The non-financial benefits of developing local suppliers for a large South African company

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ABSTRACT

This study demonstrated that a large South African company was able to obtain operational benefits from its supplier development programme aimed at its disadvantaged suppliers. This is despite the fact that these supplier development efforts appeared to be undertaken to further social responsibility business objectives rather than to secure competitive advantage through supply chain excellence. The most significant benefit derived from the supplier development programme was ensuring compliance from suppliers with company requirements, for example for quality or safety. In addition, the large firm achieved improvements in quality, cost and reliability of products and services. However, the study also found that there were significant unrealised opportunities that the company did not appear to reap, such as improvement in supplier flexibility, securing environmental benefits, and the delivery of innovation inputs. One of the recommendations of this study is, therefore, that the company should attempt to strengthen its efforts in these directions.

A mixed-method case study approach was followed to investigate the supplier development programme of a typical large South African company. Primary (qualitative) information was collected through semi-structured interviews with a core group of individuals that were involved in the supplier development programmes of the company, selected external persons that were either involved or knowledgeable in the areas of supplier development and/or BEE, and owners of businesses that participated in the supplier development programme. Secondary (quantitative) data were obtained from internal documents from the supplier development function, which outline the nature and scope of each of the 102 projects that were undertaken. Four aspects were explored: 1) The selection of participating supplier businesses, 2) assistance provided to these businesses, 3) the operational benefits obtained from these projects, and 4) the intention of the company to obtain operational benefits from this programme.

The study demonstrated that the process used to identify projects for these initiatives and the scope of supplier development programmes played a significant role in determining the outcomes of these initiatives. It was found that most of the assisted businesses were small suppliers of non-essential goods and services. The majority were referred either by business units within the company, or the procurement department for the purpose of addressing poor performance and non-compliance to the company's safety and quality standards.

The supplier development function provided a wide range of services, ranging from training programmes and assistance aimed at struggling businesses, to providing more substantial resources and funding to growing and expanding suppliers that provide important services to the company. A special effort was made to increase the long-term sustainability of the supplier businesses by providing additional measures such as essential management and skills training. Although the programme was not specifically aimed at businesses with high BEE scorecard recognition levels, a significant component of the supplier development effort went into gaining or improving the BEE recognition levels of the supplier businesses.

A very interesting finding of this study is that these benefits were derived, even when the company did not appear to have a clear intention to derive operational benefits from their supplier development programmes. Gaining recognition for its BEE scorecard appeared to be a strong driver for these initiatives. In contrast, the personnel of the supplier development function appeared to provide the main drive for the operational benefits that were obtained. Several noted that the company should, and did to some extent, have consideration for deriving benefits from these initiatives. Furthermore, the view was expressed that the most beneficial approach is to align the supplier development strategy with both the company's preferential procurement targets and its supply chain imperatives.

A few exemplary projects were encountered where specific needs and opportunities for products/services that addressed essential operational issues were identified. Collaborative development between the company and the suppliers resulted in significant improvements in the quality and availability of these products. It is recommended that the supplier development function proactively identifies similar projects for suppliers that are closer to the operations of the company and where clear benefits for the company can be obtained.

The significance of this study is that it demonstrates that supplier development initiatives for disadvantaged supplier businesses, which are sometimes perceived as corporate social responsibility imperatives or compliance to the BEE Act, can add value to the buying company. It further provides insight into aspects of the implementation of a supplier development programme and indicates improvement areas. It also encourages long-term sustainability of these projects in order to have a lasting effect on the socio-economic transformation of the South African economy.

DECLARATION

I declare that this report is my own, unaided work. It is submitted in the partial fulfilment of the requirement of the degree of Master of Business Administration at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other University

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1 INTRODUCTION

1.1 Purpose of the study

The purpose of this research is to determine whether a typical large South African company obtains operational benefits from the programmes that it implements to develop its local suppliers.

1.2 Context of the study

The legacy of South Africa's apartheid policies has had a significant impact on the country's social and economic structure. The Department of Trade and Industry (1995) noted that the Group Areas Act of 1950 led to large capital losses and the destruction of many small black enterprises. The markets available to black businesses were limited by confining them to one business in one location. Restrictions on black people's property ownership rights ensured that they could not acquire assets that could serve as collateral for loan financing, and also excluded them from the benefits of capital growth through rising property values and share prices.

The segregation of the school system led to a disparity in the quality of education (Herrington, Kew, Overmeyer, Maas and Maas 2008). Education was strictly racially divided so that white schools enjoyed good facilities and high quality teaching. Schools for black children were underfunded, poorly resourced, and simply did not provide the necessary technical and professional skills. Black people were prevented from doing jobs that required managerial activities or higher levels of technical skills (Jack and Harris 2007:6). Self-employment and entrepreneurship were undermined (Pillay and Phillips 2009). Thus, a large portion of the population was excluded from the formal economy, with the result that the distribution of economic wealth, wages and skill levels was very much divided along racial lines (Finnemore 2006:36).

Despite South Africa being a democracy for eighteen years already, this context is largely still the case. More than a decade after the political transformation, most South Africans have not experienced any economic benefits from the political transition (Finnemore 2006:41). South Africa still has one of the highest levels of income inequality in the world; in 2008 the country's Gini coefficient was 0.67 (The Presidency of the Republic of South Africa 2009). Furthermore, a quarterly labour force survey reveals that the country's official unemployment figure is currently at 25.2%, or 35.9% if discouraged job seekers are included in this statistic (Statistics South Africa 2010). The largest percentage of the unemployed workforce is still mostly concentrated in the Black African and coloured populations.

South Africans have traditionally relied on government and the corporate sector to provide jobs. It is, however, unlikely that the growth in the formal economy will be able to solve the growing unemployment problem. Instead, the small business sector is a potential vehicle to improve employment and living standards. Herrington et al. (2008) note that small businesses have been shown to contribute substantially to job creation, economic growth and more equal income distribution in many developing countries. These businesses are more labour intensive and can thus absorb more job seekers. Furthermore, job opportunities which are not economically viable for a larger company may be cost-effective for small businesses. In South Africa small enterprises contributed 35% towards South Africa's gross domestic product (GDP) in 2007 and employed over half the number of people who work in the private sector (Department of Trade and Industry 2007a).

South Africa's current entrepreneurial performance is currently below the average of other countries (Herrington, Kew and Kew 2008). Entrepreneurial activity is hindered by a poor skills base, poverty, lack of active markets, and poor access to resources. Education and training is also a major limiting factor. Furthermore, it has been noted that providing finance for small start-up businesses is unlikely to lead to an increase in the number of successful businesses if provision is not made for adequate infrastructure, market opportunities, and business and management skills development.

Since 1994, the South African government has introduced initiatives to address the many social and economic inequalities in the country. An initiative such as the Accelerated and Shared Growth Initiative for South Africa (ASGI-SA) had the primary aim to halve unemployment and poverty by the year 2014 (Finnemore 2006:48). Racial and gender inequalities were to be addressed by introducing mechanisms such as the Employment Equity Act (EE Act) of 1998, the Preferential Procurement Policy Framework Act (PPPFA), and the Broad-Based Black Economic Empowerment (B-BBEE) Act no. 53 of 2003 (Jack and Harris 2007). The objectives of the latter are, among others, to promote economic transformation, to enable previously disadvantaged groups to have meaningful opportunities for participation in the economy, and to diversify the ownership of existing and new enterprises (Finnemore 2006:53-55; Jack and Harris 2007:29; Balshaw and Goldberg 2008:70).

In order to achieve the objectives of the B-BBEE Act, capital is being redirected to black people through government's substantial procurement process (Balshaw and Goldberg 2008). The B-BBEE Act is only binding on organs of state and there is no legal necessity for companies in the private sector to comply with its provisions (Jack and Harris 2007:30). However, any company that wishes to do business with state entities will have to be measured against the Black Economic Empowerment (BEE) Codes of Good Practice and provide proof of its contribution to transformation (Jack and Harris 2007:26). Certification of BEE compliance is done through a balanced scorecard approach (Pillay and Phillips 2009:11) which contains seven elements that address different socio-economic issues: Ownership, management control, skills development, employment equity, preferential procurement, enterprise development, and socio-economic development. The awarding of state tenders will favour companies that score highly on the BEE scorecard, thus providing an incentive to induce these private sector companies to contribute to transformation initiatives (Jack and Harris 2007:26).

In this scheme, the preferential procurement element becomes the main driver of the BEE process. Companies that plan to do business with government entities will increase their BEE ratings by procuring from other businesses that have high BEE ratings (Jack and Harris 2007:44). As a result, compliance to the B-BBEE Act trickles down the supply chain to most businesses in the private sector. It has thus become a business necessity and a strategic imperative for private sector companies to comply with the B-BBEE Act.

Large South African companies such as Anglo American have supply chain initiatives that collaborate with procurement departments to identify black suppliers and facilitate business opportunities for black-empowered Small and Medium Enterprises (SMEs) (Anglo American Zimele 2010). Certain services are outsourced to the SME sector. In support of this, the National Business Initiative (NBI), a coalition of more than 140 companies, launched its Enterprise Linkage Initiative with the aim to integrate a “growing pool of black suppliers and communities into the mainstream economy on a sustainable basis through targeted procurement of goods and services and supported by enterprise development” (National Business Initiative 2008; Pillay and Phillips 2009).

Many of the large South African companies address the enterprise development element of the scorecard by assisting with the creation and development of commercially viable SMEs which are owned by previously disadvantaged South Africans. Several of these companies have established business incubation entities. The most prominent example is Anglo Zimele, the enterprise development fund of the Anglo American Group (Anglo American Zimele 2010). Other companies such as Mondi, De Beers and Barloworld follow similar strategies (Altman 2009).

The pressure from government and the necessity to comply with the BEE Act leads one to suspect that these enterprise development initiatives of South African companies are primarily aimed at compliance to BEE targets. Many of the businesses created by such entities come at a cost to the companies with no real benefit other than BEE scorecard points. Duffet, Van Der Heever and Bell (2009) note that implementation of B-BBEE is costly in terms of money, time, commitment and resources. According to Balshaw and Goldberg (2008:32), B-BBEE is seen by many as another compliance cost. Pillay and Phillips (2009) however note that job creation is viewed as Corporate Social Responsibility (CSR) instead of the result of sustainable enterprise development. Balshaw and Goldberg (2008:25) also suggest that “...some people would argue that broad-based BEE is seeking to extract uncompensated value from others through economic discrimination”.

Yet, other authors argue that BEE should not impact negatively on business. Jack and Harris (2007:22) argue that “business must always be driven by economics, not only a scorecard”. As such, it is to achieve its objectives through sound economic principles and good governance in order to be sustainable. Similarly, Pillay and Phillips (2009) comment that it is important for the private sector to view transformation as a sound business case rather than a compliance requirement. The draft code of governance principles for corporate South Africa (also known as the King III Code), which came into effect in March 2010, discourages “tick box compliance”, and rather promotes the integration of business practices that focus on sustainability with regards to the economy, society and natural environment (Pillay and Phillips 2009:34).

The question thus arises as to whether compliance to the B-BBEE Act is driven purely by pressure from government, or whether the process can also provide tangible benefits to companies. One aspect of the BEE scorecard where such benefits may be realised, is in the enterprise development activities that companies engage in with their suppliers (i.e., supplier development programmes). Large companies are using their knowledge, expertise and resources to establish, develop or assist small enterprises in their supply chains (Pillay and Phillips 2009). These enterprises are then also supported through preferential procurement policies in order to ensure their growth and sustainability in the long term. This is in fact encouraged by the BEE Codes of Good Practice through additional recognition of the actual procurement amount spent when the supplier is also a beneficiary of enterprise development from the company (Jack and Harris 2007:307; Pillay and Phillips 2009).

Supplier development is known to result in competitive advantage and mutual benefits for the company and the participating suppliers (Wagner, Macbeth and Boddy 2002) and there are many examples in the literature, especially in the automotive sector, that describe the benefits of supplier development (Sako 2004; Johnson 2009). Such initiatives are undertaken to improve the performance, cost, quality and/or capabilities of the suppliers in order to meet the buying firm’s supply needs (Watts and Hahn 1993:12; Krause and Ellram 1997a:21). The need for companies to build and maintain such relationships is essential for their survival in today's competitive environment (Wagner 2006b).

However, the development of SME suppliers poses additional hurdles. SME suppliers often cannot compete effectively for large firm contracts due to their lack of market information, management skills, technology, etc. (Jenkins, Akhalkatsi, Roberts and Gardiner 2007b). Local suppliers often have low technical capabilities, and it is oftentimes not financially viable to improve their capabilities (Thomas and Barton 2007:491). Changes in procurement policies to accommodate small suppliers raise costs and risks to the large firm (International Finance Corporation 2007:53,54). Pillay and Phillips (2009) note that personal relationships and satisfaction with current suppliers, as well as the high risk associated with emerging and black-owned enterprises, hamper change. In principle, many large firms are interested in developing relationships with local SMEs (Jenkins, Akhalkatsi, Roberts and Gardiner 2007a). However, the extent to which this happens depends on factors such as firm- and industry-specific risks, costs and benefits, as well as the availability of qualified SMEs, government incentives and requirements.

1.3 Research question

Does a typical large South African company obtain operational benefits from the programmes that it implements to develop its local suppliers? In order to investigate this question this study will look at the following themes:

- What supplier companies are assisted?
- What assistance is provided to these supplier businesses?
- What are the specific operational benefits obtained?
- Is there a deliberate intention to obtain such benefits?

1.4 Significance of the study

BEE is seen by many as a compliance cost (Balshaw and Goldberg 2008:32) or as CSR instead of a sustainable effort (Pillay and Phillips 2009). Jack and Harris (2007) note the reluctance with which BEE policies of government have been received by business. The study gives an indication of whether such externally imposed imperatives can be incorporated into the company in a value-adding way in order to provide positive outcomes for the company.

The study demonstrates that supplier development programmes for previously disadvantaged businesses can yield tangible operational benefits to a company. The outcome of this study may thus encourage other companies to undertake similar activities.

The study provides insight into the processes involved in the supplier development initiatives and the methods employed by a typical company in executing these projects. Areas where this process can be improved upon are identified.

Government's intention with its B-BBEE strategy is to have an enduring impact on the socio-economic landscape of the country. The outcome of this study will provide an indication of whether companies in the private sector are aligned with this objective by developing suppliers in a value-adding and sustainable way.

1.5 Delimitations and limitations of the study

Only businesses that acted as suppliers to the company were included in this study. Other development activities that did not involve the suppliers of the company did not form part of this study.

A single South African company was investigated and no attempts were made to draw inferences about other companies.

Only initiatives undertaken by the company's enterprise development entities, which are responsible for supplier development, were considered. Thus, businesses that have been involved in supplier development initiatives by other business units of the company were not included.

The study is qualitative in nature and was designed to probe whether operational benefits were obtained, and what strategies give rise to these benefits. No attempt was made to quantify these benefits in monetary value.

Intangible business benefits that are normally associated with CSR programmes, such as easier access to capital from institutional investors, enhanced reputation and trust, increased sales and customer loyalty, increased ability to attract and retain people, and reduced regulatory oversight (Cormack and Niessen 2002), were not considered. This study focuses exclusively on tangible operational benefits.

The study also focused on the direct interventions of the company. Broader activities relating to the supplier development programme such as strengthening the enabling environment for business linkages, engaging with government to improve public policies, etc. (Jenkins et al. 2007b), were not considered.

The research only focused on issues that are pertinent to the purpose of the study as defined in the problem statement. Other issues such as the details of the process, evaluation of its successes and failures, etc. were not considered.

The impacts of the initiatives on the supplier businesses and the benefits that they received in the process did not form part of the scope of this investigation.

1.6 Definition of terms

Broad-Based Black Economic Empowerment (B-BBEE) is defined in the B-BBEE Act 53 of 2003. It is the economic empowerment of previously disadvantaged groups (black people, women, workers, youth, people with disabilities and people living in rural areas) through socio-economic strategies that include (Jack and Harris 2007:28-29; Balshaw and Goldberg 2008:223):

- Increasing the number of black people that manage, own and control enterprises and productive assets;
- Facilitating ownership and management of enterprises and productive assets by communities, workers, co-operatives and other collective enterprises;
- Human resource and skills development;
- Achieving equitable representation in all occupational categories and levels in the workforce;
- Preferential procurement;
- Investment in enterprises that are owned or managed by black people.

Black people is a generic term which includes Africans, Coloureds and Indians (Jack and Harris 2007:28). According to the Act it includes only natural persons who are citizens of the Republic of South Africa by birth or descent, or who became citizens by naturalization before 1993 (Balshaw and Goldberg 2008:223).

Enterprise development refers to the investment of time and capital to create a new business, or improve the management or operations of an existing business in order to increase its sustainability and growth prospects (Pillay and Phillips 2009).

The term “supplier development” as used in this thesis, refers to any cooperation between a buying firm and its supplier to improve the performance and/or capabilities of the supplier in order to meet the buying firm’s supply needs (Watts and Hahn 1993:12; Krause and Ellram 1997a). For the purpose of this study this will also include the following two concepts:

- Enterprise development programmes that involve suppliers of the company, and
- "Supplier diversity development", which is defined as the use of targeted procurement practices and enterprise development to integrate black suppliers into companies' supply chains (National Business Initiative 2008).

Procurement is "the acquisition of goods and/or services at the best possible total cost of ownership, in the right quantity and quality, at the right time, in the right place and from the right source for the direct benefit or use of corporations or individuals" (Pillay and Phillips 2009). Preferential procurement extends this definition to include other issues that impact on the selection of suppliers in support of socio-economic goals such as B-BBEE or local supplier support.

McWilliams and Siegel (2001) define Corporate Social Responsibility (CSR) as "actions that appear to further some social good, beyond the interests of the firm and that which is required by law." Barnett (2007) defines it as "...any discretionary corporate activity intended to further social welfare."

1.7 Assumptions

The following assumptions have been made:

The supplier development initiative started relatively recently. It is assumed that a sufficiently large number of such projects have been undertaken to draw conclusions relevant to this study.

The supplier development projects undertaken by the enterprise development entities of the company are representative of all similar projects that may have been undertaken by other business units within the company.

Since some of the personnel involved in the supplier development initiatives have not been involved throughout the lifetime of the enterprise development entities, it is assumed that they are sufficiently familiar with the supplier development programme to provide the necessary insight into this subject.

The purpose and operation of the entities responsible for supplier development in the company have remained relatively stable with respect to the benefits received from these activities, despite recent changes such as restructuring, new leadership and strategic direction, etc.

2 LITERATURE REVIEW

2.1 Introduction

This chapter presents an overview of the available literature to establish a body of knowledge that is pertinent to the research problem. The chapter starts with a section that describes the nature and intention of supplier development. The sections that follow focus on the main themes identified in the previous chapter: Selecting suitable supplier businesses, the assistance provided to suppliers, the operational benefits that companies can obtain from their supplier development initiatives, and whether there is an intention to obtain such operational benefits. The last section provides a brief description of the implications that the BEE policies have on the supplier development landscape in South Africa. The chapter concludes with a formulation of the research question.

2.2 Supplier development

In the following sub-sections the intention of supplier development is discussed. The distinction is made between supplier development for supply chain management objectives, and supplier development for previously disadvantaged businesses.

2.2.1 *Supplier development for supply chain management objectives*

In their book "Sourcing and supply chain management", Handfield, Monczka, Giunipero and Patterson (2009) mention that the increasing numbers of world-class competitors forces companies to improve their internal processes in order to stay competitive. Companies are focusing their attention on purchasing and supply chain management. Imperatives that drive supply chain management are the need to be fast and agile, the higher expectations of customers, the necessity to lessen the impact of disruptions in the supply chain, and the availability of information channels between the entities in the supply chain that allow for the elimination of delays.

Material and service inputs from suppliers have a significant influence on a company's ability to meet the needs of its customers. It also has a substantial impact on a company's total cost. For example, in the manufacturing sector, on average more than half the sales revenue of companies goes back to their suppliers. Companies are also outsourcing more of their parts, components and services to external entities so that they can concentrate on their own competencies. As a result, competition is not only between companies, but rather between the supply chains of these companies (Handfield et al. 2009). The configuration of their supply chains will determine their success in the market. This view has also been expressed by others, e.g., Lummus and Vokurka (1999), while it is noted that managers should look beyond the internal processes of a company to inter-company operations in order to identify ways to become more effective (Pycraft, Singh and Phihlela 2008:457). "To compete in their respective markets, buying firms must ensure that their suppliers' performance, capabilities and responsiveness equals, or surpasses that experienced by the buying firm's competitors" (Krause and Ellram 1997b:39)

Handfield et al. (2009) make the distinction between the purchasing function and supply management. The former ensures that products and services are procured from a suitable source in the right quantity, quality, at the right time and for the right price. It will thus fulfil functions such as supplier identification and selection, drafting contracts, negotiation and buying, etc. Supply chain management, on the other hand, is seen as a more strategic approach towards the current and future procurement needs of the company. In addition to the purchasing function, it also includes functions such as demand and supply forecasting, materials handling and storage, inventory control, quality control, etc.

Effective supplier management and development falls within this realm. It consists of various actions that have the aim of improving the capabilities of suppliers. Handfield et al. (2009) gives a broad definition of supplier development, similar to those of a number of authors, as “any activity undertaken by a buyer to improve a supplier’s performance or capabilities to meet the buyer’s short- and long-term supply needs”. Some of these activities include the sharing of technology, incentivising and promoting competition among suppliers, and providing capital and training to the supplier business.

They further mention that supply chain management, and consequently supplier development, have the potential to create an enduring competitive advantage, provided that it is applied with a strategic view towards the goals of the business. It further requires a strong collaborative relationship and mutual commitment between the buyer and the supplier businesses.

Based on their investigation of the supplier development strategies for more than 60 organizations, they proposed a generic process map for undertaking supplier development initiatives. In this process map it is mentioned that only critical products or services that are essential for success in the market should be considered for these initiatives. Furthermore, suppliers that fail to meet certain performance standards such as quality, delivery, safety or environmental compliance should be eliminated from the supply base. Only suppliers that deliver essential products or services, or those that meet the minimum requirements but do not provide world-class performance, should be considered for supplier development programmes. They also emphasise that there should be strong top-management support for these supplier development programmes, through proving that there are immediate benefits to be gained from these programmes.

2.2.1 *Supplier development for previously disadvantaged businesses*

Handfield et al. (2009) also describe the supplier development programme of Raytheon, al large industrial company in the USA. This company focuses not only on their large capable suppliers in their development projects, but also on its “lower end” suppliers, which include its disadvantaged, small, women- and minority-owned businesses. The importance for a buying company to support social and minority business objectives in order to portray good corporate citizenship is also discussed. They note that minority supplier face many problems, such as lack of access to capital, small size, over reliance on their larger customer companies, lack of proper management, etc. In order to support minority suppliers, companies have policies that facilitate fair and equal opportunity for these businesses to participate in the purchasing process. In some cases a certain minimum percentage of business is awarded to small and disadvantaged suppliers.

Companies are also undertaking supplier development programmes for these minority or previously disadvantaged suppliers. However, there is generally a lack of senior management support, and consequently sufficient budget allocation, for such programmes. In order to facilitate this process, Handfield et al. (2009) note that the goals and objectives of supplier development programmes should be tied to the supply chain management strategies and job functions.

The International Finance Corporation (IFC) is an organization that has been involved in several supplier development programmes for small local businesses, also referred to as business linkages, in different parts of the world. A number of case studies and instructive articles have been published by this organization. It notes that large companies undertake projects to support and develop SMEs that act as their suppliers, with the intention to strengthen the local economy and to reduce unemployment (International Finance Corporation 2009).

Researchers from the IFC state that large firms often have operations in various countries, and their presence and activities in developing countries are increasing (Jenkins et al. 2007b). These companies need to preserve their social licence to operate, and therefore need to be seen as contributors to the community rather than exploiters. Business executives have realised that business has tremendous potential to be a change agent in society and that companies have a moral obligation towards their stakeholders (Edmondson, Suh and Munchus 2008). “More than ever, companies realise that it is good business to share benefits with the communities in developing countries in which they operate. Enabling small, local firms to supply goods and services to larger enterprises creates more efficient supply chains. At the same time it maximises development benefits by helping local companies to grow and create jobs” (Jenkins et al. 2007b:4).

SME suppliers often cannot compete effectively for large firm contracts due to their lack of market information, management skills, technology, etc. (Jenkins et al. 2007b). They often struggle to meet requirements in terms of safety, quality, production flexibility or capacity, while their technical capabilities are limited.

Table 1, which was reproduced from Jenkins et al. (2007b), shows the potential benefits that supplier development activities can have on the various stakeholders. The impact on SMEs is that their chances of survival and eventual growth are increased substantially by the acquisition of proper skills and knowledge. Raising their competitiveness provides access to new markets, making them more eligible for funding, and also provides opportunities to innovate and expand. This stimulates economic activity in the community, thus providing for increased employment and wealth creation. The local community also benefits by being more attractive to other large businesses, opening itself up to new business opportunities and increased purchasing power.

Table 1: Potential benefits of business linkages for large firms, local business communities, and SMEs

SMALL-MEDIUM ENTERPRISES	LOCAL COMMUNITIES	LARGE FIRMS
• Increased employment and wealth creation by local firms • Acceleration of knowledge transfer and technology upgrading • Enhanced skills, standards and capacity • Access to new domestic and/or foreign markets • Attraction of additional foreign direct investment in “cluster” effects • More diversified client and market structures • More stable relationships to buyer or producer organizations • Risk-sharing through joint funding and/or operations • Facilitation of access to finance • Opportunities to innovate, upgrade and increase competitiveness	• Stimulation of economic activity and enhanced local economic development • Increased employment and production • Long-term increase in local or regional competitiveness • Added local purchasing power • Access to more affordable, reliable, or better quality products and services • Increased participation of large-scale companies in local business and community development • Balance of payment benefits when products are exported and/or substituted for imports • Development of local • business service providers catering to SMEs	• Reduced procurement, production and distribution costs • Improved productivity • Increased opportunities for corporate responsibility combined with profitability • Enhanced reputation and local license to operate • Improved integration in new overseas markets • Increased ability to reach consumers at the base of the economic pyramid • Proactively deal with downsizing • Reduction of foreign exchange needs through import substitution • Increase in flexibility in making design and production changes due to proximity of local suppliers • Reduced environmental impacts from long-distance shipping • Compliance with government local content requirements

An example of the impact of a business linkages programme on the community and local business can be seen from Newmont, a company involved in the largest gold mine in Peru (International Finance Corporation 2007; Jenkins et al. 2007b). Their activities focused on the improvement of quality and productivity, safety, environmental and business standards of the suppliers. The result was that the sales, profit margins, growth in assets and employment of the supplier businesses showed significant improvements.

Another notable example is the agricultural trading company Ecom. This company realised that “If we want to be trading coffee in another century, we need to help ensure that coffee farmers, and the environment that sustains them, endure” (Jenkins et al. 2007b:35). Consumers demanded not only high quality, but also sustainable production, fair trade and improved social conditions for farming communities. In response, the company embarked on a project to provide technical assistance to farmers in order to address issues such as declining soil fertility and conserving natural resources and biodiversity. The result was that tens of thousands of farmers could produce more efficiently and sustainably, while being able to obtain higher prices for their products. At the same time, large buyers could now connect with small producers at lower cost.

Such programmes are often fraught with difficulties. It is sometimes not financially viable to improve a supplier’s capabilities (Thomas and Barton 2007:491). Changes in procurement policies to accommodate small suppliers raise costs and risks to the large firm, while training and supervision also add to the financial burden (International Finance Corporation 2007:53,54). Often preferential procurement programmes do not consider the factors that shape small business viability (Bates and Williams 1995). For example, Bates and Williams (1995) note that larger Minority Business Enterprises (MBE) in the USA are more likely to benefit from government contracts, while small or young businesses do not always have the necessary capacity to handle large procurement contracts and are more likely to go out of business.

2.3 Selecting suitable supplier companies

The process of developing a supplier is expensive and time consuming, and it is thus not practical to do this for every supplier (Swink and Mabert 2000). Some companies consider supplier development as a strategic tool. They identify important items, services or suppliers and structure activities to create world-class suppliers that can provide a sustainable competitive advantage to the company (Krause, Handfield and Scannell 1998; Wagner 2006a). These companies were more likely to develop appropriate development programmes to identify and eliminate non-value-adding costs. In contrast to this, other companies take a more reactive approach by addressing supplier non-performance. In these cases, suppliers are engaged only after problems occur or when specific deficiencies need to be addressed.

Companies have recognized that only certain suppliers, typically those that supply materials or systems that create competitive advantages in their own products, contribute to their long-term success (Swink and Mabert 2000). The relationship that a company has with a supplier depends on the nature of the supplier company (Hugo, Badenhorst-Weiss and van Biljon 2004). Typically there is no involvement with suppliers of standard easy-to-get products or services, while a much greater degree of involvement occurs with suppliers of strategic, scarce materials or highly complicated unique products. Suppliers are typically classified into groups (Kraljic 1983; Philipsen, Damgaard and Johnsen 2008), ranging from non-critical or standard goods that can be ordered from a catalogue, to strategic or “partnership” suppliers that deliver products, services, processes and systems developed in cooperation with the customer. In the former group, the technical skills and efficiency in production is important but little coordination with the customer is required. In the latter group, the supplier should be able to manage the relationship and the collaboration with the client, while learning occurs for both parties.

Companies select suppliers for development based on various considerations. Suppliers may be chosen based on the amount of business that it has with the company, either from high-volume purchases of few materials, to low-volume purchases of many materials (Hartley and Choi 1996). Strategic factors, such as whether the product is key or critical to the company, influence the decision (Hartley and Choi 1996; Krause et al. 1998). The anticipated duration of the relationship between the buyer and supplier is taken into account. Companies also consider the type of processes involved, for instance, supplier development efforts will have a greater impact on more labour-intensive processes than on capital-intensive processes. Philipsen et al. (2008) mention that the capabilities of the supplier need to make an important contribution to the buying company and need to be perceived as valuable and distinctive in order to foster a strong mutual relationship. It is also recommended that suppliers provide scarce resources and capabilities, have demonstrated that they are the best-in-class provider of goods and services, have the ability to improve over time, have good technical knowledge and expertise, are good at innovation and discovery, development and production, and have a strong business base (Monczka, Trent and Callahan 1993; Krause et al. 1998).

The selection process also involves an evaluation of the supplier (Carr and Pearson 1999). This is considered to be an important activity before commencing with a supplier development initiative (Krause and Ellram 1997b; Kerr 2006). Firms are typically expected to adhere to certain minimum standards (Kerr 2006). Such an evaluation makes it possible to compare suppliers and also to identify developmental needs (Ivarsson and Alvstam 2004; Rozemeijer, Blonska and Wetzels 2008).

Buying companies in the automotive industry typically consider the following factors when selecting suppliers for development (Choi and Hartley 1996): (a) consistency, (b) reliability, (c) relationship, (d) flexibility, (e) technological capability, (f) customer service, (g) finances, and (h) price. Price is considered to be one of the least important selection criteria, while consistency (which includes quality and delivery) is considered to be very important. Past business relations is also a consideration (Cusumano and Takeishi 1991), and companies do not look only at current quality but also at the past performance of the supplier in terms of its quality, as well as the potential for further improvement (Goffin, Szwejczewski and New 1997). In the automotive industry, the capability of designing components is a major selection criteria for certain companies, especially where technically complex inputs rather than commodity materials are required (Choi and Hartley 1996).

Companies frequently use a supplier assessment and rating scheme, with quality and/or price as selection criteria (Galt and Dale 1991). Volvo uses a supplier evaluation manual to evaluate potential suppliers in areas such as management, quality systems, product and process competence (Ivarsson and Alvstam 2004). Companies also verify a supplier's ability to perform as expected, which includes activities such as credit checks, investigating a supplier's manufacturing operations and production capacity, personnel, and technological capabilities (Heide and John 1990).

In a survey by Krause et al. (1998) respondents indicated that “once potential supplier development opportunities have been identified, they are evaluated in terms of feasibility, resources and time required to carry out the project, and the potential return on investment.” Companies have to weigh up several different tangible and intangible factors, while the importance of the criteria can vary for companies or even from one purchase to the next (Bhutta and Huq 2002). Approaches to supplier selection include methods such as the Total Cost of Ownership (TCO) and the Analytic Hierarchy Process (AHP). The former approach identifies the best supplier based on the lowest transaction costs, but ignores qualitative issues such as quality and flexibility. The latter method provides the means to help integrate and compare such intangible issues, and in the process forces managers to make trade-offs to select an optimal supplier. Personnel from different functions such as quality assurance, procurement, production, etc. play a prominent role in the supplier selection and evaluation process (Galt and Dale 1991; Bhutta and Huq 2002).

It may be too expensive or risky to develop suppliers when the skill levels and management capabilities are too low. In cases where technology transfer plays a significant role, the large companies will focus primarily on key suppliers that provide strategically important inputs (UNCTAD 2001).

For supplier development of previously disadvantaged businesses the requirements of supplier selection described in the literature is less strict than for the more capable suppliers. The IFC (2007:33) notes that there must be a real need within the company for the products or services. They recommend that the buying company has to consult internally to identify the demand for goods and services that can be met by local suppliers. Local suppliers need to fit in with the operational plans of the large company. For example, Anglo Zimele works closely with the company’s procurement departments to help identify BEE suppliers that can participate in their value chains (Jenkins et al. 2007b). Similarly, Nestlé firstly identified an important need in their operations before approaching and developing suppliers of packaging materials in their operations in China (UNCTAD 2001:141).

Enterprises must be commercially viable prior to investment in these businesses and must have the potential to grow (Jenkins et al. 2007b). Bates and Williams (1995) identify the need for a rigorous certification process to ensure that previously disadvantaged suppliers are likely to survive. Economic viability was also a criteria for Nestlé in choosing suppliers of agricultural produce and packaging materials in their operations in China (UNCTAD 2001:141). Such businesses should carry inventory and should have the capability to service the products that they supply (Bates and Williams 1995). They should be facilities rather than shops (International Finance Corporation 2008).

Suppliers should demonstrate the potential to deliver on the work contract and should be self motivated and willing to change (International Finance Corporation 2008). Nestlé requires its suppliers to accept their specifications, to be willing to undergo inspections and audits, to have well-structured quality assurance systems, to be technically competent, and to provide good quality and reliability (UNCTAD 2001:141).

In the South African context an important aspect of the selection process is whether suppliers come from previously disadvantaged groups. Similar requirements exist in other countries. For example, Caterpillar’s programme for small disadvantaged and women-owned businesses require at least 51% ownership, management and control by individuals who were previously socially and economically disadvantaged (Min 2009).

Mohamed and Roberts (2008) found that BEE firms in the South African metals and engineering sector supply the non-essential support services such as security, gardening, catering and cleaning. These are typically services where barriers to entry are low and suppliers can easily compete on their BEE credentials. Where technical and material inputs are sourced from BEE businesses it tends to be basic materials. Larger companies in this sector report that designing and producing intermediate and final goods is simply beyond the capabilities of most BEE firms.

2.4 Assistance provided to supplier businesses

Rozemeijer, Blonska and Wetzels (2008) refer to different kinds of supplier development. In “indirect” development programmes buying firms commit little or no resources to the supplier company, but instead engage in activities such as advice on quality systems, transfer of know-how, etc. (Wagner 2006b). These are seen as “narrow” supplier development programmes (Hahn, Watts and Kim 1990) which are passive in nature and focus on the identification, evaluation and selection of suppliers in order to ensure compliance with the buying firms’ needs and requirements. This type of supplier development is more prevalent as firms are reluctant to invest capital and resources to external firms that may benefit their competitors (Monczka et al. 1993). In a survey of USA firms, it was found that most companies do little more than increase a supplier’s performance goals and provide education and training (Monczka et al. 1993).

“Direct” supplier development programmes are broader and more active in nature. This approach aims to improve the capabilities of a supplier for long-term mutual benefit of both the supplier and the buying firm, or to transfer a certain capability across firm boundaries (Sako 2004). Companies commit financial and human resources in order to play an active role in developing a supplier or to have suppliers design products that are aligned with those of the buying companies (Monczka et al. 1993).

Strategic supplier development refers to direct investments that are more specific, complex and require more time and resources from the buying company (Rozemeijer et al. 2008). The supplier becomes involved at an early stage in the development of new products or processes and becomes deeply involved in the core processes of the buying firm’s operations. It involves the integration of all activities that affect the quality, cost, delivery, technology and responsiveness provided by suppliers and which affects a buying firm’s competitiveness (Monczka et al. 1993). The relationship between the buying firm and the supplier is characterized by longer term agreements, early information sharing, continuous supplier involvement and trust. According to Monczka et al. (1993), few firms have committed themselves to this aggressive approach.

A comprehensive identification of such activities is provided by Krause and Ellram (1997b) and briefly discussed here. An informal ad-hoc supplier evaluation can result in a request to a supplier to improve its performance (Krause and Ellram 1997b). More extensive and formal evaluation can be used by firms to communicate expectations to a supplier company and motivate the supplier to improve its performance (Giunipero 1990; Watts and Hahn 1993; Carr and Pearson 1999). Some companies perform their own evaluation and certification of suppliers in addition to third party accreditation such as ISO-9000, due to their reliance on their suppliers and their reservations about third party accreditation (Galt and Dale 1991). Monczka et al. (1993) recommend that buying companies increase the performance expectations of their suppliers, as it directly affects their own competitive positions. Eventually, companies should only retain those suppliers that can adhere to the higher expectations.

Another tactic is to encourage more competition in the supplier base (Dyer and Ouchi 1993; Hartley and Choi 1996). Automotive companies in Japan buy from two alternative suppliers, with the biggest volume of business going to the best performing supplier. However, they also assist the weaker suppliers in order to ensure that both conform to their specifications. In this way each supplier is forced to continuously innovate and improve to stay ahead of the competition. At the same time, the buying company is protected from unforeseen supply interruptions. Some companies also have recognition programmes for outstanding achievements and provide incentives such as the sharing of cost savings, promises of future business, etc. in order to stimulate competition between suppliers (Giunipero 1990; Galt and Dale 1991; Krause et al. 1998).

The provision of training and education to suppliers is often mentioned (Galt and Dale 1991; Monczka et al. 1993; Sako 2004), including training courses such as quality circles, value engineering, etc. (Sako 2004). Some companies often go so far as to provide in-house experience for supplier personnel or have suppliers attend their own in-house training courses. Consultants are sometimes provided at the cost of the buying company to improve production methods and assist in problem solving (Dyer and Ouchi 1993). The buying company also performs site visits to assist with improving processes (Krause and Ellram 1997b), while suppliers that visit the site of the buying company can witness and gain an understanding of what is required (Goffin et al. 1997). There can also be a formal exchange of personnel between the buyer and supplier (Dyer and Ouchi 1993; Hartley and Choi 1996; Sako 2004). For example, General Motors instituted a programme of sending teams of engineers to suppliers in order to improve production methods (Monczka et al. 1993). Companies can also invest capital, equipment or technology directly into the operations of the supplier (Galt and Dale 1991; Dyer and Ouchi 1993; Monczka et al. 1993; Wagner 2006b).

Similar activities are undertaken by buying companies for previously disadvantaged suppliers. Jack and Harris (2007:326) note that “enterprise development contributions consist of monetary or non-monetary, recoverable or non-recoverable, contributions actually initiated and implemented in favour of beneficiary entities by a measured entity with the specific objective of assisting or accelerating the development, sustainability and ultimate financial and operational independence of that beneficiary. This is commonly accomplished through the expansion of those beneficiaries’ financial and/or operational capacity”. In developing countries, large companies typically make use of opportunities in their value chains by procurement, manufacturing subcontracting, outsourcing of non-core activities, distribution and retail, etc. as vehicles for such initiatives (Jenkins et al. 2007b).

Technical support to solve problems and assist with operational matters, such as planning factory layout and production, are often provided by foreign companies to local suppliers (UNCTAD 2001:142). Training on quality management systems (ISO certification), control techniques, etc. are also often provided. For example, Unilever provided extensive training in product formulations, quality control, analytical methods and other best practices to some of their suppliers in Vietnam.

Large companies also assist suppliers in market diversification in order to reduce their dependence on the large company (International Finance Corporation 2007:31). A buying company can provide information on local and global market trends that can help SME suppliers in finding new external customers, or even within the network of the company (UNCTAD 2001:151). Intel in Malaysia provides development assistance to the point that supplier businesses become global suppliers that meet international standards. The goal is that these businesses reach a point where no more than 20 percent of their sales are to Intel.

Access to finance is often a problem that is faced by SMEs, as they are generally regarded as high risk. Jenkins et al (2007b:34) note that an ongoing challenge for Anglo Zimele is the reluctance of commercial banks to provide funding to SMEs. Companies have to find innovative ways to assist with financing, as this is one of the most important factors that determine the survival and growth of SMEs.

Financial contributions for supplier development can include the provision of loans, grants, investments or capital. Other financial initiatives such as credit facilities at preferential rates, relaxed collateral requirements, and early payments for goods supplied are also recognized (Balshaw and Goldberg 2008; Pillay and Phillips 2009). It can also happen that a company buys a supplier's products at a special favourable price in order to help new suppliers in the initial stages (UNCTAD 2001). In Thailand, Toyota gave significant financial support to selected suppliers to prevent them from becoming bankrupt during an economic downturn (UNCTAD 2001). The company assisted with funding through an advanced payment scheme, purchasing dead stock at cost, and supporting it with tooling expenses.

Firms also provide advice and training on management issues such as financial and marketing management, human resource development, leadership development and strategic planning (UNCTAD 2001; Kerr 2006). These activities support a company's strategy to expand its supplier base and result in benefits that are critical for the competitiveness of the company in an industry in which technological change occurs rapidly. These training courses are costly in terms of money and organizational effort, and are thus only offered when there is a likelihood that both the large company and the supplier will gain sufficient returns and will foster a long-term relationship (UNCTAD 2001).

Large companies have a role to play to influence the environmental management capabilities of their suppliers and to motivate their suppliers to be environmentally responsible (Lee and Klassen 2008). This is important as they may be held accountable for the environmental aspects of their products. Buying firms can provide training and education to suppliers, or sponsor forums through which information and experience in environmental management can be shared. They can also collaborate to explore alternative materials or processes. An example of such an initiative is discussed by Williams (2007) in which he describes the mentorship role that a company provided to one of its suppliers to reduce the environmental waste produced by implementing recycling projects. The supplier subsequently took this further by also implementing energy saving projects.

2.5 Benefits obtained from supplier development activities

In a survey of firms in Switzerland, Germany and Austria, Wagner (2006a) found a positive relationship between the indirect supplier development activities of a buying company and the product and delivery performance of its suppliers. Buying firms in manufacturing industries have four priorities that would improve their competitiveness in their end-markets (Watts and Hahn 1993; Ward, McCreery, Ritzman and Sharma 1998; Krause, Handfield and Tyler 2007):

- Cost. Lower costs of inputs are pursued in order to lower the total manufacturing cost and to provide a competitive price to the end customer. Often collaboration between the buying company and its supplier focuses on total cost and quality, not just value chain cost (Dyer and Ouchi 1993).
- Quality. This is the most important objective of supplier development investments (Watts and Hahn 1993; Blonska, Rozemeijer and Wetzels 2008). Customer perceptions of the quality in the final product are influenced by the quality of the component parts. It also relates to conformance to specifications and subsequent high levels of product reliability (Cook 2009). Quality is also an important factor for preventing production delays (Hartley and Choi 1996).

- Delivery. The ability to deliver reliably as promised, as well as short delivery times, are beneficial for minimizing supply chain costs, such as the amount of buffer inventory that needs to be kept.
- Flexibility. Unpredictable market conditions require firms to be able to respond to variations in the demand from end customers. This is especially important where the introduction of new products with uncertain sales volumes, or a new marketing programme, can cause erratic and unpredictable customer demand (Vokurka and Lummus 2001).

The mutual dependence of buying firms and their suppliers encourages close collaboration with the purpose of realising cost savings, quality, delivery, capability and financial performance improvement (Blonska et al. 2008), greater flexibility and receiving products that meet specifications (Cook 2009). Galt and Dale (1991) note that supplier development should lead to an improvement in product and service quality, while a preliminary analysis by Clark (1989) showed that higher quality parts are obtained where the parts are specifically made as a result of collaboration between a buying company and its supplier. Collaboration also presents opportunities to correct quality and technical problems quickly (Thomas and Barton 2007), or bring down cost by improving production processes (Hartley and Jones 1997; Golden 1999; Boddy, Macbeth and Wagner 2000; Thomas and Barton 2007). Improved communications between the company and its supplier to synchronize production schedules across the supply system can increase the reliability of the supplier and avert strain in the supply chain (Vokurka and Lummus 2001).

Other benefits are also mentioned in the literature. Exchange of personnel and support to suppliers can result in suppliers that design their own products in a way that is aligned with the needs of the buying company (Monczka et al. 1993). Having customized parts creates an interdependence between the buyer and supplier that makes it more difficult for a buyer to switch supplier, but also for a supplier to provide products to someone else (Dyer and Ouchi 1993).

Another objective of supplier development is to teach supplier companies to continue making improvements even after the involvement of the buying company (Hartley and Choi 1996). It is envisaged that competence and knowledge flows will result in long-term benefits (Møller, Johansen and Boer 2003). Supplier development programmes are mostly used to improve the products that companies purchase, current costs and quality rather than the capabilities of their suppliers (Watts and Hahn 1993). Hartley and Jones (1997) propose a process-oriented supplier development model to help build the capability for improvement within the supplier company, as opposed to a results-orientated model that solves current technical problems, but has a short term effect. Similarly, Handfield et al. (2009) mention that the long-term objective of supplier development is to instil a culture of continuous improvement within the supplier business.

In these current times, companies expect more from suppliers than just quality and cost improvements (Swink and Mabert 2000). They also look to them for the generation of new ideas for differentiating products, providing solutions to technical design problems and insights into global markets. Product innovation can draw on the capabilities of the supply chain to provide unique solutions to existing and new problems (Lummus, Melnyk, Vokurka, Burns and Sandor 2007). In fact, large companies such as Hewlett-Packard, Epson, Apple and 3M increasingly rely on suppliers for new ideas and technology (Monczka et al. 1993). In the European automotive industry, where suppliers are involved to a greater extent in product design than in the USA, many of the major innovations (e.g. ABS, traction control, turbo-charging, etc.) have come from suppliers (Clark 1989). "The better suppliers looked for opportunities to create value for their customers. This is far different than simply meeting specified requirements with minimum effort" (Clark 1989:1261).

In addition to tangible benefits to the bottom line, there are also intangible benefits. The experience of joint development projects between customer and supplier enhances continued collaboration and joint innovation, and enhances the long-term relationship between the companies (Hartley and Choi 1996). Furthermore, it may assist both the buying company and the supplier to stay at the leading edge of the market (Galt and Dale 1991).

Buying companies can also benefit from supplier development programmes for disadvantaged suppliers. Some of the potential benefits are listed in the third column of Table 1 on page 28. A few of these are long-term or intangible benefits rather than having a direct and immediate effect on the operations of the company. However, there are also more immediate benefits. Jenkins et al (2007b) note that supplier development initiatives aim to improve the quality, price, and volume of the goods and services that the supplier businesses provide to the buying company in order to match market standards.

Large companies that operate in developing countries obtain much of their input materials or equipment from global suppliers. These suppliers are often preferred over local suppliers due to advantages such as reduced production cost, good quality, or a wider range of products (Thomas and Barton 2007). However, factors such as increased acquisition time and large order quantities may influence operations and add to inventory costs. Companies that invest in the development of their local suppliers to replace global suppliers quickly realise the benefits of their efforts, such as better product quality, improved delivery time and delivery reliability (Wagner 2006b; Thomas and Barton 2007; Transnet 2008) and potential cost reductions (International Finance Corporation 2008). Furthermore, local suppliers are more flexible in adjusting to the varying demand from their buyers (UNCTAD 2001; Vokurka and Lummus 2001).

Williams (2007) provides an example where the introduction of a Kanban system resulted in a reliable supply of goods and more effective production planning that reduced stock levels for both the buyer and the supplier. McKinney (2011) makes a case for supplier diversity by pointing to the ability of smaller businesses to provide some services at a lower total cost of ownership, as well as superior flexibility and reaction time that are critical in some industries. Local linkages can also lower transaction costs and allow for close monitoring of the supplier (Ivarsson and Alvstam 2004). In addition, greater flexibility in changing specifications or adapting products to local demand, as well as faster response time is accomplished (Cormack and Niessen 2002; Ivarsson and Alvstam 2004).

Corporations that embrace and engage in supplier diversity development do reap long-term benefits such as cost savings due to improved supply chain robustness (National Business Initiative 2008). For example, Nestlé's involvement with small farmers in various countries focused on capacity building, certification in terms of fair trade and sustainable production, water and effluent management, distribution, etc. (Jenkins et al. 2007b:47). This resulted in reduced risk of contaminants, guarantees of quality, availability and competitive prices, as well as the approval of consumers that are conscious about social and environmental purchasing aspects. Similarly, the agricultural trading company Ecom strengthened its supply chain for its coffee business via the supplier development process by securing access to high-quality, certified coffees (International Finance Corporation). SABMiller had initiatives in Uganda and Zambia to substitute imported barley for a local ingredient, sorghum, to produce Eagle Lager (Jenkins et al. 2007b:24). In addition to the drought and flood resistance of sorghum and its more stable price in comparison to other local crops, they could also sell the beer at a significantly reduced price.

Sustainable and collaborative relationships with suppliers can result in an extension of the services and products that they offer (Thomas and Barton 2007). As the suppliers become more confident and familiar with the process, they improve their knowledge, capacity and capabilities. They often take on work that is normally placed with global suppliers, or take over further value-adding activities from the buying firm (Boddy et al. 2000).

Increased local procurement also builds the capacity of local SMEs by making them more competitive and ready for future challenges (International Finance Corporation 2008). Improvement activities can continue beyond the buying firm's involvement. For example, ENGTEK, a Malaysian supplier company that as a small company had benefitted from business linkage initiatives, was later able to use its specific experience in product development to assist various international companies in the design of their products (UNCTAD 2001).

Closer relations with suppliers can also yield better market intelligence (National Business Initiative 2008), or assist in exploiting the expertise of suppliers to gain access to multicultural local markets (Cormack and Niessen 2002).

In South Africa, BEE transactions can be seen as an action of CSR (Alessandri, Black and Jackson 2011). Such initiatives may have benefits such as access to government contracts and an enhanced reputation with black majority groups that may result in more business. Furthermore, large firms that assist suppliers will benefit from an increase in their BEE score, which is a requirement for business with government entities or even other large companies. Duffet et al. (2009) provides an example of such increased business in the advertising sector in South Africa, while Min (2009) provides a similar example of increased opportunities for federal government contracts for a USA company.

2.6 Intention to obtain benefits from supplier development

For many years the strategy of buyers was to purchase materials from several different sources and to switch frequently between these suppliers in order to maintain levels of competition (Galt and Dale 1991). This also meant a reduction in dependence on any one supplier (Dyer and Ouchi 1993). However, a modern global trend is to have closer and longer term relations with fewer preferred suppliers (Leenders, Johnson, Flynn & Fearon (2006), as cited by Horn (2007)). This is because there is a high cost associated with managing the administration associated with dealing with small businesses, especially for handling complaints caused by poor quality or late deliveries. Using fewer suppliers results in lower transaction costs from various purchasing activities (Dyer and Ouchi 1993). Rozemeijer et al. (2008) refer to the observation by Gulati and Sytch (2007) which says that such a strategy facilitated more collaboration between buyers and suppliers and increased the mutual dependence between the firms. Most firms do not pursue a strategy of expansion of the supply base (Watts and Hahn 1993). However, Monczka et al. (1993) caution that this strategy hinders the process of finding and engaging with better suppliers, as companies normally stick to existing suppliers.

Several authors point to the fact that companies intend to benefit from their supplier development efforts and investments. Carr and Pearson (1999) infer from the article on buyer-seller relationships by Dwyer, Schurr and Oh (1987), that buyer and supplier firms cooperate because they expect to benefit from these relationships. The relationships will continue only as long as the companies perceive it to be beneficial. “These activities represent an investment in transaction specific assets that may provide the benefits of vertical integration: lower costs, better communication, coordination and quality without the costs of actual ownership” (Carr and Pearson 1999). Buying companies invest in the development of their suppliers in order to obtain tangible benefits such as reduced cost, better quality, reliability and flexibility (Krause et al. 2007), improved performance and joint value creation (Zajac and Olsen 1993). Companies in the USA expect and assist their suppliers to reduce cost and to pass on the benefits to the buying company (Hartley and Choi 1996). For instance, in 1996 Ford stipulated that its suppliers were expected to reduce costs by 5% on average each year for four years. Handfield et al. (2009) note that management support for supplier development programmes can only be obtained if they are convinced that there are immediate benefits, as many view supplier development as a cost rather than an investment in superior supply chain performance.

Monczka et al. (1993:44) assert the following: “A key issue becomes how long can firms that require world-class performance levels continue to rely on suppliers that provide only average performance levels.”

Wagner (2006a) describes the impact of supplier development on a company’s competitive strategy. A company’s suppliers are viewed as resources that are linked to, or are controlled by, the company. As with other important resources, these should be valuable, hard to imitate, and “imperfectly mobile”. As such, they should be utilized effectively in order to obtain competitive differentiation and/or delivery of customer value. “The higher the quality of the products, the lower their prices, the shorter the replenishment lead times, the more reliable the suppliers’ delivery performance, etc., the better the buying firm can exploit the resource “products sources from suppliers” and gain competitive advantage” (Wagner 2006a:689). Japanese firms in the automotive sector go so far as to obtain minority ownership in some of their supplier companies (Dyer and Ouchi 1993). Although this is more of a symbolic act to demonstrate commitment rather than a financial investment, the buying company is less likely to take advantage of the supplier, as it also stands to gain financially from the success of the supplier company.

However, Rogers, Purdy, Safayeni and Duimering (2007) caution that external pressure (such as regulatory constraints or social expectations) to adopt practices that conflict with concerns of internal efficiency can translate into internal pressures on personnel to generate operational information that is consistent with the expectations of the firm. Managers attempt to reconcile such operational practices that have uncertain consequences on efficiency with their substantive concerns for operational efficiency. A rational assumption of supplier development is that such activities will have positive impacts on suppliers and result in cost, quality or service improvements. There is thus a desire to maintain a positive image, which compels participants to demonstrate that such initiatives indeed resulted in the expected improvements.

Both the buyer and the supplier commit to learn more about each other's business. This relationship must be based on common goals, mutual trust, cooperation, mutual dependency, and a joint problem-solving approach (Galt and Dale 1991). Cooperative relationships between a buying firm and its suppliers are characterized by the perception of continuity and future interaction (e.g., long-term contracts), and collaboration in a coordinated and integrated way for mutual benefit (Heide and John 1990).

An exploratory survey among European firms revealed that firms are willing to provide indirect assistance to suppliers, but are extremely reluctant to provide capital resources (Wagner 2006b). Similarly, a study in Italy found that business partnerships with small local suppliers are rare, due to the fact that large companies strive for world class performance, while small firms often struggle to meet the stringent demands and standards of the buying firms (De Toni, Nassimbeni and Tonchia 1995). In principle, many large firms are interested in developing relationships with local SMEs (Jenkins et al. 2007a). However, the extent to which this happens depends on factors such as firm- and industry-specific risks, costs and benefits, as well as the availability of qualified SMEs and government incentives and requirements.

On the one hand, companies appear to be expected to undertake supplier development activities without expecting any benefits in return. For instance, it has been noted that the main benefits of developing local suppliers "...are measured in terms of the evolution of local business rather than in terms of any benefits obtained by the large companies" (International Finance Corporation 2007:72). This approach rather focuses on strategic CSR that will benefit societies by creating business opportunities and sustainable employment through the more competitive environment created by players in the supply chain. The ultimate objective of developing local suppliers is usually to expand the number of suppliers that meet the requirements of the buying company in terms of cost, quality, delivery and capabilities. However, for some international companies these activities are rather part of a corporate strategy that takes broader economic and social considerations into account (UNCTAD 2001:140).

Hugo et al (2004:53) note that "South African corporations are often myopic about the reasons for implementing disadvantaged business buying programmes, because these programmes are seen to be politically motivated and part of a "do-good culture" in business flowing from the democratization of social, economic and political structures in the country". Similarly, McKinney (2011) note that most companies consider supplier diversity as a social programme rather than an activity that adds value to the bottom line. Jenkins et al (2007b:24) mention an instance where it was a challenge for a particular organization to demonstrate to large companies that such linkages can be driven by good business sense rather than philanthropy.

However, Quayle (2000:126) mentions mutual benefits from supplier development projects and states that supplier development is not philanthropy, but is rather the collaboration between customer and supplier to secure the best possible commercial advantage. According to Jenkins et al (2007b:24), "a clear business case ensures long-term commitment by the business, and has a far greater chance of being sustainable than philanthropy-based initiatives". They further note that SME linkages must make commercial sense, since it will raise costs and risks to the large firm; thus it ought to be strategic business partnerships, not a form of corporate social investment. An important element required for a successful policy of local procurement is that purchases from the local market must be advantageous (International Finance Corporation 2007). Supplier diversity development should be seen by businesses as a strategic business tactic where targeted procurement and enterprise development is used to invest in and improve long-term competitiveness and sustainability (National Business Initiative 2008).

Companies will invest in building local capabilities only when a return can be obtained from the investment in a reasonable time (UNCTAD 2001; Ivarsson and Alvstam 2004). For example, in Fiat's so-called RC5 programme in Brazil, the company explicitly stated that it expected to receive price reductions from a development initiative of one of its suppliers (UNCTAD 2001:156). Varity Perkins, a producer of diesel engines, insisted on benefitting from its supplier development initiatives by requesting stable prices for the supplier's products for a particular period (Handfield and Krause (1999), cited by UNCTAD (2001)).

2.7 Black economic empowerment in South Africa

An additional factor in the supplier development landscape in South Africa is the BEE policy. South Africa's apartheid policies have had a significant impact on the country's social and economic structure and development. Due to the exclusion of a large portion of the population from the formal economy, the distribution of economic wealth, wages and skill levels were divided along racial lines. In order to address this, black economic empowerment policies were introduced to promote economic transformation. This was done in order to enable previously disadvantaged groups to have meaningful opportunities for participation in the economy, and to diversify the ownership of existing and new enterprises (Finnemore 2006:53-55; Jack and Harris 2007:29; Balshaw and Goldberg 2008:70).

The impact of BEE policies on supplier development is discussed in the next three sections. The first section provides a brief summary of the history of BEE in order to provide context for the B-BBEE policies that are currently applied. The second section describes the BEE scorecard in terms of enterprise development and preferential procurement. The third section explores whether, in the light of the BEE policies, companies intend to benefit from their supplier development projects.

2.7.1 *A brief history of BEE*

It is recognized that the history of BEE occurred in three distinguishable phases, or "waves" (Jack and Harris 2007:7-14). The first wave began in 1993 and focused exclusively on black ownership of assets and shares in companies by consortia of black business people (Balshaw and Goldberg 2008:71). These acquisitions were funded through so-called special purpose vehicles, which are separate legal structures through which assets are converted into securities for resale in the financial market. The idea behind this was that black people would be able to drive transformation of companies from within once they shared control of these companies. However, it was later realised that only limited numbers of black people held ownership and management positions, and that they did not have sufficiently effective control within these companies to drive transformation (Jack and Harris 2007:22). Some black shareholders exited by selling their shares and making substantial profit in the process. This led to the realisation that focusing on ownership alone (the so-called narrow-based BEE) would only benefit a select few individuals rather than result in sustainable benefits to black people in general. The first wave of BE did not produce the scale and depth of impact and the distribution of wealth remained skewed and inequalities remained within the broader population.

The second wave, starting in 1997, introduced other elements such as employment equity, skills development and preferential procurement. It set the scene for the release of government's BEE strategy document in 2003, the B-BBEE Code of Good Practice in 2004, and several of the industry charters.

The third wave was characterised by the leveraging of government's purchasing power to drive the economic development of SMME businesses and to promote compliance with BEE via preferential procurement. The idea is for black people to start and grow businesses by making use of procurement and enterprise development opportunities offered by the BEE Act. It provides a further push for meaningful participation in the economy by addressing the needs of middle and lower income groups (Pillay and Phillips 2009).

2.7.2 *The BEE scorecard*

The Constitution of the Republic of South Africa makes provision for legislative policies that have the intention to advance previously disadvantaged people through procurement (Jack and Harris 2007:17). The BEE Act prescribes how state and public entities will issue licences and concessions, apply preferential procurement policies, sell state-owned assets, and partner with private sector companies (Jack and Harris 2007:70). According to this Act, these entities are required to give preference to suppliers that have contributed to BEE transformation.

As a consequence of the BEE Act, any company that wants to do business with state entities must provide proof of their contribution to transformation. The B-BBEE Code of Good Practice, published under the B-BBEE Act in 2007, provides a framework to quantitatively measure an entity's contribution to transformation and compliance to the B-BBEE Act via a generic scorecard (Department of Trade and Industry 2007b). It outlines seven elements of B-BBEE (see Table 2) that are grouped into three components. Although ownership and management control are still prominent in this scorecard, there is now a much broader focus on aspects that are aligned to the goals of the B-BBEE strategy. It is seen that the indirect empowerment component, i.e. enterprise development, preferential procurement and socio-economic development, constitutes the largest portion of the scorecard.

Table 2: The components and elements of Broad-Based BEE

Components	Elements	Weighting
Direct Empowerment	Ownership	20
	Management Control	10
Human Resource Development	Employment Equity	15
	Skills Development	15
Indirect Empowerment	Preferential procurement	20
	Enterprise development	15
	Socio-Economic Development	5

Large companies are evaluated on all aspects of the BEE scorecard. Special provisions have been made for smaller companies due to the high cost and resource requirements of adhering to all seven scorecard elements. Enterprises with an annual revenue between R5 million and R35 million are seen as Qualifying Small Enterprises (QSE). In these cases, the enterprise must select any four of the seven scorecard elements, and each element will have a weighting of 25 points. Furthermore, the compliance targets are less stringent than those for the generic scorecard.

For preferential procurement purposes a business, is assigned a BEE procurement recognition level according to its BEE scorecard performance (Jack and Harris 2007:84). Table 3 shows how this procurement recognition level is assigned. It should be noted that small enterprises that have annual revenue of less than R5 million are assigned Exempted Micro-Enterprise (EME) status and are recognized as level 4 contributors. If the entity has a black ownership of more than 50%, its status is elevated to that of a level 3 contributor (Balshaw and Goldberg 2008). Start-up businesses are regarded as EMEs for the first year following its formation, regardless of its revenues.

Table 3 : BEE status and procurement recognition levels

BEE status	Qualification	Procurement
Level one contributor	≥ 100 points	135%
Level two contributor	≥ 85 but < 100 points	125%
Level three contributor	≥ 75 but < 85 points	110%
Level four contributor	≥ 65 but < 75 points	100%
Level five contributor	≥ 55 but < 65 points	80%
Level six contributor	≥ 45 but < 55 points	60%
Level seven contributor	≥ 40 but < 45 points	50%
Level eight contributor	≥ 30 but < 40 points	10%
Non-compliant	< 30 points	0%

A company that purchases from another business will recognise a portion of the money spent with this business as preferential procurement towards its scorecard. As shown in Table 3, this portion depends on the procurement recognition level and indirectly depends on the BEE status level of the supplier company. For example, a company that purchases from a supplier company with a level 1 contribution level can claim a benefit of 135% of the amount spent. Thus, companies can increase their BEE scores effectively by adjusting their procurement policies in order to make use of suppliers that have high BEE scorecard ratings (Jack and Harris 2007:85). In this way these companies can increase their own attractiveness as suppliers to other companies. In fact, purchasing companies will apply pressure to their suppliers to increase their BEE rating in order to increase their own BEE recognition levels. Alternatively purchasing companies will push to find new suppliers that do have a more favourable recognition level. In this way B-BBEE contribution becomes a business necessity, and its effects cascade up the value chain in such a way that it reaches almost all companies.

Balshaw and Goldberg (2008) note that some enterprises experience difficulties in obtaining a good preferential procurement score due to challenges such as the following: A lack of suitable black-owned suppliers, established relationships with existing suppliers, product and service quality issues, the cost associated with changing suppliers, and a lack of financial, managerial, administrative and technical skills among suppliers. As a means to address this, the BEE Act provides further encouragement for enterprise development activities by granting an enhanced recognition of procurement spending in cases where a company procures from a supplier which it has also assisted with enterprise development (Jack and Harris 2007:307; Pillay and Phillips 2009). In these cases the company may claim 1.2 times the actual BEE procurement value.

Enterprise development may consist of monetary or non-monetary, recoverable (e.g., loans) or non-recoverable (e.g., grants) contributions (Balshaw and Goldberg 2008:135). The objective is to provide assistance in the development of a business until it is sustainable and financially independent. Companies are required to annually spend 3% of net profit after tax on enterprise development in order to comply with the scorecard requirements. Some of the contributions that are recognized include the following (Balshaw and Goldberg 2008:136; Pillay and Phillips 2009):

- Loans, grants, investments, or capital
- Facilitating access to credit
- Credit facilities at preferential rates, relaxed collateral requirements
- Training, mentoring and skills transfer
- Infrastructure support
- Early payments for goods supplied
- Payments to third parties to perform enterprise development on behalf of the company
- New projects promoting beneficiation, or the creation or development of capacity and expertise for local companies to manufacture goods or services that are normally imported.

The BEE Act is only binding on state and public entities, but its application also has an impact on firms in the private sector since they need an acceptable BEE scorecard rating to do business with state-owned entities. There is no prescribed minimum B-BBEE contribution level set for companies that want to tender for contracts with state entities, as such prescriptions would legally prevent non-complying companies that have unique but essential skills from submitting tenders (Jack and Harris 2007:83). It would also encourage companies to only aim for the minimum requirements rather than exceed them. By omitting a prescribed minimum, an element of competition is introduced in the market, since the awarding of tenders will favour companies with better B-BBEE credentials.

Charters that stipulate each sector's plans for transformation and implementation of the B-BBEE Act (Jack and Harris 2007:74; Pillay and Phillips 2009) are negotiated between the business sectors and government. These Charters receive the same status as the B-BBEE codes, but are only binding on businesses operating in the relevant industry and do not apply to organs of state. The Mining Sector Charter and the Petroleum and Liquid Fluid Sector Charter were both gazetted in terms of the Mineral and Petroleum resource Development Act. The Mining Sector Charter has the intention of expanding opportunities for historically disadvantaged persons to enter the mining and minerals industry or benefit from the exploitation of the nation's mineral resources. It requires companies in the mining industry to procure from companies owned and managed by historically disadvantaged South African (HDSA) individuals and also to commit to help develop the procurement capacity of their HDSA suppliers. Similarly, the objective of the Petroleum and Liquid Fluid Sector Charter is to achieve a sustainable presence, ownership and control by HDSAs. It also prescribes procurement policies that facilitate the growth of HDSA companies by according them preferred supplier status for suppliers, products, goods and services.

2.7.3 *Benefitting from supplier development: The BEE perspective*

Pillay and Phillips (2009) note that preferential procurement in the sector charters is only described from the view of procuring goods and services from BEE compliant suppliers. There is a focus on weightings and targets rather than on actions and interventions. Job creation is viewed as CSR instead of the result of sustainable enterprise development. There is a limited focus on capitalising on possible business opportunities presented by the socio-economic challenges. “Many see B-BBEE as another compliance cost” (Balshaw and Goldberg 2008:32).

In South Africa BEE transactions can be seen as an action of CSR (Alessandri et al. 2011). With this view, McWilliams (2006) mentions the introduction of stewardship theory by Donaldson and Preston (1995), which states that “there is a moral imperative for managers to ‘do the right thing’, without regard to how such decisions affect the firm’s financial performance.” Such “socially responsible actions” have the motivation to serve society at the expense of profits, although returns may come from the enhanced reputation of these firms.

However, several others state that BEE should not impact negatively on business. For instance, Jack and Harris (2007:22) note that BEE policies are intended to promote growth rather than just redistribution, and that “business must always be driven by economics, not only a scorecard”. As such, it is to achieve its objectives through sound economic principles and good governance in order to be sustainable. Similarly, Pillay and Phillips (2009) comment that it is important for the private sector to view transformation as a sound business case rather than a compliance requirement.

The draft code of governance principles for corporate South Africa, also known as the King III Code, provides a framework for good governance principles. It discourages “tick box compliance” and rather promotes the integration of business practices that focus on sustainability with regards to the economy, society and natural environment (Pillay and Phillips 2009).

The push for diversity from government is not unique to South Africa. Kerr (2006) notes that in the USA diversity initiatives are often at odds with strategies that require the number of suppliers to be reduced. Diversity programmes were initially driven by social responsibility, but have since become business programmes with both tangible and intangible business benefits. Adobor and McMullen (2007:221) mention the comments of a USA based industrial manufacturer that their minority supplier is a ”strategic partner…that adds significant value to the entire organization”. They further comment that supplier diversity is driven largely by economic imperatives, and that there should be a clear contribution to the bottom line.

2.8 Conclusion and Research Question

Companies generally engage in supplier development in order to improve their supply chain and to obtain a competitive advantage in the marketplace. However, they also do supplier development for their previously disadvantaged suppliers in order to support social business objectives and to portray good corporate citizenship

The literature review presented above considers four important aspects of supplier development and shows the similarities and differences between the two different approaches in supplier development. On the one hand, suppliers that possess best-in-class capabilities and that provide key or critical products or services are selected as partners in order to provide the buying company with a competitive advantage. In contrast to this, previously disadvantaged suppliers generally possess low skill levels. These suppliers only need to supply a needed product or service and demonstrate a level of technical competence. The evaluation process for these suppliers is also less strict, focusing on the viability of the business and the potential to deliver on their work contracts.

Assistance provided to higher-level suppliers is generally in the form of a partnership or collaboration between the buying company and the suppliers. In the process the operational needs of both companies are considered. Transfer of capabilities, training activities, technology and capital resources take place across firm boundaries. For the lower-level suppliers, i.e., the previously disadvantaged suppliers, the flow of knowledge and support is concentrated towards the suppliers. The level of training is less sophisticated and contains elements of basic management and operational skills. Assistance with access to finance rather than capital investment is normally provided.

Companies derive operational benefits from their programmes in both kinds of supplier development. Improvements in cost, quality, delivery, reliability and flexibility are gained from suppliers. For the more competent suppliers, some benefits are more “integrated” with the operations of the buying company, e.g., synchronized production, custom made parts, solutions to technical problems, source of new ideas, etc.

When supplier development is undertaken to strengthen the supply chain, it is clear that companies expect to tangibly benefit from their supplier development initiatives. Suppliers are seen as strategic resources that can provide a competitive advantage. As such, they will form longer term relationships with fewer suppliers, emphasising aspects such as common goals, mutual trust, cooperation and mutual dependency. The case is not so clear-cut when companies undertake supplier development initiatives for their disadvantaged suppliers. This is often viewed as CSR rather than an initiative that adds value to the bottom line. However, there are others that note that such activities must make commercial sense and that a company should benefit from their efforts and investment in these programmes.

Large companies in South African also undertake supplier development programmes in both areas mentioned above. A driving force for supplier development is the BEE policies, which require companies to participate in the transformation of the South African economy.

In light of the above, the research question is formulated as follows: Does a typical large South African company obtain operational benefits by engaging in supplier development programmes for its previously disadvantaged suppliers?

In order to investigate this question this study will look at the following specific issues:

- How are supplier companies selected?
- What assistance is provided to these supplier businesses?
- What specific operational benefits are obtained?
- Is there a deliberate intention to obtain such benefits?

3 RESEARCH METHODOLOGY

This chapter presents the details of the methodology used in this study. The first section discusses the rationale for taking a mixed methodology approach and a case study methodology. This is followed by a brief description of the methods used for collecting data and the sources of information that were used. The analysis and interpretation of the data are then discussed. The chapter ends with a discussion of the limitations of the methodology and a discussion of the validity and reliability of the study.

3.1 Research design

Several different methods can be used for research in the social sciences (Yin 2009:8). The choice of method depends on a) the nature of the research question, b) the extent of control that the researcher has on the behaviour or the events, and c) whether the focus is on contemporary rather than historical events. Despite these guidelines, the choice of method is not always clear as the boundaries between the different research methods are not always clear-cut (Yin 2009:8).

3.1.1 *Mixed method approach*

This study utilises a mixed methods approach because this was well suited to the nature of the enquiry. Creswell (2003:18) notes that research can be qualitative, quantitative, or a mixture of both quantitative and qualitative. A quantitative approach is applicable when hypotheses, theories or causal relationships are tested, or when specific variables can be defined and subsequently analysed using statistical methods. A qualitative approach on the other hand focuses more on the meaning of a phenomenon from the perspectives of the participants, which involves the collection of open-ended and emerging data to develop themes and theories.

Similarly, Leedy and Ormrod (2010) note that qualitative research is suitable when:

1. The nuances and complexities of a particular phenomenon are investigated that are difficult to translate into numerical variables and values. This is particularly applicable where people's in-depth perspectives about an issue are probed. As such, verbal descriptions and the interpretation of narratives to extract relevant information is required rather than statistical inferences.
2. In-depth understanding of complex issues is sought that requires a more holistic and "emergent" research process. During a qualitative study the research questions may change or be refined as the researcher learns more about the issue (Creswell 2003:181).
3. Interaction with the participants via interviews is important. This allows the extraction of patterns or themes that explain the behaviour of the role players within the context of the study.
4. The research study is exploratory in nature. As such, it does not start with a specific hypothesis, but rather a general research question.
5. Qualitative research takes the natural context of the phenomenon into account, and is thus more "true to life".

Yin (2009:63) notes that, in mixed method research, complementary data are collected to answer the same research questions, and can thus provide stronger evidence than a single method alone would. Some of the information that describes the nature of the businesses that participated in the supplier development initiatives, the assistance that was provided to these businesses and the benefits that were obtained could be quantified and presented using descriptive statistics. In addition, the research is exploratory and descriptive in its nature, in that it not only attempts to identify whether a company gains benefits from its supplier development programme, but also whether it attempts to do so and what actions it takes to accomplish this. The goal is to understand the mind-set within the organization towards its approach of these programmes, which requires views on its strategy, intent and implementation. These factors are not easily described in discrete or measurable variables and, as such, a qualitative component provided a strong supplement to the quantitative data.

The researcher sought to explore which factors and circumstances would influence supplier development programmes of South African companies. BEE in the South African context is a unique circumstance that influences the implementation of supplier development programmes of large companies. This required some flexibility in the data collection process as the research progressed.

One possible concern for a qualitative component of the study is that the analysis of data obtained may be subjective and potentially biased (Leedy and Ormrod 2010:96). Most of the data are dependent on personal involvement from the researcher, who selectively chooses a relatively small number of participants and interprets the data from his own perspectives. “One cannot escape the personal interpretation brought to qualitative data analysis” (Creswell 2003:182). In qualitative research it is necessary for the researcher to be aware of his or her own personal biography and the impact that it will have on the study (Creswell 2003:182-185; Denscombe 2007:300). As the primary data collection involves interviews, the researcher’s previous experiences, values, assumptions and personal interests may introduce bias into the research process or interpretation. This possible bias has to be identified at the outset of the study.

The researcher is a scientist by profession and has no direct experience in supplier development. Due to a keen interest in small businesses, he spent nine months during 2009 as a business analyst in the enterprise development business unit of his employer as part of an employee rotational scheme. He was involved in projects that assisted black entrepreneurs to establish businesses in the manufacturing and marketing of their own cosmetic products, as well as providing business training and marketing support to small and struggling hair and beauty salons in the townships.

During the time spent at the company’s enterprise development business unit, the researcher formed his own opinions about how this business unit operates, the people that are involved, and the importance of aspects such as BEE scorecard points that are pertinent to this study. However, his opinions were based on interactions with only a small part of the division for a limited time and may not have been an accurate reflection of the real situation. In the process of identifying a research project, he had discussions with individuals involved in the supplier development group, some of who were again interviewed in the formal data gathering phase of this research. Some of his viewpoints were reinforced in this limited interaction, and his perceptions played a key role in the formulation of the research problem, as well as the questions that were asked during the execution of this study.

One should also take into account that, as an employee of the company that was investigated in this study, the researcher needs to be sensitive to aspects that reflect unfavourably on the company. Although he tried to be as objective as possible, one needs to take the implications of this requirement into account.

3.1.2 *Case studies*

Yin (2009:18) provides a comprehensive two-part definition of a case study. This author suggests that it is an empirical enquiry used to gain an in depth understanding of a contemporary phenomenon within its real-life context. Secondly, a case study is suitable for situations where there are many more variables than data points, and as such multiple sources of evidence are required to corroborate its findings. Yin (2009:17) also quotes a definition by Schramm (1971) that is particularly applicable: “The essence of a case study ... is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result.”

The goal of this research study is to gain a deeper understanding of the implementation of a supplier development programme by a large South African company. Case studies are done when the researcher explores a programme, event or activity in depth (Creswell 2003:15). Research questions that ask “how” or “why” certain effects are observed rather than just observing the effect are suitable for using the case study research method (Yin 2009:8,16). Furthermore, investigation of present-day issues such as BEE, where the researcher has no control over the events, but is able to directly observe and interview persons involved can also benefit from this approach (Yin 2009:11).

Case study research is flexible and allows for various types of evidence and data collection methods such as documents, interviews and observations (Stake 1994; Yin

2009:11). This is especially important for triangulation, which is important to strengthen the findings of conclusion of the study (Yin 2009:114-115). In this study most of the evidence was obtained via interviews, but an important component required archival analysis of the project motivation documents of supplier development initiatives. This information was used to corroborate the information from the interviews.

A concern that is raised about case study research is on the issue of scientific generalisation, especially when general conclusions are to be drawn from a single case (Yin 2009:15). However, the goal of a case study is to “expand and generalise theories and not to enumerate frequencies” (Yin 2009:15). As such, its generalisation is applicable to a theory rather than a population.

Case study research is sometimes criticised for lack of rigour, and there are often concerns about researchers not following systematic procedures or allowing biased views to influence the findings (Yin 2009:14-15). This study took advantage of the emergent nature of inquiry that is characteristic of case study research. Nevertheless, fundamental interview questions were prepared beforehand and information was collected and grouped in a systematic manner. The researcher used multiple sources of information in order to reduce the possibility of introducing bias into the results.

A single case design rather than a multiple case design was opted for in this study. Yin (2009:48) notes that a single case design can be motivated if a representative or typical case is investigated. The company that was studied here is one of several large companies in South Africa that implement a supplier development programme and that considers it important to adhere to the requirements of the B-BBEE Act. Several large companies, including the one that is the subject of this study, are members of forums such as the South African Supplier Diversity Council (SASDC) or the South African International Business Linkages (SAIBL) project where participating corporations share solutions, knowledge, experiences and practices on supplier diversity development.

A potential weakness of the single case study is that the case may turn out to be different from the initial expectations. Care should be taken to avoid misrepresenting the case and to ensure that there is sufficient access to collect case study evidence (Yin 2009:49-50).

A particular strength of the current research is the fact that the researcher is an employee of the company that was investigated in this study, and has access to the internal documents that will not ordinarily be available to external parties.

3.2 Data collection

This study looked at the supplier development programme of one of South Africa's largest companies. The company requested that its name not be disclosed, and in this study it is thus referred to as "the company". The enterprise development activities of this company is managed and administrated by a separate business unit. In the past, the supplier development activities of the company were undertaken by two separate entities. One of these entities resided within the enterprise development business unit, while the other was the product of the collaboration between two other business units. The latter entity was later absorbed into the larger enterprise development business unit. A brief description of the activities of these two entities is presented in the next chapter on the presentation of the results. In this study no distinction is made between the two entities, except in certain cases where it is relevant to make this distinction.

The data for this study were collected from two sources, namely interviews and internal documents. The former yielded predominantly qualitative information, while the latter provided quantitative data.

3.2.1 *Primary data*

In this study primary (qualitative) data were obtained from interviews with a core group of individuals that were involved in the supplier development programmes of the company for which interviews could be arranged. This included four of the business analysts that were actively involved in these activities, three of the managers in the supplier development function, and the managing director of the enterprise development business unit. In addition, a Black Economic Empowerment Procurement (BEEP) manager, who works in another division of the company but is closely involved in the supplier development initiatives, was interviewed. Table 4 provides a list of the positions of the persons interviewed and the date of the interviews. The names of the participants were omitted for confidentiality reasons.

Table 4: Core interviewees selected for this study

No	Position	Interview date
1	Managing Director of the Enterprise Development business unit	19 Apr 2011
2	Manager, Supplier Funding Focus group	29 Mar 2011
3	Business Development Manager	9 May 2011
4	Manager: Business Analysis/Strategy	11 Apr 2011
5	Specialist Business Analyst	5 Apr 2011
6	Business Development Specialist	31 Mar 2011
7	Business Development Specialist	24 May 2011
8	Manager: Business analysis/strategy	31 Mar 2011
9	BEEP manager	24 Mar 2011

In addition to the core group of participants from the company, interviews were also conducted with selected people that were either involved or knowledgeable in the areas of supplier development and/or BEE. With the exception of the supply chain manager, all these interviewees were external to the company. Table 5 provides the names and positions of these interviewees and the dates that the interviews took place. The name of the company's supply chain manager has been omitted for confidentiality purposes.

Table 5: External expert interviewees selected for this study

No	Name	Role	Interview date
1		Senior Supply Chain Manager: Supplier Management	13 Jun 2011
2	Mrs Francisca Strauss	Chief Director: Incentive Administration, DTI	26 May 2011
3	Mr Alan Torley	Consultant to DTI : Black Business Supplier Development Programme	24 May 2011
4	Mr Vuyo Jack	CEO, Empowerdex	24 Jun 2011
5	Mr Herman Potgieter	CEO, Lummus	29 Jun 2011

Three owners of businesses that participated in the supplier development programme and that were available and willing to participate were also interviewed. A fourth business owner that was approached declined to be interviewed.

Creswell (2003:185) notes that data collection for qualitative studies is obtained from purposefully selected participants, a practice that Leedy and Ormrod (2010:212) refer to as purposive sampling. Convenience sampling is described as identifying people or units that are readily available. In this study, the sampling techniques for data collection were thus purposive and characteristic of convenience sampling.

A disadvantage of using interviews is that it is time intensive, both in relation to doing the interviews and in the structuring of the data afterwards. The sample size is not expected to be large, which improves the practicality of this method (Leedy and Ormrod 2010:189). Interviews have an advantage in that it enables the researcher to establish a rapport with respondents and thus gain their cooperation (Leedy and Ormrod 2010). It is also useful to obtain a better understanding of the motivations for these initiatives and presents the opportunity to explain some of the questions and to obtain clarifications on comments made by the interviewee.

Interviewees were contacted telephonically in order to explain the purpose of the research and to request an interview. After arranging a suitable date and time, a letter of introduction was sent to the respondent in order to affirm the reason for the interview (see Annexure A). This letter of introduction was modified somewhat to suit each category of interviewee, as the focus and purpose were slightly different in each category.

At the beginning of the interviews the purpose was explained to the interviewee in an opening statement. The interviews lasted between 30 minutes and an hour, depending on the time availability of the interviewee. Focused interviews that ask open ended questions in a conversational manner, but are likely to follow a certain set of questions prepared in advance (Yin 2009:107) were utilised in this study. The interviews were semi-structured conversations that revolved around a few central issues. Some leading questions that were appropriate for the role of the interviewee were asked to stimulate the conversation. An outline of the different questions for the higher-level interviewees, business analysts and business owners is provided in an annexure (see Annexure B). The questions were grouped in four sections according to the issues investigated in this study, as noted in the problem statement.

Questions were not addressed step-by-step, as in most cases the interviewees responded by explaining supplier development from their perspectives. When time permitted, some missing elements were covered during and after their main responses by asking some of the unanswered questions. Often not all questions could be covered in the time allowed.

For the interviewees that were external to the company, the questions were unstructured. Here the intention was to probe their general perceptions about supplier development, how it is currently done, how it should be done, and the role of BEE in supplier development programmes.

Information from the interviews was captured by taking notes during the interviews. In certain cases interviews were recorded with the explicit permission of the interviewee, and afterwards summarized. Recording could not be done in several cases due to confidentiality reasons, especially with owners of supplier businesses who were not comfortable with the process.

3.2.2 *Secondary data*

In this study secondary data were obtained from internal documents from the supplier development function. These consisted of project motivation documents or Project Initiation Request (PIR) forms that were prepared by business representatives for approval of supplier development projects by the managing director of the enterprise development business unit. The documents contained information regarding the background of the supplier businesses, an evaluation of their needs and the motivation for the assistance that the supplier development function provided or intended to provide to the supplier businesses. A total number of 102 of these projects were either completed or underway at the time that this study was undertaken, and the project motivation documents of all these businesses were included in the study. With the exception of only one supplier business, all other projects involved different businesses.

Permission to have access to the business case motivation documents was obtained from the managers responsible for the supplier development functions. These documents were of a sensitive nature and could not be copied or used in their entirety. The documents from one of the supplier development groups were studied at its offices, while the documents of the other group were available on the internal document storage system of the company.

For each supplier development project, the project motivation document was studied and information relevant to this study was extracted and captured in an Excel spreadsheet. Information was captured in the following categories:

- The nature of the business. This included the name of the business (confidential), the date of participation in the supplier development programme, the industry in which the business operates, number of employees, BEE contribution level, and whether it was a new or existing business.
- The assistance provided. This included columns for the needs of the business as indicated by the referring business unit or the supplier business themselves, as well as the assistance that was eventually proposed and/or provided.
- A description of the benefits obtained by the company from these interventions, as explicitly mentioned in the documents.

Yin (2009:8-9) notes that archival methods are used to answer questions about “who”, “what”, “where” and “how many”, and are advantageous when the researcher wants to determine the prevalence of an observation. He further notes that archival records can be highly quantitative, but not necessarily accurate (Yin 2009:106), since these records were not compiled for the specific purpose of the case study investigation. This was indeed the experience with the current study; information about the assistance provided and the benefits obtained from the supplier development initiatives were not always absolutely clearly stated in the documents. As a result, the accuracy of this investigation suffered to some degree, but is still believed to be sufficient for the purposes of this study.

3.3 Data analysis and interpretation

The data analysis process consists of a number of steps (Creswell 2003:191-195; Denscombe 2007:288). Firstly the data need to be prepared by collating and organising for easy retrieval, reference and annotation. Secondly the researcher needs to familiarise himself with the contents of the data and find patterns or themes for analysis. The analysis part follows where the description and themes are categorized and relationships between the themes are identified. This is followed by representation and interpretation of the data, where the meaning and the essence of the data is extracted.

Yin (2009:127) notes that, unlike statistical methods, there are few fixed methods for analysing case study evidence. Instead the analysis depends on the researcher's style of thinking and on the presentation of the evidence. The task of the researcher is to craft the "story" that originates from the data and to produce compelling analytical conclusions.

The analytical strategy that was followed was to develop a case description (Yin 2009:131). It was realised prior to commencing with the data accumulation that the issues mentioned in the research question, i.e. identification of the supplier businesses, the assistance provided, the operational benefits obtained and the intention of obtaining such benefits, provided the descriptive framework for organizing the case study data.

3.3.1 *Interview data*

Interview data were collated in two different ways. In cases where the interviews were not recorded, the responses were summarized according to the framework described above. Recorded conversations were transcribed in an abbreviated format by capturing the relevant questions and responses.

Data were analysed by evaluating the responses from all relevant interviewees in each framework element and identifying themes that were applicable to that element. The responses were then grouped according to these themes. For the core group of interviewees from the company's supplier development entities, the view of each respondent regarding each theme was indicated and presented in tabular format. In addition, prevalent and revealing comments from the interviewees were presented as text. In cases where opposing views were expressed, both views were presented. Comments and views from external interviewees were also included in the text along with the views of the core respondents.

3.3.2 *Document evidence*

The data captured from the business motivation documents were transformed into a format that could be quantitatively represented. It was important to present the data in an aggregated form that does not reveal specific details about the individual supplier businesses or any other information that could not be divulged outside the organization. A series of categories was created for each element. For instance, arbitrarily chosen intervals were selected to reflect the size distribution of the supplier businesses, and each business was allocated to the relevant category. For other factors, such as the benefits obtained from the supplier development initiatives, similar categories were created to group these benefits. In these cases, the written descriptions were scrutinized to extract the relevant information and to populate the relevant categories. Descriptive statistics were used to count the occurrences in each category (Leedy and Ormrod 2010). The frequencies were quantified and presented either in graphical or in tabular format.

3.4 Limitations of the study

This case study focuses on a single case. The results are not generalised to other companies and the findings are thus specific to this particular case.

Being an exploratory study the rigour of the methodology was somewhat limited, as is often a criticism of case studies (Yin 2009:14). This was reflected in the semi-structured nature of the interviews. It was sometimes experienced that the interviewees related the process of supplier development without necessarily understanding the context of this study. In some interviews certain issues could not be explored in depth due to time constraints.

The analysis of the document evidence will have some inaccuracies. As mentioned earlier, these documents did not always clearly state the information that was sought in this investigation. It was also found that some of the recent business case documents were still being compiled and thus contained limited and incomplete information. It was unfortunately not practical to discuss each case with the business analysts involved in order to ensure the accuracy of the data. Furthermore, it is assumed that the facts mentioned in these documents reflect the eventual outcomes of the supplier development projects.

3.5 Validity and reliability

Validity refers to whether the research instrument measures what it is intended to measure (Leedy and Ormrod 2010). According to Yin (2009:40), the quality of any empirical social research is described by four commonly used tests.

Case studies specifically require attention to construct validity, which is the identification of correct operational measures for the concepts being studied (Yin 2009:40). In this study the specific concept was formulated to look at the occurrence of operational benefits flowing from supplier development initiatives. The measures that were identified involved the responses from persons that were involved in the supplier development initiatives, as well as the content that refers to such benefits from the documentary evidence from the project motivation documents.

3.5.1 *External validity*

External validity refers to the extent that the results and the conclusions of the research can be generalised to other contexts or cases (Leedy and Ormrod 2010). Leedy and Ormrod note that research conducted in a real life setting may have more external validity than studies in a controlled environment in the sense that they may be more applicable to other real world contexts.

The company that is the subject of this study may be representative of large companies in South Africa, since they share the same need for making an impact on the South African community and are similarly affected by issues such as the B-BBEE Act.

However, the fact that other companies can have different strategic approaches and implementation methods for their supplier development programmes and different perceptions of BEE requirements cannot be ignored. This study focuses only on one company and the generality of the conclusions will only be proven when replication studies of other companies have been undertaken. Thus, this study will not necessarily have external validity.

An important distinction should be made between statistical generalisation that is usually required for survey research, and analytic generalisation, which is more appropriate for case studies and experimental research (Yin 2009:43). In the latter, the researcher tries to generalise the results to a broader theory rather than to a different sample. The theory that underlies this study is that companies that have such supplier development programmes will implement these initiatives in such a way that they gain operational benefits in the process.

3.5.2 *Internal validity*

Internal validity refers to whether the design of the study and the data that it yields allow accurate conclusions to be drawn about the cause-and-effect relationships within the data (Leedy and Ormrod 2010:97). Yin (2009:42-43) suggests that this is not applicable to exploratory or descriptive studies since it is not concerned with causal relationships.

3.5.3 *Reliability*

Reliability refers to whether the same results and conclusions will be obtained when another researcher investigates the same entity (Leedy and Ormrod 2010). Yin (2009:40) notes the necessity to demonstrate that the same results are obtained when the operations of a study, such as the data collection procedures, are repeated. This serves to ensure that errors and biases in a study are minimized.

Yin (2009) suggests making the steps of data collection and interpretation as operational as possible by proper documentation of the procedures followed. Firstly, a case study database needs to be created where the raw data or evidence collected are properly organized for retrieval and analysis by a critical reader. For the interviews in this study the responses from each interview were captured in text documents and could be easily retrieved for analysis. Summaries were also made in a spreadsheet from the relevant information obtained from the project motivation documents. Unfortunately, the documents themselves are confidential and cannot be accessed by someone outside of the organization.

Secondly, a chain of evidence is to be maintained (Yin 2009). This refers to the links established between the case study questions, case study protocol, the contents of the case study database and the resulting report. In this study, responses from the interviewees and information from the documents were grouped according to the case study questions. However, for the core interviewees, comments in the text were not referenced to a specific interviewee for purposes of anonymity. Comments from external interviewees were attributed to the particular interviewee.

A further possible concern is the requirement by Leedy and Ormrod (2010:93) that the instrument should be standardized and applied consistently to each person. In this study, interview questions were prepared beforehand as leading questions, specifically dealing with certain aspects around the topic. However, the nature of the interviews and the responses from some of the interviewees were such that the structure of the questions was not always followed. It was attempted to gather all the necessary information required by these leading questions, but often this could not be done due to time constraints or other factors. In addition, since this is an exploratory study, additional questions or issues were introduced as the researcher came to grips with the topic.

3.6 Conclusion

In this study the goal is to obtain a deeper understanding of the implementation of a supplier development programme by the company. A case study approach was selected due to the exploratory nature of the study, the flexibility of the case study methodology and the various data collection methods that it affords. Qualitative information was obtained from focused interviews with participants that were both internal and external to the company, while quantitative data were obtained from the analysis of internal project motivation documents of the company. The information obtained from the combined sources will determine whether the company gains operational benefits in the process. In the process, it should provide support for the theory that typical large South African companies that have such supplier development programmes, will implement these initiatives in such a way that they gain operational benefits in the process.

4 PRESENTATION OF RESULTS

The results of the study are presented in this chapter. The chapter starts with two introductory sections before commencing with the main research findings. In the first section, the company that was studied for this research and the entities that are responsible for its supplier development initiatives are briefly described. This is followed by a short section that describes the background of the researcher in order to disclose influences that his perceptions may have had on the interpretation of the results.

The four sections that follow present the findings from the main research topics that were stated in the Research question section in the first chapter. Firstly, the characteristics of the businesses that were selected for supplier development involvement are presented. This is followed by a description of the assistance provided to these supplier businesses. The third section describes the benefits that were obtained by the company from these initiatives. A view on whether these benefits were the deliberate intent of the company is presented in the last section.

The information contained in each of the four sections was obtained from the following sources: interviews with the core group of interviewees (employees of the supplier development entities, including the Black Economic Empowerment Procurement (BEEP) manager), project motivation documents, interviews with the supplier accreditation function, interviews with the owners of supplier businesses, and interviews with external experts. The results are presented in this order within each section.

4.1 The company and its supplier development entities

This section provides a short background description of this large South African company. It also briefly describes the two entities within the company that are responsible for its supplier development initiatives.

4.1.1 *A brief overview of the company*

The company that is the subject of this study, is primarily based in South Africa, but has operations in other countries across the globe. It is listed on the Johannesburg Securities Exchange. Being one of South Africa's largest companies, it is also a big investor in the economy. Furthermore, it is a large buyer, purchasing a variety of products and services that range from stationary and cleaning services to multibillion Rand production equipment.

The company is a signatory to the United Nations Global Compact. This Compact promotes actions in support of the Millennium Development Goals that aim to advance markets, commerce, technology and finance to the benefit of economies and societies (United Nations Global Compact Office 2008). The company thus has a clear intention to be a good corporate citizen and to support sustainable and socially responsible business policies and practices.

In 2008, the company was rated as a level six contributor according to the Empowerdex generic BEE scorecard. At the time its BEE scorecard revealed that the company had significant scope for improvement in the areas of preferential procurement and enterprise development. In order to be a more effective competitor in its market, the company set itself the target to become a level four contributor by the year 2012. This target was in fact reached in 2010, with the new scorecard showing improvement in both its preferential procurement and enterprise development scores.

The company agreed to the charters in the industries in which it operates and committed to spend 25% of its negotiable procurement with black economic empowered enterprises. It reports its progress in respect of the charter to the Minister of Minerals and Energy. As its performance is compared to that of other signatories to the charter, the company considers it critical to be positioned favourably in comparison with the rest of the industry.

4.1.2 *The supplier development entities*

The enterprise development business unit is a wholly owned subsidiary of the company. It was initially formed in 1997 to develop downstream opportunities for the company's products. For various reasons it did not do well in this role, as the timing of its creation was inappropriate due to industries in this sector consolidating rather than diversifying. In 2004, after government's introduction of the B-BBEE strategy, the role of this business unit was redefined to be the driver of enterprise development, to act as a business incubator that facilitates the establishment of independent downstream SMEs, and to promote broad-based BEE in the sectors in which the company operates.

The enterprise development business unit has access to the company's considerable expertise in the technical and business fields that SMEs require. Business analysts provide basic services to entrepreneurs such as project feasibility studies, assistance with business plans, branding and marketing, strategy development, mentoring and coaching, and sourcing of funding. Its services are provided free of charge. It does not act as a lender of money, nor does it take equity in these businesses. Instead, it assists entrepreneurs to obtain funding through the four major South African banks, venture capitalists, or through SME funding agencies such as the National Youth Development Agency (NYDA) or Khula Enterprise Finance.

The enterprise development business unit has several different focus groups that concentrate on various areas relevant to its industry. In 2009, a revised strategy and organisational restructuring extended its mandate to be the central entity that is responsible for the funding, coordination and management of enterprise development for the whole company. This included the supplier development initiatives, which had not been a significant part of the business unit's functions prior to this revised strategy.

The second entity was established in 2004 as a joint collaboration between three business units of the company. It was incorporated into the enterprise development business unit in 2009. The purpose of this entity is to grow the local economy by providing assistance to B-BBEE suppliers, contractors and entrepreneurs that provide goods and services to the company. The entity assists in the creation, development, funding (usually in the form of loans) and accelerated growth of such businesses. It provides support through training, legal advice, financial training, management and marketing skills. The entity has a strong focus on sustainable business creation and assists supplier businesses to obtain the necessary linkages in order to grow to markets outside the company. Furthermore, the performance of the assisted businesses is closely monitored in order to ensure that they remain viable and that they can repay their financial obligations.

Supplier businesses with strong growth potential that can be realised through financial and developmental assistance, are targeted, especially those in commodities that are scarce or have high barriers to market entry. Such opportunities are normally identified and referred to specialist business advisors by BEEP managers and business unit managers within the company.

In order to qualify for assistance by this particular entity, small businesses must have an existing supply contract with the company, or there has to be an initiative from the company to develop a business with a specific purpose to use it as a supplier. Furthermore, at least 26% BEE ownership status is required, and all partners must be actively involved in the business. Preference is given to those businesses situated in areas where the company has direct presence.

4.2 Selecting supplier businesses

This section presents the results related to the sources used to identify businesses that participated in supplier development initiatives and the types of businesses that were selected. It also presents findings on the focus on BEE considerations in this selection process.

4.2.1 *Sources of supplier projects*

Five main sources of projects were identified from the interviews with the core group of interviewees. These sources are listed in Table 6. Instances in which particular sources were mentioned by each of the core interviewees are indicated by the tick marks in the table.

Table 6 : Responses from the core interviewees regarding the sources of supplier development projects (n = 9)

	Respondents									
Source	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**Totals**
Referred by business units		✓	✓	✓	✓		✓	✓	✓	7
Referred by procurement/supply chain	✓	✓	✓	✓			✓			5
Approached by suppliers		✓		✓	✓	✓				4
Supplier development function initiates/approach supplier		✓	✓		✓	✓		✓		5
Supplier development function initiates new opportunity		✓		✓		✓			✓	4

Seven out of the nine respondents (78%) indicated that a large proportion of the supplier development projects originate from referrals from the company's business units. A significant emphasis is placed on supporting the needs of the business units. The supplier development function markets its services of assisting suppliers by engaging with the business units via a "road show". These results indicate that referrals are provided in order to improve quality and on-time delivery. Supplier businesses that are not performing according to the expectations of the business units or that do not conform to the company's safety standards are referred to the supplier development function for assistance. Suppliers are also referred for other reasons, such as expanding the market of the supplier in order to make it less reliant on the company, or saving a business that is critically in trouble.

The enterprise development business unit markets its services via advertising in local newspapers. The media often prints reports on their involvement in local communities and of their success stories in these communities. Because of this media exposure, and often due to word-of-mouth referrals, the incubation entity is sometimes directly approached by interested businesses for assistance. Some are potential suppliers that want to do business with the company, but require assistance with the tendering process. Some respondents noted that this entity informs the business units of the goods or services on offer by potential suppliers and, if required, will assist the new supplier in the tendering process. However, there is a sifting process and the product or service provided by the potential supplier has to fit in with the company's needs. If the company already has the suppliers that it needs in that category, the applicant will instead be referred to another company for assistance.

The supplier development function, which is situated within the enterprise development entity (as described in section 4.1), has its own initiatives to provide value-add to the company's business units. As an internal unit, it has access to the company's vendor lists. This is used to identify and proactively approach suitable supplier businesses for participating in its supplier development programme. One interviewee mentioned that businesses that do not have high BEE scorecard credentials are identified and offered assistance in this regard.

Interviewees also noted that opportunities sometimes arise in the supply chain where the supplier development function recommends a new product to be used in the supply chain, or assist in identifying a suitable supplier. Previous examples of assistance from the supplier development function to the business units to develop local companies for the purpose of replacing certain imported product were also mentioned. One interviewee noted that one type of business development that the supplier development function undertakes is implementing a novel idea. He/she said the following: "We have no supplier for a certain need or product. We give the specs to someone that supplies a similar service and we help him to source that stuff and help him to put together a business so that he can supply this to us."

The company's procurement and supplier accreditation departments are also sources of supplier development projects. According to the core respondents, typically suppliers that are in distress, or that do not comply with the company's stringent requirements, are often referred for assistance.

Unfortunately the project initiation documents seldom clearly stated the sources of these projects. From the 102 project documents that were studied, the origins of the requests were only specified in 39 cases. The majority (26 suppliers) were referred by the business units, followed by the procurement department (10 suppliers). The remaining three constituted one request from a supplier, one business that was approached by a business analyst, and one in which a new opportunity was pursued by the supplier development function.

Two of the business owners that were interviewed were referred to the supplier development function by the business units. The third business that was interviewed was an example of a supplier being approached by personnel from the supplier development function. This business provided an important service to the company. In addition, it was also quite proactive in ensuring that it delivered quality service, implemented immaculate safety systems and also adhered to BEE requirements. However, it could not afford to have formal accreditation from the International Organization for Standardization (ISO) or an official BEE scorecard rating. This was picked up by a business analyst of the supplier development function, who subsequently approached the owner directly and offered assistance.

The manager of the supplier accreditation department provided further insight into the role that they play in referring suppliers to the supplier development function. The application process for a supplier starts in this department, where they do various pre-qualification checks, such as registration documents, BEE certification and safety compliance. The latter is considered to be a very important and frequent part of their activities. Suppliers that are not compliant with any of the requirements receive feedback in this regard. If they are deemed to be willing and able to address their shortcomings, they are referred to the supplier development function for assistance.

4.2.2 *Types of supplier businesses selected*

According to the core group of interviewees, there is no intentional prejudice towards suppliers with regard to their size or the industries in which they operate. It was noted that a “mixed bouquet” of supplier businesses is assisted. A manager from the supplier development function mentioned that they had a closer look at the industries in which the suppliers that they assisted operated and grouped these into nine important categories. From this classification they determined that some of these industries were underrepresented, and took active steps to provide assistance to businesses in those industries.

It was mentioned by one interviewee that the supplier businesses must be viable, and that the owners must be actively involved in its management. This sentiment was confirmed by the BEEP manager, who noted that “you want to know that there is money in the business, as well as skills and integrity. The owners should not be corrupt. The owners or managers should have vision and should have the ability to take that business forward. There has to be a sustainable market for its products or services.”

Table 7 is comprised of the project motivation documents and provides an indication of the activities of businesses that participated in the supplier development initiatives. A total of 102 businesses were documented. The first and largest category contains several construction-related areas, ranging from smaller businesses providing general construction activities, to larger firms that provide more intricate construction and engineering services. The rest of the categories reflect mostly goods and services that can be considered as non-critical and that generally have low barriers to entry. Descriptions in the motivation documents identified seven of these businesses as vital suppliers.

Table 7 : Activities of businesses that participated in supplier development projects (n = 102)

Category of supplier business	Number of suppliers in category
Construction, welding, plumbing, electrical, engineering, plant hire	42
Supply of materials, chemicals, safety apparel	22
Gardening, cleaning, catering	14
Transport and moving	11
Other	13
Total	102

Of the three businesses that were interviewed in this study, one provided furniture removal, tea and coffee, and car wash services. Another provided cleaning services and inspection of certain electrical equipment. The third provided an important piping and welding service that required more comprehensive technical competence.

The manager of the supplier accreditation department notes that the needs of the company are considered when selecting suppliers. Suppliers are categorized by determining if the commodity or service is “shop” (not important or critical, can be bought from places such as Pick n Pay), “leverage” (where there is limited supply), “critical” or “strategic”. For each of these categories a sourcing plan is designed, which essentially asks: “What needs to be acquired, how it is to be acquired, from which suppliers, how big is the cake and how will the cake be divided among the suppliers?” Typically, a mixture of suppliers will be chosen, consisting of a few large suppliers, some from the local community, as well as suppliers that have good BEE credentials.

One external expert, Mr Herman Potgieter, noted that companies usually group suppliers in a matrix that has cost and risk on its axes. A large company such as Hitachi will receive big contracts, but if it fails to deliver, it will have a big impact on the company's operations. The large majority of suppliers fall on the other side of this matrix; they provide only about 10% of the value, but if they fail to deliver it will have a negligible effect on the company's operations. He noted that this is the enterprise development space. He also noted that, in terms of quality systems, skills and abilities, most of these suppliers have almost nothing in place. These suppliers are seen as small suppliers by the company and are typically given the small jobs such as garden services. When their contracts are up for renewal the company would refer them to the supplier development function rather than go through the hassle of replacing them. The challenge is to develop them to become mainstream suppliers.

An external interviewee, Mr Vuyo Jack, stated that the problem with this kind of supplier development is that it is not part of the value chain, and considered this to be an important missing element that is needed in order to sustain the interest in the supplier. "If you do not deal with the supplier on a daily basis, what is going to keep you interested in them? You are probably just going to dump money on them and go back to your job. This will not necessarily be the most sustainable programme, because it does not touch your self-interest. By looking at the value chain one would be able to establish that sustainable engagement." However, another external interviewee, Mr Alan Torley, warned that companies will not give some of their core supply contracts to black businesses. It is too risky because disruptions will directly affect the bottom line.

Mr Torley confirmed the observation that many of the black business suppliers to large companies do low level jobs such as gardening, guarding, chemical suppliers for household use, etc. He notes that these suppliers do not really have a substantial contribution to the large company. They are mostly traders, and very few of them actually manufacture anything. Mr Herman Potgieter related an interesting occurrence in relation to this last statement. He said that in the mining industry, black firms that manufacture pumps find it difficult to enter the market, even if their technology is good. The mining company prefers to buy from businesses that they know, yet they still want the BEE scorecard points. In order to accomplish both they arrange with the black firm to buy the pumps from the original supplier and resell it to the mine.

4.2.3 *The focus on BEE considerations*

The core group of interviewees generally indicated that the supplier development function assists any company and there is not a specific focus on businesses with black ownership or better BEE credentials. The managing director of the enterprise development business unit noted that supply chain requires supplier development to be done on any supplier, not only BEE compliant businesses. Others also noted that “non-black suppliers” are assisted, and in some cases white businesses are supported to improve their BEE score. However, the recently incorporated supplier development function requires that the businesses have 26% black ownership in order to qualify for assistance.

One interviewee acknowledged that the business unit gains more from assisting black-owned businesses. Another interviewee supplied a previously compiled document in which he noted that the company intends to become a level 2 contributor in the next few years. “In order for the company to achieve this objective, it needs to continue procuring goods and services from suppliers that have a high preferential procurement recognition level.” He noted that these suppliers will be mostly businesses that are classified as Exempted Micro-Enterprises (EME) that have annual revenues of less than R5 million and are recognized as level 4 contributors. Some will be Qualifying Small Enterprises (QSE) with annual revenues between R5 million and R35 million and that have less stringent compliance targets. Three of the interviewees made mention of the enterprise development entity’s incentive scheme through which extra points (or multipliers) are awarded if assisted businesses are black owned.

The project motivation documents provided the BEE contribution levels of 74 of the 102 businesses that participated in the supplier development projects. The BEE score of the remaining businesses were either not indicated in these documents, or the businesses did not have official BEE certification. A breakdown of the BEE contribution levels at the time of commencing with these projects is shown in Figure 1.

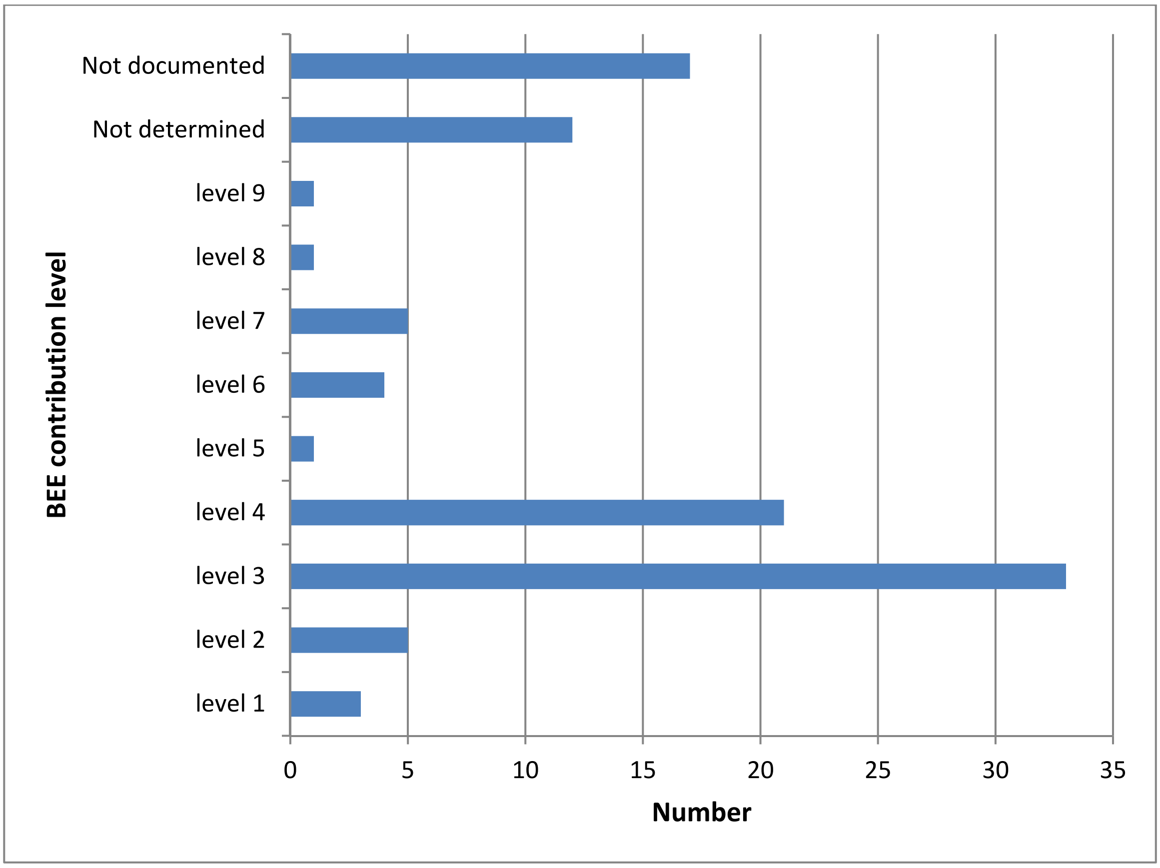

Figure 1 : Distribution of the BEE contribution levels of the suppliers that were assisted (n = 102)

The review of the project documents indicate that 62 businesses (61% of the total) were BEE rated at level 1 to level 4, while 12 businesses (12% of the total) were rated at level 5 and higher. It thus appears that the supplier development function showed a preference for businesses with good BEE credentials from which the company's own BEE scorecard could benefit.

However, this should be seen in light of the distribution of the sizes of the businesses. Figure 2 shows a graphical representation of the sizes of participating businesses according to the number of employees. From the total of 102 businesses, the sizes of 17 were not documented in the project motivation documents and these were grouped in the "unknown" section. The graph shows that the majority of businesses are small and have fewer than 50 employees. These businesses are most likely to fall in the revenue brackets that afford them EME or QME status, thus classifying them as level 4 or level 3 contributors.

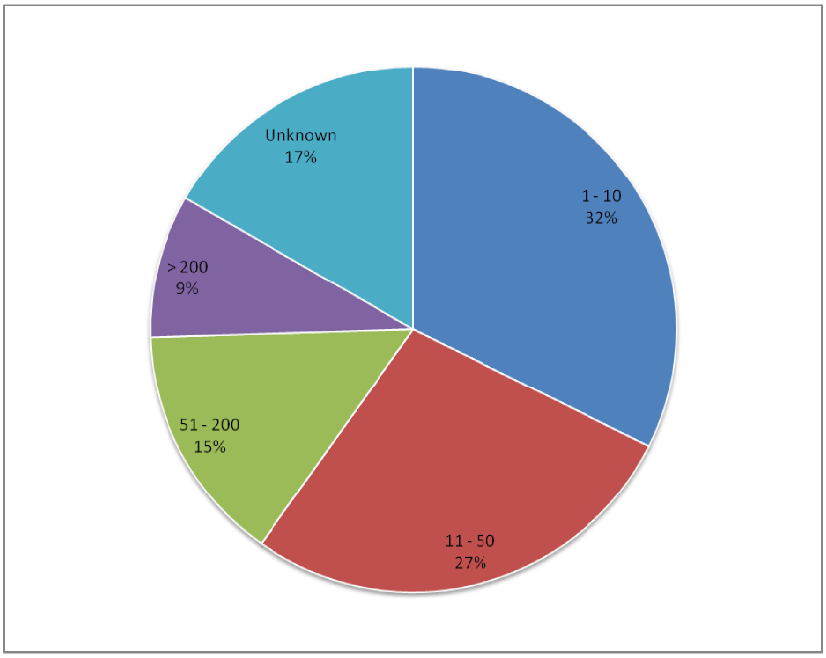

Figure 2 : Size distribution in terms of number of employees of participating supplier businesses (n = 85)

The supplier accreditation department manager noted that they have to look at preferential procurement and the amount of money that the company spends on BEE compliant companies. As mentioned earlier, the sourcing plan makes provision for setting aside some contracts for black owned businesses. If a certain commodity does not have enough BEE owned suppliers, the supplier development function will be approached to search for an alternative supplier that can be developed for this purpose.

He also noted that development money will preferably be spent on black-owned businesses, while white-owned businesses can probably get help at another financial institution.

He further pointed out that “when you do development, it is probably on a company that is performing badly or does not quite get it right. These are typically BEE companies, and the whole drive is about BEE. This is a reality in South Africa.” However, he noted that the capabilities of the supplier are also important: “We will pass more purchases to businesses that are BEE compliant, provided they have the right capabilities.”

4.3 Assistance provided to suppliers

This section describes the assistance and support that the supplier development function provided to businesses that participated in the supplier development initiatives.

Personnel from the supplier development function expressed differing opinions when asked about the purpose of these initiatives. Respondents regarded the company’s supplier development programme as having the following objectives: 1) To ensure a stable and reliable source of goods and services to the company, 2) assisting suppliers to ensure that they have the capacity and capabilities to deliver on their contracts, 3) ensuring compliance with the company’s safety standards and meeting required quality criteria, and 4) improving the company’s BEE compliance. In general, the opinion was that suppliers must be sustainable and that there is a firm intention to have a long-term impact on the supplier businesses.

The supplier development function provides a wide variety of services to the company’s suppliers. The focus is mostly on non-financial support. Although there is a cost to the company in terms of money and resources, the services are generally offered free of charge. However, supplier businesses are sometimes required to contribute to the initiatives. One person mentioned that the company used to entirely fund the process of improving a supplier’s safety systems, but it was found that adherence to the safety requirements tended to falter after about two years. When suppliers contribute in part to the costs, they place more value on the initiatives and show increased long-term commitment.

Table 8 below provides a list of typical assistance initiatives to suppliers that were identified from the interviews of the core group of interviewees. The tick marks indicate instances in which such activities were mentioned by particular respondents, while crosses indicate instances in which respondents stated that such assistance is not provided. In certain cases, indicated by both a tick and a cross, the response from the interviewee was either towards both, or somewhat contrary to a previous response.

Table 8 : Responses from the core interviewees regarding the assistance provided to suppliers (n = 9)

	Respondents									
Assistance	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**Totals**
Financial										
• Loans and grants	✓	✓	✓		✓	✓		✓/x	✓	7
• Early payment		✓							✓	2
• Business plan			✓	✓	✓				✓	4
Business improvement										
• OHS Act compliance		✓	✓	✓		✓		✓		5
• ISO accreditation	✓		✓	✓				✓		4
• Management training		✓			✓	✓		✓		4
• Manufacturing capacity	✓		✓	✓		✓	✓		✓	6
• Product or service quality				✓				✓		2
Expanding supplier market	✓		✓	✓				✓	✓/x	5
BEE development	✓		✓	✓	✓		✓		✓	6
Product development		✓	✓	✓		✓		x	✓	5
Longer term support	✓				✓		✓	x	✓	4

Financial assistance is provided by one arm of the supplier development function in some cases to enable a supplier to deliver on its contract. In some cases their equipment is not adequate for the operational requirements, and in other cases they do not have the necessary working capital to purchase the necessary raw materials for manufacturing the goods that they supply to the company. Due to their high perceived risks, these suppliers find it difficult to obtain loans through traditional institutions. They are expected to pay back the loans, and their ability to do so is thoroughly evaluated before the loan is granted.

The supplier development function does not provide loans or grants for development purposes. Their financial assistance is limited to arranging early payments to improve the cash flow of certain suppliers, or to assist with the compilation of business plans for funding applications to external sources such as banks, government schemes or venture capitalists. It also does not take an equity stake in supplier businesses, as this will place further administrative and legal burdens on the company.

Business improvement constitutes a large component of the assistance provided to suppliers. Many of the suppliers lack the knowledge or skills to run their businesses optimally. Training and assistance with management skills such as human resources, production planning, marketing, operational management and demand forecasting, are also provided. The introduction of business systems such as financial training and software, or the ISO 9000 quality management system, forms an important part of this package.

Safety is extremely important to the company, so much so that it has been proclaimed as its most important value. Some of the suppliers are under threat of being removed from the company's sites due to lack of compliance to safety requirements. Staff from the supplier development function recognised that this is not the solution, because in some cases these businesses render critical or scarce services for which the company cannot easily find a replacement. They have to find a way to make the suppliers conform to the company's strict safety criteria. The business units are not in a position to assist supplier businesses in improving their safety; although they desperately need these suppliers and expect them to fix their safety systems, "they cannot be both referee and player". Since the supplier development function is separate from the procurement function, it could fulfil this important role.

Expanding the market of a supplier is often required, either to reduce the dependence of the supplier on the company, or to help these businesses to survive. There is often a lack of sufficient work opportunities from the company. The general view among the supplier development function's staff is that the intention is to develop suppliers that meet all the supply chain requirements, not only for the company but also for other companies. The company should not be a supplier's only contract; they should be competitive in the market and able to access any other opportunity. They are encouraged to supply their goods and services to municipalities and other companies such as Eskom, Harmony Gold, etc. The company also collaborates with other large companies through the South African Supplier Diversity Council (SASDC). The intention of this programme is for the large companies to use targeted procurement to develop specifically black suppliers. In this way they ensure that these businesses are more sustainable by giving them more business. The company's database of black suppliers is in turn also shared with the other corporate members.

One analyst noted that there is a desire to increase the business of the supplier with the company and other companies, but that this unfortunately rarely happens. He said that "most of these businesses are established and do not have an entrepreneurial nature. They have long-term contracts with the company for several years, which discourage them from looking for business elsewhere." Furthermore, some of the supplier businesses do not want other business, but instead prefer to only deal with the company.

It is in the company's interest to ensure that its suppliers have a good BEE scorecard rating. One manager mentioned that "from the preferential procurement side our business units are losing out if a critical or strategic supplier's BEE score is not aligned". He further noted that "if a business approaches us, whether he is BEE or not, he is still a supplier to the company. But in most cases where the supplier is not BEE compliant we incorporate a BEE element." Assistance is provided with regards to transformation or obtaining a scorecard evaluation as many of the businesses do not have the funds or the know-how to do this themselves. As one interviewee said, "it is not an easy thing to do if you have not done it before."

As mentioned earlier, assistance in terms of BEE compliance is not necessarily provided to only black-owned or white-owned suppliers. Non-black suppliers are assisted to become BEE compliant. However, black-owned businesses often have low scorecard ratings because some pillars of the scorecard are neglected. The supplier development function targets and develops specific scorecard elements where a business is weak. For instance, one business was assisted to correctly capture and account for the money that they spend on skills development. In other cases the ownership transformation of a business or the merging of two entities with the aim of improving their BEE score were facilitated. It was also noted that a higher BEE score improves the competitive advantage of these suppliers, especially for obtaining contracts at other companies. One interviewee stated that, in most cases, they do not have to advocate BEE compliance, because the suppliers realise that their contracts may not be renewed if they do not transform. As a result "they already start to do something". He also stated that, in most cases where a supplier is not BEE compliant, a BEE component is incorporated.

Several of the interviewees in the core group mentioned that the supplier development function also collaborates with suppliers in order to develop or provide a product or service to the company, while one person stated that this does not happen. The interviewees that gave positive responses all referred to the same two examples of "success stories". One of these related to the development and import substitution of an important component for one of the company's processes, while the other referred to the creation and development of a business that supplies an important commodity that the company needs for day-to-day operations. The details of these two examples can unfortunately not be divulged here. The repeated mention of these two specific examples created the impression with the interviewer that this type of activity does not happen often.

There is a clear intention from the supplier development function's staff to have a long-term impact on the suppliers that they assist. As one interviewee said, "it is to have good and reliable black emerging suppliers and to see that they are sustainable for many years". Suppliers usually approach the supplier development function with a specific need or request. For each project a thorough assessment of the feasibility and viability of the project is done. In addition, a more comprehensive evaluation of the supplier is also done to assess further needs and shortcomings. Such deficiencies are additionally provided for in the recommendation for assistance.

Suppliers that have received assistance from the supplier development function are still required to be competitive. In fact, the procurement function believes that there has to be a “Chinese wall” between the supplier development and procurement functions, because “you cannot develop and adjudicate”. No preferential treatment is given to the assisted suppliers and they still have to go through the normal procurement channels in order to tender for contracts. They are, however, in a better position to bid for contracts and to provide good quality at competitive prices. However, the managing director of the enterprise development business unit mentioned a recent agreement that was reached with supply chain to work on a set-aside principle for a developed supplier. This supplier will receive preferential treatment for a year or two to “take them up the development curve.” This will be done only for critical commodities where the aim is to build local capacity to replace overseas capacity.

The project motivation documents described the same assistance activities that were mentioned by the core group of interviewees. A total of 213 assistance activities were counted for the 102 businesses that participated in the supplier development programme. These activities were grouped into five categories and are shown in the quantitative graph in Figure 3.

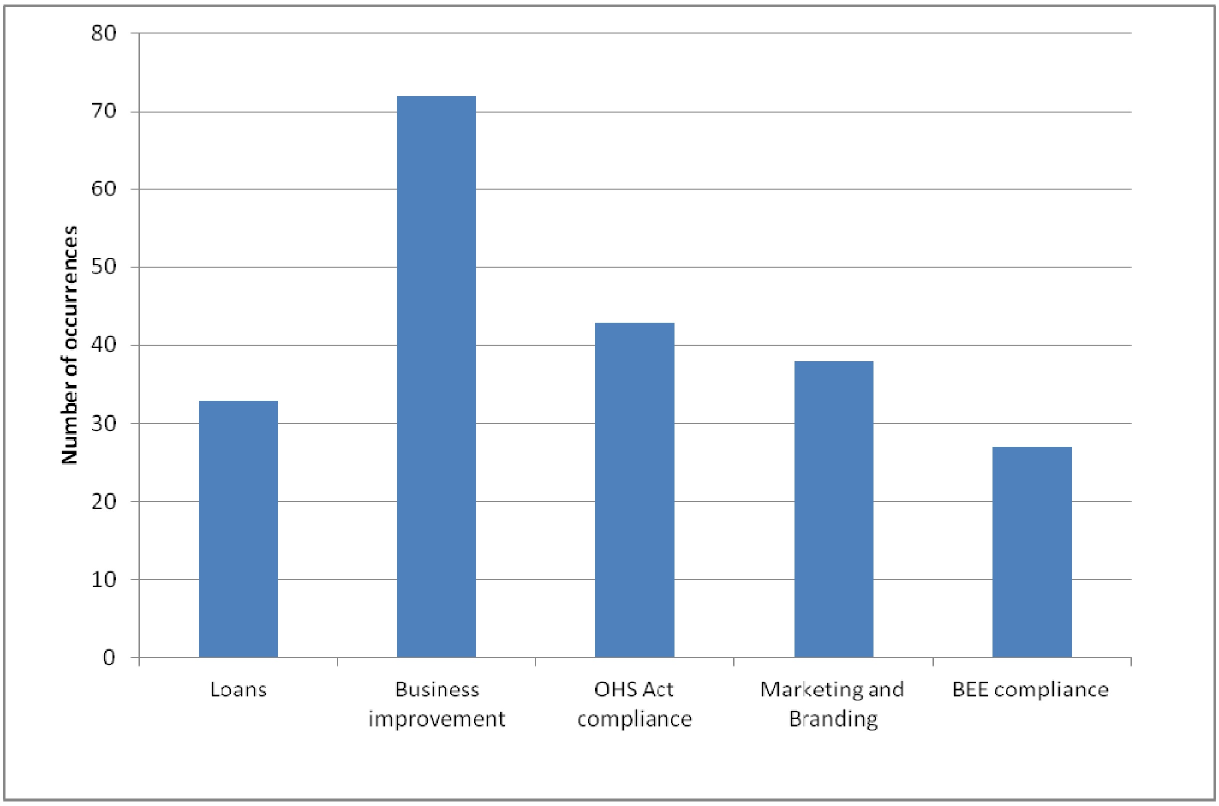

Figure 3 : Graphical representation of the number of assistance initiatives provided to supplier businesses, grouped in five categories (n = 213).

Loans were provided to assist some businesses with their cash flow, to provide bridging finance for materials needed for manufacturing, or to purchase vehicles or equipment. Funds were sometimes required to replace equipment nearing the end of their life spans, or to expand the capacity of the supplier. In many cases it was used to purchase equipment that would normally be hired, as this would either be cheaper in the long term, or more reliable due to frequent break-downs of rented equipment. One case described the provision of bridging finance to allow a supplier to stock higher levels of a component of which the international demand was growing at an alarming rate. This rise in demand caused long lead times and critical shortages for the company. In another case, the company committed itself to a fixed order for a commodity item and assisting in case of unexpected price increases.

Assisting the suppliers to improve their business skills and operations occurred most frequently in the motivation documents, which included a wide range of activities. Coaching, guidance and formal management training for managers and supervisors were often provided in areas such as finance, human resources and operations. In some cases assistance with costing, tendering and quotations were needed in order to ensure that the supplier businesses could obtain sufficient profit margins to remain viable. Operational assistance such as procurement and inventory management, improving manufacturing capacity, productivity and product/service quality (ISO accreditation or SABS certification), and optimising product formulations were noted. Systems such as financial software and governance were introduced in certain cases. Also, guidance in strategic management, business development planning and feasibility studies were provided. The supplier development function's strategy of doing a more comprehensive evaluation of the supplier to identify further needs and shortcomings was strongly reflected in the strategy documents. Providing business improvement activities has become an almost standard feature in these documents.

It was noted in the motivation documents that several supplier businesses had no marketing strategies, and that some of these businesses needed markets beyond the company if they were to survive. The company assisted with the compilation of marketing plans, market analysis and identification of market segments. It also assisted with identifying other internal contract opportunities. Marketing assistance was often provided even when this was not at the request of the supplier businesses.

Ensuring that suppliers complied with the OHS Act contributed significantly to the assistance activities. Activities such as the introduction of safety systems, training to adhere to safety practices, disposing of waste materials, as well as funds to purchase safety equipment were noted in the motivation documents. A substantial amount of effort went into BEE compliance activities such as improving the scorecard of the supplier.

Although most of the cases in the project motivation documents appeared to have similar needs, some interesting cases occurred. The documents referred to a case in which assistance was provided to align the production of the supplier with the company's needs. In another case assistance would have been provided to build a storage facility for imported components for which there is a steady demand. Another instance that was noted was of a business plan for a manufacturing facility that would have been drawn up to replace a product that was being imported from Taiwan.

The observations from the assistance activities mentioned by the core group of interviewees and observed in the project motivation documents were also observed in the businesses that were interviewed. One business owner received training in management and financial management. This person made special reference to the value added to his business by these interventions. Two of the business owners that were interviewed mentioned that they provide services to other companies and municipalities in the area. They were actively looking for other business opportunities at other companies and believed that they were better equipped for this as a result of the training that they received from the supplier development function. However, finding opportunities at other large companies has proven to the difficult. Both of these supplier businesses have grown since their involvement with the supplier development function and one has increased its service offerings to the company.

The third business was quite proactive and already conformed to the BEE scorecard requirements, but needed financial assistance from the supplier development function to obtain formal certification. This person noted that he prefers to focus on the company as his only customer in order to deliver quality service, and he generally turns down other opportunities that come his way.

The manager of the supplier accreditation department stated that “we do not have a culture like other companies that will more easily get rid of a supplier. We try to get things right. We have a more cooperative approach and try to establish a relationship with the suppliers. We have a relationship strategy with them where we identify strategic, tactical and transactional engagement.”

He also pointed to some of the limitations of the procurement department. He notes that there has to be a division between development and procurement, “because if you develop for procurement purposes you will disadvantage other possible suppliers.” When asked whether they can inform the supplier development function to help with the development of a local supplier to replace an imported product, he noted that “that is probably what we should be doing. Of course we cannot really develop for the market due to competition law issues. You will probably have to develop several suppliers, or you will have to ask the overseas supplier to identify local agents.”

In terms of BEE assistance, the supplier accreditation manager noted that they will work with existing suppliers to improve their BEE score if there are no BEE suppliers for a certain commodity. More purchases are passed on to businesses that are BEE compliant, provided that they have the right capabilities.

The external expert, Mr Herman Potgieter, said that business units that are not satisfied with a particular supplier will often refer the supplier to the supplier development department in order to assist him to reach the end of his contract. After that, they will probably not renew his contract and would rather bring in a new supplier. He noted that many of these suppliers have almost none of the necessary skills and abilities necessary to succeed. In order to bring these suppliers into the mainstream economy, they need to be provided with basic training to equip them with essential business skills. He advised that companies allow these businesses a few months to implement and get used to the new skills, then to follow this up with a more intensive intervention to help them meet the expectations of the buyers. He further recommended that companies follow a career path approach to supplier development, to give support and contracts based on conditions and goal posts that need to be met before giving them more and larger contracts.

Mr Alan Torley said that companies need to raise the level of these suppliers first, before they can be engaged to do higher level activities such as manufacturing for import replacement. Mr Vuyo Jack noted that the small suppliers do not have experience or the operational/financial capacity. “Just delivering on the basics is very difficult.” He suggested that companies change their requirements to suit smaller suppliers that experience these difficulties.

4.4 Benefits derived

This section presents the findings of this study with regards to the benefits that the company obtained as a result of the supplier development projects that were undertaken.

During the interviews most of the supplier development function’s staff agreed that the company does indeed receive operational benefits from the supplier development projects. Table 9 provides a list of the typical benefits that were mentioned by the core group of respondents. In this table the tick marks again indicate instances in which interviewees mentioned a particular benefit, while crosses indicate instances in which the interviewees stated that a particular benefit is not obtained. Interviewees were not provided with a list of possible benefits, but in some cases examples were provided or leading questions were asked to probe for certain benefits.

Table 9 : Responses from the core interviewees regarding the type of benefits obtained from supplier development activities (n = 9).

	Respondents									
Benefits	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**Totals**
BEE compliance		✓	✓	✓		✓	✓	✓	✓	7
Reliability	✓	✓		✓	✓	✓	✓		✓	7
Cost benefits		✓	✓	✓	✓	✓				5
Quality		✓	✓	✓	✓			✓		5
OHS Act compliance				✓		✓	✓			3
Increased supplier base	✓	✓	✓	✓						4
Import replacement		✓	✓	✓		✓				4
Improved performance	✓			✓			✓			3
Retaining critical supplier			✓	✓						2
Flexibility									✓	1
Environmental					✓			x		1
Other	✓			✓	✓	✓			✓	5

Even though the interviewer asked for benefits other than BEE compliance, the BEE scorecard recognition was mentioned by several of the core interviewees as a benefit to the company. One interviewee said, “a specific competitive advantage that is obtained is in the improved BEE score, as the company aims to be a level 1 contributor.” Another said that “from the preferential procurement side our business units are losing out if a critical or strategic supplier’s BEE score is not aligned.” He further noted that they have a mandate to look at improving the company’s BEE scorecard. According to another interviewee, the supplier development function’s initiatives initially did not have BEE in mind, but it was realised that its activities can be used to secure BEE scorecard points. The BEEP manager stated that the company wants to adhere to the BEE Codes of Good Practice for its own competitiveness.

Compliance to the Occupational Health and Safety (OHS) Act was mentioned as a benefit by only a few of the core group of interviewees. Some referred to the importance of assisting critical suppliers in this respect in order to retain their services. One interviewee stated that “a poor safety record of these businesses will have a spill-over effect on the company.”

Improvements in quality and reliability have been noted by several interviewees. In terms of quality, one stated that “the company is concerned about product and service quality and wants to buy from businesses that are ISO accredited”. Another noted that “procurement will not continue to purchase from suppliers that do not deliver quality products”. “Because of the training and the skills that they have acquired, suppliers are in a better position to provide good quality at competitive prices.” In terms of reliability, one interviewee noted that “some operational benefits have been obtained such as more reliable delivery of goods and services at the right time and in the right quantities.” Delivery of service and improved lead times were mentioned by others. One interviewee stated in a written document that the company’s early payment project has been successful since the rate of non-delivery of suppliers in the QME and EME categories has declined. Interviewees also referred to one of the success-story projects where the availability and delivery from an existing supplier was solved by establishing a new provider.

The success story referred to above also resulted in cost benefit for the company. An interviewee confirmed directly that cost benefits result from certain projects. Another noted that the supplier development function’s engagement with suppliers to get them ISO accredited also has price implications, as standardized processes are more cost effective. One interviewee mentioned that in some cases, “suppliers are able to negotiate more favourable prices from their own suppliers due to their increased business skills, which eventually result in better price offerings to the company”. It was also mentioned that, by fostering growth of different suppliers, the supplier development function stimulates competition between suppliers and can potentially benefit from competitive pricing.

Increasing the supplier base offers a strategic advantage as the company may need several suppliers or alternatives. One interviewee stated that “it is important for the company to have a number of suppliers that meets its required standards, whether it is commercial standards, tender standards or an understanding of the competitiveness of the industry”. Another noted that “it makes strategic sense to have several suppliers, because it creates competition and ensures that the product or service is available if a particular supplier goes out of business”. One interviewee also stated that this creates more competition so that existing suppliers have to “up their game”. An example was mentioned in which a company was privatised from a division of the company’s workshops and received assistance to keep its contract for a few years. “Today it is a very important supplier that the company cannot do without”.

Some of the core group of interviewees mentioned that finding a local supplier for an imported product is an advantage. The interviewees mostly referred to one success story about a product used in plant operations that was developed in order to replace an inferior quality Chinese product.

The close proximity of assisted suppliers was also noted by some, even though this did not refer to import replacements. An interviewee noted that these suppliers are more flexible and will more easily tailor their products on short notice to serve the company’s needs. Interestingly, though, increased flexibility was not mentioned by other interviewees in this core group of respondents.

Only one interviewee noted that environmental advantages are obtained in that some suppliers work more efficiently to reduce wastage. These advantages are not reported formally, though. In contrast to this, another interviewee stated that “no benefits in terms of environmental matters are obtained”. There is another pillar called liquid chemicals that looks at some environmental aspects, but they do not work with the suppliers of the company. Most of the suppliers are service providers and thus not polluting entities.

A quantitative summary of the operational benefits that were mentioned in the project motivation documents is presented in Figure 4. From the 102 projects that were encountered in these documents, a total of 176 operational benefits were identified.

These benefits were only counted when they were either explicitly noted as benefits that the company would have obtained as a result of its assistance to the supplier, or where it was reasonably obvious that this was the intent of the interventions. There were seven projects where it was clear that the company would not have received any benefit from its assistance.

A total of 64 motivation documents referred specifically to the contribution that these projects would have made to the company's BEE scorecard. Even in cases where the BEE status of the entity was not captured in the motivation documents, BEE scorecard benefits were still indicated. Some of the documents appeared to follow a certain format where a special section on BEE considerations was included, although this format was not used consistently.

In Figure 4 compliance to the OHS Act was combined with ISO accreditation into the "Company criteria" category, as the company requires both from its suppliers. A total of 46 projects focused on assisting suppliers to adhere to these requirements.

Of the remaining 66 benefits, quality and reliability appeared to be the most significant. It was stated in the motivation documents that delivery and reliability would be maintained or improved due to factors such as more readily available equipment, less delays and break-downs, increased production rates and shorter lead times. Two cases pertinently mentioned improved response times by the supplier. In some cases the burden on the company to provide certain specialised equipment was eased. Shortfalls that are normally anticipated during plant shut-downs were alleviated. In one case the company would receive priority for a certain commodity item produced by the supplier, while in another the supplier development function's introduction of a competitor for an existing supplier would result in improved turnaround time for a particular service.

In terms of quality, most documents stated that the supplier would maintain or improve the quality of their products or services. It was noted in one case, that a product of superior quality to that on the market was to be obtained.

Cost benefits were also noted in the documents. This referred to acquiring products at cheaper rates, as well as cost savings during activities such as refinery shut-downs. A few documents noted the strategy of increasing the supplier base, and it was pertinently stated that this was done to introduce competition for the purpose of improved cost and reliability. In a few important instances, certain suppliers that provided critical services to the company had to be assisted to meet certain criteria such as safety compliance.

A few initiatives focused specifically on addressing the poor performance of certain suppliers. Other benefits were also noted from the project motivation documents. The impact on the supplier businesses was usually improvement in turnover and streamlined processes. Some of these companies gained the opportunity to take on more work for the company as a result of increased capacity, while others were able to service other markets and thus become independent of the company.

It should be noted that “Import replacement” was selected not only when the business actually provided the product as an import replacement, but also where it was indicated in the motivation document that this would have been a likely future outcome with the assistance of the supplier development function.

In terms of environmental benefits, one instance was noted where the environmental footprint of the supplier was improved. In another case it was mentioned that improved energy efficiencies of the supplier could be used for carbon trading possibilities. A third supplier developed a product that could be used for cleaning up oil spills. Import replacement also resulted in benefits that were noted in the other categories mentioned above.

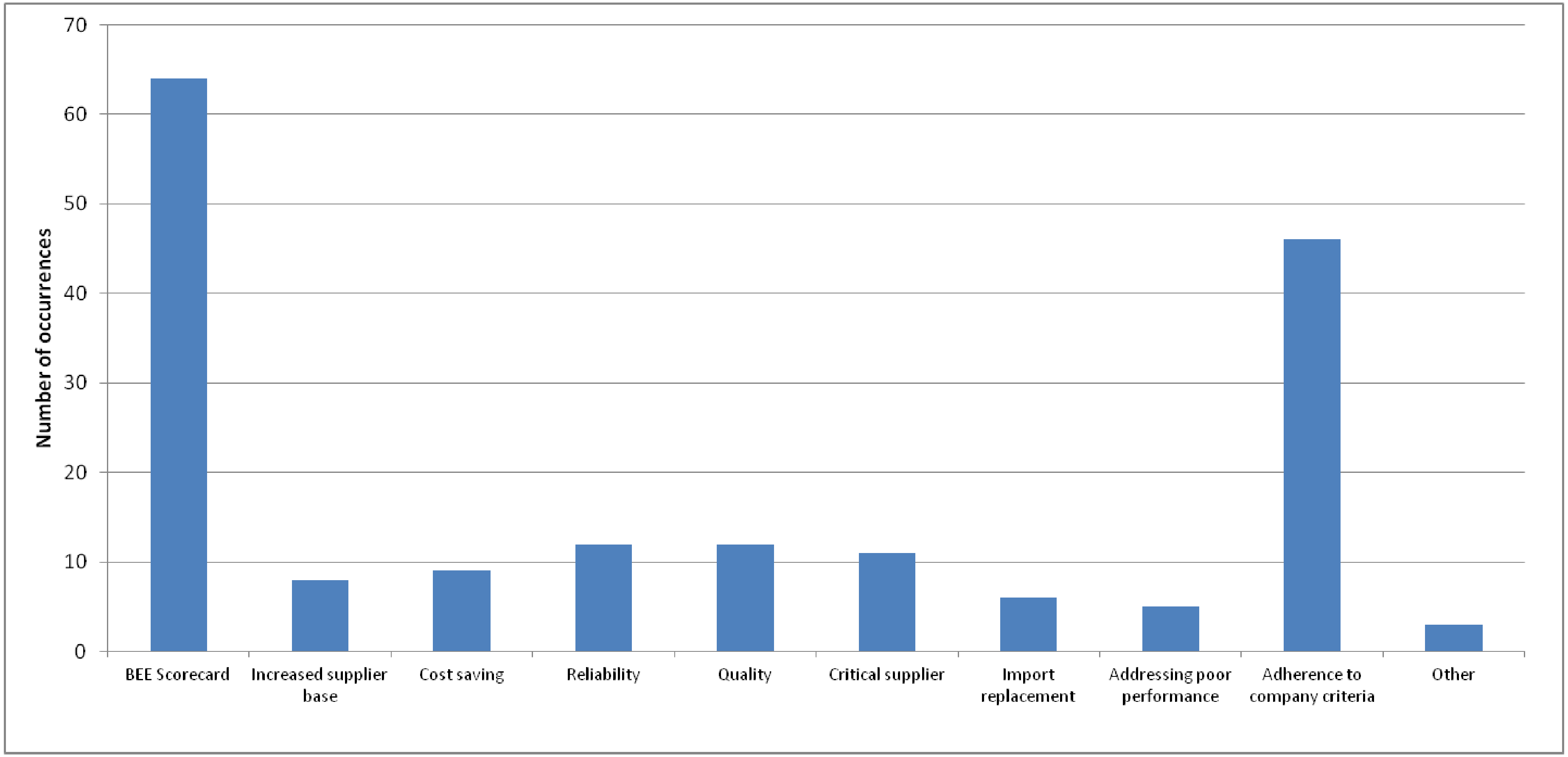

Figure 4 : Categories of operational benefits obtained from the supplier development initiatives (n = 176).

From the perspective of the supplier accreditation department, replacing a supplier is a troublesome process. The manager of this department noted that “replacing a supplier is like recruiting a new person for a job.” This person needs close supervision for about four months in order to help him get everything in order. “It is an involved process that is not difficult, but our resources are limited.” One important benefit is thus that, by assisting suppliers to conform to the necessary requirements, the turnover of suppliers is reduced and this extra work is reduced.

The business owners that were interviewed all indicated their awareness of the BEE scorecard benefits that the company obtained from its assistance to them. Two business owners acknowledged that the quality of their service has improved as a result of this assistance, and also that they now adhered to the company’s safety requirements. They noted that this was necessary in order to retain their contracts.

The third business owner revealed an interesting situation. This business already provided good quality service to the company, while adhering to BEE requirements. The owner stated that the company did not gain any operational benefits from its assistance to his business in obtaining ISO accreditation and a BEE scorecard rating.

Mr Herman Potgieter shared the view of the supplier accreditation department. He mentioned that the company has about 9000 suppliers and it takes a lot of administrative work to cope with all these suppliers. The smaller businesses are typically less reliable than larger businesses and are usually also less stable. He notes that the real advantage of the supplier development projects is that small suppliers that perform adequately do not distract the larger companies from their main focus and operations. This factor outweighs any cost savings, etc. that are normally obtained through these projects.

This person also noted that the motor and aeronautics industries get more value from supplier development due to their maturity in this field. A company such as the one studied here does not have the same depth of experience with supplier development, while government entities cannot really extract value from these initiatives.

Mr Vuyo Jack pointed out that the benefits are not immediate, and in certain cases there may not be any benefits. He noted that it is important to build relationships with suppliers as procurement is driven by these relationships. Furthermore, “there is a psychological principle, the reciprocity principle, where if you give something to somebody he will want to give something back.”

Mr Jack mentioned that, when a company has a diversity of suppliers, it can negotiate competitive prices. Also, in turn for paying suppliers in a shorter period, a company can negotiate lower prices. However, whether immediate benefits can be obtained depends on the level of development of the supplier. The reality is that few suppliers are at a reasonable stage of development, and “those that are will probably not need your help and will engage in a normal relationship with you.”

4.5 The intention to obtain benefits

The findings of this study regarding the intention of the supplier development function to obtain operational benefits for the company via its supplier development programme are presented in this section.

From the interviews with the core group of interviewees, certain issues that are pertinent to this question emerged. These are listed in Table 10. The tick marks indicate where positive views from the interviewees with respect to these issues were encountered, while the crosses indicate negative responses.

Table 10: Views from the core interviewees regarding the intention to obtain benefits from supplier development activities (n = 9).

	Respondents									
Attitude towards operational benefits	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**Totals**
Should have consideration for benefits	✓	-	✓	✓	-	-	-	-	✓	4
Does have consideration for benefits	✓	✓	✓	✓	✓	✓	✓/x	x	✓/x	8
BEE compliance is a strong driver	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
BEE compliance is <u>not</u> the only driver	✓	✓	✓	✓	-	-	-	✓	✓	6
Government relations and licence to operate	-	✓	✓	-	-	-	-	✓	✓	4
Long-term focus on SA economy	✓	✓	✓	✓	✓	✓	-	✓	✓	8

Four interviewees indicated that the company should have a consideration for obtaining benefits through it supplier development initiatives. One person stated that there should be a business interest to supplier development. "If we want to continue to grow and add value back to the economy, we have to show monetary value for the company. It does not have to be Rand value, but it has to be tangible value added." This person referred to an amendment planned for the enterprise development entity's incentive scheme to provide recognition for projects where value add to the company, import replacement, or the utilisation of some waste stream from the company can be demonstrated. Another person agreed that the company should do supplier development for its own benefit, "because it is the right thing to do".

The second interviewee who is quoted above, also believed that supplier development should reside in the supply chain. "This is where it is done. If you see it as social investment, you actually marginalise it and make it irrelevant." The person observed that the structure of the company is currently leaning towards the latter, as the supplier development function is out of the supply chain and reports into the social investment stream. Another interviewee noted that "long-term and sustainable impact on the supplier is important. The strategy is to identify needs that would feed into our supply stream". To substantiate this he pointed to the example where an important commodity for one of the company's processes was developed. Another person pointed out that there were opportunities to develop more suitable products to supply to the company that were not pursued at that time. These included products for the company's main operations.

A number of interviewees indicated that there is indeed a consideration for obtaining benefits through the supplier development projects. This was clearly stated by some of the business analysts. One manager noted that "supplier development is first and foremost about the supply chain". The supplier development function serves the supply chain and business units by responding to their needs, as dictated by the commodity strategy, and assisting suppliers in meeting safety and quality criteria. "Specifically pursuing operational benefits is not a focus for the supplier development function, but it is certainly a consideration." He stated that the business units that refer projects to the supplier development function have already prepared their business cases, some of which contain operational benefits for the company. Two other interviewees mentioned that "supplier development is done to have suppliers that help the company to meet its objectives, to maximise profits, and add value to the bottom line", and "to ensure a stable and reliable source of goods and services to increase the company's competitiveness". Another noted that the intention is not necessarily for cost advantages, but rather for improving service delivery.

However, some interviewees expressed opposing opinions to the above. One noted that there is no focus on getting anything back from the supplier businesses. "The company pays for these projects, but not with a view to recover costs or gain any benefits." Another noted that he does not quite believe that there is an intention to obtain benefits from these initiatives. The person stated that there are such aims, but it is not always connected to supplier development. There are some examples where benefits were obtained, especially from some of the earlier initiatives where the suppliers that were developed were really needed. However, he noted that "people that have a social investment mindset do not think along those terms. The benefits that are obtained are not as a result of a strategic drive, but rather a drive from individuals in the process".

Some interviewees referred to the cost/benefit analyses done in the project motivation documents, indicating that there is consideration for the needs of the company. However, one analyst noted that these analyses are mostly quantified for the benefit of the supplier, not for the company. As business analysts they are generally not asked what benefits the company gains from such projects. Another mentioned that only the impact on the company's BEE scorecard is quantified and that the influence of these activities on the bottom line is not considered.

All of the interviewees in the core group agreed that BEE compliance is a strong driver for the supplier development initiatives. One person noted that "the main reasons for these initiatives are for BEE scorecard points and compliance to governance". He further stated that "the supplier development function's environment is very much focused on corporate affairs, social investment and CSR, but not on Rands and cents". This view was also expressed by another person who stated that "the aim is mostly for the BEE scorecard". Another interviewee mentioned that the company wants to do well with regards to the BEE Codes of Good Practice in order to be competitive.

Interviewees also made reference to the current socio-economic situation in South Africa. Several interviewees noted that a reason for doing supplier development is to have a positive influence in the economy of the country. As such, the company aims to create employment, stabilise the country, assist with economic growth, and support the community. "The supplier development function's original mandate is not to only do BEE, but to do enterprise development to stimulate economic growth." One interviewee had previously stated in a document that "companies should not be caught in the thinking that BEE is a risk that can have negative impact on their returns, but should be able to envisage the future spin-offs emanating from proper implementation of BEE programmes. Their objectives must extend beyond compliance targets and positively contribute towards genuine transformation of the South African economy". From further responses, this appears to be important for two reasons. The first reason is that some interviewees referred to the necessity of compliance if the company wanted to continue its operations in this country, especially in the mining sector. The second reason referred to avoiding events such as those that have recently occurred in Egypt and Libya.

Although the core group of interviewees agree that BEE is a major consideration, it is certainly not the only factor. One manager noted that, although BEE considerations are indeed important for its supplier development programme, supplier development is first and foremost about the needs of the supply chain. “If you merge the supply chain and transformation imperative, I believe then you get bang for your buck, because then you get the business benefits as well as the transformation benefits.” Another person pointed out that the company is compliance driven and has to conform to the BEE Codes of Good Practice, but “to spend this kind of money (3% of NPAT to be spent on enterprise development) on a place where you do not get any returns will be silly. So the company tries to align its enterprise development strategy with its preferential procurement targets. This is the most important driver”.

One interviewee mentioned that one of the supplier development entities was established before the introduction of the BEE Codes of Good Practice as an initiative from one of the business units. The focus was on improving the excellence of suppliers. It was later realised that its activities could be used for recognition towards the company’s BEE scorecard. However, the operational value of these projects for the company had been realised and there was a willingness to continue with these initiatives. This sentiment was also shared by another person who noted that “the company has always done supplier development”, and that some of the earliest examples of supplier development were not connected to BEE. It was also noted that “there is definitely an imperative from the supplier development function to obtain benefits for the company, although this is not captured in a formal strategy”.

One respondent also indicated that the supplier development function would still be involved in supplier development activities in the absence of BEE, due to the other benefits that the supply chain obtains from these activities. This was supported by another person who stated that “whether there is BEE or not, you will always have supplier development”.

In his book on BEE, Mr Vuyo Jack writes that BEE should make business sense. In the interview with him, he qualified that statement by noting that business is driven by a profit motive, and that a company's interests is always going to be geared towards making money. He stated that, for its own sustainability, a company has to engage with the majority of the population. "It is important to merge the social imperative with the business imperative." He further noted that companies' resources are scarce, and allocation of these resources should always result in returns.

A representative from the DTI, Mrs Francisca Strauss, stated that government has no considerations for companies deriving benefits from their supplier development projects. Government only requires that they spend the necessary money for development purposes. In her view, the large companies can spare the money for this purpose, which is seen as part of their corporate social responsibility. This was confirmed by Mr Jack, when he said that "government does not focus on what is in it for you as a company. They see it as a social obligation. If you are going to do business in South Africa, then that is the price that you will have to pay".

5 ANALYSIS

This chapter provides an analysis by comparing the results that were obtained in this study with the literature review (Chapter 2). It is organized in sections which cover the following themes: Selection of supplier businesses, assistance provided to suppliers, benefits derived from these initiatives, and intention to obtain benefits. The chapter ends with a concluding section.

5.1 Selecting supplier businesses

5.1.1 *Identification of suppliers*

In the supplier development programme of the company studied here, the major sources of projects (according to both the interviewees and the internal project motivation documents) are the business units that require the services of the suppliers, and the procurement department that is directly responsible for satisfying the procurement needs of the business units. These requests are mostly for assistance to improve the performance or address deficiencies of the suppliers. Many of the suppliers that are assisted are not “world class” and do not have capabilities that offer a competitive advantage. In fact, some of the requests for assistance are to help these businesses to survive.

In very few cases, there were examples of a more proactive approach by the supplier development function to search for value in the supply chain by looking for new opportunities for the business units. One notable project was described where a supplier was selected to develop and provide a commodity that is used directly in one of the company’s plant operations, thereby replacing an imported commodity with a product of better cost, quality and availability.

The literature refers to reactive and proactive approaches to supplier development. The former, briefly described by Krause et al. (1998) and Wagner (2006a), addresses supplier non-performance and engage with suppliers after problems occur. This approach appears to come through strongly in the supplier development projects of the company studied here. From a supply chain development perspective, however, supplier development is a strategic tool and requires a more proactive approach. As such, there is an emphasis on identifying important items that are key or critical to the company (Hartley and Choi 1996; Krause et al. 1998). Large firms select world-class suppliers that provide a sustainable competitive advantage (Monczka et al. 1993; Krause et al. 1998; Wagner 2006a). Their suppliers' performance or capabilities must be equal or better than those of their competitors (Krause and Ellram 1997b).

The findings of this study thus suggest that the company is mostly reactive in its approach to supplier development. In the cases where more proactive initiatives were undertaken, the suppliers were not necessarily chosen for being world-class, as they did not fall in this category. Instead, the focus was on the quality and the importance of the products that were developed.

As noted in Chapter 4, most of the suppliers that are assisted provide products and services that can be considered as non-critical, with the exception of only a few that provided services that could be classified as vital. Thus, most provide only a small fraction of the value and have a small impact on the company's operations.

Hugo et al. (2004) note that the relationship that a company has with its suppliers depends on the nature of the supplier companies. Others (Kraljic 1983; Philipsen et al. 2008) describe that suppliers are classified into different groups, ranging from providers of non-critical or standard goods, to strategic or "partnership" suppliers. Companies would typically not engage suppliers of easy-to-get products or services in supplier development activities. The capabilities of the supplier need to make an important contribution to the company and need to be perceived as valuable and distinctive (Philipsen et al. 2008) or scarce (Krause et al. 1998).

The findings of this study thus suggest that the likelihood of obtaining competitive advantages from these suppliers is low, as most of their services are neither valuable, nor distinctive or scarce. These companies would not qualify as components of the strategic supply chain management function.

Most of the suppliers provide peripheral services or low-end commodities. They are considered to be “outside of the supply chain” and thus not directly involved in the value-adding activities. It was noted that opportunities within the supply chain need to be found that feed into the supply stream. Being part of the value chain is considered to be important to establish a sustainable engagement with the supplier, but this element is currently missing.

The literature on supplier development indicates that large companies gain from suppliers that create competitive advantage to its “own” products (Swink and Mabert 2000) or provide direct inputs into the core processes of the company (Jenkins et al. 2007b).

The findings of the study indicate that, while the respondents understand the role of strategic supply chain management, the company’s actual projects are not focused on these opportunities.

5.1.2 *Evaluation of suppliers*

The supplier accreditation department of the company performs various checks on new suppliers, mostly to establish whether they meet the company’s criteria in terms of proper registration, BEE certification and compliance to the OHS Act. Prospective suppliers that do not meet these criteria are referred to the supplier development function for assistance. As noted in Chapter 4, the supplier development function further assesses supplier businesses in terms of their viability, to ascertain whether there are indications of corruption, and whether there are sustainable markets for the products and services that the suppliers provide. For each project, a thorough feasibility assessment is done, as well as a more comprehensive evaluation of the supplier in order to identify additional needs. It seems that selection of suppliers based on their quality, skills and abilities was not done by the supplier development function, as this probably falls outside of their responsibilities.

In the literature, evaluation of supplier businesses is considered to be an important activity. From the supply chain management perspective, such evaluation is done to compare and select suitable suppliers, as well as to identify developmental needs (Ivarsson and Alvstam 2004; Rozemeijer et al. 2008). This in-depth evaluation looks at various aspects through which the buying company can gain a competitive advantage, such as through price, quality and reliability factors (Choi and Hartley 1996), current and past performance and potential for further improvement (Goffin et al. 1997), design and technological capabilities (Choi and Hartley 1996), etc. The manufacturing operations, personnel and credit record of the supplier are also scrutinised in order to determine whether it will be able to perform as expected. Personnel from different functions (quality assurance, procurement, production, etc.) of the buying company are involved in the evaluation process (Galt and Dale 1991; Bhutta and Huq 2002). The buying company may use a documented method for supplier evaluation in order to weigh up and prioritise the different tangible and intangible factors (Bhutta and Huq 2002). Factors such as the feasibility, time and resource requirements, and the potential return on investment are considered (Krause et al. 1998).

Supplier development initiatives for disadvantaged businesses typically have less strict requirements and are less elaborate. The procurement functions are mostly involved with selecting and evaluating the suppliers. The suppliers are firstly evaluated in terms of whether their products or services are needed within the company (UNCTAD 2001; International Finance Corporation 2007; Jenkins et al. 2007b). This is usually determined through internal consultation in the company. Secondly, the programmes also seek to assess whether suppliers can deliver on the work contracts, are technically competent and provide good quality and reliability (UNCTAD 2001; International Finance Corporation 2008). Thirdly, the suppliers should be commercially viable and have the potential to grow (Bates and Williams 1995; Jenkins et al. 2007b).

This study suggests that the approach adopted for supplier evaluation is similar to that used for used for minority firms in the US and disadvantaged suppliers in other countries and the scope confirms the descriptions provided in this literature.

5.1.3 *Preference to previously disadvantaged groups*

The findings of this study are somewhat conflicting with regards to preference for previously disadvantaged suppliers. One arm of the supplier development function only accepts supplier development projects if the supplier businesses have BEE ownership status of at least 26%. These respondents stated that BEE considerations are certainly important, in view of the company’s ambitions to become a level 2 contributor within the next five years. Most of the project motivation documents revealed the BEE rating of the suppliers. The manager from the supplier accreditation department indicated that development money is directed at black-owned businesses. Also noteworthy, is that 61% of the suppliers involved in the supplier development projects had BEE ratings of level 4 or better.

On the other hand, the supplier development function’s interviewees were adamant that there was not a specific focus on BEE credentials or black ownership and that they would assist any company. Examples of white-owned businesses or businesses with BEE ratings less than level 5 were also encountered. It was also noted that the reality in South Africa is such that, suppliers that lacked the proper capabilities or requirements and were subsequently referred to the supplier development function by business units and procurement departments, were typically black-owned companies. Furthermore, the BEE status of many of the suppliers can be explained by their size, which likely affords them Exempted Micro-Enterprise (EME) or Qualifying Small Enterprise (QSE) status that would classify them as level 4 or level 3 contributors.

Handfield et al. (2009) note that companies in the USA also focus their supplier development efforts on their “lower end” suppliers, which include its disadvantaged, small, women- and minority-owned businesses. They mention the importance for a buying company to support social and minority business objectives in order to portray good corporate citizenship. In South Africa, the BEE Act, the BEE scorecard and the industry charters provide a strong incentive for companies to select suppliers from designated groups, as companies need a good BEE score in order to do business with government entities and to compete with their competitors in the market (Jack and Harris 2007). Preferential procurement and enterprise development have significant weightings in the BEE scorecard, which encourages companies to procure from and to provide development services for businesses that are black-owned with high BEE ratings. Furthermore, enhanced BEE recognition is afforded when a company procures from a business that participated in the company's enterprise development initiatives (Jack and Harris 2007; Pillay and Phillips 2009). This suggests that supplier businesses may be selected for supplier development based on BEE considerations rather than for the operational benefits that can be obtained.

The findings of this study suggest that BEE considerations are indeed important for the company and that there is awareness of its importance. However, in most cases the focus of the supplier development function does not appear to be deliberately on the previously disadvantaged businesses, but that this apparent focus is rather due to circumstances such as the nature of businesses referred to them.

In summary, most of the supplier businesses assisted by the supplier development function are necessary, but provide non-essential goods and services. The majority are small and inexperienced, struggling to meet the necessary requirements and are referred by the business units and the procurement department to the supplier development function for assistance. The only requirements for these businesses are that they are economically viable and have sustainable markets.

5.2 Assistance provided

The nature and amount of assistance that the supplier development function provided varied considerably from case to case. A large part of the activities were aimed at the lower-end suppliers that did not meet the company's safety and quality requirements. For instance, 43 of the 102 projects that were undertaken had a component that focused on compliance to the OHS Act. Other activities, such as those that focused on ensuring the sustainability of the suppliers or increasing their capabilities so that they can deliver on their contracts, requires a greater commitment of financial and human resources. There were also a few examples where the supplier development function and the suppliers collaborated to design commodity products for use within the company and even in its processes.

In the literature it is also stated that firms assist suppliers to varying degrees. Many companies commit little or no resources to suppliers and do little more than increase the suppliers' performance goals and provide education and training (Monczka et al. 1993; Wagner 2006b). On the other side of the scale, the approach is to commit financial and human resources (Monczka et al. 1993), or to collaborate with suppliers in order to improve capabilities, transfer certain capabilities across firm boundaries (Sako 2004), and collaborative on the design of products aligned with the company's needs (Monczka et al. 1993).

The literature gives the impression that each firm's general commitment to its supplier development initiatives is fixed and standard. In contrast, the company in this study appears to be committed to its supplier development programme and adjusts its efforts to the needs of the suppliers and the company. However, no "strategic" supplier development (Rozemeijer et al. 2008), where a greater degree of integration of the suppliers into the core processes of the buying firm's operations, was encountered. This is not surprising, as Monczka et al. (1993) remarked that few firms commit themselves to this aggressive approach. Transferring certain capabilities across the boundaries of the firm, as described by Sako (2004), was not observed.

The supplier development function undertakes a wide range of activities in its development programme. Krause and Ellram (1997b) provide a comprehensive list of supplier development activities that companies undertake, both for supply chain management and for the purposes of developing previously disadvantaged businesses. Several of these activities are applied by the company studied here.

However, certain activities are done with a different purpose than that mentioned in the literature. For instance, a strategy of expanding the supplier base in order to ensure availability of the products or services is followed by the company. In contrast to this, authors in the literature refer to the introduction of competition into the supplier base in order to encourage continuous improvement (Dyer and Ouchi 1993; Hartley and Choi 1996). In this company, competition between suppliers occurs during the tendering process where the supplier development function is not involved. Assisted suppliers are in a better position to bid for contracts and provide good quality at competitive prices. Nevertheless, the focus of the supplier development function is on the expanded supplier base rather than deliberately forcing supplier businesses to compete.

In order to reduce the dependence of the supplier businesses on the company and, more importantly, to ensure their survival, the supplier development function assists supplier businesses with marketing and branding strategies and writing business plans. It also collaborates with other companies through the South African Supplier Diversity Council in order to provide previously disadvantaged suppliers with more business opportunities with other companies.

This approach is in line with examples reported in literature, where companies assist their suppliers in diversifying their markets in order to reduce their dependence on the large company (UNCTAD 2001; International Finance Corporation 2007). Small suppliers are helped to find new external customers, or even new work within the network of the company. One interesting case that was encountered in the literature, is that of the Malaysian suppliers of Intel that were assisted to the extent that they eventually became global suppliers that meet international standards and that have many customers beyond the single large company (UNCTAD 2001:151). Supplier development and the marketing assistance provided by the South African company have not reached this level yet.

The case study company provided “indirect” financial support to supplier businesses and undertook initiatives such as arranging for earlier payments for certain suppliers in order to improve their cash flow. In one case that was encountered, the company monitored the supply of an important commodity item and ensured that enough stock was purchased to keep the supplier viable. The company under investigation had a preference for facilitating applications for funding from other institutions (e.g., through writing business plans) than providing direct loans. However, in recognition of the difficulties encountered by small suppliers, one arm of the supplier development function provided loans that can be used for capital, equipment or stock. These are considered to be investments for mutual benefit, as suppliers that require this assistance utilise the funds to improve their capacity and deliver on their contracts.

The approach from the company is similar to that reported in the literature. Jenkins et al. (2007b) comment on the difficulties that small businesses face in accessing finance from institutions such as banks. "Indirect" financial assistance, such as buying products at favourable prices and advanced payment schemes, are reported (UNCTAD 2001). Companies may go further by investing capital, equipment or technology into the operations of their suppliers for mutual benefit (Galt and Dale 1991; Dyer and Ouchi 1993).

Training and education constitutes a large part of the supplier development function's assistance to its suppliers. The focus is especially on business training (finance, marketing, operations, etc.), which serves to increase the sustainability of these businesses. Training and assistance is also provided to improve aspects of the supplier's operations.

The literature on supplier development frequently mentions training and education initiatives for suppliers (Galt and Dale 1991; Monczka et al. 1993). However, training can be taken further by providing in-house experience for supplier personnel and arranging for in-house training (Sako 2004). These more sophisticated approaches involve formal exchanges of personnel between the buying company and its suppliers (Dyer and Ouchi 1993; Hartley and Choi 1996; Goffin et al. 1997). This kind of involvement with suppliers was not encountered in the supplier development activities of the company studied here. This is possibly due to the cost and organizational effort involved in this type of interaction, requiring sufficient returns for the company and the fostering of long-term relationships (UNCTAD 2001).

Certain activities that are mentioned in the literature are not pursued in the supplier development programme of this company. For instance, the environmental management of suppliers can have an impact on a buying firm (Lee and Klassen 2008) and companies can engage their suppliers to improve their environmental management capabilities (Williams 2007). No environmentally orientated projects were encountered, although such projects may reside in another division of the enterprise development business unit.

A significant component of the assistance provided to suppliers was aimed at improving the BEE compliance level of the supplier businesses. Of the 102 projects that were undertaken, 27 projects contained a specific component to assist suppliers in obtaining a scorecard rating or to improve their current BEE status. This includes activities such as obtaining a BEE scorecard rating, improving selected elements of a supplier's BEE scorecard, facilitating mergers between supplier businesses in order to establish a level of black ownership, etc. In South Africa's socio-political context, enterprise development is an important feature. Providing assistance such as financial support, training, mentoring and skills transfer are typical activities that are recognized by the BEE scorecard (Balshaw and Goldberg 2008; Pillay and Phillips 2009).

5.3 Benefits derived

In this section the operational benefits that were derived from the supplier development initiatives are analysed. The discussion treats with a number of unrealised opportunities and offers some explanations for those cases.

5.3.1 *Quality*

Data from this study confirm that the case study firm was able to increase the performance of its suppliers, particularly with respect to conforming to quality standards. The company sought to purchase from suppliers that provide good quality and it prefers buying from ISO accredited businesses. The supplier development function facilitated the ISO accreditation or SABS certification of some of its suppliers. The search for quality was further demonstrated by a particularly striking example in which a supplier development project involved joint development of a part specifically for the company's operations. This resulted in a product that was superior in quality to that available on the market.

This outcome of the supplier development function's activities is in line with those seen in the literature. Quality is considered the most important objective for companies that undertake supplier development initiatives to improve their competitiveness (Watts and Hahn 1993; Blonska et al. 2008). Quality affects customers' perceptions of the final product, conformance to specifications and product reliability (Cook 2009). It also prevents production delays (Hartley and Choi 1996). Furthermore, buying companies often collaborate with their suppliers in order to obtain higher quality parts that are specifically manufactured for them (Clark 1989), similar to the example mentioned in the preceding paragraph. Methodologies such as six sigma are standard practice in some industries (Krause et al. 2007).

5.3.2 *Reliability*

The case study firm was able to secure an improvement in the reliability of its suppliers. In particular, the study findings noted improvements in the reliable delivery of goods and services at the right time and in the required quantities was obtained, and lead times improved. In addition, the rate of non-delivery of small suppliers declined as a result of the supplier development interventions. These findings are reported through the interviews and supported by the project motivation documents, where specific examples of more readily available equipment, fewer delays and equipment break-downs, shorter lead times and increased response times were indicated. Importantly, shortfalls in certain products that were often experienced during plant shutdowns were alleviated. One particular example that was often mentioned by the interviewees from the supplier development function described a supplier that was specifically established and assisted to produce protective clothing for the company in response to poor delivery from an existing supplier. As a result, the company was the primary client with first priority from this supplier. Examples where certain local suppliers were earmarked to manufacture products that were normally imported were encountered in the motivation documents, with the intention of securing more reliable supply for these products.

These delivery and reliability benefits conform with those reported in the literature. Krause et al. (2007) note that improving the delivery and reliability of the supplier is an important objective of supplier development. Companies that invest in local suppliers realise improved delivery time and reliability (Wagner 2006b; Thomas and Barton 2007). The ability to deliver reliably and within short delivery times as promised, can reduce the amount of buffer inventory that needs to be kept by both the buyer and the supplier (Krause et al. 2007; Williams 2007). Companies can also secure access to high quality products that are integral to their value chains (International Finance Corporation ; Jenkins et al. 2007b). Examples of such cases were described in the examples of Nestlé, Ecom and SABMiller in section 2.5.

5.3.3 *Cost*

The findings of the study report that cost benefits were also obtained. It was noted that the supplier development activities resulted in increased efficiencies in the operations of the supplier, which translated to cost benefits for the company. In addition, introducing competition among suppliers provided for competitive pricing. The project motivation documents indicated that certain products could be obtained at better prices, or that cost savings arose during activities such as refinery shut-downs.

Dyer and Ouchi (1993) mention that improvement in input costs as well as total manufacturing costs are important objectives of supplier development. Other scholars refer to cost benefits derived from improving production processes and reduced production costs (Hartley and Jones 1997; Thomas and Barton 2007), lower transaction costs (Ivarsson and Alvstam 2004), purchasing products at competitive prices (Jenkins et al. 2007b), and long-term price stability (Jenkins et al. 2007b). The findings of the study therefore confirm the propositions advanced in this literature.

5.3.4 *Flexibility*

There were reported benefits in terms of increased flexibility, although only by a single respondent. In this example, it was reported that the large company benefitted from being able to tailor products on short notice. Only one project motivation document mentioned the alignment of the production schedule of the supplier with the needs of the company. It appeared that this is an aspect of the benefits of supplier development that is not yet fully exploited by the supplier development function.

In contrast to the experience of the large South African firm, the objective of improved flexibility is identified as a significant and important objective of supplier development (Krause et al. 2007). It is beneficial for companies to have suppliers that can adjust to varying demands (UNCTAD 2001; Vokurka and Lummus 2001) or changes in specifications (Cormack and Niessen 2002; Ivarsson and Alvstam 2004).

5.3.5 *Collaborative relationships*

The case study company reported that it achieved benefit and strategic advantage by increasing its supplier base which created competition and ensured availability of the product or service. Project motivation documents confirm that this was an explicit objective. External commentators as reported in Chapter 4 were sceptical and suggested that a large number of small suppliers that are typically less reliable and less stable than larger businesses, had the effect of increasing administrative costs. This latter view is more in line with the literature. For example, Leenders et al. (2006) note that the global trend for companies is to have longer term relationships with fewer suppliers due to the high administrative costs of dealing with many small suppliers.

Interestingly, some of the supplier development projects have the objective of finding more internal contracts for certain supplier businesses. This is somewhat contrary to the previously mentioned intention to increase the supply base. However, this was done mainly for sustainability of the supplier rather than to benefit the company. The real benefit of some of the supplier development efforts are thus to reduce supplier turnover. It was noted in Chapter 4 that replacing a supplier requires laborious effort and resources. This conforms with some observations in the literature, where it is mentioned that sustainable collaborative relationships with suppliers can result in an extension of the services and products that they offer to the company (Thomas and Barton 2007). Suppliers can take on further value-adding activities from the buying firm (Boddy et al. 2000). However, it is clear that that the purpose of long term collaborative agreements as described in the literature was different from those in operation in the case study firm.

5.3.6 *Adherence to criteria*

The analysis undertaken in this study confirms that the large firm was able to secure improvements in quality, reliability and cost. As noted previously, the precise quantification of the size of these benefits is outside the scope of this study. Within this current study, it is also not possible to make strong claims as to whether these benefits will have significant impacts over time.

The findings suggest that the supplier development programmes were preventative actions, taken to increase the performance of suppliers so that they met a minimum standard. Figure 4 in section 4.4 shows that conformance to the company's criteria (OHS Act compliance and ISO accreditation) was one of the outcomes that occurred in 46 of the 102 projects, while 5 more projects focused on addressing poor performance. Many of the supplier development function's activities appear to be focused on "fixing" supplier business rather than having the objective of gaining an advantage. This is supported by the view of Jenkins et al. (2007b), who noted that SME suppliers often struggle to meet requirements in terms of safety, quality, production flexibility or capacity, while their technical capabilities are limited.

5.3.7 *BEE scorecard*

The findings of this study confirm that the large company gained from improving its performance against BEE scorecard through its supplier development initiatives. The project motivation documents show that the evaluation systems in place emphasised these types of benefits. This implies that BEE scorecard tended to be the main focus for these supplier development projects rather than securing operational benefits. In several projects BEE scorecard recognition were the only benefits gained. It appears that supplier development programmes in this large company are being undertaken to respond to the political and socio-economic circumstances of South Africa and to position the firm for government contracts rather than to secure competitive advantage.

These findings are in line with the views of external commentators such as Jack and Harris (2007), who make it clear that large companies in South Africa are obliged to have a high BEE scorecard rating in order to do business with the state or to compete in their markets against competitors. Preferential procurement and enterprise development constitute a significant portion of the scorecard and enhanced recognition of procurement spend is provided in cases where the company procures from a beneficiary of its enterprise development efforts. Alessandri et al. (2011) state that, in South Africa, BEE transactions can be seen as an action of CSR, and that such initiatives may have benefits such as access to government contracts and an enhanced reputation with black majority groups that may result in more business. Duffet et al. (2009) provides an example of such increased business in the advertising sector in South Africa, while Min (2009) similarly note increased opportunities for federal government contracts for a USA company. It thus stands to reason that a company, such as the one studied here, will include this aspect into its social programmes.

5.3.8 *Unrealised opportunities*

The case study firm did not appear to secure some of the anticipated benefits of supplier development projects predicted by literature. For example, the firm did not use close collaboration with suppliers to design products aligned to its needs (Monczka et al. 1993). Many of the dynamic higher-order benefits, such as supplier businesses generating improvements after the involvement of the buying company (Hartley and Choi 1996), generation of new ideas for differentiating products, providing solutions to technical design problems (Lummus et al. 2007), and creating value for the buying company in other ways (Clark 1989).

None of the respondents from the supplier development function who were interviewed mentioned benefits along these lines. This may be a reflection of the nature of the suppliers that are most often assisted by the supplier development function, but perhaps also indicate possible benefits of the supplier development programme that are not realised or pursued. The project motivation documents were, in retrospect, probably not an appropriate source to search for these kinds of benefits, as these documents were compiled before assistance was provided, whereas the above mentioned benefits would be observed long after the projects. This could prove to be an interesting topic for future research.

5.4 Intention to obtain benefits

The study provided contrasting views regarding the intention to benefit from supplier development efforts. On the one hand, at least two respondents noted that there was a focus on CSR rather than the company's bottom line or getting anything in return from the supplier development activities. Several respondents referred to the current socio-economic situation in South Africa and to the company's obligation to create employment and assist with economic growth. This view was further strengthened by the perception gained from the external interviewees that government sees supplier development as a CSR duty of the company rather than a means for a company to obtain benefits. In the project motivation documents, the cost/benefit considerations referred to the viability for the supplier rather than the advantages for the company. Seven of these projects were undertaken without any specified benefits for the company.

In contrast to this, several other interviewees indicated that there should be a consideration for obtaining such benefits, and almost all interviewees from the supplier development function indicated that they did have some consideration for these benefits. One person noted that supplier development is marginalized and made irrelevant if it is viewed as social investment. A common opinion was that cost was not necessarily the main objective, but rather delivery, reliability and the specific needs of the supply chain.

As seen in the previous chapter, project motivation documents often mentioned some of the benefits for the company.

The literature shows similar contrasting views. Some companies undertake supplier development initiatives for previously disadvantaged businesses without expecting any direct benefits, but seek to benefit in the long term from the evolution of local business (International Finance Corporation 2007:72). These activities are rather part of a corporate strategy that takes broader social considerations into account (UNCTAD 2001:140). As a result, it may be considered to be a social programme rather than an activity that adds value to the bottom line (Hugo et al. 2004; McKinney 2011). This is in line with the definition of CSR by McWilliams and Siegel (2001) and Barnett (2007), which defines it as corporate activities intended to further social welfare. McWilliams et al. (2006) refers to this as “socially responsible” actions, which has the motivation to serve society rather than seeking profit maximisation

On the other hand, several authors indicate that companies intend to benefit from their efforts and investments in supplier development (Dwyer et al. 1987; Carr and Pearson 1999; Krause et al. 2007). These benefits are often tangible, such as reduced cost, better quality, reliability and flexibility (Zajac and Olsen 1993; Krause et al. 2007). Quale (2000) stated that supplier development is not philanthropy, but rather a means to obtain commercial advantage. Companies will invest in building local capabilities only when returns can be realised on these investments (UNCTAD 2001; Ivarsson and Alvstam 2004). SME linkages in particular should make business sense, due to the fact that it raises costs and risks to a large firm (Jenkins et al. 2007b). Friedman (1970) states that “privately responsible action”, where the intention is to serve the bottom line, should always be the case, although these actions may also have social benefits. In fact, companies can further social good as well as obtain private economic benefits through CSR actions under certain circumstances (Alessandri et al. 2011).

During the interviews it was clear that there was no insistence that the large firm should benefit from the assistance provided to suppliers. Furthermore, it appeared that there was no strong imperative from the company’s top management to obtain operational benefits from the supplier development function's activities. One interviewee stated that benefits that were obtained originated from individuals in the process rather than being the result of a strategic drive. This is in contrast with certain cases in the literature in which companies strongly demanded real and tangible benefits from their supplier development efforts. For instance, Ford assisted its suppliers to reduce costs by 5% on average each year for four years (Hartley and Choi 1996), while Fiat explicitly stated that it expected to receive price reductions from a development initiative (UNCTAD 2001) and Varity Perkins requested stable prices for a supplier's products for a particular period (Handfield and Krause 1999).

The way in which the company implemented certain supplier development activities contrasted with approaches suggested in the literature. For instance, interviewees indicated that their role is to ensure a stable and reliable source of goods and services in order to increase the company's competitiveness. As such, a strategy of diversifying suppliers is followed. Furthermore, there are initiatives to expand the markets of suppliers to businesses outside of the company. No evidence for joint problem solving or cooperation in an integrated way for mutual benefit was observed.

This appears to contrast with the modern trend of having closer and longer term relationships with fewer preferred suppliers (Leenders et al. 2006). Such relationships facilitate collaboration between the buying company and the supplier (Gulati and Sytch 2007) leading to mutual dependency, common goals, joint problem solving, and cooperation in an integrated way for mutual benefit (Heide and John 1990; Galt and Dale 1991). Wagner (2006a) notes that a company's suppliers are resources that are controlled by the company and that should be valuable, hard to imitate, and bound to the firm. Most firms do not pursue a strategy of expanding the supply base (Watts and Hahn 1993). It thus appears that the approach by the company in this study is more in line with the CSR objectives of expanding the number of local suppliers that meet the requirements of the buying company (International Finance Corporation 2007).

The findings suggest that BEE compliance is a strong driver for undertaking the supplier development initiatives. This was indicated by the responses from all interviewees from the supplier development function, and several noted that improving the BEE scorecard of the company was the programme's primary aim. It was mentioned that the company is compliance driven as it has to conform to the BEE codes according to the mining and liquid fuels charters. However, several interviewees indicated that BEE was not the only driver for the supplier development programme. Instead, it is a combination of both BEE compliance and business objectives, as the company tries to align its enterprise development strategy with its preferential procurement targets. Some referred to the importance of obtaining both transformation benefits and business benefits. Thus, although there is recognition for the role that the company plays towards improving the socio-economic state of the country, there is also a realisation that such expenditure has to be done to the benefit of the company.

This view also finds support in the literature on BEE. Pillay and Phillips (2009) mention that there is often a focus on weightings and targets in BEE initiatives. It is often seen as a compliance cost (Balshaw and Goldberg 2008), or as a CSR imperative rather than an activity that adds value to the bottom line (Alessandri et al. 2011; McKinney 2011). But some authors clearly state the view that BEE policies should promote growth rather than just redistribution and that sound economic principles should be followed (Jack and Harris 2007). Such programmes should have tangible and intangible benefits that contribute to the bottom line (Kerr 2006; Adobor and McMullen 2007).

5.5 Conclusion

The case study company undertook supplier development initiatives for the benefit of its suppliers. The majority of these suppliers provide goods and services that are required by the company, but are non-critical for its operations. These businesses are mostly referred by the business units and procurement department in order to improve their performance, to ensure their compliance with the company's requirements and to ensure that they deliver on their contracts with the company. As such, a large part of its services to suppliers is to provide business training and assistance to ensure the viability of these suppliers.

Supplier development initiatives produced benefits in terms of improved quality, cost and reliability. However, these benefits were not optimised, and there were only a few collaborative projects with suppliers that yielded higher-level benefits. Furthermore, it appears that these benefits are not due to a conscious strategy by the company, but rather due to the initiatives of individuals within the supplier development function. It is recommended that the supplier development function looks for opportunities closer to the value chain of the company in order to gain benefits that add value to the bottom line. Furthermore, the supplier development function should also place more emphasis on collaborative projects. This can elevate supplier businesses to the level of becoming part of the value chain where they can create value for the company in other ways, e.g., generating ideas and solving technical problems.

6 CONCLUSIONS

6.1 Introduction

This chapter presents the conclusions and the lessons from this study. In the first section the conclusions that can be drawn from each of the four topics of this study are discussed. This is followed by a presentation of the significance of the study, as well as a brief discussion of future research possibilities that stem from some of the findings.

6.2 Conclusions within the lines of enquiry

The focus of this study was on the supplier development activities undertaken by the enterprise development entity of a large South African company. The following subsections discuss the conclusions reached from the four themes of supplier development investigated in this study. It is important to note that this is only a subset of the supplier development activities within the company, as there are other collaborative efforts between some business units and their suppliers of strategic or technologically complex goods and services.

6.2.1 *Selecting supplier businesses*

The sources of supplier development projects are important. The majority of the projects undertaken by the supplier development entities of the company in this study were referred by various business units and the procurement department. Some of these projects focused on growing suppliers which were expanding their activities within and outside of the company and needed assistance to meet the obligations of their contracts. However, most were non-compliant or poorly performing suppliers that were referred for the purpose of assisting them to comply with requirements or to improve their general performance. It is certainly of value to the company to have suppliers that perform well and that meet requirements. Furthermore, from a socio-economic perspective it is necessary for companies to provide assistance to suppliers on the lower end of the scale, as there are many suppliers that are small, inexperienced and do not have the necessary skills and/or capabilities to conform to the requirements of a large company. Such suppliers will need extensive assistance to be retained as suppliers and to survive in the longer term. The benefits obtained from these projects are, however, limited and will not necessarily lead to significant advantages to this company over its competitors. This reactive kind of approach to finding supplier projects is unlikely to have a significant impact on the operations or the bottom line of the company.

Initiatives that demonstrated a more proactive approach to sourcing projects were also encountered. A few exemplary projects involved “higher level” suppliers that were created or assisted in collaboration with the business units, to provide value and benefits exceeding that which was normally available on the market. This suggests that there are opportunities in which suppliers can bring advantages to the buying company, and that the supplier development function should proactively search for value-adding activities rather than acting passively by depending on referrals from the business units. An active collaboration with the business units to purposefully seek such opportunities may be worthwhile.

Such value-adding opportunities for supplier development projects can be found in areas of the supply chain that are closer to the core activities of the large company, or essential to the operations of the company. Although supplier development activities may already be taking place in the core strategic areas, examples were encountered in this study where smaller “non-strategic” suppliers could provide significant benefits to the processes and operations of the company without having been considered as strategic partners. It is likely that more of these opportunities exist. Additionally, the study showed that there are also opportunities for the supplier development function to introduce suppliers with distinctive capabilities or valuable products/services into the supply chain.

In the selection process, a comprehensive evaluation may not be required for the projects involving the smaller businesses that struggle with survival and non-compliance. However, more stringent evaluation is advised for the cases where suppliers provide goods and services that are important to the operations of the buying company. This evaluation should extend beyond the feasibility of the project to include aspects such as the following: The track record of the supplier, the size of its current market, whether it has the internal capabilities to meet the requirements of the contract, the potential to improve, and an ability to provide goods/services of suitable quality and reliability.

It was found that the large company in this study followed a commendable strategy of aligning its supplier development activities with its efforts in socio-economic transformation. This is an important objective in the South African context. The fact that many of the black-owned businesses are small, inexperienced and lacking in vital business skills, results in an apparent focus on these transformation initiatives rather than the company's bottom line. It is likely that the benefits from these activities will come in the longer term or in forms other than operational efficiencies. Nevertheless, there were cases in which the transformation agenda and the operational impacts were simultaneously met.

6.2.2 *Assistance provided to suppliers*

This study showed that the assistance provided to suppliers often extended beyond the original request from the supplier or the referring business units. In several cases additional support or training is included with the purpose of improving the viability and long-term sustainability of the supplier businesses. The interviews suggested that there appears to be a lack of guidance from government on how such supplier development programmes should be implemented in order to ensure a long-term effect on the suppliers businesses. Despite this, the supplier development function looks beyond compliance to government requirements and demonstrates that there is a sincere intention within the organization to play a role in the transformation of the economy in an enduring way.

The supplier development function provides a wide range of services for the company's suppliers. This ranges from the provision of knowledge and assistance to struggling or non-compliant suppliers, to more substantial resources and funding for certain growing and expanding suppliers that provide important services to the company. The nature of the supplier and the importance of the product/service that it provides to the company determine the assistance that is provided and ultimately the benefits that are gained by the company. It was clear from this study that a significant fraction of the efforts involved the lower-end suppliers and, as such, defines the supplier development function's role as fixing deficient suppliers.

However, in a few cases, the company showed initiative by identifying specific needs for certain products/services that could not be adequately met by other suppliers in the market. This required a more innovative approach through which the company provided more technical guidance to the supplier and collaborated with the supplier to develop the required products. This demonstrated that collaborative relationships that are normally associated with higher level supplier development can also be applicable for smaller and disadvantaged suppliers. Similarly, initiatives such as funding and investing in equipment for suppliers to assist them with providing an important service to the company are relevant not only for large world-class suppliers, but also for the smaller disadvantaged suppliers. The buying company potentially benefits from these initiatives via superior products and reliable, loyal suppliers.

Training in business skills form a significant part of the company's supplier development programme. Essential business knowledge appears to be a common deficiency in many of the company's smaller suppliers, and probably for similar suppliers of other large companies in South Africa. Many of the suppliers also need to be assisted with other essential elements such as safety systems, quality criteria, etc. Engaging with suppliers on an individual basis may not be the most economical way to address these issues and a more centralised training approach aimed specifically at small suppliers may be more resource effective. This can perhaps be done in partnership with other companies or with external entities that are involved in such supplier development initiatives (such as Lumus).

The initiatives reported in this study were aimed at addressing very specific and concrete issues that affected the company at the time of undertaking the research. Business training has a longer term objective in that it makes these businesses more viable and better their functioning. However, in this study, actions to influence the culture of these businesses were not observed. Installing a culture of continuous improvement would have a longer term effect by encouraging further innovation, entrepreneurship and improvement in these businesses, which will lead to further benefits to the buying company. This can be fostered by a mentorship approach with selected suppliers. Such a holistic approach appears to be lacking in supplier development initiatives.

It was mentioned previously that the company followed a strategy of aligning its supplier development activities with its efforts in socio-economic transformation. Activities that enhance the BEE status of the supplier, which in turn contributes to the BEE scorecard of the company, are actively pursued. This indicates that the operational impact of these projects is not always the driving force, but that the longer term benefits of having a good BEE scorecard is also a factor in certain cases.

6.2.3 *Benefits derived*

This study demonstrated that a company can obtain operational benefits from a supplier development programme aimed at its smaller disadvantaged suppliers. Such activities should thus not be confined to the realm of CSR, but have the potential to add value to the company. Typical outcomes noted are improvements in cost, quality and reliability of the products or services supplied. These are tangible benefits that are considered to be important by companies that do supplier development.

In order to determine whether such initiatives are worthwhile and make significant operational contributions, it is necessary to quantitatively evaluate the impact of these programmes. An evaluation has not been done by the company involved, and the financial viability of the programme is thus not known. It is possible that the impact is negligible in relation to the costs incurred in implementing such programmes. A comprehensive evaluation will have to include various indirect factors such as the change in turnover of suppliers, impact on administration and transaction costs, etc. Even if such an evaluation shows that these initiatives are not operationally or financially viable, strategic and social factors may warrant the continuation of these programmes. Nevertheless, it is important to understand whether these activities are a burden on a company or provide a positive contribution.

The study showed that there are unrealised opportunities where the company can gain further benefits. In this case, improved flexibility of supply was mentioned in only one instance, while no activities focused on reducing the environmental footprint of the supply chain. Other benefits such as positive inputs and ideas from suppliers to improve processes or products, provide solutions to technical design problems, or add value in other ways to the buying company, are normally associated with supplier development activities involving much more competent suppliers. Perhaps these characteristics can also be encouraged in initiatives for smaller disadvantaged suppliers. Instances in which assisted suppliers learned to continue with improvement activities after their involvement in the supplier development initiatives were not reported as benefits. Awareness of these possibilities may perhaps steer the future strategy for these supplier development activities.

The company pursued and obtained positive contributions to its BEE scorecard, but the magnitude of the impact of its supplier development programme was not determined. The study did not explore this aspect as it was not its main focus area.

6.2.4 *Intention to obtain benefits*

In this study it was seen that there is a drive to make a long-term impact on the supplier businesses. However, it appears that the company itself does not have a clear intention to benefit from the supplier development projects. There is an impression that gaining recognition for the BEE scorecard was a strong driver from the corporate side and there was no evidence of a conscious strategy to pursue operational benefits. This is based on the fact that such intentions are not captured in a formal strategy document. In addition, the supplier development function is situated outside the supply chain, and no formal cost/benefit analysis for the company itself is required to motivate projects.

External interviewees view these supplier development activities as CSR rather than value-adding activities. The benefits obtained from these initiatives are believed to have very little impact on the bottom line and the competitiveness of the company.

In contrast, the people within the supplier development programme appear to provide the main drive for the operational benefits that are obtained. Several interviewees expressed the opinion that there should be a consideration for obtaining operational benefits from these initiatives, and that there was a consideration for obtaining such benefits. Participants also noted that they are looking for value-adding opportunities and that satisfying the needs of the supply chain is an important consideration. This drive from the staff of the supplier development function appears to be moderate in strength rather than strong, based on the reference to a “social investment mindset” by some of the interviewees and the fact that some projects did not have any apparent benefits to the company.

The above observations suggest that the company could harness the desire among its staff to make a worthwhile contribution to the company by providing a corporate directive in this regard. It can certainly do more to encourage and recognize the value-add that can be obtained from its supplier development programme. Such a directive can have an impact on the operational benefits that the company obtain in the longer term, and perhaps also influence the morale of the workers in this environment by emphasising the meaning and importance of their efforts.

BEE compliance was also very much a part of the conscious mind of the staff from the supplier development function. A large part of their activities have BEE scorecard considerations in mind. However, there is a common view that the most beneficial approach is to align the supplier development strategy with both the company’s preferential procurement targets and its supply chain imperatives. This suggests that local companies can make the most of externally imposed imperatives to further their own business needs.

6.3 Significance

The study demonstrates that supplier development initiatives for previously disadvantaged supplier businesses can provide operational benefits to the buying company. Such supplier development programmes may be viewed by some as mainly a CSR imperative, but it has been shown that it can also be value-adding. Tangible benefits that are considered to be important for any company that undertakes such a programme are cost savings, improved quality and better reliability of supply. The outcome of this study may thus encourage other companies to undertake similar activities.

Externally imposed imperatives, such as compliance to the BEE Act, are often viewed negatively. Many perceive it as a compliance cost or as corporate social investment instead of an essential and valuable part of the business environment. The study shows that such demands can be incorporated into the company in a value-adding way in order to provide a positive outcome for the company, while simultaneously helping to address the socio-economic problems experienced in the South African economy.

The study provides insight into aspects of the implementation of such a supplier development programme. It informs the reader about the importance of proactively finding meaningful and value-adding projects and the types of assistance that can be provided to these suppliers. It also demonstrates the operational benefits that can be obtained, while noting the importance of having a conscious strategy to seek such benefits. The study has also offered insights into current methods employed by the company, and has shown how useful changes could be made to improve the programme.

The study aims to encourage the view towards long-term sustainability of these projects. Companies are often compliance driven and deem it sufficient to expend only enough effort and resources to satisfy the requirements from government. There is a likelihood that the effects of these initiatives will dissolve quickly when the externally imposed imperatives are removed. Government aims to put lasting socio-economic transformation into effect, and may adjust its requirements accordingly in future. For example, recent developments illustrate a drive towards providing “meaningful” employment rather than just employment for the sake of having a job. By ensuring that these activities are value-adding and sufficiently integrated into the operations of the company, the effects of such a programme may be permanent.

6.4 Future research

The effects of supplier development initiatives can extend beyond the involvement of the buying firm. The literature shows that supplier businesses can continue to make improvements after the involvement of the buying company, generate new ideas for differentiating products, providing solutions to technical design problems, or create value for the buying company in other ways. These aspects did not come out of the interviews conducted with the supplier development function’s personnel, and the enquiry of this study did not extend to the time beyond the supplier development projects. The project motivation documents would not have indicated such long-term benefits. These documents were compiled before assistance was provided, whereas the above mentioned benefits would be observed long after the projects were completed. Nevertheless, some of the projects did show the potential to be extended into other products or services that could be offered to the company. One of the business owners that were interviewed exhibited an entrepreneurial spirit and was keen to seek out other opportunities within the company in order to improve the viability of his business. Another business owner specifically focused on this company as his only client, and it can thus be assumed that he would try to make the most of this relationship by searching for other opportunities. It will thus be interesting to investigate if such post-project initiatives come from suppliers, and what characterizes those suppliers that do show such initiatives.

One of the limitations of this study was that it focused on a single South African company. It can be assumed that this company is typical of most companies in South Africa, as companies with similar programmes typically study the activities of their peers and share information through forums such as the South African Supplier Diversity

Council (SASDC). Nevertheless, certain companies such as Anglo American are well known for playing a leading role in their enterprise development activities, while others may only have entered this area at a later stage and with different commitments. Firms in different industries may also have substantially different requirements and may experience varying degrees of external pressure to implement such programmes. The intention to obtain benefits from these programmes may depend on the culture within the company and the degree to which aspects around socio-economic transformation have been embraced. It is thus recommended that a similar study be undertaken with other companies in South Africa. In addition, a multiple case study may bring certain company-specific characteristics that highlight the benefits of supplier development programmes.

It was mentioned previously that supplier development programmes that are beneficial for the buying company may improve the long-term sustainability of the supplier business. There is a substantial administrative workload associated with changing suppliers frequently. Supplier businesses that perform well are likely to build relationships with the buying company, thus increasing the likelihood of retaining its supply contract. If they provide a product or service that is valuable to the company it will also become entrenched in the supply chain. It was seen in this study that assistance provided to the supplier businesses could enable the suppliers to obtain contracts from other firms by improving their management skills, addressing certain deficiencies and equipping them with the ability to tender properly for contracts. Nevertheless, there were indications that few of these businesses succeeded in obtaining contracts outside of the company. The question is thus whether supplier businesses that have participated in such development programmes are more sustainable in the long-term, and whether there is a link between the benefits that such initiatives had for the buying company and the long-term sustainability of the supplier business.

An issue for initiatives such as supplier development programmes for disadvantaged suppliers is whether there are guidelines from government that aim to ensure the long-term sustainability of these programmes. Responses obtained in this study suggested that government’s main concern is whether companies implement these programmes and spend the necessary money. This may not be an accurate observation, and understanding how government's policies steer such activities may give important information regarding the execution of such initiatives by companies and the effectiveness of these policies.

One outcome of this study has been that there are operational benefits flowing from the supplier development programme to the buying company. However, these benefits were not quantified. It is thus uncertain what the contribution of these programmes are to the bottom line of the company, and whether it justifies the cost that is incurred. From the supply chain management perspective, supplier development programmes are normally undertaken if there is a clear cost/benefit advantage to all participants in the initiatives, and projects only continue if positive benefits are obtained. An analysis of the worth of each project can provide insight into the types of projects that should be pursued, which projects should be reconsidered, and place an emphasis on maximising the benefits that can be obtained from the interaction with the supplier. It is thus recommended that the costs and benefits of such supplier development programmes be quantified.

6.5 Conclusion

In conclusion, this study demonstrated that a large South African company was able to obtain operational benefits from its supplier development programme aimed at its disadvantaged suppliers. The most significant benefit derived from the supplier development programme was ensuring compliance from suppliers with company requirements (e.g. quality and safety). In addition, the large firm achieved improvements in quality, cost and reliability of products and services. The study also found that there were significant unrealised opportunities for benefits that the company did not appear to reap, such as improvement in supplier flexibility, securing environmental benefits and delivering innovation inputs. One of the recommendations of this study is, therefore, that the company should attempt to strengthen its efforts in these directions.

The study demonstrated that the process used to identify projects for these initiatives and the scope of the supplier development programmes (i.e., the assistance provided to these suppliers) played a significant role in determining the outcomes of these initiatives. It was found that most of the assisted businesses were small suppliers of non-essential goods and services. The majority were referred either by business units within the company, or the procurement department for the purpose of addressing poor performance and non-compliance to the company's required standards (safety, ISO accreditation, etc.).

The supplier development programme provided a wide range of services, ranging from training programmes and assistance aimed at struggling businesses, to providing more substantial resources and funding to growing and expanding suppliers that provide important services to the company. A special effort was made to increase the long-term sustainability of the supplier businesses by providing additional measures such as essential management and skills training. Although the supplier development programme was not specifically aimed at businesses with high BEE scorecard recognition levels, a significant component of the supplier development effort went into gaining or improving the BEE recognition levels of the supplier businesses.

A very interesting finding of this study is that these benefits were derived, even when the company did not appear to have a clear intention to derive operational benefits from their supplier development programmes. Gaining recognition for its BEE scorecard appeared to be a strong driver for these initiatives. In contrast, the personnel of the supplier development function appeared to provide the main drive for the operational benefits that were obtained. Several noted that the company should, and did to some extent, have consideration for deriving benefits from these initiatives.

A few exemplary projects were encountered where specific needs and opportunities for products/services that addressed essential operational issues were identified. Collaborative development between the company and the suppliers resulted in significant improvements in the quality and availability of these products. It is recommended that the supplier development function proactively identifies similar projects for suppliers that are closer to the operations of the company and where clear benefits for the company can be obtained.

The significance of this study is that it demonstrates that supplier development initiatives for disadvantaged supplier businesses, which are sometimes perceived as corporate social responsibility imperatives or compliance to the BEE Act, can add value to the buying company. It further provides insight into aspects of the implementation of a supplier development programme and indicates improvement areas. It also encourages long-term sustainability of these projects in order to have a lasting effect on the socio-economic transformation of the South African economy.

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8 ANNEXURE A: LETTER OF INTRODUCTION

Dear Sir/Madam.

I am an employee of a large South African company and currently studying towards my MBA degree at the University of the Witwatersrand. My research topic focuses on the Supplier development activities undertaken by the company, specifically aimed at enterprise development.

The purpose of my research is to determine whether supplier development activities have operational or financial benefits for the company. Several authors in the literature on Black Economic Empowerment (BEE) noted that adherence to government's BEE policies should make business sense, should promote growth rather than just redistribution, and should be a collaboration between customer and supplier to secure the best possible commercial advantage. As such, there should be a focus on possible business opportunities presented by BEE initiatives rather than on the attainment of scorecard points. The literature also shows that there are many benefits to be gained from supplier development or business linkages initiatives.

In order to fully understand the company's approach to its supplier development programme, I need to obtain a high-level perspective on the drivers for these initiatives and how it is translated to the company's supplier development activities.

Will it be possible for me to have a discussion with you on this aspect? I understand that you are extremely busy, but I will appreciate it if you can spare one hour of your time for an interview. I will be available to meet with you at a time and location that is convenient for you. The information gathered will only be for academic research purposes. The necessary confidentiality and anonymity will be observed.

Thank you very much for your kind assistance.

Yours Sincerely

Willem Erasmus

9 ANNEXURE B: INTERVIEW QUESTIONS

Details of respondent

- Respondent title and name
- Job title
- Telephone number
- E-mail address
- Date, time and place of interview

Opening statement to Respondent

Thank you very much for agreeing to contribute to this research. The interview will not last longer than an hour. [For business owners the following statement is included: The information gathered will only be used in aggregated form, and will in no way be linked to you personally, your division or the companies being discussed.]

The purpose of the research is to understand the drivers for supplier development initiatives implemented in the company. The literature shows that there are many benefits to be gained from supplier development initiatives. In the South African context B-BBEE is obviously a big driver, but it is said in the literature that operational/business benefits will ensure the sustainability of these initiatives.

The discussion will focus on the types of companies that were chosen for these initiatives, why they were chosen, how the supplier development programme is implemented, and what the operational or strategic benefits are that the company can expect to gain from this.

Interview questions for managers from the supplier development function: Strategic perspective

Strategic

- What is the strategic drive for the company to do supplier development? Why is it important? Is it driven by BEE compliance?
- What measures are in place to ensure its success? When would it be considered to be successful? Is there a strategy for making a long-term impact? How is the impact measured?

Finding and selecting businesses

- Describe the process of finding and selecting supplier businesses. Is there a specific focus on certain characteristics? What are the selection criteria?

Assistance

- What assistance is provided to these businesses? Why this type of assistance?

Benefits obtained by the company

- How does the company benefit from the SD programme? Specifically operational or short term?
- Is there an intention to obtain benefits?

Interview questions for business analysts from the supplier development function

Strategic

- What is your definition of SD? What are the aims of the SD programme?
- Is there a focus on making a long-term impact rather than only short term?

- What measures are put in place to ensure its success? When would you consider it to be a success?

Finding and selecting businesses

- Elaborate on the process for finding and selecting supplier businesses for assistance?
- Selection criteria? Specific kind of firm (size, industry, etc).
- Is a cost/benefit analysis done?

Assistance

- What assistance is provided to these businesses?

Benefits obtained by the company

- Aside from the BEE scorecard points, are there operational benefits for the company?
- Is there an intention to obtain benefits from these activities?
- Is the beneficiary company still required to be competitive in terms of cost, quality and performance?

Interview questions for supplier business owners

Strategic

- Do you believe that the assistance by the company will have a long-term impact on:
    - Your business efficiency
    - Your prospects of more business from the company
    - Prospects of more business from other companies

Finding and selecting businesses

- How did you become aware of the company's SD programme?
- What products/services do you offer to the company?

- Are you a new or existing company?
- What proportion (broadly speaking) of your business is with the company?

Assistance provided

- How did the company assist you in your business?.
- What was the effect of the company's assistance on your competitiveness in the market?
- Have your products or service offerings to the company been extended since the assistance?

Benefits obtained by the company

- How did the company benefit from their assistance in your operation? (Cost savings, more reliable and faster supply, products more applicable to the need of the company, etc.)
- What benefits do you offer the company that gives you an advantage over your competitors?