

WHITEPAPER

ENHANCING ENTERPRISE AND SUPPLIER DEVELOPMENT ECOSYSTEM EFFECTIVENESS IN SOUTH AFRICA

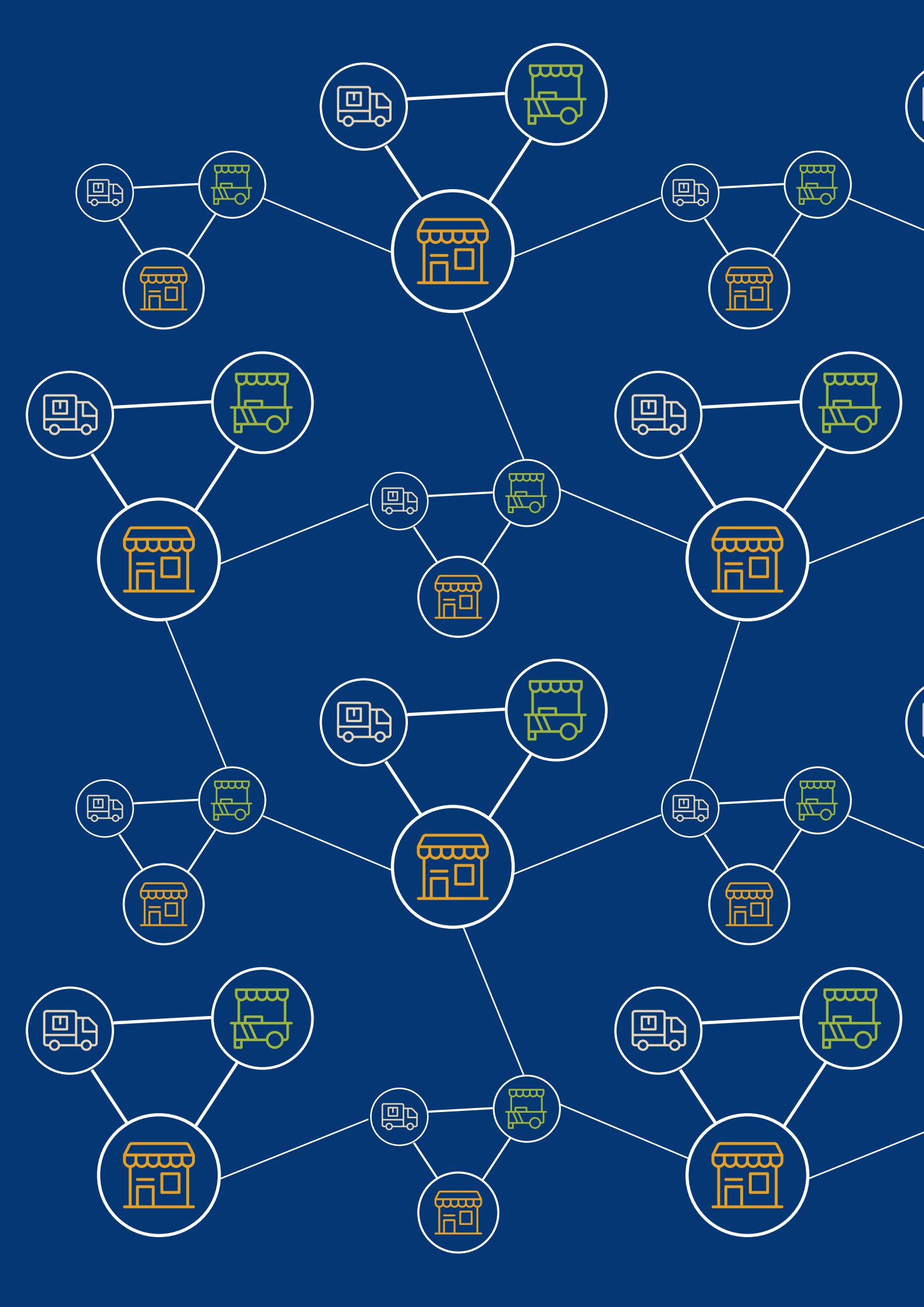
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**Gordon Institute
of Business Science**

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Why are we conducting this study?

It is often said that South Africa's future depends on the ability of small, medium and micro enterprises (SMMEs) to grow. SMMEs can be instrumental in driving competitiveness, economic development, and job creation. They can also play a central role in providing the innovation necessary for communities and environments to thrive sustainably. Moreover, a flourishing SMME sector can be the catalyst for transformation.

Across the world, entrepreneurial ecosystems have been demonstrated to play an important role in entrepreneurial development. An entrepreneurial ecosystem is defined as "a community of multiple coevolving stakeholders that provides a supportive environment for new venture creations within a region" (Cao and Shi, 2021, p. 75).

Enterprise and supplier development (ESD) programmes have gained increasing attention as vehicles that support the growth and sustainability of small and growing enterprises or the SMME sector in South Africa. ESD is fuelled by legislation such as the Broad-Based Black Economic Empowerment Act of 2003 and the Constitution of South Africa (1996), and transformation and inclusion remain its main objectives. The B-BBEE Commission (2022) points out that effective ESD programmes can drive job creation, particularly for the youth, and economic growth by strengthening local supply chains.

However, despite a variety of measures having been put in place to develop the SMME sector in South Africa and ESD programmes being valued at between R20 billion and R30 billion per annum, the impact of such programmes in terms of developing the country's entrepreneurial capacity and capabilities remains uncertain.

We would like to thank the 41 members of the ESD ecosystem for giving us their time, Edge Growth for their funding support, and Dr Lusapho Njenge for his helpful comments on earlier drafts of this White Paper.

Who are we?



The Gordon Institute Of Business Science's Responsible Finance Initiative (RFI)

The GIBS Responsible Finance Initiative (RFI) sees itself as playing a critical role in empowering economic agents to effectively allocate and mobilise capital to meet the development and economic growth imperatives of African nations and regions, as set out by their commitments to the UN Sustainable Development Goals.

The GIBS RFI's purpose is to create optimal Africa-specific solutions, including: collaborative forums with both global and local organisations involved in the establishment of appropriate principles for measuring and monitoring impact by corporate business strategies, investment programmes, social and civic programmes, and national initiatives; and collaborative forums between industry players and their beneficiaries to create financial products and services that directly address the needs of South Africans and Africans. We conduct research to create more informed linkages between developmental imperatives, investment activities, capital market formation, and regulatory incentives. This involves the development of practical, replicable, and implementable solutions for the measurement and reporting of impact, with a developmental, economic, and investment focus. We are currently developing an asset allocation framework for investors looking to deploy capital along a risk–return impact frontier which will ultimately provide solutions to funding gaps. We also aim to create of a collaborative thought leadership platform that will allow all stakeholders to keep abreast of and contribute to the latest thinking on how best to satisfy identified development needs.

The Gordon Institute Of Business Science's Centre for Business Ethics (CfBE)

The purpose of the GIBS Centre for Business Ethics (CfBE) is to explore and influence how South African businesses can respond more ethically to the country's challenges by facilitating open conversations that build trust and helping to secure a more successful, sustainable future for the business community and the country. The CfBE connects academia, business, and society – locally and internationally – with a view to co-creating ethical solutions, while inspiring and enabling leaders to think, feel, and act in the interests of our shared future.

At the heart of the CfBE's approach is the belief that business can and should be a force for good. This is underpinned by the view that ethics must not be seen merely as an “add-on” to organisational activities, but rather as the heart of the organisation. To this end, there is a need to move ethics from the periphery to the centre of organisational decision-making. The CfBE operates at the intersection between scholarship and organisational practice, and is committed to developing rigorous thought leadership that has impact and influence.

Our thanks go to Edge Growth for financially supporting this research

Edge Growth believes that SMEs play a critical role in shaping the future of Africa in general and South Africa specifically. To that end, they believe that collaboration will be the key to creating shared value, maximising impact and cultivating an ecosystem for SME growth. Funding this research represents the starting point for such collaboration.

How did we do this study?

This document reports on the findings from 41 interviews conducted by the GIBS research team between October 2023 and March 2024.

We used a cross-sectional qualitative research design for the study. We focused on collecting data from three main groups in the ESD ecosystem in South Africa, namely: corporate ESD or transformation managers (17 interviews); business development support providers (14 interviews) who act as implementing partners for corporate ESD programmes; and SMME founders who have been beneficiaries of corporate ESD programmes (10 interviews).

An interview guide was prepared for each of the three groups and was organised into four main sections, namely: general views of the B-BBEE landscape in South Africa; perceptions of the ESD ecosystem as a whole; specific details regarding the content and effectiveness of ESD programmes; and perceptions of how the programmes' effectiveness could be improved.

Each interview was at least 60 minutes long, conducted online and recorded. The recordings were then transcribed by an independent transcriber and anonymised. This process resulted in over 800 pages of text, which formed the data set for this White Paper.

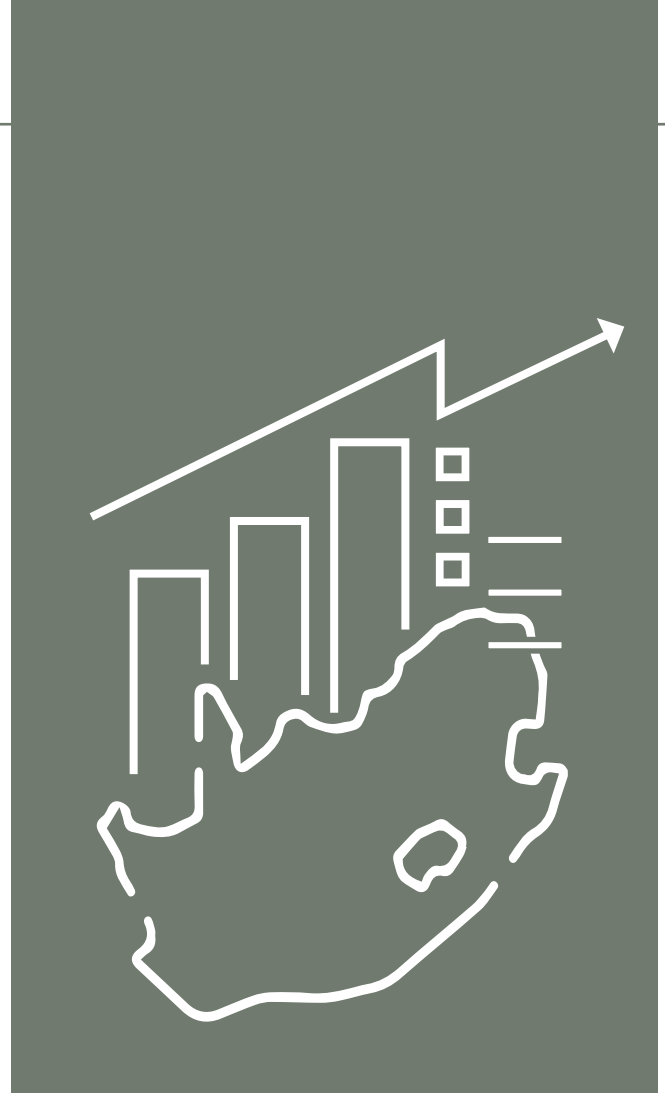


The GIBS research team used their personal networks to access participants for this study, while also asking each respondent for referrals to other potential respondents. Each individual was approached by email and/or telephonically, and a time and date were scheduled for the interview. Each interview was at least 60 minutes long, conducted online and recorded. The recordings were then transcribed by an independent transcriber and anonymised. This process resulted in over 800 pages of text, which formed the data set for this White Paper.

The qualitative data was analysed in Atlas.ti, a qualitative data analysis software program, using a conventional content analysis method. The researchers undertook preliminary coding and sorting of the data to ensure that it aligned with the key constructs, which formed the interview guide. Line-by-line coding and categorising were then done to identify preliminary themes or “Insights” described in this White Paper. Verbatim quotations from these interviews support the descriptions of the data on which the conclusions are based.

The respondents were protected from harm throughout the research process by adhering to the principles of good ethical conduct, as defined by the University of Pretoria's guidelines and approved by the GIBS Ethics Committee. Any references made in the qualitative data that could identify individuals or organisations were deleted or anonymised. As part of the questionnaire, the study purpose and how the information was to be used were explained to the respondents. The principle of voluntary participation based on informed consent was applied in the case of each questionnaire completed. No incentives were offered for participation in the survey.

What does prior research tell us about enterprise and supplier development in South Africa?



The focus of this White Paper is to explore ways to improve the effectiveness of the ESD ecosystem in South Africa. The literature review in this section summarises some key findings from previous studies on the topic, both academic and applied.

Current state of the entrepreneurial ecosystem

A systematic literature review by Cao and Shi (2021) highlights the need for a comprehensive framework to understand the dynamics in the entrepreneurial ecosystem in emerging economies, considering their resource scarcity, and structural and institutional gaps. In assessing the entrepreneurial ecosystem in South Africa, the latest ANDE (Davidson et al., 2024) report, which covers the critical role of capacity development providers, investors and other ecosystem players in supporting the growth of SMMEs, asserts: “The South African entrepreneurial ecosystem is promising.”

South Africa appears to have a relatively robust financial and capacity-related development landscape for SMMEs. ANDE (Davidson et al., 2024) identified 197 active funding sources offering financing in the form of loans (43%) and equity (41%), with the remainder made up of grants (16%), quasi-equity (7%), and guarantees (5%). Nevertheless, the credit gap among SMMEs continues to be significant. The capacity development landscape is considered sufficient in terms of numbers of service providers but could be improved when it comes to the quality and specialised nature of support (B-BBEE Commission, 2022). For example, it is not known how this support impacts SMME growth and sustainability.

From a global perspective, though, the Global Entrepreneurial Monitor (GEM) (2023) suggests that for South Africa to capitalise on this promising ecosystem, attention needs to focus on the “softer” elements of entrepreneurial training. GEM (2023) reports that South Africans appear to be less inclined to pursue entrepreneurial activities because of “fear of failure” and lack of access to mentorship or viable role models. When combined with the sectoral challenges of high unemployment (around 30%), rising numbers of business closures, and barriers to accessing markets and finance – particularly for youth and women (Davidson et al., 2024) – it is understandable why this level of hesitancy has emerged. As the Sanlam Gauge (Sanlam, 2023) concludes, recent assessments of ESD performance suggest that while ESD programmes have significant potential, they have failed to live up to both their compliance and growth expectations.

In the 2023 report commissioned by the B-BBEE Commission on Determining the Effective Implementations of Enterprise and Supplier Development Funds, it is stated that only 62% of reporting entities had effective ESD strategies and only 61% of the set targets for ESD programmes had been achieved. As this study suggests, these outcomes highlight that there is still little consensus as to how these programmes should be structured. Additionally, because measurement for “success” in the sponsoring entities needs to comply with scorecard requirements, the assessments could well be ignoring what is actually needed by B-BBEE beneficiaries (B-BBEE Commission, 2022).

This line of research, though, suggests that inadequate attention is given to ascertaining whether these programmes lead to SMMEs' long-term sustainability. What is needed, therefore, are more impact measurement metrics to track progress against intended social and economic outcomes as well as better benchmarks to assess "success".

Factors contributing to SMME growth

The SMME sector in South Africa is considered to be very heterogeneous (Steenkamp & Bhorat, 2016), although the majority of SMMEs are located in low-skill industries and occupations. The two most important factors explaining SMME performance success are education and "on-the-job" training. This study recommends capacity development programmes comprising a series of short, highly relevant technical programmes, rather than further tertiary programmes (Steenkamp & Bhorat, 2016).

Bhorat et al.'s (2018) study examines the constraints and contributors to SMME growth and success in the formal and informal sectors. Constraints are both endogenous (limited awareness and availability of, and access to, resources to develop SMME capacity and support their sustainability) and exogenous (limited access to markets and/or credit, a constrained economic environment, poor or no policy support, and persistent crime and corruption). Given the high level of variability in the SMME segment, Bhorat et al. (2018) suggest that policymakers adopt a bifurcated strategy: smaller firms that are in survivalist mode in the informal sector should be supported as an important feeder group to SMMEs in the formal sector, while interventions for larger SMMEs could focus on wage security and redistribution of market share.

Other scholars suggest that understanding SMME business failure demands that we focus on the individuals involved (Bushe, 2019). How entrepreneurially savvy are they to start with? How much entrepreneurial orientation can be learned through business skills development or other kinds of learning? The reality, it is argued, is that every SMME needs to be evaluated within its own context and that successful entrepreneurship is a function of the entrepreneur's ability to identify what will and will not work in their highly individualised context. It is not known what similarities and differences between SMMEs and their founders might enable scaleable programmes to achieve greater levels of effectiveness.

Effectiveness of ESD programmes in South Africa

Where there is more consensus is in the implementation challenges of ESD programmes. For example, Poole's (2016) study reveals limited resources, misalignment of corporate and SMME programme participants, and inadequate monitoring and evaluation as being at the heart of failed ESD programme implementation. These observations are echoed in studies by Tshabalala and Ntshangase (2021) a characteristic of many American political institutions, this article explores the tension between elements of loose and tight coupling within the sponsoring organization of judges (the bench, Barnard (2020), and Sibiya and Barnard (2020)). This line of research, though, suggests that inadequate attention is given to ascertaining whether these programmes lead to SMMEs' long-term sustainability. What is needed, therefore, are more impact measurement metrics to track progress against intended social and economic outcomes as well as better benchmarks to assess "success". It is currently not known what these benchmarks might be or how they could best be used to determine success.

Successful SD programmes vs. successful ED programmes

Successful enterprise development (ED) initiatives are often regarded in the research as a prerequisite for the companies in question to subsequently be integrated into corporate supply chains. Tshabalala and Ntshangase (2021) look specifically at ESD programmes and highlight the importance of aligning these initiatives with the needs of the company's supply chain. As a result, strategic supply chain considerations (such as the need for local content or more resilient suppliers) often form the basis of targeted investments in supplier development (SD). If successful, SD initiatives can create a positive feedback loop by stimulating further ED in the broader business ecosystem. From this perspective, supply chain priorities are the main driver, and SD leads to ED. It is not clear what empirical evidence supports these assertions.

Benton et al. (2020) and verify supplier performance. Governance mechanisms are the tools in which power and risk are stabilized in interorganizational relationships. As a governance mechanism, supplier development programs (SDPs) paint a more nuanced picture, pointing to a reciprocal relationship between investment in SD and collaboration between buyers and suppliers. Their findings suggest that SD programmes are more effective when there is strong communication and engagement between buyers and suppliers. At the same time, well-designed SD initiatives can help to further strengthen these bonds. The comprehensive overview by Bai and Satir (2022) highlights the growing convergence between SD and ED in the form of sustainable supplier development (SSD). They argue that SSD programmes are increasingly taking a holistic triple-bottom-line approach that focuses on building long-term supplier capabilities rather than short-term compliance. It is not clear to what extent this approach is being adopted in the South African corporate context.

However, as both the B-BBEE (2022) and Mandahva (2022) studies highlight, capacity development strategies that cultivate appropriate B-BBEE-compliant procurement partners are not the same as capacity development strategies that stimulate entrepreneurship and innovation in SMMEs. These ED programme candidates may or may not do future business with the sponsoring corporate, but they most definitely form a critical part of South Africa's growth strategy as they enrich the economy through innovation and are able to enter markets that large corporates cannot. However, the dearth of monitoring and evaluation systems in many ESD programmes and the lack of willingness to share data about them have resulted in a lack of clarity as to benefits that ED programme candidates actually derive.

Research suggests that this is the area of greatest focus for many capacity development specialists, particularly those who have funding arms that are looking to make promising venture capital investments in the future. Interviews conducted with SMME ESD programme participants (Barnard, 2020; Sibiyi & Barnard, 2020; reveal that there is a mismatch between the expectations and needs of the participants from SMMEs and what is typically provided in ESD programmes.

Application of ESD to sustainability

Existing studies consistently show that well-designed ESD initiatives that focus on knowledge transfer, technology adoption, process improvement, and human capital development can significantly improve the capabilities of small and growing firms to meet the quality, cost, and sustainability requirements of corporate supply chains (Bai & Satir, 2022; B-BBEE Commission, 2022; Dalvi & Kant, 2015). This capacity building is fundamental in enabling programme beneficiaries to effectively integrate into buyer supply chains. Several papers highlight that ESD programmes are most effective when they foster strong communication, collaboration, and mutual engagement between buyers and small suppliers (Benton et al., 2020; Dalvi & Kant, 2015) and verify supplier performance. Governance mechanisms are the tools in which power and risk are stabilized in interorganizational relationships. As a governance mechanism, supplier development programs (SDPs). Joint problem-solving and shared process improvements can create a virtuous cycle of trust, learning, and performance improvement. This "relationship capital" is essential for supply chain integration. The increasing focus on sustainability dimensions in ESD programmes, which include environmental, social, and economic criteria, can help SMMEs improve their sustainability performance and meet the increasingly stringent sustainability standards of global supply chains (Bai & Satir, 2022). This alignment with sustainability goals is becoming essential for driving the adaptation and integration of buyers and suppliers.

Summary of the review

Effective ESD programmes can catalyse broad-based economic development in emerging economies by enabling SMMEs to access procurement opportunities, grow their businesses, and create jobs (Davidson et al., 2024; B-BBEE Commission, 2022). Successful integration of ESD into companies' supply chains has significant positive spillover effects on the local economy. Bai and Satir (2022) argue that ESD investments in strengthening the resilience, agility, and sustainability of programme participants can help mitigate various risks in the supply chain for buyers, such as quality-related defects, supply disruptions, and reputational damage. Reducing the risk of unsatisfactory partnerships with small businesses through targeted ESD support can facilitate their integration as reliable supply chain partners.

The studies conducted on ESD in South Africa paint a picture of an initiative that runs the risk of veering precipitously off course. The potential exists for ESD to be a powerful contributor to transformation, SMME development, job creation, and economic growth. But the message emanating from these studies is that the initiative lacks coherence, direction, and a comprehensive framework for assessing whether it is really adding value. Research to date has provided insufficient evidence that this critical initiative is achieving what the various stakeholders in the ESD ecosystem require.

This "relationship capital" is essential for supply chain integration. The increasing focus on sustainability dimensions in ESD programmes, which include environmental, social, and economic criteria, can help SMMEs improve their sustainability performance and meet the increasingly stringent sustainability standards of global supply chains.

Bai & Satir, 2022

What does our research show?



The findings from this study have been arranged into ten key insights which consolidate the views of respondents from the three main stakeholder groups in the ESD ecosystem. These

insights are intended to offer critiques of the current state of the ESD ecosystem as well as offer some indication of how ESD programme effectiveness could be improved.

Insight # 1

Varying degrees of commitment to transformation result in inconsistent levels of compliance and engagement with ESD programmes.

ESD can be seen as part of a broader effort to transform the economy to make it more just and inclusive, thereby righting historical wrongs. Some respondents reported that especially in their businesses, transformation was considered an imperative for the country's economic development, for the growth and stability of industries, and for the future of individual corporate businesses. In this sense, some expressed a keen sense of responsibility for the health of the nation as a whole:

“At the bottom of it is the cry for the beloved country ... that if we don't do it ourselves, no-one else will be able to save this country. We are the only ones that are responsible to do it.” (Corporate respondent)

“To me, the conversation around transformation really is about how do we build a better country and make use of the resources that we have [for] many SM[M]Es which are the backbone of the economy.” (BDSP respondent)

“From a macro-economic point of view, it is important that, from a private and public



sector point of view, there's buy-in to creating entrepreneurs, supporting entrepreneurs, developing small businesses. Because if the smaller businesses are growing and thriving the economies tend to thrive.” (SMME respondent)

In general, participants in the study observed that corporates displayed varying degrees of commitment to transformation. At best, this translated into a somewhat cynical approach to the role of ESD in the broader transformation agenda:

“There’s a sincerity missing. Whether it’s from us, the ESD practitioners or from some of the corporates, I think we talk a lot about small businesses being the engine of the economy and all of that. And then you’d think that when a corporate has the opportunity to support just 10 businesses they would go all out, but ja, it’s hardly ever like that. It’s just that we are serious about helping small businesses, we want to see them have jobs, but it’s never really like that.” (Corporate respondent)

“A lot of the times money just gets thrown at the supplier and it’s just written off as some – towards BEE, and that’s not effective, that’s not sustainable. There’s no transformation of the company that’s being – the recipients of the funds so to speak. Unless there’s some sort of structure to – if there’s funds given if it’s for a purpose that you – there needs to be some programme.” (SMME respondent)

This lack of commitment has led to a compliance mindset which respondents considered to be at least partly responsible for the relative lack of success of the ESD sector in developing entrepreneurship at a national level:

“Some don’t even bother to comply and those that do comply do not do it with the spirit that we are supposed to need to realise the intention that is espoused in the legislation.” (Corporate respondent)

“It becomes almost like a tick box exercise, if we tick this and this, we are perceived to have complied with the legislation and we are given this grading. But if we look at the actual change that has happened, is it very useful in the economy, that’s the question.” (BDSP respondent)

“The money is simply doing the minimal amount of work to score the maximum amount of points.” (BDSP respondent)

Although many of the corporates interviewed considered compliance to be an important factor in what is viewed as

effective ESD, others believed that compliance was not a sufficient condition for effectiveness. Instead, they saw ESD as part of a larger social responsibility to the society in which they operated:

“The charter’s your bare minimum, it’s there, you know you have to live up to it and measure it, and obviously your points depend on it, but it doesn’t give flavour, quality or actual meaning to what you really want to do. Which is to pull in small businesses into an ecosystem that’s already working in that community.” (Corporate respondent)

“We’re able to take a bet on a young boy or girl who’s had a great idea that needs about R5 million just to ideate and get a prototype going. If it works great, if it doesn’t work at least we gave someone a chance. So we believe we can play in that role because it’s not really our core business to do this, but let’s really do it in a way that transforms society.” (Corporate respondent)

“At the moment it’s like public affairs ... it makes us look good ... it’s more of a social responsibility. You need to shift the narrative that there is an economic benefit to the corporate that’s doing this ... and on that basis you will have a lot more success.” (Corporate respondent)

There is an emerging awareness that, in addition to forming part of the transformation agenda for corporates, ESD could form a critical part of sustainable development generally and thereby contribute to the achievement of broader environmental, social and governance (ESG) strategies and goals.

Insight #1 suggests that ESD effectiveness begins with the overall business philosophy

regarding the role of business and the need for a high level of commitment to transformation as a mechanism for bringing about a more equitable society. Such a commitment ensures that ESD extends beyond compliance and is actively integrated into the corporate vision, strategy, and operations. This enables the corporate to benefit directly from ESD, while also addressing societal issues such as inequality and sustainability.

Insight #2

Business-like approaches to ESD offer business benefits and help to address implementation challenges.

Respondents noted that a strategic approach to ESD was required if programmes were to be effectively implemented. Where corporates recognised the strategic significance of ESD, implementation efforts were broadly and deeply integrated into the core business model, and a long-term view was adopted, ESD was more likely to be effective:

“We look at how does the group want to contribute towards community building and inclusive economy in South Africa, and how can ESD plug into that? So we look at, okay, what is our value chain. Perhaps what we should be doing is development of our value chain, and then that’s what we do.” (Corporate respondent)

“Basically, there is an enterprise and supplier development strategy that has got five key objectives, and we always mention that this is no order of priority or importance.” (Corporate respondent)

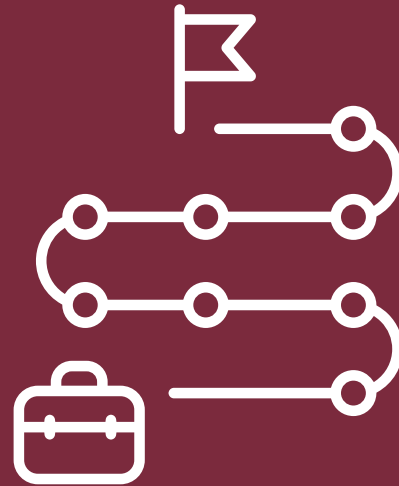
Currently, however, it appears that in many corporates, ESD is either entirely separate from the business operation or at best engages at arm’s length with some business units. It is little wonder that such programmes are short term and tactical in nature and fail to generate much in the way of real impact, either for the business or for the beneficiaries of the programmes:

“Often, they do it last minute because they want the points. No-one is really thinking about where we are going in the next 10 years.” (BDSP respondent)

“ESD isn’t used with holistic intent, it’s used to have quick wins in very isolated ecosystems and value chains.” (Corporate respondent)

Significantly, some respondents reported on an ESD strategy that was driven by the needs of the business and fully integrated into its operations. This could best be achieved by setting relevant key performance indicators (KIPs) at all levels and in all departments:

“You need to entrench the strategic nature of ESD, strategic to [the] organisation’s survival, which is,



in my view, clearly an imperative for the country, right? But then it just made it so much easier to elevate it, because the environment, the business that I worked for, had an operating licence which has a very clear target expectation in order to maintain the operating licence. And in the event that you didn’t meet those targets you’d find yourself at risk.” (Corporate respondent)

“Our programmes are, we like to say, provincially led. So, we always go to the province and say, what are you trying to drive in your province, where are the areas of opportunity that you are seeing, and then what would you like us to do? And those are business development programmes, that’s why it will vary in size and scale depending on the number of SM[M]Es.” (Corporate respondent)

In contrast was a more systematic and business-like approach, requiring clear objectives, a strategy, and operational alignment, as well as measurement of process and outcomes, aimed at achieving a long term-impact. This is often reflected in the reporting lines of the person responsible for ESD:

“We were under stakeholder affairs or what one would call corporate affairs. But now there’s been a rethink in the organisation where there’s a unit called sustainable impact, which is looking at sustainability ... then you bring in the whole component of social impact which includes ESD.” (Corporate respondent)

For ESD to function well, awareness of and commitment to the ESD goals and strategy are needed within the business. Where commitment to ESD forms an integral part of a business operation, implementation becomes easier. Achieving such buy-in across the organisation is considered critical for the success of an ESD programme:

“Business buy-in is one of the challenges that we experience, and that trickles down to our end users. And I don’t know, fortunately or unfortunately for them, we went through a period

where we had a force majeure and we needed to look at what were the reasons why communities were literally picketing outside of our doorstep and we were not able to operate for almost three months.” (Corporate respondent)

“It almost becomes a reporting exercise rather than actually looking at what the impact should be. So there are those challenges there, the budget constraints, lack of commitment, and I suppose particularly no support from the senior leadership of any of the organisations.” (Corporate respondent)

Effective ESD requires continuous monitoring and evaluation of programmes and processes as well as regular reporting (typically on a quarterly basis), with a clear line of sight to the Social and Ethics Committee at board level. Increasingly, opportunities will present themselves to integrate ESD into corporates’ ESG efforts, making these programmes even more strategically significant:

“At group level we have governance and oversight over the ESD initiatives, and we actually meet with the businesses on a quarterly basis, find out how they are doing, how they are progressing, how their compliance requirements is being met. Just touching base with them in terms of what initiatives they are doing, what are the opportunities, what are their wins, what are their challenges.” (Corporate respondent)

“And I guess clear escalation of targets to the relevant departments and the relevant executive heads, who then were able to take sufficient control for us to address the risks appropriately and get back to the desired performance.” (Corporate respondent)

Insight #2 suggests that ESD effectiveness can be improved by adopting a business-like approach. It appears that a clear ESD strategy, which is linked to the corporate strategy and integrates the needs of the business directly into ESD programme, is associated with enhanced effectiveness. Organisational structure, managerial incentives, and regular reporting processes help to cement ESD programmes by adding value to the core, rather than being dismissed as “not our business”.



Insight #3

There is evidence that best-practice ESD requires a coherent, patient, and customised approach.

Best practice seems to entail corporate social investment (CSI), enterprise development (ED) and supplier development (SD) forming a **coherent and seamless development pipeline**. A programme would therefore be conceptualised to include an SMME in a CSI programme, which would then receive the relevant support to progress to an ED programme, and then an SD programme. Within each of these programmes, further stages of development are identifiable. This reflects the natural development process of an entrepreneurial business which at the same time satisfies the needs of the corporate:

“The supply chain guys they tell us in three years’ time there’s going to be a contract, there’s going to be a tender out for XYZ maintenance, we want to give this to a black woman-owned business from the local community. Find three companies that say they can do this or have got an interest in doing this, incubate them, here are our standards and requirements, in three years we would expect these companies to be ready to bid on their own, to basically do a joint venture, or to partner with a larger company.” (Corporate respondent)

“What we want to do is to create a growth trajectory from being an agent all the way to become a dealer owner. So in-between there will be different milestones, for example, maybe we might provide something that is mobile, or we then might provide something like a container in-between before you graduate to be a store owner. So we want to do this because – but also we want to make this more attractive, particularly to that group of unemployed graduates, the youth that is unemployed, to see if they can get involved from an agent level and work their way up.” (Corporate respondent)

Such an approach appears to offer the greatest potential for maximising the benefits to the corporate while at the same time delivering maximum impact. However, such a development pipeline takes time to emerge:

“We cannot support a business for one year and walk away. We need to at least have a three-year, a five-year plan for that business.” (Corporate respondent)

Yet the need to produce short-term results is widely felt. As a result, corporates and the business development service providers (BDSPs) that implement their ESD programmes are faced with a trade-off between quality and quantity of support delivered. Many corporates seem to favour results that point to high output numbers rather than real impact:

“It doesn't sound cool ... a corporate stakeholder in charge of a budget stands up and says, 'we've supported 15 guys this year', it doesn't sound good in terms of perception.” (BDSP respondent)

Not only does entrepreneurial development take time, but it seems to require that the peculiarities of individual businesses be considered. Certainly, the SMMEs that were interviewed in this study expressed a strong preference for business support programmes that were specifically tailored to the needs of their individual business. Both corporate and BDSP respondents often claimed to offer customised support solutions. However, “customising” typically referred to the needs of a particular industry rather than the needs of an individual business:

“I don't want to buy their suite of services. If I want to do funeral parlours, I want you to do technical mentoring of funeral parlours, and how do you run a funeral parlour business ... I don't want a one-size-fits-all approach.” (Corporate respondent)

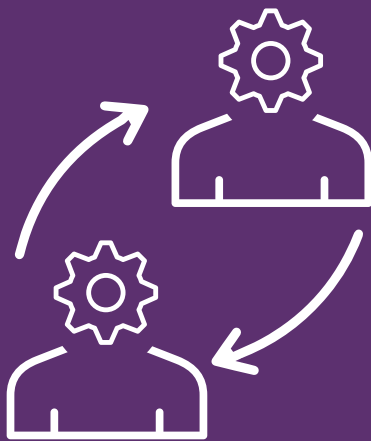
“At the end of the day, we are running businesses that need to make money so we can do what we need to do. But you need to at some point try to incorporate it in whatever way you think will work best for you. Because from what I've seen the initiatives that you run, if they are tailored, if they are clear, they do have a socio-economic impact, so they do create jobs.” (Corporate respondent)

The more well-developed ESD programmes also include explicit strategies to reduce dependence on the corporate and to expand access to other sources of business. However, as SMMEs observed, this requires a level of collaboration that corporates seem unwilling or unable to commit to. As a result, this kind of effort tends to rely on the informal networking processes followed by individual ESD managers:

“They actually encourage that, ja, to say look, we've given you opportunities, but you are not enslaved to us, you can go and look for other business. I do know a lot of guys [who were with me on the programme] work with [different corporates].” (SMME respondent)

“You actually have to start with an entrepreneur who's building a business and then you help and support him to grow his business. But not in a suffocating or over-loving kind of way so that at the end of the journey there is an entrepreneur who can stand on his own two feet, particularly if the partner changes tack.” (Corporate respondent)

Insight #3 reveals that ESD effectiveness may be improved by integrating CSI, ED, and SD into a seamless development pipeline which mirrors the natural development of a small business and focuses on the long-term benefits to the business. An ESD programme should provide business development support that is customised to the needs the businesses in question. As a result, the volume of businesses supported may be small, but the effectiveness will be greatly enhanced.



Insight #4

A poorly defined and untested theory of change guides much ESD practice.

Many respondents noted a lack of awareness and understanding of entrepreneurial development in the ESD sector. Those in corporate ESD positions and BDSPs were seen to lack both personal experience of entrepreneurship and relevant entrepreneurial education:

“That complete [lack of] understanding of how to run ESD in an organisation in a corporate. Most of us have learnt from a touch and go perspective, not really being upskilled in the best practices.”
(Corporate respondent)

“I mean even if you look at my project managers, they have ESD experience, but I mean one will have a qualification in law and I think, why did you jump into ESD? You know it was easy to start with in the beginning. Whereas with other industries I mean if you want to be an engineer you have to have an engineering degree.”
(Corporate respondent)

The lack of commitment on the part of corporates appears to have resulted in the widespread adoption of a relatively poorly defined and untested theory of change for ESD, which may be described as follows:

1

Choose the right SMMEs. The “right” SMME is assumed to be associated with those in possession of South African ID documents, Companies and Intellectual Property Commission (CIPC) registration documents, and up-to-date financial statements.

2

Train them in a set of generic basic business skills, in a classroom. The right generic skills are assumed to be accounting, marketing, HR, and business development.

3

Give them access to the market. This is generally assumed to involve compliance with corporate purchasing requirements and introductions to responsible purchasing decision-makers within the business, who may or may not be interested in or incentivised to change their purchasing behaviour.

4

If they are successful in winning a contract, **offer loan funding** so that they can proceed to deliver on the contract; and

5

They will **grow and create jobs**, which we can measure and report on (at least in the year in which the programme took place).

Many of the ESD programmes described during the study appeared to support this theory of change, to a greater or lesser extent. A standard set of programme elements were offered, including recruitment, training, networking, coaching and/or mentoring, and funding. These elements did not appear to vary much by entrepreneurial stage of development or by industry:

“Our clients are actually quite different. So we have mining, we have tourism, we have financial sector, we have retail and we have maritime. So it’s a very diverse portfolio and over the years it’s always kind of been the same, it’s not a huge set of differences.” (BDSP respondent)

“So I think when someone goes into an ESD programme, the programme itself does not differentiate between one, stage of business that the SMME is in. So you put SMMEs in one training room and you assume everyone needs to hear the same thing, or you assume that everyone is on the same – on the timeline, everyone’s sitting on the same line, which is not always true.” (BDSP respondent)

Different programmes included different configurations of these elements, but it is not clear whether programme design was driven by the corporate, their budget or the BDSP’s expertise. Little reference was made to SMMEs’ needs, even among corporates and BDSPs who claimed to “customise”. This made SMMEs cynical of the programme’s purpose and increasingly reluctant to participate because of a perceived lack of value:

“The important bit to get right is understanding the context of that company first. Understanding where they are, what they’re doing, where they’re going, what issues they’re currently having. And from where they intend to get to what are the gaps.” (SMME respondent)

“I just feel that the enterprise development programmes are sort of a ticking box exercise and unfortunately transformation I feel is a heart issue, so whoever you put in that space needs to be – the heart needs to be there.” (SMME respondent)

Perhaps, as a result, many respondents from across the ecosystem wondered what the best configurations might be from the perspective of attracting the “right” SMME participants and keeping them on the programme. There was little discussion of the long-term impact of ESD on SMME businesses or the resulting benefits (or otherwise) for the corporate. It is little wonder that SMMEs attended multiple programmes with different corporates as a way to access markets from which they would otherwise be excluded:

“And it’s a question that I’ve been asking myself, I don’t know what the answer is but what is the right length of a programme, because some of them are 12 weeks, some of them – well, one is one year, but one is six months, another one is three months. What do graduation rates look like?” (Corporate respondent)

“I’ve actually found the longer programmes the drop-off rate is more than with the shorter programmes. Which is also interesting because a lot of the programmes are not every day, it’s a course once a month. You attend once a month. So

those are the type of things that we are always questioning or asking, what is the most efficient way to run the programme in a way that gives the client the benefit?” (BDSP respondent)

“The other thing that we find is SM[M]Es jump from programme to programme, to programme, so sometimes where you would think that the programme is supposed to support it ends up being a crutch. I don’t know if crutch is the right word, but the ESD ends up being that thing that they just want to stay with forever and ever. Which from what we’re trying to do defeats the purpose.” (Corporate respondent)

Both corporate ESD practitioners and BDSPs interviewed claimed to have robust monitoring and evaluation strategies in place, but these tended to focus on numbers of people attending the programmes rather than on meaningful measures of entrepreneurial progress and development:

“We measure ‘is the money out? Yes, done’. And then we measure, ‘did the SMME attend whatever they needed to attend? Yes’. But we don’t measure what has happened to this SMME two years, three years after the programme.” (Corporate respondent)

Without longitudinal impact measures, the theory of change cannot be tested, and development strategies and tools, as well as measures that seem to offer evidence of impact, are not benchmarked, shared or published. As a result, the ESD ecosystem has no way of knowing how poorly or how well it is performing:

“So on a monthly basis we send out a survey just to ask them pointed questions in terms of what’s going on with the interventions. And then we have a monthly check-in with each of them, and then we also overlay it with a mentor. So a lot of our beneficiaries on our programmes are linked to a mentor. So we have mentor reports, we have our own monthly reports and then we have those surveys at specific intervals.” (BDSP respondent)

Insight #4 suggests that ESD effectiveness can be improved when programmes are designed around an evidence-based understanding of what SMMEs need and how best to deliver developmental support that is aligned to corporate strategy and focused on meeting SMME needs. Evidence-based programming and monitoring and evaluation (M&E) not only have the effect of working for the entrepreneur but they also deliver value to the corporate.

Insight #5

The ESD 'ecosystem' is not an ecosystem at all – it is corrupt and intensely competitive.

Respondents in all three groups frequently referred to ESD as an “entrepreneurial ecosystem”, but most agreed that ESD as a sector does not operate as such, particularly when an ecosystem is defined as “a community of multiple coevolving stakeholders that provides a supportive environment for new venture creations”.

Several respondents noted that the sector is fraught with corrupt activity, both overt and implicit, and may even be “the most corrupt sector in SA”. Not only do corporates, BDSPs and even many SMMEs act in their own interests rather than contributing to a common vision of transformation, but the sector is described as being:

“... rife with potential negligence, potential unethical behaviours ... by virtue of there being billions upon billions of rands ... it's a whole new industry that's been created ... it requires oversight that is focused on authenticity.”
(Corporate respondent)

“That has given a lot of gaps to corruption because we are aware that there's a lot of corrupt procurement people that are working with ESD consultants on various things, you know.” (BDSP respondent)

“I've had an experience where I was told as to which supplier I needed to work with because that supplier had a relationship with the head of ESD. I've had experiences where an ESD specialist says to me, well we want to sponsor you but I want a cut out of it. Also you'll find other ESD intermediaries or consultants which are there in the space, where they are sitting on funds for corporates meant to support SM[M]Es, after they support the SM[M]Es they want equity in those businesses, or a share in revenue if they did a contract for you.” (BDSP respondent)



The need for a coherent, organised ecosystem is widely recognised. In many ways, the ecosystem does not actually exist. There is no shared vision of what would constitute success, no shared understanding of how this success can be achieved (apart from the implicit theory of change described earlier), and no sharing of measurement systems or benchmarking data to allow progress and impact to be measured effectively:

“I can tell you how many jobs we've created, I can tell you what it costs us to create a job. I can tell you a whole range of things, but I can't tell you whether or not that is good or bad relative to anybody else out there.” (Corporate respondent)

There is limited regulation of the ESD ecosystem and limited collaboration between the public and private sector, with some respondents arguing that in some areas, such as incubation, public and private sector businesses compete with each other for ESD funds. Moreover, there is limited collaboration between corporates in the same industry, or even across industries in the same value chain:

“There are huge amounts of capital going into this ... but nobody is talking to each other about what is viable, what is working, what is not working.”
(Corporate respondent)

“So you can say to me as a corporate we've got 100 million, as to then I will charge you obviously

a fee to manage your 100 million, but there's so much more that I can do in exploiting this 100 million that nobody is really regulating. Even the verification companies don't necessarily validate – not validate, but regulate the ESD space.” (BDSP respondent)

Ironically, although money continues to flow into the sector and competition for deals is acutely felt by funders, “an investment value chain ... does not exist”. Instead of SMMEs being the beneficiaries of the ESD ecosystem, they feel like they are bystanders:

“And thousands and thousands of small businesses cannot access finance, therefore they cannot grow, then how are they going to create those jobs ...?” (BDSP respondent)

“So the company was ticking the box, the [BDSP] to whom it was outsourced they were obviously marketing themselves as being the ones to do the work, at times it really did feel that they were chasing the dollar more than the intentional development of entrepreneurs.” (SMME respondent)

Efforts have been made to establish an authentic ecosystem to share ideas in an entrepreneurial development community of practice and to share data in order to establish best-practice benchmarks. But to date, these appear to have enjoyed limited success. Respondents in this study tended to suggest that more regulation was needed to force the level of collaboration that is necessary for an effectively functioning ecosystem:

“TBASA by SEDA. We did sign an MOU, but it's an organisation that has been in turmoil ever since we've been introduced to them. Right now I don't even think it's functioning. At some point it's found out that 80% of its members simply get the membership and a designation for their scarce skills visa and they're not practising business advisors.”

Insight #6 reveals that ESD effectiveness may be improved through an enhanced, well-functioning, and collaborative ecosystem that is able to self-regulate and share best practices and data about what does and does not work. This ecosystem could also be used to establish a code of ethics and quality standards associated with the practice of ESD. If the ecosystem fails to self-organise, there is a risk of more onerous and expensive regulations being introduced to extract more value from ESD spend than is currently being realised.



Insight #6

Enterprise development tends to be broad based, contracted out, and at arm's length.

In contrast to the “best practice” described earlier, ED programmes appear to be treated as social responsibility programmes rather than business development programmes, and are generally outsourced to BDSPs or implementation partners, because:

“It's easier to just make ED hands-off if you are not that invested.” (Corporate respondent)

ED programmes tend to be aimed at a diverse audience who operate in a particular geographical region or are part of a corporate social responsibility (CSR) focus area. Occasionally, ED programmes are directed at SMMEs that have the potential to become suppliers or distributors, but such an outcome is unusual:

“It's very rare, especially with the ED suppliers, but then we take them from where they're at and then we try and grow them. At the end of the 18- to 24-month programme as per promise, if they have met all the requirements that we need them to meet, we then admit them.” (Corporate respondent)

“We've got a strong focus on women development. Now we have a strong focus on township development, we have a strong focus on agric. That's just core strategic focus areas.” (Corporate respondent)

Recruitment for ESD programmes can be challenging. SMME programme participants are sourced by the implementation partner or BDSP through intensive recruitment programmes using a variety of methods to attract participants. It is not clear how effective these campaigns are at attracting the “right” participants:

“The problem is actually getting anyone to come onto your programme. So I think there’s some programme fatigue in the market, like it really needs an intentional focused effort to get guys to come onto a programme.” (BDSP respondent)

“Sometimes we have a database, then also we use youth organisations, we use our networks, we use Facebook to communicate the programmes.” (BDSP respondent)

“We use a lot of social media, we use a lot of radio. If we need to we find people on the ground that will put up a poster. Those are the many things that we do in regard to recruitment. Our challenges there, sometimes you will look for a profile that might not be on digital platforms.” (BDSP respondent)

Once an SMME applies to the programme, there is generally some kind of verification process involved. Many of those interviewed claimed to conduct some form of baseline or diagnostic study as SMMEs entered the programme in order to “understand their needs”. It is not clear whether or how programmes are adapted as a result of this understanding:

“So the verification of those SM[M]Es to make sure that they fit perfectly for what the corporate needs can be a bit of a challenge. And also I think a lot of people are doing a lot of stuff around SM[M]Es and saying they’ve got SM[M]E databases, but all those are not really verified.” (BDSP respondent)

“We assess, are you youth, are you female, do you have an ID document, do you have an operating business? In some instances, not even CIPC is a requirement, necessarily.” (BDSP respondent)

“There’s no initial filter to say, is this a viable business or isn’t this? So as a result, there are a lot of zombie businesses out there ... a business that will never get financial support because it is a one-person business that doesn’t have the ability to grow.” (BDSP respondent)

Many ESD programmes are structured around various types of business-related training programme, which may be termed “workshops”, “bootcamps” or “masterclasses”. It is not clear how or on what basis these programmes are designed, who delivers them, or how the effectiveness of the learning is assessed, if at all. Many respondents in this study questioned the efficacy of these programmes:

“Now everyone has an academy type of thing. It was – we are then getting all these SM[M]Es in the train of being trained and trained and trained ... and few are really converting these things into very good contracts.” (BDSP respondent)

“Those development workshops ... are just window dressing. You’re showing, oh we’ve done this, we’ve

done that, but really the value you have created ... it doesn’t add value.” (SMME respondent)

“These programmes teach finance for one day ... but you’re not going to change someone’s mindset around numbers in three days, because they are intimidated by numbers.” (Corporate respondent)

Several respondents commented that in ED, there was generally insufficient emphasis given to one-on-one support for SMMEs. Others claimed that such support was delivered through a network of independent mentors and coaches who deliver services nationally:

“And then sometimes they have to travel. Because also township you can do online maybe but in rural areas, forget trying to do anything online.” (BDSP respondent)

It appears that the “network of business coaches and mentors” that BDSPs and corporate ESD practitioners often made reference to is an informal network that is unique to each organisation. It is not known to what extent coaches and mentors used in ED programmes are shared among ecosystem members. Equally, it is not known what level of expertise, training, accreditation and/or monitoring and assessment is applied to coaches and mentors:

“So we do training but we don’t do that ourselves, our model for BDS is that we rely on a lot of service providers. Where our skill is is definitely the diagnostics and then project management.” (BDSP respondent)

“We do have independent contractors and secondary resources. So these normally come on a project level to say, we are doing this project, we need this skill, here’s X who has the skill, then we bring you in for those amount of hours to support us with those technical capabilities.” (BDSP respondent)

The broad-based nature of ED seemed to mitigate against providing market access to respondents, except in a relatively cursory way. Nevertheless, some corporates argued that it was important to build a programme with a focus on enabling SMMEs to secure access to markets:

“Because they’re part of the alumni network one is we give them access to opportunities so when opportunities come to us, we will then share with them that these are the opportunities that are available to you, and then this is how you access it. And then furthermore we will then help people to even complete applications and if there are gaps in their documents we help them to close it up.” (BDSP respondent)

“We actually put this emphasis on having opportunity creation, because it’s actually to ensure that once you get developed an opportunity comes up. And you get developed closer to that time so that immediately as

you come out of development you have an opportunity that you can bid. We can't guarantee your success because normal procurement processes follow, but at least you can be competitive." (Corporate respondent)

In spite of the arm's-length nature of ED programmes, corporate respondents often claimed there was a very close relationships between corporate ESD practitioners and beneficiary SMMEs, even when the programme was being run by a BDSP:

"Very close relationship, very very close, very involved. Maybe a little too involved sometimes. I feel that we smother them. But it's something very important to me, they must make it." (Corporate respondent)

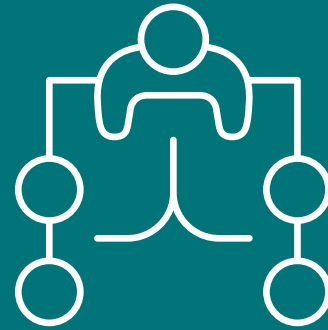
Funding, mainly in the form of small grants, may be included in ED programmes, apparently mostly to ensure SMME retention and programme completion. It is not clear what the average rate of completion is:

"In phase 2 we each had R15 000 and we had to obviously do reporting in terms of how that was spent. And in phase 1 we had to pitch, and we were each given R5 000." (SMME respondent)

Most corporate ED practitioners and BDSPs claimed to implement a rigorous monitoring and evaluation system that involved monthly or quarterly measurement of progress. The actual measurements were considered proprietary and a source of competitive advantage among ecosystem players:.

"Every single month we used a WhatsApp bot that they created to do our financial reporting, and so that was for them to see and track how we were able to grow our businesses. And also take them from ideation stage all the way through to being fully-fledged businesses." (SMME respondent)

Insight #7 reveals that ED programmes may be improved by making them more business development-orientated instead of treating them as social responsibility programmes. In particular, this means ensuring that they have an impact on the businesses being served. Best practice involves treating the ED programme as a stepping stone to SD. This could include a stronger focus on the relevant geography, industry, or value chain. This may help to enhance recruitment processes but should not replace a detailed needs analysis prior to the programmes' commencing. Corporate contracting out of ESD programmes to BDSPs should ensure that the latter are appropriately accredited and qualified. Furthermore, a strong, verifiable monitoring and evaluation system is essential for success.



Insight #7

Supplier development tends to be more customised, focused and intimate.

SD involves a corporate developing existing suppliers (who have the capacity to grow their share of the corporate's business) and/or deliberately seeking to develop suppliers where pre-determined opportunities exist for compliant suppliers. SD programmes are often run completely separately from ED programmes. They are invariably located in different parts of the corporate's operation and may not overlap or integrate in any way:

"We have separated enterprise development and supplier development in a way that enterprise development focuses on developing – the enterprise development focuses on those suppliers that are not yet in our panel, we call it a panel. So once you are admitted in our procurement space panel and we have vetted you, and we know that you are one of our members – we call them members, so before you get into the panel you qualify to be in an enterprise development programme." (Corporate respondent)

"When it comes to supplier development there's a lot more that goes into it, because you're going on the premise is the supplier an existing one or being developed for supplier development. So there's an element where for me I always start off with procurement saying, okay, so what are we supplier developing towards, what is your plan? What is your strategic outlook for this SM[M]E?" (Corporate respondent)

Although they follow a similar theory of change, SD programmes tend to be more in-house in character. They involve corporate managers engaging with suppliers directly and making use of the personal networks of the corporate SD team:

“We’re using our internal skills to actually help your business that way ... there is a shadowing element to it.” (Corporate respondent)

“We create value by saying ok, look I have colleagues and partners in that fund, that fund. And then I am able to connect you with this person and that person.” (Corporate respondent)

In general, SD programmes are much more focused than ED programmes and involve far fewer SMMEs per year. Recruitment for SD programmes is much less problematic than it is for ED programmes:

“The procurement guys in the corporate have quite a pool already of from people who have applied for previous RFPs, for example, and not been successful or almost successful. So they generally have a view like, listen, these are guys who we would like to work with actually but they didn’t pass because of this, they’re not accredited on the XYZ panel, for example. So that’s often an important source.” (BDSP respondent)

It seems that this is partly due to the level of customisation required (and the cost thereof) and partly to ensure that real supply opportunities are provided. Respondents agreed that an SD programme must be unique to and customised for the SMME participating in the programme:

“It is tailored ... because not every business needs the same level of support. There might be a business that has a strong management team, they just need access to market ... but then there might be another business that has access, but their management team is deficient in certain areas.” (Corporate respondent)

“With a lot of other programmes from other companies you will find that when you have a cohort of eight, all of them go through the same interventions. So we try just to assess everybody and make sure that we meet each of their individual business requirements.” (Corporate respondent)

“And also to customise generally you need to bring on a bit more like senior and expensive staff, someone who’s got a strong consulting type background or something. So you’ve got to be really intentional about customising and it comes with pain.” (BDSP respondent)

Coaches and mentors play an important role in making SD programmes effective, although it is not always clear how their roles differ. Mentors tend to focus on developing the business,

while coaches focus on developing the entrepreneur. It appears that mentors are used more frequently than coaches, but respondents were not always consistent in their references to mentors:

“We walk into your business with a mentor, and this will be a mentor that does business development generally as a profession. And the mentor then gets to understand, literally partners with the business on a proper day to day basis, to try to understand what the issues in the business are.” (Corporate respondent)

“Mentors volunteer most of the time their time, it’s a thing that I always have an issue with in South Africa. Mentors might get a stipend for their travel cost or whatever the case may be. And then coaches focus on, I figure more the kind of leadership behavioural stuff, culture and so forth.” (BDSP respondent)

In SD programmes, a mentor is assigned to an SMME and works closely with that business for 18 to 24 months. The nature of the mentoring may be very technical, focusing on ensuring that the SMME meets the specified criteria in terms of quality, governance, and other compliance issues. In-house corporate resources may also be allocated for this task:

“... a very different approach, there’s a lot more mentorship involved, more mentorship intensive, more speciality driven,” (Corporate respondent)

“The mentorship is more for the senior leaders in the organisation which just trying to get the governance structures in place, forward planning, succession planning. So it is a bit layered in terms of what it covers, but it would look at the business acumen aspect of things and then look at mentorship and coaching.” (BDSP respondent)

Respondents agreed that critical to the success of any SD programme is the realisation of the actual opportunity for the SMME that has been through a development programme to supply the corporate involved:

“Whatever companies we develop, we develop them towards a particular opportunity ... even if it is in three years’ time. We don’t develop people and then once they graduate, we ask, what opportunities are there?” (Corporate respondent)

“It’s usually not a great percentage of SM[M] Es on supplier development programmes that end up getting contracts. So that doesn’t really achieve the objectives for any party. It creates disillusionment.” (BDSP respondent)

While access to the corporate opportunity may be the ultimate goal for the SMME, there are other ways for corporates to measure the impact of their SD programmes. In this regard, respondents referred mainly to job creation but also to other indicators of business growth:

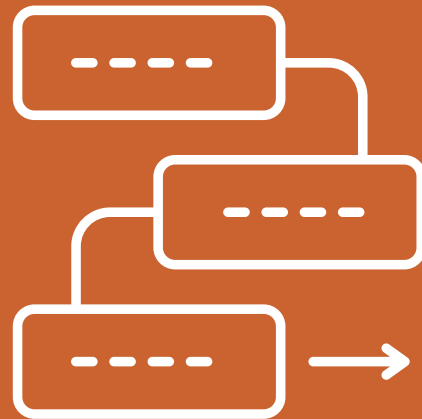
“A lot of corporates talk about in terms of ESD is that there’s always support but there’s never really impact, like nobody really knows if this thing works or not. So our approach has always been rather go deep than go for numbers. So it’s a strategy that has worked for us, we find that it’s more impactful if we have a reasonably sized cohort so we can do a lot of focused and different interventions that will really move the needle on their businesses.” (BDSP respondent)

SD programmes tend to involve funding, which is considered to be easier to disburse because of the intimate relationship between the corporate and the supplier, and also because the funding is de-risked by the presence of the corporate’s supply opportunity. Essentially, this is purchase-order financing. From a funding perspective, loans tend to be favoured over grants or equity:

“Grants come off the balance sheet as donations, so your donations thing becomes quite big ... it becomes hard to explain to shareholders and investors.” (Corporate respondent)

“We can do debt or equity, although we’re hesitant with equity because the purpose of our fund is that we need to be perpetual in nature, so we need to recycle the capital and then reinvest.” (Corporate respondent)

Insight #8 reveals that the effectiveness of SD programmes may be improved by ensuring that they are better integrated into the corporate’s operations and strategy and that a long-term view of development is taken. This requires a programme to be simultaneously customised to the needs of the corporate’s value chain and to the stage of development of the carefully selected SMME. Successful SD programmes seem to involve heavily customised, one-on-one support and extensive involvement of corporate staff in ensuring that the SMME can meet the required standards.



Insight #8

BDSPs have an image problem – which can only be solved through more regulation.

Reportedly, there are more than 4500 BDSPs operating in South Africa, although a BDSP lacks a precise definition. Different terms are used, from “business advisors” to “ESD practitioners”; “ESD consultants” and “mentors”, but there is little consensus on the meanings of these terms. The creation of this sector is said to have been a direct consequence of the implementation of B-BBEE legislation.

It is important to note that BDSP respondents tended to be critical of their own sector, but their corporate clients were equally critical, often referring to its “fly-by-night” reputation, the lack of skills and credible qualifications, and the abundance of players in the sector:

“You can’t let someone give up his mechanic shop today, register a company tomorrow, repurpose that entire company as an automotive enterprise supplier development company and then based on that I now issue certificates that you’ve attended a business development support programme funded by X,Y company, and because that company’s name is there it validates my work.” (BDSP respondent)

“I don't want to call them fraudsters, but you do have people that are coming in to get a quick buck from ESD programme and corporate monies and whatever it may be. And you're seeing also quite a lot of the smaller guys that are coming in and trying to do this by themselves. So I think you do find a lot of people that, one, are just doing it to get buck from it; two, probably to also get their own opportunities from it in working with the various corporates.” (BDSP respondent)

Most corporates appear to make use of BDSPs in varying capacities in the execution of their ESD programmes, on the grounds that BDSPs have the expertise and resources to make sure that ESD programmes are conducted effectively. However, many corporate respondents expressed frustration at the difficulty of finding “the right” (including sufficiently credible) implementation partners:

“You've had a huge mushrooming of enterprise and supplier development middlemen, or support providers that has grown in this space, and none of them are accountable because no-one's asking them the right questions. And so I mean there are so many fly-by-nights or lots of guys who set themselves up and then you look at their history and they have a BCom and one year's work experience and now they think they can advise entrepreneurs.” (Corporate respondent)

It is clear that there are no commonalities among BDSPs in terms of programme theories of change, programme structure, operational models or measurement methods. BDSPs themselves are critical of the levels of expertise and integrity in the industry:

“We don't all have the SMME's interests at heart. I mean the disparities in the way we do things is just appalling.” (BDSP respondent)

“Only 30% are credible organisations that do ESD. I think the rest are just a little bit of chance-takers.” (BDSP respondent)

As a result, ecosystem members tended to describe the majority of BDSPs as under-qualified, inexperienced, and unregistered and not accountable for their performance. The lack of barriers to

entry into the BDSP market means that “anyone can say they are in the business”, which means that the industry is both intensely competitive and ripe for exploitation and corruption. One respondent suggested that the fees charged to corporates were disproportionately high:

“The figure to develop an ED beneficiary is R380 000 a year, but that ED beneficiary's turnover is R240 000 a year ... there's a mismatch to this.” (BDSP respondent)

Many BDSPs claimed to be generalists, rather than specialists. They were industry-agnostic and claim to offer a “holistic” service, spanning the whole ESD landscape, from recruitment (“one of our biggest selling points”) and diagnostics at the beginning of a programme, through to training, mentoring and coaching, business or market development, and even funding. In contrast, corporate respondents said that specialisation is more desirable than generalised experience:

“That's an assessment, and then we will do a growth plan. So, growth plan services these are the gaps of the business, and this is how we think we can close them. And then we do BDS, which is business development support. So, we oversee the implementation of the interventions. And then we do graduation and exits, so now this cohort is done, this is how they're graduating, they can continue with their lives. And then we do reporting, which is your normal MNE stuff and then we also try to do an impact report every now and then. So those are our end-to-end services from design to MNE.” (BDSP respondent)

“I've seen really that as a gap because they start questioning the credibility of the programme. Because their expectations are, I was thinking you are bringing an expert to be able to build on what I already know, but I'm teaching this guy. So that really has been the gap, and I think in trying to structure it and trying to get what I call BDSP niches, is to say, I understand that you can't be great in everything, but give me that one service that you know you can do very well. And that's how we've contracted our BDSP. They can only provide us one.” (Corporate respondent)

Very little distinction was made between different types of programmes for SMMEs at different stages of development or in different parts of the value chain. This perhaps calls into question the claim that programmes are “customised”, and whether this was in the eyes of the corporates or the participating SMMEs. Those who claimed to “customise” argued that it delivered better results. However, there are some contexts in which ESD programmes require very specific skills:

“Customised programmes definitely get better results for the entrepreneurs in the programme. They get more contracts because there’s buy-in from the corporates, it serves a purpose in their strategy.” (BDSP respondent)

“If you’re going into a rural area you need to make sure that you’ve got the community buy-in through the traditional authority and the traditional councils. You need to get the buy-in from various community leaders, if there are any business forums you need to get them on your side as well, get them to understand well what your intention is and get them to buy in, and also see value.” (BDSP respondent)

It is notable that many BDSPs explained that they did not deliver the services themselves, but rather co-ordinated the activities of different independent contractors or partners, such as training providers, coaches and mentors, and providers of technical support:

“Our network of trainers who are already trained and we know that they represent us well, the bulk of them, that also allows us to scale our work in terms of being able to be present in various geographies and literally the only cost associated with it is paying the guy the cost of actually doing the training. But you’re not necessarily investing in his development or large transport costs, or the training content development.” (BDSP respondent)

Many BDSPs claimed to “own” a proprietary monitoring and evaluation methodology or measurement tool, which provided regular, in-depth information on programme outputs and outcomes to the corporate client. It is not clear whether these measurement methods or the results they produced were validated in any way. Certainly, it is seldom that longitudinal or even top-tier BDSPs admit that “it’s hard to keep getting data from SMMEs once they are not in a programme”:

“I think people are attracted to our reporting, we report vigorously, reporting is one of our favourite things.” (BDSP respondent)

“We have an online platform, it’s an impact tracking tool that we can measure. We set KPIs for all of our programmes, there’s some standard ones, but each programme also has its own unique ones. And then we measure that, we set targets for it with our clients in each programme and we review it to see how we did and whatever learnings we need to draw from it we can then take and re-apply into the approach for the following year.” (BDSP respondent)

There were strong calls for more regulation of the BDSP industry. Although some mention was made of industry associations, they were generally viewed as being ineffective and dysfunctional in establishing standards and monitoring quality:

“I think the opportunities lie in the people – the various stakeholders coming together and just formalising ESD. I think there definitely needs to be some form of a formalisation or an organisation and association of ESD where even if you are an SMME and you’re trying to look for an ESD implementer or whatever it is, there’s somewhere where you can verify that this person or this company is credible.” (BDSP respondent)

“You have your IBASAs, your business advisory, those associations should really enforce membership. Then you have MENTOSA, then what is it? The Mentorship Association of South Africa enforce that everybody that says they’re a mentor must be accredited with you guys, you know, things like that.” (Corporate respondent)

Insight #9 suggests that ESD effectiveness can be improved by enhancing the professionalism of the BDSP sector and improving the quality of the services provided. In many ways, BDSP quality, together with corporate indifference, are considered to be the main reasons for the lack of effectiveness of the ESD ecosystem.

Insight #9

SMMEs are generally disinterested in and cynical about ESD but some are engaged and appreciative of the opportunity.

Many prior studies on ESD have ignored the perspectives of the SMMEs who are the key focus of the ecosystem, or at least are intended to be. In this study, only SMMEs who had attended one or more ESD programmes were interviewed. Nevertheless, many of the entrepreneurs who started and ran these businesses were not particularly attentive to the efforts of the ecosystem players to support them, and even appeared to lack knowledge and understanding of the scorecards intended to benefit them:

“If I’m honest with you I’m totally confused, I don’t have the time to sit and unpack the scorecard and break it down into activities that will benefit my profile. So if anything I just ignore it, which is probably not ideal, but it’s just where I am at this stage in my business.” (SMME respondent)

Within the ecosystem itself, there does not always seem to be consensus about what entrepreneurs really need and the challenges they face in establishing and growing their businesses. Corporates and BDSPs do not necessarily share the same understanding of these challenges as the SMMEs themselves:

“And can I tell you my biggest theory of supplier development is pay your suppliers on time, that for me is – there’s no better supplier development than that.” (SMME respondent)

“Your ability to be a successful entrepreneur is an ability to feel good about yourself, jump out of bed and identify those opportunities, even if it’s the worst chaos that you are facing. So the foundation of a solid platform of how you view yourself and how you move forward is very important.” (BDSP respondent)



Ecosystem stakeholders appeared to assume that SMMEs primarily need funding for their businesses, above all other potential support services. A lack of funding was considered to be a major hurdle to business start-up and a key barrier to growth. It is therefore often included as a key component of ESD programmes on offer:

“One would be finance, if you asked them, they’re always looking for finance, either working capital to expand their businesses and that. Two, they need support, advisory support, because it’s always – and it always ends up being a very lonely journey that if you have somebody to bounce off and say, I’m taking this direction, that helps a great deal. And the third is business premises from which to operate.” (BDSP respondent)

“Funding is probably one of the biggest barriers that businesses start with and sometimes end with. Because even when we have granted them funding it’s rare that we would grant them all the funding that they need. So probably funding would be I think the most key one. And I don’t know if I should call it business processing, like running the business in a professional way that actually grows the business instead of actually stopping the business from growing.” (Corporate respondent)

However, SMMEs are more likely to indicate that what they need is access to corporate markets and the opportunity to prove that they can deliver what is required by corporate clients. In this study, SMMEs complained that corporate clients make it difficult for them to access opportunities by imposing unrealistically

onerous market entry requirements, which are expensive and time-consuming – if not impossible – to meet. These requirements act as barriers to market entry which many small businesses find difficult to overcome:

“I still needed primarily, more than anything, access to markets. And I would have benefitted so much from a person who understood my industry just holding my hand and saying, you know what, let’s go sell, I’m going to sell with you. In my world I didn’t find that, but I will tell you one thing, if someone had offered me money I would have said yes, but it would not have sustained my business.” (SMME respondent)

“It was like, sorry, we want to know – we know what you’re capable of but we want to know what this company has done. And we’d say, but the company is six months old, or the company is two months old, we are the directors, we can show you it’s only us. We can show you banking – proof of banking letters to see that we run the company, but that was just never enough.” (SMME respondent)

Skills development components, also known as “workshops”, “masterclasses” or “training” in ESD programmes, are often criticised for lacking relevance and practicality to the SMME. This may be because the programmes are too long and demand too much time out of the business, or because the content is too voluminous or theoretical. From SMMEs’ standpoint, the impact of the training is not usually discernible:

“There was also a course that I attended as part of one of the programmes, and I’d made a note that the content isn’t that inspiring, supportive and aspirational for me because my business was possibly further along than the other participants ... but I’m sad to say that there isn’t anything that I can say, wow, it really scaled my business you know, I’m so glad I went and my business has grown tenfold as a result of it, no.” (SMME respondent)

“I think it was an information overload and so we weren’t always able to put into practice the things

that you were learning, it was kind of just very academic and theoretical. And sort of stockpiling information and then referring back to it as you got to those stages in business.” (SMME respondent)

In contrast to their views on generic training programmes, SMMEs were often very complimentary about the personalised mentoring components of ESD programmes. It would appear that mentor knowledge and experience and the customised, one-on-one attention that mentoring offers have the potential to deliver significant value when it comes to individual business development:

“And [having the mentor] helped because as you know when you are a business owner it’s very lonely. Like sometimes you don’t have anybody to talk to but that programme helped in terms of talking to a business mentor and they also will give you sort of information to say, okay, do research about this, or go to this website and look for this kind of information.” (SMME respondent)

Interestingly, although it may or may not be a formal part of an ESD programme, SMME respondents often highlighted the networking benefits of interacting with other businesses at similar stages of development. Such networking gave them moral support as well as practical insights and even business opportunities. This peer mentoring was believed to add immense value to the SMME business owner:

“So there was a lot of peer-to-peer mentorship, which was so interesting because you’d think, okay, well we’re all new to this, we’ve all had vastly different experiences and we could learn so much from each other and champion each other. I think that was such an underrated massive benefit.” (SMME respondent)

Some SMME respondents, especially those in more established businesses that often participated in SD programmes, cited improved governance processes and planning systems as key benefits of participating in ESD programmes:

“For example, starting from having a business and making sure that the business is compliant.

What needed to be done on a yearly basis, all those kind of – it looks like small things but they are very important for each and every business. And some of our clients every year they will ask for those compliance documents, so having been to enterprise development helped me to – it prepared me to be a better business person. Also making sure that I'm compliant and also how to source or look for clients as well, how to market the business itself." (SMME respondent)

Although corporate and BDSP respondents were sceptical of the impact of ESD programmes on SMMEs in general, they usually claimed that their own programmes were exceptionally beneficial to the businesses that participated in them. Respondents claimed that the businesses in their own programmes experienced growth and were consequently able to create jobs:

"The interaction with the SMMEs at the time you provide them with support is phenomenal, and their gratefulness for whatever you do for them is incomparable. I mean they're just thoroughly in awe." (Corporate respondent)

In contrast, some of the SMME respondents were less enthusiastic about the extent to which they had benefited, either personally or from a business perspective, from participating in an ESD programme. In particular, SMMEs complained about the failure of the programme to deliver the promised access to the corporate opportunity:

"We just registered on the database, we got confirmation that we were on the database, we cracked a bottle of champagne in celebration, but it was all too early. So we were never called upon for anything. And I'm trying to think, I think we had to – I think there was funds, that there was a fee that was involved in the registration in registering for it. So it had to be renewed every two years." (SMME respondent)

"We went through the programme, we got the certificate at the end of the programme, but that's really where it ended. And my expectation from any kind of programme of that nature is

that there would be an access to market route. That for me primarily is why I'd want to get into a programme, to say, there's an access, there's a route to market here for my business." (SMME respondent)

SMME respondents also reported a significant impact of ESD programmes on their businesses, with results ranging from practical tools and useful networks and experiences, to learning new processes and achieving sustained business growth. Clearly, the potential benefits to SMMEs are realisable under the right conditions:

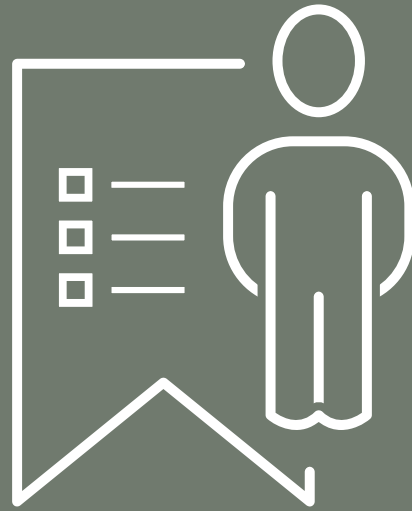
"And so coming out of that programme with a strong pitch deck, a strong elevator pitch that I had done twice and that had been properly evaluated was really helpful." (SMME respondent)

"The key takeaway was the business grew and are still growing, and the principles and the teaching's that I received there they're still applicable today. Ja, for as long as I run the business that will be helpful, they will always be helpful. And they make me to be accountable to my clients and also to be more professional even when I'm dealing with my external stakeholders. And also, it gave me the love of wanting to grow other businesses as well, to see them getting better in what they do or growing, it's very fulfilling." (SMME respondent)

Insight #10 suggests that ESD effectiveness can be improved

by listening to the voice of South African SMMEs directly, rather than assuming that, as corporates or BDSPs, we know what they need. ESD programmes are capable of delivering SMME growth, provided they are designed, executed, and evaluated based on evidence of what SMMEs really need in order to grow.

Enhancing the effectiveness of your ESD programme



Action agenda

Times are tough and budgets are tight. Given that ESD spend in South Africa is currently estimated to be around R25 billion per year, it seems worth it to develop an action agenda to maximise the benefits of ESD for businesses. Based on prior research and the

41 interviews conducted and analysed by the GIBS research team, the following is an action agenda for assessing the effectiveness of your ESD programmes – whether you are a corporate spending the money or a BDSP ensuring that the money is well spent:

1

Your business's philosophy and overall approach to transformation should be visible to stakeholders generally and **in alignment with the design and execution of ESD programmes** specifically. This could influence perceptions of your business sustainability and ESG performance. SMMEs doing business with you look for an authentic expression of this philosophy in the nature and outcomes of the programme.

2

When you want more than tick-box compliance, make sure you create a **business-driven, long-term strategy for ESD**. Ask yourself: how does ESD link to ESG? Is our ESD strategy aligned to corporate and business unit strategy? Does it include clear, measurable objectives? Is the execution of this strategy fully integrated into the business? Is there a clear and detailed process for measuring progress and success? Does reporting align with the importance of the programme? Ensure that ESD is **integrated into the day-to-day operations** of the business by creating buy-in at every level of the organisation.

3

Consider how best to turn your **ESD programme into a seamless development pipeline** which mirrors the actual development of entrepreneurs. Make use of GIBS's research that shows **how SMME needs differ** at each stage of development. Also, build an understanding of exactly how long it takes to develop a business which can be part of your value chain.

4

Make your **ESD theory of change explicit**. This involves articulating what activities or actions in your ESD programme you expect will lead to particular outcomes and why you think these strategies and resources will achieve the goals you have set. Going through this exercise will enable you to test your assumptions about what works and what doesn't, while providing you with a strong framework for evaluating ESD impact. Find out more about the GIBS Lead programme to develop a generalised theory of change for the entrepreneurial ecosystem.

5

Consider what success (or its alternative) really means, not just to your business, but also to the SMMEs that your ESD strategy is intended to serve, and to the country's development as a whole. Even if sharing your data is considered competitively sensitive, **alignment of success measures** will give more substance to the notion of ESD ecosystem effectiveness.

6

Give some thought to how your business can **contribute to a real, functioning ecosystem**. Can you help to establish collaborations to share data, information, and experiences? In your industry? In your value chain? How could the proposed Small Business Ombud play a role? Or does ESD need a watchdog of its own? Now is the time to act, before regulatory pressures increase and make the ESD ecosystem more onerous than it needs to be.

7

Rethink enterprise development as being the next-generation value chain, not just money that must be spent in return for B-BBEE scorecard points. You can still execute ED at scale, just with more consideration given to evidence-based SMME needs. Ask yourself some important questions: Who are we targeting and why? What are the elements we are offering and what do they do for SMMEs? How are we measuring and verifying that the programme elements are working for SMMEs? This will give you an ED programme that creates real impact – for your business's ESG, for the SMMEs that ESD serves, and ultimately for the country as a whole. Feel good can actually do good!

Ensure that ESD is integrated into the day-to-day operations of the business by creating buy-in at every level of the organisation.

Consider what success (or its alternative) really means, not just to your business, but also to the SMMEs that your ESD strategy is intended to serve, and to the country's development as a whole.

8

Review and revise your supplier development strategy. We know from global research that diversity increases supply chain performance. **SD programmes could bring significant competitive advantage**. Our research shows that what seems to work best is the intimate involvement of the business in the process of identifying supply chain opportunities and finding SMMEs that have the potential to capitalise on them. Thereafter, a customised, one-on-one development process that is informed by the needs of the business and the SMME should be patiently implemented. In SD, what matters is depth, not numbers.

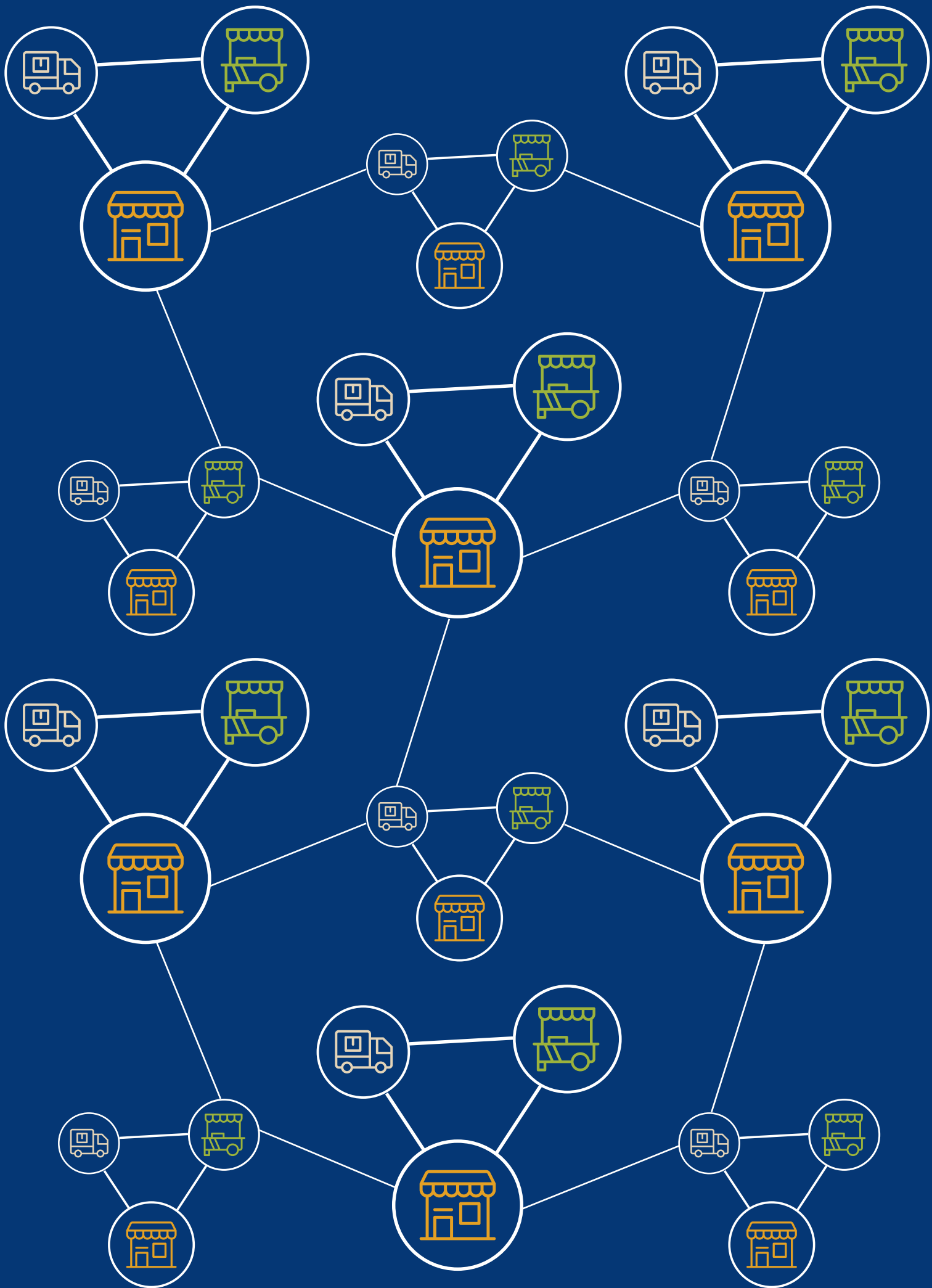
9

BDSPs need to emphasise their credentials and their expertise and back up their claims with hard evidence. More conversations need to take place among BDSPs that are directed at establishing an industry body to set quality standards and ensure they are met. The alternative is that this sector will invariably attract the attention of regulators who are not necessarily as knowledgeable about what will work best.

We accept that SMME development is critical for the future development of our economy, and therefore to all of us. There is much we can do to enhance the ecosystem to ensure that SMMEs flourish.

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