HOW THE TRIALS AND TRIBULATIONS OF ED PRACTITIONERS HAVE SHAPED THE EVOLUTION OF ENTERPRISE DEVELOPMENT BEST PRACTICE

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When the B-BBEE Codes of Good Practice were first promulgated in 2003, ED practitioners and corporate South Africa approached this pillar in the same manner they had approached CSI over the years.

Organisations provided funds much like a handout, requiring little or no commitment from the SMEs they were supporting. In the long run, SMEs became dependent on the support provided by organisations because there was no expectation for them to become independent. When these SMEs then entered the 'real market', they failed to compete, as they were too dependent on the support provided by ED contributors.

Written agreements between the business development providers and entrepreneurs, that table the support expectations of the particular ED programme, have been proven to increase performance and commitment to the programme by the entrepreneur. Written agreements create a physiological contract in which the entrepreneur becomes fully committed to making the business he operates a success.

This is particularly true for organisations that offer loan funding as opposed to grant funding. The psychological investment that the entrepreneur makes differs between that of a loan and a grant. Grant funding does not acquaint the entrepreneur with the financial responsibilities that he would experience in a commercial environment. Loan financing, even if interest free and unsecured, softly introduces entrepreneurs to the commercial requirements of a competitive market and better equips them to cope with the responsibilities of operating a business.

Many organisations argue that providing loan financing is not a part of their core business and neither is the management thereof. There is an existing belief that providing grants is much simpler and easier to manage, especially with an already stretched team whose responsibilities do not only include ED. However, when these SMEs who have received grants begin failing in a competitive market, supporting these SMEs becomes a burdensome tax. At the very least, loans enable organisations to preserve an acceptable portion of their capital and they encourage the right business disciplines among investee companies. According to Michael Porter, "*Businesses acting as businesses", not as charitable donors, are the most powerful force for addressing the pressing issues we face. ("Creating Shared Value", Harvard Business Review*, Porter, M.E. & Kramer, M.R. 2011)

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When it comes down to it, organisations have not been applying the strategic and commercial principles to their ED initiatives that they would apply to their core business initiatives and hence fail to yield the social, financial and legislative benefits they seek to generate from the SMEs in which they invest.

Today, integrating a robust ED strategy based on commercial principles into the core business objectives of the organisation facilitates enterprise and supplier development (E&SD) by driving core business objectives, demonstrating measurable value and long-term sustainability of the E&SD initiative to the organisation.

The ED strategy must provide for access to markets, financing, business development support and networking opportunities to unlock the business constraints and enable the SME to, in itself, become commercially viable. This is the primary objective of ED: to support SMEs to become operationally and financially independent.

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Once an organisation understands what it is trying to achieve from a strategic point of view, it is necessary to define clear mandates that speak to the value proposition of that E&SD initiative. The mandate of the programme is critical to ensuring the sustainability of the initiative. The mandate should specify the selection criteria of its SMEs and the type of support it should offer in a manner that is translatable so that it can continue to be relatable to the organisation's priorities and strategic objectives over a significant period of time (approximately five years). Organisations that have not done so in the past have found themselves being all things to all types of businesses, which is not a leveraged utilisation of resources. It also becomes very difficult to monitor and evaluate the progress and success achieved by the initiative and the organisation quickly finds itself becoming reactive to the market as opposed to focused, resolute and results driven. *"Key to ensuring the sustainability of an organisation's ED model is to understand what capability is needed to support and enhance the delivery of that value proposition."* (Patterson, Chapman and Keetse, 2012)

A well-defined, implementable and realistic strategy directly contributes to the measurable success of an organisation's enterprise and supplier development initiative/s. Historically, organisations have defined strategies with KPIs but did not develop an actionable plan in which clear business processes are developed and resources allocated.

Once business processes are mapped out for the E&SD initiative, it is important to understand which of the operational activities best suit the organisation and provide adequate resources to efficiently and purposefully carry them out internally. Being able to clearly distinguish between the activities the organisation can carry out itself and those activities where the expertise of service providers is required, is a challenging exercise of making trade-offs that have a direct impact on whether an E&SD programme will survive in the long run. The exercise in itself could require the analysis of an ED expert because understanding what the organisation does well in terms of capacitating entrepreneurs is critical to knowing which relationships to foster and contributes to developing a value proposition that addresses the unique needs of SMMEs.

Another mistake some organisations make is undertaking substantial E&SD initiatives without first running a small pilot programme that will test the E&SD strategy's practicality. There are many benefits to running a pilot programme before embarking on a big budget E&SD initiative. However, the trade-off between immediately earning all compliance points in order to build a sustainable and impactful programme in the long run needs to be made.

A pilot programme allows an organisation to gain experience in implementing the E&SD strategy and discover the flaws both in the strategy and implementation plan. Identifying the faults and variables in the strategy allows the organisation to refine the strategy, plans, processes and resource allocation so that the actual programme yields optimal results and can be seamlessly scaled up from the pilot. A pilot also mitigates risk in the long run and reduces the materiality of any failures experienced in the pilot. The most significant benefit of a pilot programme is that the successes can be used to attain stakeholder buy-in a lot more easily. Proof of concept and learnings that mitigate risk in the long run are a sure way to get buy-in from a variety of stakeholders.

There is a growing trend toward the alignment of E&SD strategy with the core business value chain. This could be due to a number of reasons, namely:

- E&SD initiatives that generate core business benefits are most likely to attain buy-in from internal stakeholders and therefore get the necessary budget for implementation and scaling up of a pilot.
- Key stakeholders involved in the work stream or area to which core benefits are being generated, often drive the initiative to gain traction quicker than if it were solely the responsibility of the transformation team because they have a vested interest to see the initiative succeed.
- The revised B-BBEE Codes of Good Practice which were gazetted in November 2012 require that 2% of NPAT must be allocated to the development of suppliers. This in itself signifies the DTI's focus on developing SMEs within an organisation's value chain.

In light of the above reasons for aligning ED initiatives to the core business value chain, corporates are encouraged to do so to ensure they generate core business and compliance benefits.

It has been difficult to measure the success of E&SD initiatives in the past, because most organisations focus on measuring results that only materialise over a lengthy period of time and as many E&SD programmes are relatively young it has been a challenge to track progress made by the programme in the interim period.

Organisations should track progress made by the programme in three ways:

- At an SME level: KPIs could for example include the percentage growth in profit, growth in productivity levels or growth in goods manufactured etc.
- At the organisation's level: These KPIs would measure how well the organisation has contributed to supporting the SME at a core business level. The percentage increase in the size of the loans granted or the growth in the number of contracts offered could be an example of how an organisation could measure its direct contribution to growing its investee SMEs.
- At a national level: Job creation and the general contribution to the economy in terms of taxes and GDP percentage contributed by the programme.

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The majority of corporates have focused on the latter of the three, measuring the success of their E&SD initiative at a national level, which may not truly reflect the success of the programme within the first few years of its operation. The other two elements can be measured year on year and realistic targets should be set to get real perspective of progress made. If the former elements are neglected, the organisation loses out on the opportunity to identify areas that could have been improved had they been measured earlier. Effective governance mechanisms should be in place to ensure that ED initiatives are monitored and measured. This also allows for timely reporting on the progress of the initiatives to the relevant stakeholders from whom buy-in is essential.

Applying these key learnings from the setbacks experienced by many organisations in the industry and best practice reinforces that E&SD can be sustainable for an organisation's finances, reputation, core business and compliance requirements provided that commercial principles are consistently applied across all elements of any given E&SD initiative. ■