

The latest 'big thing' for South African companies: Enterprise and supplier development – proposing an implementation framework

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Background: Although enterprise development and supplier development are two distinct concepts in the organisational and management literature, the Broad-based Black Economic Empowerment (B-BBEE) legislation refers to the enterprise development and supplier development as a single concept. As a result, many companies have a single policy, strategy and structural arrangements to manage enterprise development and supplier development programs and activities, thereby conflating the two concepts.

Objectives: The aim of this conceptual article was to propose an implementation framework for enterprise and supplier development and to show the rationale of keeping enterprise development and supplier development as two distinct but related activities.

Method: The conceptual article provided an overview of the policy context regarding enterprise development, followed by a discussion on enterprise development and its complexities. The article drew from the literature on supplier development and from the supplier adaptation, relational view, and learning and knowledge perspective theories in the development of its argument.

Results: The article presented an implementation framework for enterprise and supplier development and then concluded with some recommendations and direction for future research.

Conclusion: The implications of this research have great value for organisations as they prepare to implement Enterprise and supplier development (ESD) programmes. The proposed framework will also contribute to a better understanding of the ESD process and the link between enterprise development and supplier development processes.

Introduction

Enterprise and supplier development (ESD) has become the latest 'big thing' for South African companies. The ESD element, which also includes preferential procurement, now potentially accounts for about 40% of the contribution a company makes towards generic Broad-Based Black Economic Empowerment (B-BBEE) recognition level (Department of Trade and Industry [DTI] 2012a). The high targets for preferential procurement reinforces the need to drive effective ESD programmes. This means that for a company to achieve a good score on the ESD element, it needs to procure goods and services from suppliers with equally good, if not better, B-BBEE recognition levels. Furthermore, a good score on the ESD element would also mean that a company becomes involved in promoting black enterprises through enterprise and supplier development programs (DTI 2012b). Thus, ESD has by far become the single most important activity that any company can be involved with to enjoy a good overall B-BBEE level.

Although enterprise development and supplier development are two distinct concepts in the organisational and management literature, the B-BBEE legislation refers to the ESD as a single concept. As a result, many companies have a single policy, strategy and structural arrangement to manage enterprise development and supplier development (e.g. Eskom, Petro SA, Sasol, Transnet, Arcelor Mittal, BHP Billiton, Anglo Gold Ashanti, and Sun International, to mention but a few). Essentially, these companies make no distinction between enterprise development and supplier development approaches. Whilst it makes sense that many companies have opted to have a single policy or strategy, this article argues that these must still be seen as distinct but related activities. The ESD framework which this article later proposes is meant to show the rationale of keeping enterprise development and supplier development as distinct but related, as is the case in the literature. That said, supplier development initiatives have become very central

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to many companies' enterprise development programmes whilst in some cases enterprise development is encapsulated in the supplier development programme. Not surprisingly, in South Africa, it is difficult to talk about supplier development without making reference to enterprise development and vice versa. Hence, the aim of this article is to propose an implementation framework for ESD. The article is organised as follows: The next section provides an overview of the policy context regarding enterprise development, followed by a discussion on enterprise development and its complexities. The next sections review literature on supplier development, followed by a section which outlines the theories upon which the proposed framework is based. Finally, the article presents an implementation framework for ESD and then concludes with some recommendations and directions for future research.

Overview of the policy context of enterprise development in South Africa

The promotion and development of enterprises finds strong expression in the current South African government policy. Since 1994, the government has introduced a number of initiatives which provide opportunities in the areas of entrepreneurship and small business development. For example, in 1995, the South African government released a White Paper on the national strategy for the development and promotion of small business. The following year, in 1996, the *Small Business Act*, whose primary objective was the creation of an environment in which small enterprises would flourish, was promulgated. Subsequent to the *Small Business Act*, a number of government agency institutions were established with a view to support small enterprises in various ways. In 2005, the government saw it fit to publish an Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises. The strategy was aimed at facilitating growth within the small, medium and micro enterprise (SMME) sector with a view to creating more jobs and income. The strategic actions upon which the strategy was based included creating demand for small enterprise products and services and reducing small enterprise constraints (DTI 2005). More recently, in 2014, the government established a fully fledged Ministry of Small Business Development – all with a view to promote enterprise development in the country.

By the time the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises was introduced, the *Preferential Procurement Policy Framework Act* (PPPFA) of 2000 was already in place. In essence, the PPPFA recognised that in order to grow the economy the small enterprise sector needs to be developed as a whole whilst using preferential procurement as a lever to provide more opportunities to previously disadvantaged people. Thus, the PPPFA required that a certain percentage of contract work issued were to be given to previously disadvantaged individuals or organisations (DTI 2012a). This practice is not unique to

South Africa. Since 1999, through the Small Business Administration (SBA), the US government allocated billions of dollars to tens of thousands of disadvantaged businesses so that they can get an opportunity to contract business with government. At the same time, the US government encouraged these disadvantaged businesses to build supplier relationships with large buying firms in the private sector (Edmondson, Suh & Munchus 2008).

Enterprise development took an added meaning when it was incorporated in the broader strategy to transform the economic landscape of South Africa, namely the B-BBEE policy framework. In 2003, the Strategy for B-BBEE was released, which not only defined broad-based BEE and the transformation imperative, but also outlined the seven elements of the broad-based scorecard. The strategy was succeeded by the promulgation of the *Broad-Based BEE Act* (No. 53 of 2003). In 2012, the government acknowledged challenges relating to the implementation of the B-BBEE policy. This became evident from the Revised Codes of Good Practice that were approved by the Cabinet (DTI 2012b; Poole 2013). In essence, the Revised Codes merged preferential procurement and enterprise development elements on the one hand and management control and employment equity on the other hand, thereby reducing the generic scorecard from seven to five elements – all with a view to accelerate enterprise development, especially for the previously disadvantaged people. Thus, it is evident from the foregoing that enterprise development forms a critical part of the government's strategy to grow the economy.

Enterprise development and its complexities

Small businesses are universally known as small and medium enterprises, usually abbreviated as SMEs. The idea of an enterprise is an interesting one and merits some attention. Bridge, O'Neill and Cromie (2003) distinguish between the narrow and the broad views of enterprise. The narrow view is about entrepreneurship, starting up or being in business, and growing and developing a business whilst the broad view has to do with the display by an individual or an organisation of innovative attributes and behaviour such as creativity, innovation, flexibility, initiative and the need for achievement (Bridge *et al.* 2003). An enterprise can also be described as the economic organisation for the purpose of profit and maximisation of its value (Yue & Hanxiong 2011). In this regard, Veblen (2005) notes that the motive of an enterprise is financial gain, and the aim and usually the outcome are the accumulation of wealth.

The question of what makes some individuals more enterprising than others is of interest to a number of researchers. In an effort to shed some light on this difficult question, a number of theories have been propounded (Bula 2012; Linton 2014; Simpeh 2011). These include sociological, cultural, political and psychological theories. An example of a sociological theory is the theory of social change, which

asserts that economic growth results from political and social change (Korotayev, Malkov & Khalitourina 2006). This theory postulates that an entrepreneur's creativity is the main ingredient and driving force behind social transformation and economic growth (Korotayev *et al.* 2006). Edmondson *et al.* (2008) posit that although the fundamental purpose of business is to satisfy customer needs, thereby creating wealth, businesses also have potential to be change agents in the society. Cultural theories explain the differences in entrepreneurial ability and spirit across different cultures. The major thrust of these theories is to explain why some countries are underdeveloped whilst others develop and grow so rapidly. One such theory is the Hoselitz theory of entrepreneurship supply, which posits that cultural factors drive entrepreneurship and that often minority cultural groups play a significant role in entrepreneurial and economic development (Mohanty 2005). According to this theory, minority cultural groups have been at the forefront of enterprise development, entrepreneurship and economic growth.

Some researchers have identified the two broad theories of entrepreneurial activity as the supply and demand theories (Simmons 2012). The supply theorists, especially psychologists, assume that entrepreneurs are fundamentally different from others in that their personality is characterised by the need for achievement and propensity for risk-taking. The supply theory further assumes that the rate of entrepreneurial activity in an economy depends on such individuals. On the other hand, the demand theorists such as economists, sociologists and organisational theorists hold that the main influence for rise of new organisations is environmental conditions (Romanelli & Schoonhoven 2001).

In support, the political theory of entrepreneurship asserts that the government is crucial in determining the nature and the rate of development and the rapid growth of industries and good pace of economic development largely depend on the merit of economic policies of the government (Mondal 2015). This theory further opines that entrepreneurial supply would be greater in a country which believes in the ideology of capital liberalism and where requisite credit facility, appropriate training opportunity, technological and scientific knowledge and adequate incentive are easily accessible (Mondal 2015). Lazonick (2013) proposed a theory of innovative enterprise in which social conditions are central to the development and utilisation of productive resources. This theory asks how and under what conditions the exercise of strategic control ensures that the enterprise seeks to grow using the collective processes and along the cumulative paths that are the foundations of its distinctive competitive success. The objectives of government economic policy should be to support equitable and stable economic growth (Lazonick & Mazzucato 2013). The various theories seeking to explain entrepreneurship are evidence of how complex and multi-layered the entrepreneurship phenomenon is. None of the theories discussed above has been able to explain the dynamics of enterprise development fully.

In this regard, Schoonhoven and Romanelli (2001) posed the question rhetorically, *What are the conditions, including economic, cultural and even personal situations that prompt the founding of new organisations?* In response, the authors suggest that the rise of new organisations especially in large numbers has not been a coincidence in respect of some industries, some nations or regions, and during certain periods of history. By raising this question, Schoonhoven and Romanelli sought to demonstrate the fact that enterprise development is more complex than it may generally be thought of. This complexity has been evident in a number of cases, where, for example, the removal of the identified constraints in itself did not necessarily lead to the thriving of small enterprises, the argument of which seems to support the assertion that a positive macroeconomic context may be more important for enterprise development than very specific policies, such as providing credit or training (Van Dijk 2000). In support, the Global Entrepreneurship Monitor (GEM) South African Report (2006) noted that whilst a positive culture was starting to form on a macro level, entrepreneurship on a micro level was not showing any signs of growth.

The definition of 'enterprise development' by Morales-Nieto (2008) is rather interesting considering the purpose of this article. He defines small business and enterprise development as the process of strengthening the integration of small firms with potential for growth and expansion into the economic mainstream (i.e. the value chain system) of modern industries. Rogerson (2008) concurs that deepening the integration of small enterprises into industry value chains is vital for their successful development. In support, Reji (2013) posits that the concept of value chain is used widely and increasingly as a facilitation tool for integrating small enterprises into high-value market. According to Rogerson (2008), the approach that value chains are critical for enterprise development is premised on the notion that the design, production and marketing of products involves a chain of activities divided between different enterprises located in different places. Notably, Jack and Harris (2007) explain that the B-BEE policy is designed to encourage companies to use preferential procurement to achieve the objectives of enterprise development and that creating opportunities for and investing in enterprises within the value chain is the best way for enterprise development.

Morales-Nieto (2008) believes that the structural problems affecting the development of small enterprises, particularly in emerging economies, include the weak connection of the small enterprise sector with the formal modern economy with respect to its technological and market dynamics. Yet, Van Dijk (2000) had identified this structural problem as critical for the development of small enterprises, and that whilst such backward and forward linkages between small, medium and large enterprises can be a source of capacity for small businesses especially insofar as technology and innovation are concerned, they are often quite limited in most developing countries. As a possible solution to the creation of inter-linkages between small and large firms, the

paradigm of 'flexible specialisation' was mooted (Turner 2000). The need to establish networks, clusters and other forms of interaction is central to this paradigm because such forms of integration should enable small enterprises to achieve benefits, such as economies of agglomeration, which would otherwise be unobtainable by individual firms. Also, flexible specialisation stresses the importance of maintaining balance between competition and cooperation in areas such as design and innovation (Turner 2000). In fact, Jack and Harris (2007) expressed optimism that enterprise development would most likely lead to the increased black participation of in the economy.

According to Phelps (2008), entry of those that are marginalised and disadvantaged into the mainstream economy comes with other benefits such as enhancing the diversity of the participants, thereby opening up new and added sources of innovation. Indeed, these sentiments seem to be at the heart of the B-BBEE policy framework, and this makes it understandable perhaps why enterprise development is such an important element of the B-BEE scorecard. Besides offering economic benefits, enterprise development also provides social and political benefits to the society. In this regard, Amini (2004) opines that small enterprises are an effective means of political participation and decentralisation and, therefore, the generation of democracy. Thus, the stimulation of small businesses may therefore be a viable option for most developing economies. In view of this, Poole (2013) recommended that there is a need of a coordinated national strategy and plan on enterprise development in South Africa. He further argued that the political narrative needs to change from job creation to enterprise creation as jobs and employment do not exist independent of existing and new enterprises. Hence, enterprise development is a key policy matter for South Africa, and its incorporation into the B-BBEE policy framework is testimony to that fact. Yet, the macro-level constraints and micro-level challenges associated with enterprise development are many, varied and complex. It is vital for policymakers to recognise and appreciate the various levels that affect enterprise development. This article argues for the role that supply chains and supplier development can play in enterprise development. This is discussed in the next section.

Supplier development and supplier development programmes

Supplier development

Supplier development (SD) is defined as any effort of a buying firm with its suppliers to increase the performance or capabilities of the supplier with a view to meeting the buying firm's supply needs (Krause & Ellram 1997). Supplier development also refers to an organisation's efforts to create and maintain a network of competent suppliers (Rajendra, Mahajan & Joshi 2012). Like other market actors such as producers and traders, suppliers have an important role to play in enterprise development. Market development programmes are about increasing and improving market

participation of all market actors, including suppliers in the value chain (Lusby 2006). In order to survive, firms must seek to build up relationships with capable suppliers and extract the maximum value from such relationships. Suppliers are primary stakeholders who have a powerful impact on a buying firm. Those suppliers who perform well can greatly improve the buying firm's position in the market whilst those performing poorly inhibit the buying firm's performance (Dalvi & Kant 2015; Modi & Mabert 2007). It is acknowledged that, from time to time, current suppliers may not be able to provide a demanded product, or perform according to the desired standard. In that case, the buying firm is faced with some options:

- Firstly, the buying firm can opt for an alternative supplier who is more capable. This option is referred to as 'supplier switching', and may be viable where there are a number of suppliers in the market supplying the same product and that switching suppliers does not cost the buying firm much and doing so will not compromise on the quality of the inputs, processing and outputs of the buying firm. This would usually apply for products and services which are not so critical or strategic to the buying firm. Unfortunately, buying firms do not always have the luxury of switching suppliers owing to the limited number of suppliers in the market.
- Secondly, the buying firm may decide to set up the manufacturing capacity internally with a view to make rather than buy. This option is referred to as 'vertical integration'. The buying firm will choose this option when the benefits of investing in manufacturing capacity exceed the total cost of relying on suppliers for the supply of the product or provision of the service. Although this option might require substantial capital layout on the part of the buying firm, it must be balanced against the strategic thrust of the firm to focus on its core competencies.
- Thirdly, the buying firm may decide to develop the capabilities of the supplier with a view to enhance the supplier's performance. This option is referred to as 'supplier development'.

The challenges associated with the first two options leave many buying firms with no other option but to develop their existing suppliers. Of course, whilst supplier development is not without its challenges, buying firms may find it as the most sensible option for their businesses in the long term. In fact, in the long run, supplier development seems to be the best investment for the market as a whole.

Supplier development programmes

At a minimum, a supplier development programme should be aimed at lowering supply chain total cost, increasing profitability of all supply chain participants and increasing product quality at each point in the supply chain (Shokri, Nabhani & Hodgson 2010; Tungjitjarurn, Suthiwartnarueput & Pornchaiwisukul 2012). Thus, the essence of a supplier development programme or initiative is improving supplier

performance in order to increase the buying firm's competitive presence in the supply chain (Talluri, Narasimhan & Chung 2010). Buying firms must ensure that their supplier performance capabilities and responsibilities equal or surpass those of experienced buying firms' competitors. Hence, many buying firms have to actively facilitate supplier performance and capability improvement through supplier development. Yet, supplier development programmes have also been implemented to help improve the chances that a small and typically undercapitalised supplier firm can maintain its ground in a competitive supply chain (Edmondson *et al.* 2008; Tarn, Yern & Beaumont 2002). Mangan *et al.* (2012:10) define supply chain as a network of all business entities involved, through the upstream and downstream linkages, in the various processes and activities that create value to the end customer in the form of products and services. Thus, supplier development is about creating value through these upstream and downstream linkages.

Supplier development is a multi-dimensional or multi-layered practice. This multi-dimensionality can be seen from various typologies that describe the concept. For example, Rajendra *et al.* (2012) distinguish between results oriented and process-oriented supplier development programmes. Results-oriented supplier development programmes only focus on solving a specific problem of a supplier, such as in the areas of quality and cost, whereas process-oriented supplier development programmes are for continuous improvement of a supplier, such as helping increase their capabilities for continuous improvement. According to the same authors, many supplier development programmes are results oriented and focus on solving specific problems of suppliers.

Another typology of supplier development programmes is indirect and direct supplier development (SD) programmes. In making a differentiation between the two, Wagner (2010) states that indirect SD programmes involve improvement in suppliers' product and delivery performance, whereas direct SD programmes are about improving suppliers' capabilities. In indirect supplier development, the buying firm does not become directly involved but could make use of external market interventions to improve the supplier's performance. Examples of indirect SD programmes include assessing suppliers, communicating supplier evaluation results and performance goals, increasing a supplier's performance goals, instilling competition by the use of multiple sources or promising future business (Prahinski & Benton 2004). In the case of direct SD programmes, the buying firm plays a more active role and invests its human and capital resources to a specific supplier to solve respective problems. Interventions of a direct SD programme would include knowledge transfer activities such as on-site consultation, education and training programmes and temporary staff exchange programmes (Wagner 2010). Importantly, Wagner (2010) also recommends that at any given time firms should engage in either indirect or direct supplier development, and not in both.

Yet another typology of SD programmes is narrow and broad perspective SD programmes. A narrow perspective of a SD programme applies where the goal is to develop a new supplier that is outside the buying firm's supply chain or a new source of supply altogether (Hahn, Watts & Kim 1990). However, if a firm develops a supplier who is already on the supply chain and currently supplies products, the SD programme is said to take a broad perspective (Hahn *et al.* 1990). In general, narrow SD programmes represent passive programmes that focus on preparing suppliers to come on board of the buying firm's supply chain, as it were. At this level, the key activities would include supplier identification, supplier evaluation and supplier selection with the goal of aligning potential suppliers with the buying firm's supply chain needs and requirements. Accordingly, supplier evaluation represents a set of activities and indicators that constitute improvement requirements that suppliers need to fulfil in order to collaborate with the buyer (Hahn *et al.* 1990). These observations are corroborated by the empirical evidence from a study by Wagner and Krause (2009), which found that although supplier evaluation and feedback is performed by respondent firms, the evaluations alone are considered insufficient investments when the goal is to build suppliers' capabilities.

On the other hand, broader SD programmes represent activities undertaken by the buyer towards active supplier development. These activities are carried out with the aim of improving the supplier's capabilities for long-term mutual benefit of both parties (Sako 2004). The broader SD perspective is aligned with the view of direct supplier development programmes characterised by financial and human capital investment by a buyer and playing an active role in developing a supplier. When making investments in the buyer-supplier relationship, the buying firm should determine what goals it has for the relationship (Dyer & Singh 1998; Wagner & Krause 2009).

Supplier development is not a new concept. According to Wagner (2006), supplier development was practised as early as during and after the Second World War by Toyota in Japan and started to gain traction in the West as recently as the 1990s when firms began to focus on their core competencies and consequently outsourced activities they did not consider core to their operations. Thus, managing suppliers became a strategic issue for buying firm (Krause & Scannell 2002). Yet, the philosophies and approaches underpinning supplier development continue to be vastly different between the East and the West (Giannakis 2008). For example, the Eastern cultures of close working ties meant closer and more intense supplier development practices while the arm's length relationship in the case of Western cultures traditionally used competitive bidding (Langfield-Smith & Greenwood 1998). Although certain Western firms have more recently modified their approach to suppliers by emulating certain Eastern (notably Japanese) practices, there is still a vast distinction (Langfield-Smith & Greenwood 1998). Michailova and Jormanainen (2011) also observed the difference between

Russian and Western firms in the area of absorptive capacity, which, as mentioned later in the article, is vital for supplier development.

Research on supplier development has largely drawn from theories such as transaction cost economic theory (Humphreys *et al.* 2011; Humphreys, Li & Chan 2004; Krause & Scannell 2002; Wagner 2006), resource-based view of the firm (Dyer & Hatch 2006; Krause *et al.* 2000) and communication theory (Carr & Kaynak 2007; Joshi 2009; Prahinski & Benton 2004). Very few studies drew from the knowledge-based view of the firm (Modi & Mabert 2007), the relational view and supplier adaptation theory. This article draws from the supplier adaptation, relational view, and learning and perspective theory as a theoretical basis for the proposed ESD implementation framework. The next section discusses these theories underpinning the proposed ESD implementation framework.

Theoretical frameworks

Supplier adaptation

The notion of adaptation was introduced by the relationship marketing literature, which is important for inter-firm relationships. 'Adaptation' refers to processes in which firms adjust their business practices exclusively for the other party in the collaborative exchange (Blonska, Rozemeijer & Wetzels 2008). Brennan, Turnbull and Wilson (2003) took the notion of adaptation further by introducing the concept of dyadic adaptation, which refers to either behavioural or organisational modifications implemented by one organisation in order to fulfil the specific needs of another organisation. Thus, a buying firm that invests in supplier development would expect some benefits in return, thereby creating reciprocation debts with the supplier which could be lessened by rewarding the buyer with a preferential buyer status (Blonska *et al.* 2008). An achievement of a favourable B-BBEE status by a buying firm should be a good enough incentive to invest in a supplier development programme, thus calling on the buying firm to implement some behavioural and organisational modifications on its part. Thus, it is imperative for the buying firm and the supplier to be willing to undertake some behavioural or organisational modifications for ESD to become effective.

Relational view theory

According to the relational view (RV) theory, productivity gains in the value chain are possible when partners are willing to invest in specific relationships and combine their resources in an inimitable way (Wieland & Marcus 2012). The inter-organisational knowledge-sharing routine is a source of relational rents that requires partners to share their knowledge with each other in order to learn and develop a competitive advantage. Inter-organisational information sharing routine is a regular pattern of inter-firm interactions that allow transfer, recombination or creation of specialised knowledge (Rosenzweig 2009). According to this theory, the greater the partners' investment is in inter-firm knowledge-sharing

routines and relation-specific assets, the greater the potential will be for relational rents (Wieland & Wallenburg 2013). However, knowledge sharing is also facilitated by trust among partners (Adler 2001), proper identification of partners (Zollo, Reuer & Singh 2002) and the mechanism of alliance governance (Heimeriks & Schreiner 2010; Lavie 2006).

Equal power relations are more likely to yield exchanges, positive emotions, perceptions of relational cohesion and behavioural acts of commitment (Thye, Yoon & Lawler 2002). Equally, Krause and Ellram (1997) emphasise that the success factors for supplier development include buyers perceiving their suppliers as partners. In the literature, there is much evidence to suggest that buyer and supplier perspectives differ on the question of what leads to relationship success (Ambrose, Marshall & Lynch 2010). Relationship management requires significant resource investment on both sides and practitioners are particularly interested in how best to allocate resources to maintain successful relationships. For the supplier, knowing the buyer is a key challenge.

A relational view of competitive advantage is based on the observation that a firm's critical resources span the boundaries of a firm and may be embedded in inter-firm processes and resources (Asare *et al.* 2013). Interestingly, in his study on the relationships between large purchasing organisations and small ethnic minority suppliers, Theodorakopoulos (2013) observed that small firms and ethnic minority suppliers that are fit to supply buying firms need to develop relational capabilities that enable the improvement of their product or process capabilities.

The learning and knowledge perspective theory

According to Wang and Ahmed (2003), successful implantation of organisational learning requires an effective blend of focuses within the organisation's context. The learning and knowledge perspective (LKP) theory postulates that supply chain partners establish network or alliance relationships to exploit opportunities that reveal knowledge creation and organisational learning (Cao 2007). According to the LKP theory, there are two types of learning activity that take place in supply chain collaborations: exploitation and exploration learning (Cao 2007; Subramani 2004). Exploitation learning results from the supply chain collaboration activities aimed at improving a firm's existing capabilities (Subramani 2004), whereas exploration learning results from supply chain collaboration activities aimed at discovering new opportunities for the firm, for example, improving a firm's absorptive capacity (Subramani 2004).

As noted earlier in the RV theory, the absorptive capacity of a firm is the primary determinant of its learning ability through supply chain collaboration, employee quality, knowledge base, organisational culture and the quality of information systems (Cao 2007). Tavani, Sharifi and Ismail (2013) opine that firms with low absorptive capacity will not only find it difficult to recognise the value of new ideas generated from close relationship with its suppliers, but may also lack

adequate ability to assimilate ideas into product innovation. Michailova and Jormanainen (2011) argue that the ability of a firm to transfer knowledge depends on its ability to recognise the value of local knowledge and develop mechanisms for knowledge transfer appropriate in the local context.

Michailova (2011) cautions that knowledge transfer involves a set of dynamic processes that depends on cognitive preferences, structural circumstances, historical legacies and ideological conditions and should thus not be approached in mechanistic and de-contextualised ways. Not surprisingly, Nagati and Rebolledo (2011) advise that as knowledge transfer is particularly challenging, the buying firm, customer and supplier should cooperate and use appropriate channels to facilitate it. In this regard, Giannakis (2008) concluded that knowledge transfer within SD programmes requires not only financial commitment and strategic decision-making, but also appropriate design and execution of certain processes and a distinctive governance structure. Rezaei-Zadeh and Darwish (2016) observed that although research has been conducted in the area of absorptive capacity, it still requires further investigation and understanding, and have accordingly conceptualised a model that requires further testing.

Reasons for supplier development

Every firm should determine sound reasons for adopting supplier development initiatives. Reasons vary from push and pull factors. Table 1 describes the push and pull factors for supplier development.

In addition to the above-mentioned reasons, supplier development may be implemented to create competition for a highly priced product or service that currently dominates the marketplace, or to establish and develop new routes to supply. In both cases, the reasons are positive because they are not reactions to a manifest challenge. They are simple,

proactive steps taken to improve the firm's supply chain activities. Usually, supplier development is expected to lead to substantial improvements in the total added value emanating from the supplier in regard to important business factors, such as the product or service offering, business processes and performance, improvements in lead times and delivery.

Reasons for supplier development include to improve supplier capabilities and enable them to provide better quality and delivery, lower cost products and services on time, bring in innovation to support client's sourcing and procurement targets and sustainable development objectives, at the same time increasing supplier profitability as an extension of the benefits delivered to their customers (Arroyo-Lo'pez, Holmen & De Boer 2012; Chen, Ellis & Suresh 2016; Dalvi & Kant 2015; Gupta & Margolis 2011).

Supplier selection and performance management

The decision to place a certain volume of businesses with the supplier should always be based on a reasonable set of criteria as firms can improve their supplier selection procedures and criteria by ensuring that selected suppliers match the profile of their enterprises (Pooe, Mafini & Loury-Okoumba 2015). Normally, the buying firm's perception of the supplier's ability to meet satisfactory quality, quantity, delivery, price and service objectives will govern this decision (Leenders *et al.* 2002). It is therefore argued that the selection and evaluation of suppliers is the most important activity of the purchasing and supply chain professional. In supply chain management, performance measurement is vital for decision making, identifying success factors potential areas for opportunities as well as determining the effectiveness of strategies employed. (Chan & Qi 2003). Supplier performance measurement refers to processes and methods of data collection meant to measure and determine the supplier's

TABLE 1: Push and pull factors for supplier development.

Factors for supplier development	Description
Push factors	
Current suppliers are not able to provide a demanded product	This would apply where current suppliers are unable to provide a demanded product. In that case, the buying firm may identify a suitable supplier for development with a view to provide the necessary support.
Suppliers are either not performing up to expectations or requirements	This may apply when a supplier is underperforming. In that case, the buying firm may decide to develop the supplier, instead of just dropping it. Indeed, the buying firm may decide that this is a more expedient option than simply opting out of the contract, which may result in litigation.
Capable suppliers are not available in certain markets	When capable suppliers are not available, a viable solution would be to identify strategic suppliers and then develop their capabilities so that the needs of the firm may be met.
Mandatory requirements	This may occur when government makes supplier development programmes mandatory as a condition for obtaining government contracts.
Pull factors	
The need for cost reduction	This situation occurs when a supplier development programme is implemented in order to achieve a reduction in costs. For instance, the firm may have observed that a greater part of its purchasing spend is channelled towards transporting raw materials from the supplier to their plant.
The need to improve supplier performance	This is when a supplier development programme is implemented with the prime intention of enhancing the performance of a strategic supplier.
New product development	When a firm intends to develop new products for the market, it is important that the supplied raw materials/services are able to support that new product. To ensure that this is possible, a supplier development programme aimed at assisting the supplier to meet the requirements of the new product may be initiated.
Improvement in quality	This occurs when supplier development is implemented in order to improve the quality of the supplied product. The firm may have established its own quality standards and there may be a need to ensure that the supplier is able to meet that standard.
Improvement of business alignment between the firms	The supply management process will never be efficient if the buying and supplying firms are operating at different frequencies in terms of their business operations. Supply development may therefore be implemented to bring the operations of the two firms in line with each other.

Source: Adapted from Handfield, Krause, Scannell and Monczka (2000) and CIPS (2012)

performance on an ongoing basis (Monczka, Trent & Handfield 2005). Supplier performance can also be measured against factors such as quality, quantity, and delivery times, among other things (Wu, Choi and Rungtusanatham 2010). The pre-determined criteria for supplier performance management remove bias and subjectivity from the process and thus help to improve supplier relationships (Monczka *et al.* 2005).

Performance measurement goes beyond assessing information based on sales figures or inventory levels and determines whether there is fit between the buying firm and suppliers' strategies (Wisner, Keong Leong & Tan 2005). A supply chain performance management system is designed to monitor and evaluate purchasing performance using both quantitative and qualitative dimensions (Monczka *et al.* 2005). Hence, such a performance management system requires an integrated database and efficient information. Customer service and value addition need to be the bases of the performance management system since the two aspects are at the heart of a modern supply chain. It is critical for buying firms to assess their suppliers' performance, whether they employ some basic key performance indicators (KPIs) or more sophisticated data gathering and on-site assessment programmes (Gordon 2005). The point is that they should have some form of a performance management system, and can only improve on what they have.

The next section proposes an enterprise and supplier development (ESD) framework.

Proposed enterprise and supplier development framework

Figure 1 illustrates the proposed enterprise and supplier development framework.

Discussion

The purpose of this article was to propose an implementation framework for enterprise and supplier development (ESD). To that end, the article provided an overview of the policy context regarding enterprise development, followed by a discussion on enterprise development and its complexities. Furthermore, the article reviewed the literature on supplier development, followed by a section that outlined the theories upon which the proposed framework is based.

Determine the readiness of the buying firm and prospective suppliers to be developed

According to the framework, this is a very important step in ESD. As companies operate in different markets and are characterised by different organisational cultures, and may even be at different stages on the maturity curve, it is imperative that they consider a number of factors for determining their readiness for ESD. These include the company's overall strategy and existing dynamics in supplier relationships, such as the nature and extent of information sharing with the suppliers, the level of collaboration and the trust enjoyed with the suppliers. It is at this point that a

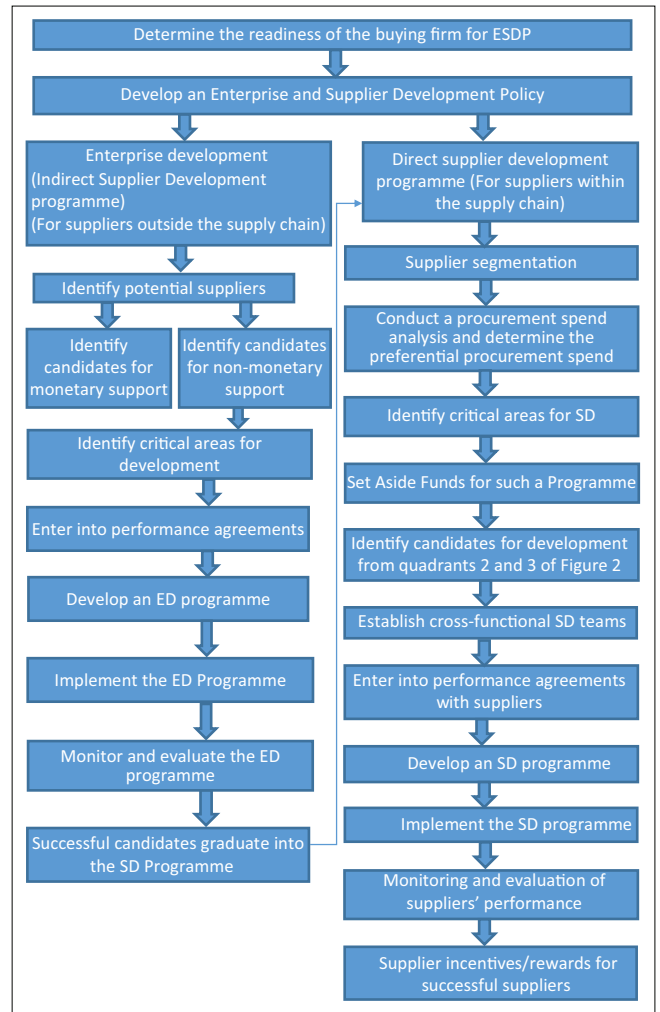


FIGURE 1: A proposed framework for enterprise and supplier development (ESD) programme.

buying firm needs to identify its reason for participating in ESD and satisfy itself of 'what's in it for it' in ESD, a notion earlier referred to as 'dyadic adaptation' (Brennan *et al.* 2003).

That said, the buying firm should never lose sight of the fact that increasing its competitive presence in the supply chain should be the overriding reason for engaging in the ESD. Part of determining readiness is for a buying firm to build a credible case for ESD. It is vitally important that buying firms not view ESD as just a matter of compliance. Only once the buying firm has identified critical areas for development and has built a credible business case for it should it proceed to set aside funds for such a programme. Referring to the minority supplier development programmes in the USA, Edmondson *et al.* (2008) recommended that:

it is vital that the buying firm clarifies and communicates the objectives and business rationale of the programmes and that it remains a viable business strategy and not only a means of doing well by doing good. (p. 120)

Develop an enterprise and supplier development policy

Once a company has determined its readiness, it is imperative that it develops an ESD policy. The ESD policy will typically

articulate a company's philosophy on ESD with a view to guide the enterprise development policy (EDP), supplier development policy (SDP) and other related initiatives. Primarily, the policy will ensure that ESD initiatives are aligned with the corporate strategy. The policy will also give everyone involved comfort that ESD enjoys the support from the highest level, as far as the board in the organisation. The ESD policy will also set parameters in terms of budget and the nature of ESD activities. It might also define the governance around ESD. Importantly, the policy will distinguish between enterprise development and supplier development activities. The framework views enterprise development as indirect supplier development activities meant for suppliers outside the buying firm's supply chain, whereas supplier development is viewed as activities meant to develop suppliers within the buying firm's supply chains.

Enterprise development programme

Enterprise development can be defined as any activity meant to develop suppliers outside the buying firm's supply chain. In effect, enterprise development should be seen as an 'indirect' (Wagner 2010) or 'narrow' (Hahn *et al.* 1990) definition of supplier development whose aim is to align potential suppliers outside the supply chain with the buying firm's supply chain needs and requirements. Through supplier identification, supplier evaluation and supplier selection, these potential suppliers would be placed on an enterprise development (ED) programme. The buying firm and the supplier identified can now formalise the relationship by agreeing on certain performance expectations, inputs, processes and deliverables. Such a performance agreement with the supplier will form the basis for the supplier development programme. Over and above the performance agreement, the programme will include further details such as who will be responsible for the training and development of which area, the nature and extent of development, what aspects of training will be delivered on-site and what will be delivered off-site. The programme will also outline the buying firm's and the supplier's responsibilities.

Supplier evaluation represents a set of activities and indicators that constitute improvement requirements that suppliers need to fulfil in order to collaborate with the buyer (Hahn *et al.* 1990). This phase of enterprise development will help the buying firm to determine the potential supplier's absorptive capacity and ability to recognise the value of new information, assimilate and apply it to commercial ends (Cao & Zhang 2010). Thus, this phase involves proper identification of partners (Zollo *et al.* 2002). According to the proposed framework, successful candidates would only graduate into the buying firm's SD programme.

Supplier development programme

According to the proposed framework, supplier development involves any activity meant to develop the capabilities of suppliers within the buying firm's supply chains. As discussed earlier, SD can be either 'results-oriented', in which

case its focus lies on solving a specific problem of a supplier, such as in the areas of quality and cost, or 'process-oriented', which is meant for continuous improvement of a supplier, such as helping increase their capabilities for continuous improvement (Rajendra *et al.* 2012) for the long-term mutual benefit of both parties (Sako 2004). Unlike initiatives focused on solving a supplier's specific problem, SD for continuous improvement is a resource-intensive process which requires relatively huge financial and human investments. This might involve helping the supplier to evaluate and redesign their corporate strategy with a view to aligning the supplier very closely and on a long-term basis with the buying organisation in a strategic alliance or joint venture (Tate 2013).

Supplier segmentation is perhaps the most important step in the supplier development phase as it enables the buying firm to make some objective decisions with respect to the nature and extent of SD activities. According to Nayak (2011), the benefits of supplier segmentation include ensuring optimal allocation of limited management time and resources, helping determine what kind of relationships can be developed for different types of suppliers, and helping clarify and manage supplier expectations. Here, suppliers are classified according to the criteria most important for supply chain management. Different criteria may be used for supplier segmentation, for example, the level of spend by amount, the type of products and services supplied, the supplier technology capability and strategic importance of the supplier. Figure 2 illustrates an example of a matrix that may be used for supplier segmentation considering the levels of procurement spend and B-BBEE compliance.

The matrix in Figure 2 might be useful in the context of B-BBEE, where the more compliant suppliers are, the better the B-BBEE score will be for the buying firm. Therefore, such a buying firm might find that using the criteria of procurement spend and compliance to B-BBEE will provide a better perspective of the amount of procurement spend and on which suppliers the spend goes to. A buying firm might find

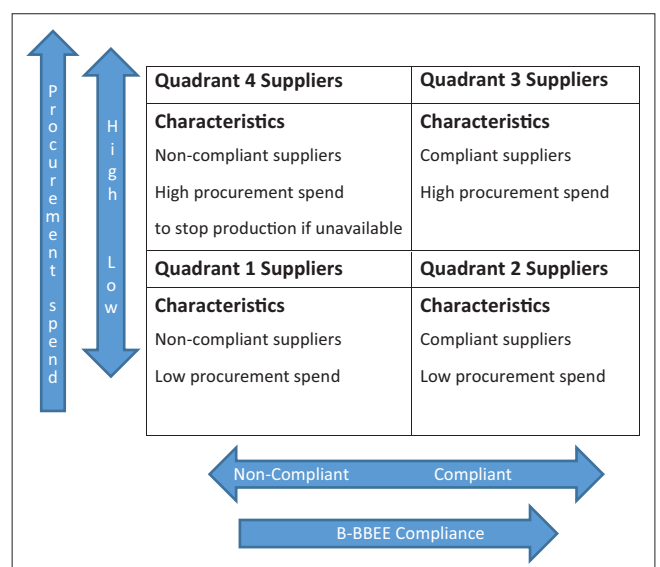


FIGURE 2: Proposed supplier segmentation for supplier development.

that it makes more sense to focus their supplier development on suppliers found in quadrants 2 and 3, who are already B-BBEE compliant, so as to improve its B-BBEE score in the short to medium term. Ring suppliers in Quadrant 4, Arroyo-Lo'pez *et al.* (2012), assert that some strategic suppliers may require little assistance from the buying firm or the ratio of expected benefits to investment in improving supplier position may not be sufficiently high to justify larger investments in supplier development.

Conclusion, contribution and direction for future research

The aim of this article was to propose an implementation framework for ESD. The article pointed out that although the expressions, 'enterprise development' and 'supplier development', are almost always used conjunctively, presumably because of the B-BBEE policy framework, companies need to keep in mind that these are different processes which, in the South African context, are usually related. The article highlighted the difference between the two processes as follows: enterprise development is the development of businesses or prospective suppliers that are outside the buying firm's supply chain, whereas supplier development is the development of suppliers that are part of the buying firm's supply chain. Thus, the essence of enterprise development is to develop prospective suppliers to a point so that they can form part of the buying firm's supply chain. If necessary, these suppliers could be developed further through a supplier development programme.

This study makes two sets of contributions to the existing body of knowledge in the area of ESD. The first set of contributions is theoretical in nature. The second set is practical or managerial in nature. This study contributes to the theoretical arena of ESD in the following ways. The first theoretical contribution to research comes from the theoretical framework illustrated and proposed in this research, which has been heavily influenced by the academic literature. In this research, three theories, namely, supplier adaptation, relational view, and learning and knowledge perspective, were employed to support the theoretical foundation of the proposed framework. The framework is supported by the supplier adaptation theory in that for ESD to succeed, both the buying firm and the supplier need to be willing to adjust or modify their business practices for collaborative exchange and mutual benefit. As discussed earlier, this necessitates that the buying firm first determines its readiness for the ESD programme. The RV theory suggests that the greater the partners' investment is in inter-firm knowledge-sharing routines and relation-specific assets, the greater the potential the buying firm and the supplier will derive from the ESD programme.

Furthermore, the RV theory also helps the buying firm and suppliers realise that equal power relations are more likely to yield positive exchanges. This is crucial in the B-BBEE context where traditionally the buying firm comes from a position of

strength and the supplier comes from a position of weakness. Hence, the proposed framework has included performance agreement in the case of enterprise development and supplier development, where both parties will agree on key performance areas. Furthermore, the learning and perspective theory suggests that appropriate design and execution of certain processes and a distinctive governance structure are a prerequisite for any knowledge transfer. Hence, the framework determined the need for the ESD policy, which, as discussed earlier, would outline a proper governance structure for ESD, among other things. More specifically, this research has put forth a comprehensive framework of the nature of the relationships between enterprise development and supplier development processes, and their link with each other. The significance of this framework is derived from the fact that despite the increasing popularity of the notions of ESD, there is no comprehensive and integrative model for examining the relationships between the enterprise development and supplier development.

The implications of this research have great value for organisations as they prepare to implement ESD programmes. In addition, further analysis of the link between enterprise development and supplier development would most likely provide new insights and explanations related to the increasing number of ESD programme failures. The framework will further assist companies not to conflate enterprise development and supplier development as if they were the same activity, as many companies consider them to be. Although this study contributes to the body of research in the ESD domain, its main limitation lies in its discussion at a conceptual level. Future research efforts in this field are required to further test the findings of this research, namely, the proposed ESD implementation framework and the supplier segmentation matrix. Such future tests will refine the model further and create a better understanding of the ESD process and the link between enterprise development and supplier development processes. ESD programmes are especially warranted when they are used to rectify discriminatory practices of the past.

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Competing interests

The author declares that he has no financial or personal relationships which may have inappropriately influenced him in writing this article.

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