competition Authorities should keep in mind in developing the remedies.

7.3.4. SMMEs

This research presents an important implication for SMMEs in South Africa looking to supply larger, more established buying firms. The research clarifies how SMMEs can use supplier development programmes to solve some of the challenges they face in trying to grow and develop. Although the buying firm is likely to select the SMMEs that will participate in its supplier development programme, SMMEs should be organised in their understanding of the challenges they face. The research found that Walmart-Massmart asked the SMME suppliers to identify development areas which, when addressed, would position the SMME to be able to supply the buying firm. This creates opportunity for SMMEs who understand what to focus on in order to grow but also leaves little room for SMMEs who are uncertain regarding the steps required for them to reach their developmental targets. Although the supplier development programme provided significant support to the SMMEs, the responsibility ultimately lies with the SMMEs to achieve its own targets.

Importantly, the research highlights how SMMEs can positively contribute to the buying firm's business. This means that SMMEs should view their businesses in the context of the buying firm's supply chain and actively identify areas where they may be able to contribute. By understanding their role in the buying firm's supply chain, SMMEs are likely to be able to present mutually beneficial solutions to the buying firm. The Walmart-Massmart supplier development fund presents a number of examples of how SMMEs may benefit from providing supply chain solutions to a buying firm.

7.4. Summary of Recommendations

Below, the research summarises the main recommendations made above for ease of reference.

- Government should use its significant resources to develop advanced supplier development programs which will directly solve developmental challenges for SMMEs in the country.
- Government should consider supplier development as one of the tools to improve the commercial performance of SOEs.
- Buying firms should appreciate the commercial value of being able to influence their supply chain through supplier development programmes. Buying firms should therefore design and implement supplier development programmes that allow them to achieve efficiencies in their supply chain and actively participate in innovation.
- Competition Authorities should continue to use supplier development conditions as an important tool to effect sustainable interventions in markets allowing for increased competition.
- Competition Authorities can also use these kinds of conditions to make active contributions to the government's developmental imperatives.
- SMMEs should position themselves to solve supply chain challenges for buying firms. It is important for SMMEs looking to supply buying firms to always view their businesses within the context of the buying firm's supply chain and understand how they can assist buying firm to solve supply chain problems.

7.5. Limitations of Research

As noted in Chapter 4, there are a number of limitations to the research. These are discussed below.

- Firstly, similar to most qualitative research, aspects of the research are not quantifiable and may be difficult to prove objectivity. In particular, although the research relies on evidence to support the finding that the supplier development fund benefitted both the suppliers and Walmart-Massmart, it is not possible to show this conclusively without conducting statistical tests that quantitatively measure the costs and benefits of the fund, particularly for Walmart-Massmart.
- Secondly, it may not be possible to generalise the findings across the population of mergers conditions.
- Thirdly, the researcher notes that none of the 6 (six) supplier who were discontinued/exited from the supplier development fund were interviewed.

- Fourthly, the research only interviewed respondents based in Gauteng. This use of non-probability convenience sampling may mean that the sample may not necessarily be representative and there could have been an element of geographic bias.
- Fifthly, the research did not consider any other aspects that may have affected the performance of the suppliers on the fund.
- Lastly, the researcher notes that the respondents, particularly the suppliers, may have been inclined to present a positive image of the supplier development fund given the support they were given. This may have biased their responses regarding their experience with the fund.

The discussion in Chapter 4 sets out some of the measures that were put in place to manage the impact of these limitations.

7.6. Areas of Future Research

This research has identified two distinct areas of future research. The first involved studying the subject matter in more depth while the second involves increasing the scope of the study.

Firstly, as noted under the Limitations section above, the subject matter may benefit from quantitative study of the impact of the fund on the stakeholders involved, particularly the buying firm. The buying firm contributes financial (and other) resources to the supplier development programme. Although this qualitative research was able to show how a buying firm can benefit from a supplier development programme, a quantitative study of the financial benefit achieved by the buying firm from the programme would give further weight to this finding. This is therefore an area of suggested research.

Another area of suggested research involves conducting further ex-post reviews of this nature. The interview with the Expert highlighted the need for further reviews of the supplier development conditions that have been imposed as merger remedies since Walmart-Massmart. This means conducting research into conditions which were a success such as the Walmart-Massmart supplier development fund as well as others which may not have been as successful. This will allow for a wider understanding of the impact of these conditions and also the approach used in their design and development. This would also allow for a comparison of the approaches

used in the different conditions and how they affect the outcomes achieved. Competition Authorities may then be able to identify best practise for supplier development conditions which may be developed into guidelines.

7.7. Conclusion

The purpose of the research was to conduct an ex-post review of the Walmart-Massmart merger remedy, particularly focusing on the impact of the supplier development fund on the SMMEs it supported. The research also considered the impact that the supplier development fund had on Walmart-Massmart as the buying firm. Finally, the research considered the impact of the use of a panel of experts by the CAC in designing the supplier development fund and how this affected the outcomes ultimately achieved.

The research found that the Walmart-Massmart supplier development fund provided tailored support to the suppliers who participated. The research found that the supplier development fund assisted the suppliers with funding for capital expenditure, working capital, access to markets, improved governance and operational efficiencies. As a result of this support, the suppliers have grown significantly from a revenue and profitability perspective and have been able to hire more employees. The overall impact of the supplier development fund on the SMME suppliers has therefore been largely positive.

The research also found a positive benefit for Walmart-Massmart as the buying firm. In particular, the fund has allowed Walmart-Massmart to develop suppliers with the specific aim of filling gaps in its supply chain. This allowed Walmart-Massmart to avoid costly stock-out positions in its stores. In addition, the supplier development fund has also allowed Walmart-Massmart to be more innovative by working with the suppliers to develop products which may not have been possible in a traditional arm's length relationship. The research also found that by working with the suppliers (with the assistance of a firm of Industrial Engineers), Walmart-Massmart has been able to assist its suppliers to achieve operational efficiencies which are ultimately passed on to consumers by Walmart-Massmart. Overall, the supplier development fund has been largely beneficial to Walmart-Massmart.

The research also found that the use of the panel of experts by the CAC was largely beneficial to the design and development of the supplier development fund. The

panel of experts was able to assist the CAC to deliberate on various issues affecting the fund which ultimately had a significant impact on how the fund was implemented. The research therefore found that the panel of experts played a critical role in the design and development of the supplier development fund.

Based on the findings above, the research identified various implications and made recommendation to the relevant stakeholders. These include government, the Competition Authorities, buying firms and SMMEs. The research recommends that government use its significant resources to develop advanced supplier development programs which will directly solve developmental challenges for SMMEs in the country. Government should also consider supplier development as one of the tools to improve the commercial performance of SOEs.

The research also recommends that buying firms appreciate the commercial value of being able to influence their supply chain. Buying firms should therefore design and implement supplier development programmes that allow them to achieve efficiencies in their supply chain and actively participate in innovation. The research also recommended that Competition Authorities continue to use supplier development conditions as an important tool to effect sustainable change in markets allowing for increased competition. Competition Authorities should also use these kinds of conditions to make active contributions to the government's developmental imperatives.

Finally, the research recommended that SMMEs position themselves to solve supply chain challenges for buying firms. It is important for SMMEs looking to supply buying firms to always view their businesses within the context of the buying firm's supply chain. Ultimately, SMMEs should be able to persuade buying firms of the value that they can achieve from supporting the SMME. Unless buying firm see the value they can achieve from these programmes, it is unlikely that they will invest the necessary resources to make the programmes a success.

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Annexure A: Guiding questionnaire for Suppliers

1. Please provide the following general information about your company:
 - 1.1. Company name
2. Kindly detail your business activities in full.
3. When was your company started? Provide details i.e. who started it, where, to provide which products, services?
4. How did you become aware of the Walmart-Massmart supplier development fund?
 - 4.1. Did you choose to apply or were you chosen?
5. Which aspect of your business was supported by the Walmart-Massmart supplier development fund?
6. What nature of support did you received from the Walmart-Massmart supplier development fund?
 - 6.1. Was the support only financial? Provide details
 - 6.2. Was the support once-off or ongoing?
7. Was the Walmart-Massmart supplier development fund your first endeavour into entrepreneurship?
 - 7.1. Provide details, what have you tried before and how did it end up.
 - 7.2. What were the challenges you faced in your previous endeavours into business?
8. Have you had prior experience with other supplier development initiatives in the past? Kindly explain.
9. What has been the impact of the Walmart-Massmart supplier development fund on your business? Provide details – e.g. employment, increased profitability, upgrading nature of business etc.
10. Has the Walmart-Massmart supplier development fund given you access to the Walmart/Massmart value chain? Kindly explain
11. Has the Walmart-Massmart supplier development fund allowed you to access the value chains of other established customers? Kindly explain
12. Has the Walmart-Massmart supplier development fund allowed you to access the export market or markets in other geographic areas? Kindly explain

13. Are there any other comments you would like to make regarding the Walmart-Massmart supplier development fund?

Thank you for your time.

Annexure B: Guiding questionnaire for Walmart-Massmart

1. Please provide the following general information about your company:
 - 1.1. Company name;
2. Kindly detail your business activities in full.
3. Did Walmart/Massmart have supplier development programmes in general in the past? Provide details
 - 3.1. Kindly describe the broad characteristics of Walmart/Massmart's previous supplier development programmes i.e. sectors targeted, funds committed, measures of success etc.
 - 3.2. Kindly provide a list of suppliers who have benefitted from Walmart/Massmart's previous supplier development programmes.
4. What is Walmart/Massmart's motivation for using supplier development programmes? Provide details
5. Did Walmart/Massmart have supplier development funds in the past? Provide details.
6. Was the process followed in developing the Walmart/Massmart supplier development fund unique or was it consistent with Walmart/Massmart's previous experience in similar projects? (Particularly the use of a panel of experts to design the details of the fund).
7. Has Walmart/Massmart adopted a similar approach in other supplier development initiatives since the Walmart/Massmart supplier development fund?
8. What criteria did Walmart/Massmart use in choosing the sectors and/or firms to be part of the supplier development fund? Provide details. Are there any documents that detail this criterion?
9. What nature of support did Walmart/Massmart provide to the suppliers on the Walmart-Massmart supplier development fund?
 - 9.1. Was the support only financial? Provide details
 - 9.2. Was the support once-off or ongoing?

10. What has been the impact of the Walmart-Massmart supplier development fund on Walmart/Massmart? Provide details – e.g. increased employment, increased profitability, access to superior suppliers etc.
11. Has the Walmart-Massmart supplier development fund given you access to a quality of suppliers that were not previously part of the Walmart/Massmart value chain? Kindly explain
12. Do you believe that the Walmart-Massmart supplier development fund gave you a competitive advantage over your rivals in any market you are active in? Kindly explain
13. Are the suppliers required to supply Walmart/Massmart exclusively or can they supply any other firm including your competitors? Kindly provide the motivation for this.
14. Are there any other comments you would like to make regarding the Walmart-Massmart supplier development fund?

Thank you for your time.

Annexure C: Guiding questionnaire for Expert

1. Please provide the following general information about your company:
 - 1.1. Name of expert:
2. Kindly provide a brief outline of your qualifications, skills and experiences
3. How did you become involved with the Walmart-Massmart supplier development fund?
4. What were the terms of reference for the panel of experts that developed the Walmart-Massmart supplier development fund?
5. What was your specific role on the panel of experts that developed the Walmart-Massmart supplier development fund?
6. What was the process that was followed in developing the Walmart-Massmart supplier development fund?
7. What literature or guidance did the panel rely on in developing the Walmart-Massmart supplier development fund? Did the panel rely on previously accepted models for developing similar supplier development funds?
8. How were the criteria developed for choosing suppliers for the Walmart-Massmart supplier development fund?
9. Did the panel consider the benefits for Walmart/Massmart of having the supplier development fund? Were synergies with the Walmart/Massmart supply chain a consideration or was the focus only on the suppliers?
10. Do you believe that the use of a panel of experts allowed for a better-quality supplier development fund than would have been possible absent the panel?
11. Considering the costs and benefits, would you recommend the use of a panel of experts as a standard feature of developing supplier development funds for merger remedies?
12. Would the Competition Authorities benefit from developing a guideline document for supplier development funds in merger remedies?
13. Are there any other comments you would like to make regarding the Walmart-Massmart supplier development fund?

Thank you for your time.

Annexure D: Participation Consent Form

**Gordon
Institute
of Business
Science**
University
of Pretoria

Dear participant,

My name is Ratshi Maphwanya, I am a final year MBA student at the University of Pretoria's Gordon Institute of Business Sciences (GIBS). I am conducting research on the impact of the supplier development fund imposed as a condition to the Walmart-Massmart merger. I believe you may be able to share key insight into the benefits of the Supplier Development Fund as well as the process that was followed in its development. I am requesting that your consent to participate in an interview on the above. The interview is expected to last no more than 45 to 60 minutes.

Kindly confirm that you consent to take part in research project titled **Supplier Development Funds in Merger Remedies: An Ex-Post Review of Walmart-Massmart**. This research is being conducted under the supervision of Mike Holland. Please note that your participation in this interview is voluntary and you may withdraw at any point or refuse to answer any of the questions without any consequences. Please also note that your information will be kept confidential and will be reported in an aggregated manner. Please also note that the interview will be recorded and may be transcribed by a third party. The 3rd party will also be bound by the same confidentiality undertakings noted above.

If you have any concerns, please contact my supervisor or me. Our details are provided below.

Supervisor Name: Mike Holland

Researcher Name: Ratshi Maphwanya

Email: mholland@pricemetrics.co.za
12287106@mygibs.co.za

Email:

Name of Participant and Company: _____

Signature of Participant

Date

Signature of Researcher

Date

Annexure E: Extract of Coding and Analysis

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
1	9. What has been the impact of the Walmart-Massmart supplier development fund on your																
2	business? Provide details – e.g. employment, increased profitability, upgrading nature of																
3	business etc.																
4									Code	Supplier 1	Supplier 2	Supplier 3	Supplier 4	Supplier 5	Supplier 6	Supplier 7	Frequency
5									1 Revenue/Profit/WC	0	1	1	1	0	1	1	5
6									2 Capital Equipment	1	1	1	1	1	1	1	7
7									3 Employees	1	1	1	1	1	1	1	7
8									4 Market access	1	1	1	1	0	1	0	5
9																	
10									QUOTES		Could not have done what we've done without them		On some of the lines, we've been growing up to 60% year on year	I'm not even sure my business would still be around or at least it wouldn't be at the scale so fast.	So we were using imports to supplement our production, after the move, we won't have to import at all.	Massmart paid for the new factory	
											"Many supplier development programs fail because if you haven't got the support of the buying team, then you could have a R3 million factory but if the buyers are not buying your product then you will fail."		Did not mention market access explicitly but spoke about how they are speaking to Game	feel that the buyers are a little bit disconnected from the whole transformation idea. I'm not sure they understand it.		I think that the buyers are not aware of what the impact of the fund was so they are actually not making full use of their assistance that was given to us	
											"When we started with the supplier Development Fund, we only made one product. We had about 12 different products						

Annexure F: Ethical Clearance

**Gordon
Institute
of Business
Science**
University
of Pretoria

30 July 2019

Maphwanya Ratshidaho

Dear Ratshidaho

Please be advised that your application for Ethical Clearance has been approved.

You are therefore allowed to continue collecting your data.

Please note that approval is granted based on the methodology and research instruments provided in the application. If there is any deviation change or addition to the research method or tools, a supplementary application for approval must be obtained

We wish you everything of the best for the rest of the project.

Kind Regards

GIBS MBA Research Ethical Clearance Committee