

**CHAPTER 5****METHODS FOR IMPLEMENTING PREFERENTIAL PROCUREMENT PROGRAMMES****5.1. INTRODUCTION**

In the previous chapter, the researcher addressed how the issue of minority business enterprises came into being in the US and the state of disadvantaged business enterprises in the UK. In this chapter, the researcher takes a step ahead by analysing some of the ways to introduce and implement minority business programs in corporations.

To start off, the chapter defines AP programmes. The next point discusses the use of AP programmes to economically empower previously disadvantaged individuals. It then discusses the use of AP programmes as a strategy to fulfil socio-economic responsibility requirements.

It discusses various problems encountered in establishing AP programmes. It is followed by a discussion of factors, which can promote AP programmes. Having considered problems and factors promoting AP programmes the next point discusses a model for a successful AP programme. To conclude, a framework where the main objective is to find and to develop small and emerging suppliers, parallel to the implementation of AP programmes is discussed.

**5.2. DEFINITION OF AN AFFIRMATIVE PURCHASING PROGRAMME**

Dollinger, Enz, and Daily, (1991:9) define affirmative purchasing (AP) programmes as specific purchasing strategies implemented by corporations to attract small business firms owned by Blacks, Hispanics, Asian-Americans, and Native Americans and women as suppliers, as part of their ongoing practice of developing new suppliers.

Heinritz, Farrell, Giunipero and Kolchin, (1991: 176) said that AP programmes represent proactive efforts by government and corporations, to increase the volume of goods and services purchased from minority owned businesses. A business should qualify for AP programmes if 51% of the ownership or shares are owned by socially, economically and politically disadvantaged groups.

### 5.3. THE USE OF AP PROGRAMMES TO ECONOMICALLY EMPOWER PREVIOUSLY DISADVANTAGED BUSINESSES

Hugo and Badenhorst, (2000:1) say that the objective of corporate purchasing programmes is aimed at the empowerment of black business to use the purchasing power of large established corporations to buy their requirements from disadvantaged business. In this manner entrepreneurship in disadvantaged communities can be promoted, giving disadvantaged businesses access to the mainstream of business opportunities in South Africa and at the same time, advancing corporate strategies.

With the above paragraph in mind, they argue that the primary task of the purchasing function is to find or develop reliable suppliers for the corporation. In this way corporate procurement affords the corporate world an excellent opportunity to become involved in the development of disadvantaged communities. In South Africa the Black people are the largest and the most single disadvantaged group. Therefore these purchasing programmes are a powerful tool to empower black business.

### 5.4. THE USE OF AP PROGRAMMES AS A STRATEGY TO FULFILL SOCIO-RESPONSIBILITY REQUIREMENTS

Lindsey, Nichols, Rawls & Kraus (1990:387) say that there is a need to discuss the function of AP programmes in most firms, as there often appears to be some confusion on the part of suppliers as to what the function in place is supposed to accomplish.



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Dollinger *et al*, (1991:9) argue that AP programs encourage the development of a strong and independent previously disadvantaged business sector, (since they are given more business opportunities), while demonstrating the corporation's sense of *social responsibility*. Likewise, they respond to increasing demands from community groups and the government to stimulate previously disadvantaged small business entrepreneurship.

Heinritz, *et al*, (1991:177) argue that corporate social responsibility implies that corporations should be good citizens within the community. And buying from the disadvantaged communities helps in selling to it. In addition, the competitive benefits that firms realise from AP sources are not unlike those traditionally experienced when developing a new supplier. More competition for existing business can eliminate sole-source situations thus improving price.

## **5.5. PROBLEMS ENCOUNTERED IN ESTABLISHING AP PROGRAMMES**

According to Murphy, (1998:64s7) though great progress has been made toward supplier base diversity, problems still adversely affect the success of AP programmes. Establishing an AP programme can become a great task considering the number of obstacles that exist and which often waylay even the most competitive programme for including AP firms in the supply base. The most immediate challenge is to view implementation of AP in the same way as other programmes. Since an AP programme immediately affects the purchasing function most attention is directed to the buyers. However buyers are not the only ones involved. In many cases obstacles involve departments that directly or indirectly contribute to sourcing decisions. Finance and engineering are two such departments where obstacles crop up. The following, are obstacles that companies deploying an AP programme often encounter:

### **5.5.1. Lack of Management Support**

According to Morgan, (1995:52) many program heads concede top management's long-term support and involvement continues to be a major problem for most program administrators. A manager of minority supplier development at Pillsbury

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says that the initiative must be strongly supported by the CEO and top officers, but it is often generated at a lower level of purchasing. Firstly, it must be sold to the organisation. Once the top management buys in, endorses the concept, and invests the necessary resources, the initiative can begin in earnest.

Murphy, (1998:64s18) says that there is a need to synchronise corporate goals with AP programmes. Management support is one element that directors of successful supplier diversity programs agree is critical to the success of the program. To get the AP program off to a strong start, those involved find it is helpful to align the goals of this program with corporate objectives.

This idea is supported at Ford. Ford's goal is to become the automaker of choice of the minority communities to whom the company sells. AP programmes communicate to previously disadvantaged communities that the company is interested in the community as a customer base. Without synchronisation of corporate goals with AP programs, once the programs are running, the rift may widen till one initiative is viewed as counterproductive. Two areas where this often occurs are in supply base reduction and individual business unit goals. Supply base reduction is carefully planned in order to keep the best number of suppliers. As a result suppliers are consolidating to compete more effectively for certain customers. When, AP specialists align their strategies with those of the business unit and commodity team it ensures diverse efficient sourcing and enables the matching of elements of an established AP programme with corporate goals. (Murphy, 1998:64s15, 64s18)

In Morgan, (1995:52), V. A. Phillips, special supplier development director, Cummins Engine Co., argues that although senior management gives its support, often the same degree of commitment is not there at lower levels. In order to assure commitment from lower levels she proposes the following: (1) awareness training; (2) a strong corporate policy; (3) establishment of an advisory board that seeks out input from a wide cross-section of the company.

In Morgan, (1995:52) C. Button, manager of minority business development strategy at Texas Instruments, argues that truly successful programs depend on getting



information and ideas following all the way down to the buyer/requisitioner level so that they take ownership of the program.

### 5.5.2. Inadequate Use of Resources

Another obstacle for companies establishing supplier diversity programs is learning which resources to use at certain times during program development. The initial step is locating an organisation that assists companies in defining policies and procedures for a diverse supply base. In addition, companies must have a structure, which includes measurement of AP supplier performance as well as the money the customer spends with this segment of the supply base. Cold recruiting is not consistent with many supplier selection processes. Successful programs appear to attract suppliers that earn business based on “technical competence” not just a special supplier status. (Murphy, 1998: 64s15)

### 5.5.3. Failing to discuss with internal customers as well as suppliers about the program’s goals and structure

Murphy, (1998: 64s15, 64s16) argues that sometimes, in the rush to get an AP programme started, customers also overlook the importance of discussing the reasons for and implications of a diverse supply base with internal customers. This oversight often triggers concerns about the purpose of the program with internal customers and can derail progress.

Discussing the shift in the supplier base with those internal customers that are even indirectly affected appears to be the key to acceptance of the AP programme. An example is communicating with engineering; which often designs products with supplier participation. Purchasing is already involved in the design stage in order to track the best source, so discussing the parameters of AP supplier choices with engineering ensures that the company is prepared to meet corporate goals for quality and cost-effectiveness through supplier diversity.

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Internal customers in engineering, finance and manufacturing also appear to be more supportive of an AP programme if they know their roles. After all, in addition to procurement and supply, sourcing from AP suppliers takes time from other departments.

The education of suppliers' top management also is increasing as companies recognise that they need supplier understanding for program success. Customers communicate to suppliers what opportunities are available through the supplier diversity program, as well as how the policies and performance measurements support corporate goals.

Another benefit to discussions with supplier management is that customers that want to start second-tiering programmes seem to experience more success if the first-tier suppliers know the goals of the customer's AP programme and how to implement it.

#### 5.5.4. Not recognising what elements work best for a company

Murphy, (1998: 64s15, 64s16) says that a fourth challenge for companies starting AP programmes is recognising what elements work best for their type of organisation. Certain elements of AP programmes that are successful in automotive or a large company may not work the same way for a medium-size firm in telecommunications or a process industry.

For instance, second tiering is not the answer for every AP programme. The practice is used often by companies that want to trim their supply bases since AP small businesses can work with first-tier suppliers and not directly to the customer. Second tiering may even be ideal for AP small suppliers that find working with a medium-sized company more realistic than just targeting large customer companies.

Moreover, second tiering represents some serious problems for AP programmes. One big problem is that first-tier suppliers do not necessarily view their customer base as diverse. This can undermine the business case for diversifying their supply base. It most often occurs for suppliers that do not have a consumer customer base or serve consumer-oriented customers. The result is that some of these suppliers are



unwilling to participate in the measuring, mentoring, and communication that foster AP.

According to Tam (1997: 6) whenever the question of affirmative purchasing is raised

#### 5.5.5. Loss of momentum

managers object that small suppliers require too much special treatment. Tender documents and contracts must be simplified to

According to Murphy, (1998: 64s17) Harriet Michel, the president of National Minority Supplier Development Council, there are a number of reasons that enthusiasm for AP programmes fades slightly after they have been established. One is that the process of evaluating AP firms is not integrated with everyday sourcing practices. As Anderson notes, linking diverse supply sourcing to the mainstream purchasing function is the primary obstacle for a number of programmes.

As to the benefits of the

In contrast to most customer intentions, the lack of mainstream often leads to internal customers associating the program with affirmative action. Those that are responsible for working directly with suppliers may see their role as contracting with AP firms in a limited capacity. That in turn lowers the opportunity for competition and partnering with established, majority suppliers.

to be a normal and desirable way of doing business.

Another reason that programmes often lose momentum is that after the start-up effort, the programmes do not change. This can be detrimental to the effectiveness of diversifying the supply base. Companies with successful AP programmes, plan for change, but they also take into account the company climate and internal customer preparation when they launch certain elements of the program. For instance companies plan when and how to conduct external or internal training to provide the appropriate information for the shifts in supply base interaction.

pay overheads and pay

Recognition of supplier performance, for instance is usually added to an AP programme after the programme is already running. However, the qualification and recognition process for suppliers can affect future perception of the programme. AP programmes appear to be more successful if the recognition of AP suppliers is based on criteria that also apply to previously advantaged suppliers.

According to Tam, (1997:7) corporate procurement managers object that Small and black-owned suppliers are not reliable. Corporations that consider small and black-owned businesses to be unreliable may have developed that view because they have

### 5.5.6. Special Treatment

According to Tarr (1997: 6) whenever the question of affirmative purchasing is raised corporate procurement managers object that small suppliers require too much special treatment. Tender documents and contracts must be simplified to accommodate the small company; training is needed; some companies even need financing.

While it is frequently heard, this objection is ironic. American experience has been that support and mentoring is required from most suppliers, large and small, black and white. Furthermore, such support and mentoring, rebounds to the benefits of the corporations offering it. It is an opportunity, not a cost. Through support, the corporations encourage suppliers to mould their operations, products and cost and quality standards to the corporation's specialised needs.

What is often cited as an objection to buying from small and black-owned businesses is in reality thought by successful companies, to be a normal and desirable way of doing business.

### 5.5.7. Small and black-owned suppliers can not compete on price

According to Tarr, (1997: 6) corporate procurement managers object that small and black-owned suppliers cannot compete on price. It is true that small businesses often have higher materials costs than larger companies, since they cannot gain large quantity discounts. On the other hand, they generally have low overheads and pay lower wages than larger companies. However, through focus, specialisation, and attention to customer needs, they often achieve a quality and responsiveness that cuts all-in costs.

### 5.5.8. Small and Black-Owned Suppliers are not Reliable

According to Tarr, (1997:7) corporate procurement managers object that Small and black-owned suppliers are not reliable. Corporations that consider small and black-owned businesses to be unreliable may have developed that view because they have



been unwilling to enter into the supportive partnership with their suppliers that so many successful corporations have found to be essential. Without such support small suppliers may indeed be unreliable. The solution, the corporations are finding, is to build reliability through building supportive partnerships.

### 5.5.9. Availability of Qualified AP Suppliers

According to Tarr, (1997: 7) corporate procurement managers object that there are insufficient numbers of qualified small businesses to source from and this perception is in both the United States and South Africa. In the USA a possible solution is to use the supplier as partner, approach to form an ongoing collaborative relationship. The prospect of an extended partnership also justifies searching for and assisting small businesses to deliver a quality product.

According to Clark, (1994:9) the availability of qualifying disadvantaged suppliers and specific suppliers with potential is extremely limited. As a result of the exclusion of women and blacks from the mainstream economy and the low expectations that others had of these groups in the past, few women or blacks have considered entrepreneurship as an option. The situation exacerbated by the exaggerated emphasis on affirmative action in employment in the government sector and large corporations.

In South Africa this problem can be alleviated by using organisations like BLUE to make available their data bases of accredited entrepreneurs who are already interacting with corporations and parastatals. Other objections expressed by corporate procurement managers are that AP suppliers are difficult to communicate with; offer no service, product or skills which big business can use; The quality of goods are not up to standard; Buyers have established and proven suppliers; and administrative systems are inadequate to handle them.

The problem of availability means that organisations with affirmative purchasing programmes must aggressively search for entrepreneurs and that high costs and effort are associated with tracing and developing suppliers.

### 5.5.10. Opportunism

According to Hugo and Badenhorst, (2000:7) study, disadvantaged suppliers regard opportunism as the most important impediment of Disadvantaged Business Buying (DBB) programmes. This statement is indeed an indictment against corporate South Africa, since opportunism as a variable constitutes items such as false affirmative action front, lack of commitment, political motivation, small numbers, impacted information, atmosphere, and pressure, “white” front organisations and social responsibility motives as factors inhibiting DBB programmes.

### 5.5.11. Conflicting policies that influence the purchaser

According to Lowry, (1992:230) conflicting policies of some organisations may cause purchasers to become negative towards the AP programme. As it was mentioned, many organisations follow the trend of reducing the number of suppliers and tendering into long-term relations with reliable suppliers. On the one hand, the purchaser must eliminate suppliers and limit numbers, while on the other hand he is forced to find as many affirmative suppliers as possible. The qualification “reliable” is found to be conflicting. Buyers feel comfortable dealing with well-known companies and appreciate the constant contact they receive from established firms; disadvantaged suppliers often do not meet the traditional definition of reliable.

In addition, purchasers have existing suppliers who have often rendered good service for decades and with whom good long-term relations have been fostered. It is difficult for the purchaser to offer the AP firm a market opportunity.

In other instances, the cost of doing business with AP firms is too high. This may be linked to small businesses that are less automated and does not have the resources to ramp up capacity when it’s needed or deliver to the customer’s exact expectations.

### 5.5.12. Complaints and the attitude of purchasers

According to Williams, (1990:392-396) and Morgan, (1995:54), purchasers have certain objections to the principle of AP. Some common objections are:



- According to Morgan, (1995:54), purchasers object that most AP companies are relatively small and inexperienced. McQuilkan, the coordinator-minority vendor development at American Airlines, decided to meet these concerns with a program called "internal advocates". The program has identified individuals in each department interested in supporting the program and willing to deal with legitimate concerns about minority supplier qualifications.
- It costs the organisation more than any advantages obtained. It is a fact that the initial cost of developing suppliers is high, but once a small supplier has been developed and has the ability and capacity to deliver the required product quantity with the correct quality at the correct time, the price should be lower than for large suppliers, because the overhead costs are lower. The cost of training and developing the supplier must be regarded in the context of a long-term relationship.
- Disadvantaged suppliers have an attitude that the purchasing organisations owe them something. In reality participants must know that affirmative suppliers will have to compete with other suppliers on an equal footing. Disadvantaged suppliers who are not able to do so, but who show potential, will be developed so that they will also be able to compete independently on the open market within a reasonable time.
- The affirmative purchasing programme makes existing suppliers dependent on the organisation instead of independent. This problem is not unique to affirmative purchasing programmes. Many small and large businesses are dependent on the organisation that purchase from them. When one organisation accounts for a large part of the supplier's capacity, such supplier is captive and dependent on the purchasing organisation for its continued existence.
- Reverse discrimination: affirmative purchasing programmes discriminate against other small business organisations. The fact remains the inequalities

that were created by the socio-economic and political systems of the past must be eliminated. In the meantime, non-affirmative small business organisations are still in a strong position (as a result of former advantages) and can compete on the open market and with larger suppliers for the business of the purchasing organisation.

- “The purchaser does not really have the time to trace and develop affirmative suppliers”. It is the purchaser’s task to trace suppliers, irrespective of their size. Although the need to develop suppliers arises in the purchasing department, the staff of the affirmative purchasing programme and the purchasers will share the responsibility for tracing and developing suppliers.
- Affirmative supplier could cause interruption in the activities or production of the organisation as a result of poor performance. This is just as true of any other supplier who does not perform and the problem rather lies with the question of using “one or several” suppliers. A developing affirmative supplier should not be the only source. A developing affirmative supplier should at first only receive a small part of the total order (for example 10%) as a trial run. If the affirmative supplier performs as expected, a larger percentage of the total order can be awarded to him/her.

### 5.5.13. Second tiering

According to a White Paper Report, (1995:99) the most significant response to the supplier downsizing trend has been the use of second tier programs. In such programs, where a major supplier has reduced its base to a single supplier for volume requirements, that supplier may be required to consider the use of AP firms as subcontractors to a project or support for goods and services.

However, second tiering often gives AP firms and ultimate customers a false sense of supplier diversity. The main perception problem is that the customer and AP firms may nurture a false sense of security, that supplier diversity is making progress when the opposite may be occurring. One problem with a number of second-tiering efforts is that companies often miss opportunities to educate their supply chain about



diversifying the supply base. Another perception problem linked to the practice of second tiering is that some customer companies may view second tiering as a way to shift responsibility for supplier diversity exclusively to their prime suppliers.

Nevertheless, this practice has some benefits for AP firms. For instance, AP suppliers are forming their own alliances to become more marketable. In addition, AP firms are merging with organisations, to compete for contracts that otherwise might be out of reach due to lack of resources or product lines. Second tiering can also be successful when first-tier suppliers are required to report their numbers to the customer company. That gives the first tiers impetus to focus on their AP programmes.

#### 5.5.14. Lack of access to capital

Huck and Townsend, (1999:10) say that one reason access to capital is an important policy issue, is because business owners may face funding limits known to economists as liquidity constraints. Access to capital continues to be a very serious obstacle to getting started and to expanding for many AP suppliers or would-be suppliers.

The main reason for the existence of this problem is that banks are adverse to risk; the biggest part of business risk is the unknown; the track record of most AP suppliers is null. As heads of businesses that fall into the small business/unknown business category, they also find themselves heading up businesses that are seen as too risky for the average bank lender. As a result, some banks are not interested in lending until the suppliers have contracts in the marketplace. However, suppliers often cannot fulfil as many or as large a contract as they wish to, unless they have capital. (White Paper Report, 1995:97)

Lindsey, Nichols, Rawls and Kraus (1990:388) suggest that one of the ways to minimise this problem is to encourage AP suppliers to look at possibilities of working jointly with one another as partners. Partnerships can be a new direction for AP suppliers; when one AP supplier is unable to meet the requirement of a majority corporation, a combined effort between two or more may be exactly the right mix.

Another way to minimise AP firms capital problems is by companies loaning to AP firms, even though corporations are relatively restricted in the types of help they can or want to extend to AP firms. For example, at Chrysler if a supplier needs it, the company will buy the raw materials and allow the supplier to pay them back in six months or a year. (The researcher calls this type of help as “*direct supplier strategic financial help*”). In addition, if a supplier needs instant or advanced payments, that is arranged as well. (White Paper Report, 1995:98)

In addition to direct help, firms may help suppliers indirectly as well, to get the capital necessary to continue operations and expand business. A good example comes from minority business development and procurement at Polaroid Corporation. Polaroid notes the case of a heating oil supplier that was hard hit during the recession. Polaroid suggested then that the company move totally into wholesale supply. The company agreed but did not have working capital. Polaroid responded by giving the company a letter stating that it would be buying X amount of fuel oil from the company. The company took the letter to a bank and got a loan for the needed capital. Today, this company is Polaroid’s sole supplier of heating oil. Polaroid remarks that they did not get the business because they were an AP firm. They bid for the business because they showed, that they could deliver. All that Polaroid provided was the kind of help any company would extend to a valued supplier. (White Paper Report, 1995:99). (The researcher calls this type of help as “*Indirect Supplier Strategic Help*”).

According to Huck and Townsend, (1999:10), in a study conducted in two Chicago ethnic neighbourhoods, surveys revealed that black owners start their business with significantly less capital than those of Hispanic owners.

The Black-Hispanic gap, in total start-up funding, is due to differences in the use of non-personal sources of funding rather than disparities in the amount of personal savings put up by the owner. On average, Black owners use a higher proportion of formal financing and a lower proportion of informal and other sources of funding compared to Hispanic owners. This evidence suggests that less use of funding from



informal and other sources may play a role in accounting for lower levels of start-up funding for Black-owned business relative to Hispanic-owned businesses.

Given this state of affairs, owners meet the challenge of obtaining capital to start and run their businesses by using informal sources of capital as well as personal assets and loans from formal sources. Informal financing via networks can thus substitute for borrowing in the informal sector, either because formal credit is not offered or because informal financing is preferred. Credit offered by a supplier, which is known as trade credit, is another source of financing. Business may form networks with their suppliers, and there may be an informal dimension to these networks, in that the supplier relationship, including ethnic ties, may be important for some transactions. Thus, trade credit may share some of the features of informal financing.

The importance of informal sources of funding suggests that this type of funding has some features that meet the needs of small businesses in these communities. Informal funding may be more flexible and better suited to providing relatively modest amounts of capital compared to the formal sector. However, an important advantage of formal credit institutions is their ability to efficiently mobilise large amounts of capital. Recognition of the strengths of both informal and formal sources of financing should be a part of programs and policies aimed at encouraging the flow of capital to minority small business.

#### 5.5.15. Communication and information

According to Williams (1990:391) it was found that lack of interpersonal communication is one of the greatest obstacles to the success of affirmative purchasing programmes. Poor communication goes hand in hand with prejudice, distrust and unmet expectations.

#### 5.5.17. Lack of credibility in the market place

In analysing the opportunities available to AP firms in the defence subcontracting market, Davidson, (2001:67) says that AP firms suffer from a serious lack of information about how to locate and contract the purchasing agents of prime contractors. Many AP firms have no knowledge of those directories, which contain listing of prime contractors. Moreover, the directories do not include specific plant

locations, names of contacts, or telephone numbers. Often AP firms have considerable difficulty locating the right person at the prime contractor site. To counteract this problem firms may establish a central source of subcontracting information to expedite routine problems.

In addition, AP firms need contract information in the planning and negotiation stages. For example General Electric (GE) often knows several months in advance if it is likely to receive a Department of Defence (DOD) procurement contract to produce a given product. If GE were to contact some AP firms during the planning stages, they could be better prepared to supply crucial products and services. Moreover if an AP firm supplying a crucial product or service could obtain the long-term plans of primes or selected projects, it could in turn utilise this information for long-term planning. AP firms should also obtain information about the nature of the work being subcontracted.

#### 5.5.16. Expectations

Expectations are closely related to communication. As a result of a lack of communication and prejudices, the parties involved in an affirmative purchasing programme have certain expectations, which are often not met. There is often an accusation of opportunism between the parties. Disadvantaged suppliers accuse the purchasers of false promises with regard to contracts, loans and technical assistance. Purchasers accuse disadvantaged suppliers of frequently insisting on being awarded a contract simply because they belong to a formerly disadvantaged group. There are also suppliers who do not really qualify for the program and who make false statements in an attempt to be given preference in terms of the programme. (Dollinger and Day, 1989:27).

#### 5.5.17. Lack of credibility in the market place

While many small firms appear to move from start-up to established supplier status relatively rapidly, many AP small firms appear to be hindered all along the way. The origin of this problem is cultural. They do not know where available funds are and how to get them. In addition, since minority enterprises have not grown up in the



business establishment, they often do not know where to get help and advice until it is too late. (White paper report, 1995:98)

### 5.5.18. Lack of business experience

For many small minority businesses, the real problem is lack of financial and business skills and experience. The main areas where minority entrepreneurs have more deficiencies are the ones of financial and accounting planning.

(White paper report, 1995:98)

In addition to having financial management skills, Davidson, (2001: 70) argues that AP firms must also have a clear marketing concept, i.e. a clear definition of what he or she is offering, the business he or she is in, and the market that is being served. This will direct the company on how to make the most of its strengths and to identify areas, which need improvement.

### 5.5.19. Transaction costs

According to Dollinger, Enz, and Daily, (1991:9) the results from field surveys of small minority firms and corporate purchasing personnel, indicate that program participants face differences in transaction costs and in their preferences of ways to overcome these costs. In the majority of the situations, AP firms face higher transaction costs than their corporate purchasing counterparts do.

In their study, (Dollinger, *et al*, 1991:10, 11) identified seven transaction costs impediments that both corporate buyers and AP suppliers found to be significant in the implementation of AP programmes.

#### 5.5.19.1. The costs of a negative atmosphere

These are the personal costs of doing business that sometimes occur in what can be a hostile, unfriendly, or discriminatory environment. Many AP suppliers responding to the study reported that at times they felt they were being patronised or not taken

seriously. Some said that they felt socially ostracized because of their race during the buyer-seller interaction.

#### **5.5.19.2. The costs of opportunism**

These are the costs associated with opportunistic, unethical, or illegal behaviour in a purchasing transaction. Like many small businesses that are anxious to compete, the AP supplier may intentionally or unintentionally misrepresent its capabilities in order to win a corporate contract. And on the other side, corporate purchasing people sometimes encourage AP suppliers to expend significant time and energy qualifying and bidding, even though their prospects for winning contract are slim at best. These situations can occur simply because “going through the motions” looks good on the buyer’s performance review.

#### **5.5.19.3. The cost of small Numbers**

These are the costs of attempting to contract for goods and services in a market with a small number of sellers. The simple fact that there are not a lot of AP suppliers actually hurts the AP supplier. This is especially true in manufacturing and high technology businesses. Corporate buyers are not always confident that there are enough minority suppliers, or that the AP suppliers that do exist, are qualified enough to allow them to depend on a reliable flow of purchased materials.

#### **5.5.19.4. The costs of information asymmetry**

These are the costs of obtaining information that one side to a negotiation has available, but the other side does not. Some AP suppliers complain they do not receive them as early as other firms do and that they are not always given enough time to respond.

#### **5.5.19.5. The costs of bounded rationality and complexity**



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These are the costs of dealing with complex rules, large bureaucracies and inconsistent procedures. Like many small businesses, minority suppliers sometimes have trouble peeling through the corporate red tape and deciphering who is really in charge in the corporation or who they can ask for help or information. This can be a lot of work for the average supplier, especially since it has to work through this maze for every corporation it wants to sell to.

**5.5.19.6. The costs of business uncertainty**

These are the costs of maintaining a firm's performance and survival. Many minority suppliers are plagued by all the traditional problems of small businesses, including inexperienced management, under capitalisation and strong competition from larger firms.

**5.5.19.7. The costs of production uncertainty**

These are the costs of achieving, maintaining, and ensuring high quality output. Again, like many small businesses, AP suppliers do not always have a refined and reliable quality control system. They often face a special dilemma if they are recruited to produce a product that is either new or different to them, and therefore run the risk of greater variation and subsequent rejection during the production process.

According to transaction costs economic theory, under conditions where the transaction costs of the marketplace are high for both, the corporate buyer and the AP supplier, both parties should select some form of internal administration that tends to minimise the costs. In other words the buyer and the seller go through some sort of merger or integration, or the larger firm simply absorbs the smaller firm. This alternative to the existing market is termed "*internalisation*" in the language of the theory. However, that option is not feasible in this case. In order to meet social objectives and federal guidelines, the corporate buyer and the minority supplier must exist as separate and distinct entities, and AP suppliers must flourish independently. This is the paradox of AP purchasing programs.

There are certain activities, which can reduce the buyer-seller transaction costs since internalisation is not always an attractive course of action. The top nine cost reduction activities as ranked by the combined groups of buyers and sellers in the study are: monitoring of AP suppliers, searching for corporate Purchasing Personnel, managerial and financial assistance, searching for AP suppliers, cultural interaction, internalisation, and monitoring the corporate purchasing personnel

#### 5.5.20. Sole reliance on government

Bates and Darrel, (1996:294-297) discuss how damaging it can be for small firms to rely heavily on sales to the State. They argue that selling to government has several drawbacks.

The study reveals that AP firms heavily reliant upon government customers were more likely to discontinue operations, than were those for which government sales represented less than 25% of total sales. In addition, their study revealed that AP firms selling to government have the same survival prospects as MBEs not selling to government. The subset of AP firms most reliant upon sales to government however, sharply reduces survival prospects relative to all MBEs. Analyses indicated that the youngest firms were particularly to go out of business if they relied heavily upon sales to government.

There are two situations, which may cause this to happen. The first situation is when AP businesses are used as subcontractors and close down when the project ends. Problems can also arise when small AP firms are awarded large procurement contracts that they do not have the capacity to handle.

The findings of this study suggest that preferential procurement programs often promote AP businesses dissolution when large contracts accrue to small young AP firms. Reliance upon a diversified clientele, rather than heavy reliance upon sales to government appears to be a prudent strategy for AP firms seeking to remain in business.



Corporate assistance programmes aimed at technology transfer, supply management assistance and access to corporate training programmes for the technical staff of disadvantaged suppliers are clearly methods which may contribute to bridging the resource dependence gap of disadvantaged

## 5.6. FACTORS PROMOTING AP PROGRAMMES

According to Hugo and Badenhorst, (2000:9) their study revealed that disadvantaged suppliers expressed what they think are factors promoting disadvantaged business buying (DBB) programmes.

Disadvantaged suppliers regard *information* as the most important factor promoting DBB programmes. The specific items, which provide a focus for *communication*, are directories of disadvantaged suppliers, publicising DBB programmes, performance evaluation of suppliers, advertisements in various publications and sensitising all corporate personnel. Communication is followed closely by *training and development, assistance, government policy incentives, structural and managerial initiatives*. The mean value in this study revealed that suppliers neither strongly agree nor disagree that *cultural interaction* can be a factor that promotes DBB programmes.

Furthermore, from the results of their study, they suggest several practical activities, which could enhance the development of DBB programmes in South Africa:

- Corporate South Africa should expand its DBB programmes. In the present these programmes are currently still on limited scope but also, expansion of the programmes into second and third tiering is important. In addition there are clear indications that current programmes have lost momentum.
- It is essential that corporate South Africa should take immediate steps to counter the prevailing perception among disadvantaged suppliers that DBB programmes are implemented for reasons of opportunism including “affirmative action”, politically correct actions and social responsibility motives. Establishing corporate supplier forums is one way addressing this issue.

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- Corporate assistance programmes aimed at technology transfer, supply management assistance and access to corporate training programmes for the technical staff of disadvantaged suppliers are clearly methods which may contribute to bridging the resource dependence gap of disadvantaged suppliers.
- There is a general lack of information regarding disadvantaged suppliers. This can be addressed by establishing central information centres in an organisation such as the Corporate SMME Development Forum. It is however imperative that such “Disadvantaged Suppliers Guide” should be managed on a commercial basis.

## 5.7. A MODEL FOR A SUCCESSFUL AFFIRMATIVE PURCHASING PROGRAMME

There are many models, which help corporations succeeding in establishing AP programmes. The researcher found that these models have common elements and do not differ much from one another. The framework here is taken from the model compiled by Badenhorst, (1995:10-20).

### 5.7.1. The objective of the organisation, the origin of the idea and the objective of the affirmative purchasing programme

Moore, (1993:143) argues that AP programmes can be profitable to corporations. However, these programs will become an integral part of corporations only when it can be documented, that such programs are corporate assets rather than a drain on limited resources. The implementation of AP programmes must still be justified evaluated and motivated in terms of its benefits to the organisation. If an affirmative purchasing programme is to succeed in the long term, the programme must be regarded as an organisational asset and not as a liability. To qualify as an asset, AP programmes must contribute to overall corporate performance. Four key performance indicators are:



- Customer service;
- Quality assurance;
- Corporate Citizenship; and
- Profitability

According to Williams, (1990:398:399), the idea for an affirmative purchasing programme usually arises in the following way:

- The liberal attitude of management which is worried about the social responsibility of the organisation;
- Pressure from the authorities or customers;
- Pressure to follow in the footsteps of similar institutions, (corporate peer pressure)
- A progressive purchasing department that identifies opportunities in the marketplace

Whatever the origin of the idea of affirmative purchasing, the point of departure must still be that it is a business opportunity not a welfare programme. The objective and mission of the affirmative purchasing programme must thus revolve around “the identification of opportunities and the purchase of high-quality products and services from qualified suppliers from formerly disadvantaged communities, to the benefit from organisational profitability in the long-term”.

### 5.7.2. The commitment of top management

According to Williams, (1991:72) affirmative programmes can only be successful with the full commitment of top management. Mooney, (1992:374) says that this commitment must be honestly written and form part of the organisational policy. The intention and commitment may be announced by means of informational material and letters to the internal employees and external community. The commitment must also be verbally conveyed and emphasised, both internally and externally. Commitment must further be shown through the resources which top management is prepared to make available for the implementation of such programme. Williams, (1990:399)

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argue that obtaining corporate management support is vital. It will result in having the necessary time, resources and approvals required for the program to operate unfettered.

### 5.7.3. The staff orientation

According to Williams, (1990:392) there are three important steps that must be taken at the start on an affirmative purchasing programme:

- The orientation of the entire staff (management and workers) and their support;
- The orientation of the purchasers, sensitivity to their mission and the clarification of conflicting objectives;
- Contact, communication and visits to other organisations that already have an affirmative purchasing programme.

The orientation of the staff and their support is a difficult task because affirmative purchasing programme entails change, and there is often resistance to change in organisations. Williams, (1991:75, 76) found that that resistance to change can be overcome by a strong communication plan, the awareness of human factors and a good “change manager”. The change manager is an important role player in the orientation of the staff. The change manager may be a respected manager from any department of the organisation being a person who knows the organisation, organisational policy, organisational culture, power structures the product or service of the organisation and who is committed to the aim of economic equality of parties to whom this was formerly denied. Normally, this person will not become the head of the affirmative purchasing department. This person would be responsible for the orientation and training of the staff and for forming a committee to implement the programme. Participative management techniques would be used to change the staff's attitude. The committee may consist of representatives of the purchasing department, management, the trade union and consumers. It would be wise also to involve a representative from the accounts or financial department as well as being the person who will be responsible for managing the programme.



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A fourth step that is often omitted is the orientation of the organisation's other suppliers. The prospective affirmative purchasing programme must be communicated to the other suppliers because it affects them. The reasons for the programme, the influence of the programme on the existing suppliers of the organisation and the commitment from top management must be communicated to them as positively as possible.

According to Lindsey et al, (1990:387) the following people play key functions, which help establish AP programmes in the organisation:

The role of the *program coordinator/manager* is supposed to be a key resource for both the corporation and the AP supplier. As an intermediary, this person can effectively help accomplish the goals of the corporation while providing opportunities to AP suppliers. That individual should assist the AP when they need information guidance and advice. They also serve to cultivate the attitude toward doing business with AP internally within the company. This promotes the benefits to the corporation of doing business with AP, and helps to dispel the myths about welfare programs and give-aways. This individual also has the duty of telling AP if no business opportunities exist for them.

The role of the *buyer* is no different when dealing with AP suppliers. A buyer in most corporations is directly responsible for trying to get the best buy for their company. AP firms have to be competitive, and not compromise quality and other predicaments that any supplier must be in order to do business with the corporation. The buyer may sometimes be in a position to create an opportunity for an AP supplier, but most of the time they are trying to meet the needs of those for whom they are buying products/services, the end users.

The *end-user* is the ultimate consumer of the product/service, which a purchasing organisation is seeking to buy. They are most often the ones that must be convinced that AP suppliers do not by nature provide less than satisfactory products/services. For that reason it is very important to give them good experiences. When customers have bad experiences they tend to alert more people than when they have good ones.

management in determining objectives will make a positive contribution to the acceptance of the programme and will lead to more realistic objectives. Objectives must be quantitative, (without establishing quotas as these can be manipulated and do not take qualitative aspects into account) and can be determined per purchaser, per unit or per product or service. It can also be expressed in percentages in monetary value. (For example 20 % of all purchasing must be supplied by

#### 5.7.4. Planning

Mooney, (1992:373) argues that good planning of what is to be achieved in the future is an important requirement for successful affirmative purchasing programmes. Moore, (1993:144) argues that the affirmative purchasing programme should form part of the long term or strategic plan of the organisation.

The planning of an affirmative purchasing programme should incorporate components such as determining the objectives, policy formulation, analysing the current set-up in purchasing, identifying affirmative opportunities and planning resources.

> Analyse purchases: this involves drawing up a list of products and services

##### 5.7.4.1. The analysis of the current set-up and the identification of suitable products/services

VS labour intensity and other relevant criteria.

Firstly, it must be determined to which extent the organisation already buys from affirmative organisations and these contracts can already serve as a basis for the formal programme. Products and services that are technological simple should be the point of departure of any affirmative purchasing programme. Programmes should be kept simple until the data system support capability has been proven. Affirmative purchasing should be limited to non-strategic products or services, for example, maintenance and support services (such as cafeteria services) and products or materials for which there is no strong competition on the market.

objectives.

##### 5.7.4.2. Determining objectives (targets)

effective programme operations. Reports should be consistent, accurate,

Objectives and timetables are necessary so that the affirmative purchasing programme has goals towards which it can work, and so that it can serve as a barometer to measure the success or performance of the programme. Participative



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management in determining objectives will make a positive contribution to the acceptance of the programme and will lead to more realistic objectives. Objectives must be quantitative, (without establishing quotas as these can be manipulated and do not take qualitative aspects into account) and can be determined per purchaser, or per department or per product or service. It can also be expressed in percentages or in monetary value. (For example 20 % of all purchasing must be supplied by affirmative suppliers) the setting of objectives is closely related to an analysis of the current situation and the identification of affirmative opportunities.

#### 17.4.3. Adapting the policy for affirmative purchasing

Tarr, (1997:9) argues that corporations that set specific performance goals outperform those that do not. These goals should be smart, i.e. specific, measurable, actionable, realistic, and timely.

U.S corporations employ the following techniques in this process:

- Analyse purchases: this involves drawing up a list of products and services procures outside the company over the last several years. Reviewing the list for volume, value, specifications, origination, point of delivery, capital intensity VS labour intensity and other relevant criteria.
- Look for trends: this involves analysing the list for patterns, such as growth areas and atypical purchasing opportunities;
- Develop a short list: compile a list of goods and services that buyers could most easily procure from small business. Over time, items that are more difficult to source are added to this list;
- Set goals in consultation with users and buyers; these are expressed as a dollar value of purchases, sometimes as a percentage;
- Communicate: inform corporate officials and get their approval for the objectives;
- Report results. Clear concise reporting about accomplishments is critical to effective programme operations. Reports should be consistent, accurate, timely and available.

Funds are particularly required for the following:

This information is used to:

- Evaluate performance at the buyer, unit and corporate levels;
- Identify and analyse failures, successes, new opportunities;
- Promote internally and externally;
- Reward or discipline at appropriate levels;
- Establish new buyer, unit and corporate goals;
- Evaluate corporate policy, procedures and mechanisms.

#### 5.7.4.3. Adapting the policy for affirmative purchasing

The adaptation of the purchasing, policy is frequently necessary to accommodate the affirmative purchasing programme into the purchasing policy. With the adaptation of the purchasing policy, the staff will also realise how serious the management is about affirmative purchasing.

In the policy aspects such as the choice of a method for determining process, must be adapted according to normal criteria because negotiation is the most suitable method for affirmative purchasing, which is not the case with other suppliers of the same product or service. There must be a greater emphasis on value or future value instead of price when awarding transactions. The policy must also make provision for rewarding performance with for example a larger follow-up order; evaluation criteria and the period in which an affirmative supplier must fully qualify or be dismissed as a supplier. The extent of involvement during the development of suppliers, the percentage preference given to qualified affirmative suppliers, as well as that given to other suppliers who also have an affirmative purchasing programme.

#### 5.7.4.4. Planning resources

Mooney, (1992:377) and Tarr, (1997:9) argue that in order to facilitate the affirmative programme there must be available resource's, in the form of people and facilities. Adequate funds are required for the implementation and operation of an affirmative purchasing programme. Funds are particularly required for the following:



- A qualified, committed programme coordinator and supportive administrative staff;
- Data processing support;
- A professional marketing and communication programme that is internally and externally oriented;
- Reach out actions such as seminars and trade fairs;
- Printed material such as brochures and guides;
- Travelling costs to hold network meetings with other affirmative purchasing specialists and affirmative suppliers;
- Accessories and equipment to support the above mentioned activities;
- Development aid to suppliers who do not fall into any of the above-mentioned expenditure categories, for example making available facilities or financial aid (such as the lending or advancing of operating capital to purchaser larger material quantities).

Williams, (1991:76) argues that one of the most important aspects in planning the resources is the training of the staff, particularly the purchasers and the other people who would directly be involved in the affirmative purchasing programme. Training is a requirement for the motivation of the programme staff. Training eliminates all uncertainties and fears.

#### **5.7.5. Organising the affirmative purchasing programme**

Moore, (1993:144) argues that the affirmative purchasing programme is commercially oriented and therefore does not belong in the human resources department or the affirmative action committee. Rather, it should be a specialised department within the purchasing department. "The minority business program must be viewed as an integral part of the procurement program with the purchasing program serving as a nucleus.

There should be an affirmative purchasing programme manager who would be responsible for the smooth operation of the programme, strive to achieve the objectives of the organisation, while creating opportunities for affirmative suppliers.

The manager would assist the affirmative supplier with information, guidance and advice if required, as well as with the cultivation of a positive attitude towards affirmative purchasing within the organisation. In addition the manager will take the responsibility for the correct perceptions about the programme both within and outside the organisation, (for example making it clear if there are no business opportunities for them).

The selection of affirmative suppliers mainly consists of the following phases:

According to a Law Review Project, (1995:5) the purchasing procedures must be adapted to accommodate the affirmative purchasing programme in the purchasing department. There should be a procedural manual adapted, printed and distributed to all staff, so that they may know exactly how to tackle affirmative purchasing. Some of the aspects to which attention must be paid when adapting procedure to make provision for disadvantaged suppliers is the simplification of the description of specifications, the more aggressive search for suppliers, the determination of prices, follow-up and facilitation, as well as the handling of errors and deviations by rendering increased assistance and the more speedy settling of accounts. Documentation and procedures must be simplified to decrease the higher transaction costs of small suppliers.

The availability of qualifying disadvantaged suppliers appears to be an important factor in the success of an affirmative purchasing program and it requires somewhat more effort than the trading of other suppliers.

#### **5.7.6. Publishing the programme**

Once the staffs have been oriented, the programme planned and the necessary internal adaptations made, publicity for the program must be obtained as widely as possible. In the publicity material, the objective of the programme, as well as what is expected of the affirmative suppliers must be known and an invitation issued to prospective disadvantage suppliers. The publicity may serve as a further motivation for the acceptance of the programme, may improve the image of the organisation and may encourage affirmative suppliers to contact the organisation for possible consideration, certification and placement on the list or register of disadvantaged suppliers. This publicity must constantly be given to the programme, if it is well underway. The successes of the programme may be good for the image of the organisation.

Supplier are trade magazines such as "Black Enterprises" and "Entrepreneur"; "Sowetan", publications of and enquiries at institutions such as the SDCI; enquiries in response to publicity and advertisements about the AP



### 5.7.7. Selection of suppliers

The selection of affirmative suppliers mainly consists of the following phases:

- The tracing and identification of possible suitable disadvantaged suppliers;
- The systematic investigation and evaluation of identified potential suppliers;
- Negotiation with and entering into contracts with suitable suppliers; and the maintenance of good relations with suppliers.

A further step that forms an integral part of the selection of disadvantaged suppliers is the development of the affirmative supplier.

#### 5.7.7.1. The tracing and identification of possible disadvantaged suppliers

The availability of qualifying disadvantaged suppliers appears to be an important problem in the affirmative purchasing program and it requires somewhat more effort than the tracing of other suppliers.

According to Hugo and Van Rooyen, (1990:393) disadvantaged suppliers may possibly be traced through certain *traditional sources*, such as the knowledge of staff in other departments of the organisation; visiting representatives from other organisations; visits to trade fairs and industrial exhibitions; business contacts; participation in organised trade, industry and associations; existing suppliers interviews with people who visit the organisation and the organisation's, own records.

The identification of disadvantaged suppliers frequently needs following *non-traditional* channels. Other sources that concentrate more specifically on the disadvantaged supplier are trade magazines such as "Black Enterprise" and "Entrepreneur"; "Sowetan", publications of and enquiries at institutions such as the KSOK; enquiries in response to publicity and advertisements about the AP

programme of the organisation; the small business departments of banks and the small business bureaux of universities.

In addition, there are a number of firms whose main function is to link small business enterprises with large firms. Erwin, (1996:1) argues that the development of linkages is important, particularly today when South African companies face international competition. The global experience, in countries that have demonstrated high economic growth, shows that the linking of SMMEs and big enterprises is critically important for empowering SMMEs, stimulating competitiveness and a vibrant economy.

The Business Opportunity Centre (BOC) is a Section 21 company and its principal occupation is linking emerging business with big business. The centre bridges the gap between the current capacity of SMMEs and their capacity to enter the mainstream economy. It arranges training in business skills, tendering, productivity and adherence to quality standards by the Foundation for Business and economic Development the National Productivity institute, the SABS, the CSIR and other institutions. Trainees are issued with certificates, when they complete their courses.

#### **5.7.7.2. Systematic investigation and evaluation of possible disadvantaged suppliers**

The suppliers who have been identified must be investigated and analysed to determine their suitability. The first step in the evaluation is the verification that the supplier is really an affirmative supplier. Of the other factors that must be taken into account during the evaluation, the most important is certainly the entrepreneurship, technical and management ability of the owners/managers, the physical facilities, the condition and type of equipment, quality control methods, capacity and the financial capacity of the organisation. The importance of each of the factors will depend on the importance and nature of the product/service.

According to Williams, (1990:390) disadvantaged suppliers can be divided into three categories upon evaluation:



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- *Qualifying.* The qualifying supplier is independent and fully able to supply certain products and services as part of the daily activities of the organisation in quantities that naturally fall within the capacity range of the organisation. This type of supplier is able to meet obligations without assistance. It is very probable that a contract will be concluded with such a supplier for the provision of a product or service or a portion (percentage) of the total demand, depending on the capacity of the supplier.
- *Qualifiable.* Qualifiable suppliers are those who are able to or have the potential to render a certain product or service but who require some or other type of assistance. These suppliers must be helped to develop into qualifying suppliers. The support should only be temporary because the disadvantages supplier must develop into an independent supplier. Most disadvantages suppliers will fall into this category.
- *Unqualifiable.* The unqualifiable suppliers are not suitable for any contract for the provision of products or services. The supplier must be made aware of his/her shortcomings so that he/she knows where development is necessary for possible future qualification.

Qualified and Qualifiable suppliers would be placed on the so-called “affirmative supplier list or register”. Those suppliers who continued to fare poorly without any indication of improvement would eventually be scrapped off the supplier list.

The evaluation of the suitability of affirmative suppliers may be established by means of personal visits to the plant/factory/office of the prospective supplier. During the visit, the purchaser will attempt to monitor the type and condition of the equipment, the quality control methods, the extent to which the layout is sensible, the general neatness, the productivity and motivation as well as the relationship between management and workers. In addition, the financial state of the supplier may be analysed, a bank report undertaken and references for other customers checked.

Hahn, Watts and Kim, (1990: 4, 5) argue that the supplier development activity typically is triggered by an evaluation of the supplier, either performance evaluations

for existing suppliers or preliminary assessments of potential new suppliers. When the buying firm is not satisfied with current performance level of an existing supplier, or recognises the need for further improvement, it may initiate selected supplier development activities with the supplier. If the firm has new or modified requirements that cannot adequately be satisfied by existing suppliers, it may proceed to evaluate new vendors. Such an evaluation facilitates the final selection of new suppliers and can further identify the developmental areas that must be worked with on each of them. Suppliers typically are evaluated on the basis of their technical, quality, delivery, cost and managerial capabilities. Evaluation results subsequently are compared against the buying firm's requirements or future objectives and serve as a basis for launching an ongoing improvement program.

Once the supplier evaluation process is completed, the next step is to identify the areas for improvement. Supplier evaluation results provide valuable information about general areas of weakness, but the results are usually still too general to be useful. For example the supplier evaluation process may show that a supplier is weak in his/her ability to maintain quality. However, the buyer still does not know the exact causes of the quality problem. Clearly, a classification of the supplier's performance problems would facilitate the analysis. Supplier performance problems can be classified in terms of required supplier capabilities: technical, manufacturing, quality, delivery, financial or managerial. Such a classification narrows the area to be investigated. Supplier problems can also be classified in terms of their sources: things such as product, process or operating systems. When these two classifications are combined, a supplier development activities matrix can be constructed. The matrix defines more precisely the nature of a supplier's problem and it also identifies the types of supplier development activities that should be considered by the development team. (Hahn, Watts & Kim, 1990: 4, 5) Figure 5.1. presented on the next page, is an example of a supplier development activity matrix.

Source: Adapted from Hahn, Watts and Kim, 1990:6

For example, when company experiences product quality problems in dealing with a supplier, the problem could be related, to inadequate design. Or it could be related entirely to the supplier's manufacturing processes, such as machine capability. Or the problem might be traced to an operating system, such as unreliable quality



Figure 5.1: Supplier development activities matrix.

Related areas Capabilities	Product Related	Process Related	Operating Systems Related
Technical Capability	Capabilities in: Design New Product introduction Feasibility testing Product improvement	Process Capability Process design Automation Reconfiguration	CAD/CAM CIM/FMS JIT/MRP
Quality capability	Specifications Limits  Incoming Materials Control	Process capability Testing Equipment Workmanship	Quality Assurance program Quality circles S.P.C Program Worker training
Delivery Capability	Product Mix  Materials Lead-time	Capacity level Process flexibility Setup times	Order Entry system Scheduling flexibility Transportation/ Inventory system
Cost Capability	Value Analysis R & D expenditure  Cost Reduction programs	Process Efficiency Capital Investment Rationalisation of work place	Work productivity Indirect costs Control

Source: Adapted from Hahn, Watts and Kim, 1990:6

For example, when company experiences product quality problems in dealing with a supplier, the problem could be related, to inadequate design. Or it could be related entirely to the supplier's manufacturing processes, such as machine capability. Or the problem might be traced to an operating system, such as unreliable quality

assurance program. It is also possible that several of these elements are interacting to create the problem.

At this point in the process the supplier's management should be invited to participate in the analysis; the objective is to achieve a consensus diagnosis involving both the supplier and the buying firm. The supplier's input should facilitate the problem identification process and subsequent determination of the areas for supplier development effort. It must be emphasised that early supplier involvement in the analysis is critical for successful program implementation.

#### 5.7.7.3. Negotiation and entering into a contract with suitable suppliers

Once the disadvantaged supplier has been qualified by means of evaluation, negotiation will be used to conclude a contract between the purchasing organisation and the affirmative supplier. If a disadvantaged supplier qualifies to supply a certain product or service without assistance, the supplier is able to compete with other suppliers, and a percentage preference will be awarded to the disadvantaged supplier for purposes of price comparison.

If a disadvantaged supplier should be qualifiable, the organisation will take more trouble with the development of the supplier if the organisation can benefit a great deal in future, such as in the case of insufficient competition in that specific market. The type of assistance, the obligations of the parties and the assistance period would be discussed during negotiations, along with the other normal aspects such as quantities, quality, delivery and price.

The conclusion of a contract with affirmative suppliers must still fall within the organisational policy and other stipulations. There should not be in contradiction.

#### 5.7.7.4. Handling supplier relations

Moore and Stoneham, (1991:180) and Moore, (1993:143) say that it is generally accepted that good long-term relationships with the organisation's various suppliers is beneficial for both parties. As good dependable suppliers (minority and Non-



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minority) are at premium, developing long-term relationships with qualified minority suppliers becomes critical to the success of any minority supplier development program. These relationships facilitate improved quality, sharper pricing and stronger buyer/seller relationships.

In addition, Hugo and Van Rooyen, (1990:191) say that a good long-term relationship is based on communication, understanding, loyalty, mutual respect and trust. Supplier relations are not incidental, but the result of purposeful action on the part of the purchasing organisation. In the case of disadvantaged supplier's, a long term relationship is also necessary because it often goes together with supplier development, and benefits are only obtained in the long term, therefore, developing long term relationships with qualified minority suppliers becomes critical to the success of any minority supplier development program. The role of the minority supplier is the same as that of any other supplier, that is, to provide quality goods and services at competitive prices on a timely basis, or provide value to the corporation. Poor communication with the associated prejudices, distrust and unrealistic expectations, have been singled out as great obstacles to the success of an affirmative purchasing programme.

To avoid this kind of situation, the following purposeful actions can promote the relationship between the purchasing organisation and affirmative suppliers:

- Employees and disadvantaged suppliers must understand the objective and mission of the programme from the very beginning with the aid of information sessions, workshops, publicity and written information. The expectations of each party must be clearly set out during the orientation session: The disadvantaged supplier is expected to have the ability or potential to be competitive with regard to the value to the organisation (the optimal combination of quality, delivery, service and price). The purchasing organisation is expected to identify possible opportunities for the disadvantaged supplier and to render managerial and technical assistance to a disadvantage supplier who has the potential to develop into a competitive supplier.

- Affirmative suppliers must be trained or oriented to understand the way, which a large organisation and its purchasing process work; (Lowry, (1992:232)
- An intimate knowledge of the other organisation, products, services, customers, strong and weak points, organisational structures and climate is necessary for a mutual understanding between the purchasing organisation and the affirmative supplier; (Lindsey:1990:385)
- The purchasers and disadvantaged suppliers may follow a project or team approach. The team must meet on a regular basis to discuss changed needs, the competitiveness and cost reduction of as well as new opportunities for the affirmative supplier; (Lowry, 1992:234)
- The selection of disadvantaged suppliers must be used to improve relations between the parties by pointing out the supplier's shortcomings; (Williams, 1990:397)
- The purchasing organisation must be friendly, open and frank with the reasons for the non-awarding of a transaction. (Williams, 1991:180).

As a result of the necessity for close involvement and a long-term relationship between the purchasing organisation and the affirmative supplier, one could refer to a "partnership" between the parties. Like most partnerships, programs will succeed only when the partners share the following:

- A commitment to a goal
- An understanding of their respective roles and responsibilities
- An ability to carry out those roles and responsibilities
- A genuine concern for the long term success of their partner

The common goal is the corporation's customer satisfaction. It may be measured in terms of quality, innovation, pricing, or service, but the bottom line is customer



satisfaction. If the partnership is to be successful, minority suppliers must share the corporation's pursuit of customer satisfaction.

The roles and responsibilities of buyer/seller, corporation/supplier must be clearly understood in this partnership. The role of the corporation is to procure quality goods and services at competitive prices. It is the responsibility of the minority supplier development program to facilitate minority access to this process through the tools available.

#### 5.7.7.5. The development of disadvantaged suppliers

Moore & Stoneham, (1991:189) and Moore, (1993:146) argue that the development of suppliers must necessarily go hand in hand with a long-term relationship. The primary purpose for the development of a disadvantaged supplier is to increase the supplier's ability to meet the standards of the organisation, rather than to accept the lower standards of the disadvantaged supplier. The cost of training the suppliers would be recouped in the long term through the benefits of a long-term source of quality products or services at competitive prices. In addition the development process makes it possible for organisations to expose the disadvantaged supplier to the unique internal environment and the culture of the organisation

In addition the training and assistance provided to the disadvantaged supplier will depend on the shortcomings of the supplier and the availability of other qualified suppliers. If there is little or no competition in the supplier market, or that the product cannot be obtained at all on the local market, it would serve the purchasing organisation well to become intensively involved in the development of a supplier, for example by helping to build up the organisation, offering financial assistance (such as research and development). Assistance can also take the form of training management and workers, technical training, helping with the manufacturing process, purchasing and marketing.

#### 5.7.8. Control over disadvantaged suppliers

Mooney, (1992:376) says that just as the organisation and the organisational functions must be controlled, so the affirmative purchasing programme must be controlled to determine whether the set objectives have been achieved. This type of control requires a reporting system that rapidly provides accurate and detailed information.

Normal criteria for evaluating suppliers can also be used when evaluating disadvantaged suppliers, for example the number of rejected order. The number of late orders, a price comparison with prevailing market prices or historical prices.

#### 5.3.1. Establish an outreach programme

The performance of disadvantaged suppliers should not be measured against that of others, but against the supplier's own performance to determine whether there has been progress. Constant feedback is important for the long-term success of the programme, as it would serve two main purposes: giving recognition where it is due and emphasising areas where additional effort has to be made.

and make small and emerging suppliers aware of the corporation's effort to establish linkages:

To conclude this section, an affirmative purchasing programme will only make a contribution towards economic equality and be successful on the basis of sound business principles if it is (1) well organised; (2) that it is managed in accordance with accepted management principles; and (3) fully supported by each person within the organisation, in particular within the purchasing department. Affirmative purchasing programmes must constitute a team effort on the part of the entire organisation.

• Visiting townships in the supply area of the corporation and doing a walk and

## 5.8. FRAMEWORK TO FIND AND DEVELOP SMALL AND EMERGING SUPPLIERS

being involved with the communities by organising fairs and trade shows with entrepreneurial associations in townships:

Nieman, (1997:1) says that literature on the subject relating the implementation of AP programmes do not offer solutions or a framework to address or bridge the constraints or obstacles encountered by small businesses. Therefore, he suggests a framework whose goal and objectives is: to establish business relationships with small or emerging suppliers of goods and services; to assist these small and emerging suppliers to efficiently and effectively manage supply/service links with the corporation; and to match small and emerging supplier's capacity with large



corporation's opportunities, needs and requirements, and support ongoing linkages. The framework is the result of a literature study, field research, and interviews with AP coordinators of major firms. It would require a concerted effort and not only lip service to the support and development of the emerging black businesses. (Nieman, 1997: 1-5).

Major private sector firms and government to find and develop small and emerging suppliers can use the following steps or a framework:

### 5.8.1. Establish an outreach programme

Finding suppliers is a first step of forming an ongoing collaborative relationship with small and emerging suppliers. It is not an easy task and management will have to establish an outreach programme in a concerted effort to establish a database of SMME vendors. The following methods can be used to find and make small and emerging suppliers aware of the corporation's effort to establish linkages:

- A national advertising campaign especially in publications such as "Enterprise" and the "Sowetan" which are read and aimed at the previously disadvantaged communities;
- Local advertising campaign using billboards and pamphlets to create an awareness of the programme in townships;
- Visiting townships in the supply area of the corporation and doing a skills and capability "audit" of enterprises that possibility could become suppliers;
- Becoming involved with the communities by organising fairs and trade shows with entrepreneurial associations in townships;
- To develop and distribute suppliers guides for small and emerging contractors;
- Contact organisations with existing databases and or linkage programmes to broaden the base of suppliers. The Black Integrated Commercial Support Network (BICSN) and Business linkages for under utilised Enterprises (BLUE) have databases of black enterprises and have an objective to

encourage South African businesses to source goods and services from these firms. (Tarr, 1997:1).

### **5.8.2. Create a database of small and emerging suppliers**

Nieman argues that it is imperative to collate the data collected in the first phase on a database. Buyers as well as circulars can use this for easy reference or newsletters to the small and emerging contractors to keep them informed of the progress and/or success of the programme.

### **5.8.3. Set up a “help” desk for small and emerging suppliers**

This can be an existing person in the procurement office or a new position who would be working closely with the Affirmative Purchasing Coordinator. A toll-free number could be considered and would be of great help to small suppliers in the townships. The objective of the help desk would be to handle all enquiries from small suppliers and to help them in preparing quotation. It would help to bridge the communication problem experienced by small suppliers.

### **5.8.4. Train the small and emerging suppliers on the database**

The small suppliers on the database should be trained in the purchasing and quality procedures of the corporation as well as management principles. This training could be done on the premises of the corporation or in the townships. The aspects in the suppliers' guides could be covered and working handbooks could be supplied. The affirmative purchasing programme should be discussed and that would be an opportunity to rectify misplaced perceptions or expectations on both sides. These trainings sessions should help in identifying those small suppliers who are capable and competent to meet the requirements of the corporation.

### **5.8.5. Set targets and budgets for involvement of small and emerging suppliers**



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Together with the procurement department, management should identify purchasing opportunities, needs and requirements for the business, projects and undertakings. These opportunities should be translated into targets and budgets for involving small and emerging suppliers in the procurement programme. The creation of breakout tenders or subcontractors, which can be allocated on a “round robin” basis, could be considered. In the USA, the AP programme is often extended to the first tier (prime suppliers) by encouraging them to buy from the second tier (in this case small and emerging) suppliers. This can be a consideration in the awarding of major contracts.

#### 5.8. Post award counselling

##### 5.8.6. Pre award counselling

In dealing with prospective small suppliers it is suggested that potential suppliers be identified from the database and that the buyers meet with them before inviting quotations. The various buyers can satisfy themselves as to the suitability of the candidate to meet the requirements or to perform.

##### 5.8.7. Establish partnership or mentoring programme

It might be necessary in most case to provide assistance and advice to small suppliers who have contracted with the organisation. A mentorship programme where someone from the organisation is assigned as a mentor to the suppliers can be used. In the case of major items a partnership can be established until the suppliers has acquired the necessary skill and expertise to manage projects on his/her own. This step should measure prompt and satisfactory fulfilment of the contract.

##### 5.8.8. Financial support

Although it is not the objective of large corporations to supply finance to small businesses, some form of financial assistance would be required to get the programme operative. Any (or all) of the following methods could be considered:

- Faster processing and payment of invoices to assist them in their cash flow management;

### University of Pretoria etd – Gomes, N A G S (2006)

- Advance payments in respect of the material and labour content of their contract. This method was used to a great extent and with great success by Armscor in the 1960s and 1970s to develop suppliers, many of which are now listed;
- Supplying letters of intent to small suppliers to help them in obtaining finance from banks;
- Supplying or guaranteeing equipment loans of the small suppliers

#### 5.8.9. Post award counselling

Communication seems to be one of the major problems encountered by small and emerging suppliers. It is therefore suggested that post award sessions be held with these suppliers on a monthly basis. These sessions can be used to give feedback to suppliers who were not successful and even to use the successful bidders as role models. These sessions can serve as a step to discuss the corporations' expectations with successful bidders before they proceed with production or delivery of service and goods.

#### 5.8.10. Evaluation, feedback and retrain

The purchasing department or the Affirmative Purchasing Coordinator should prepare reports on activities, progress and problems identified at meetings on predetermined dates. Small and emerging suppliers should be invited to attend and participate in these meetings.

The evaluation of individual suppliers is also necessary. At such meetings the buyers can discuss and give feedback and advice to suppliers on price, quality, delivery and other aspects of their individual contracts. From the reports and these evaluations the corporation can decide where to adjust or adapt its small and emerging supplier development programme as whole.

Nieman (1997:5) alerts that there are many SMMEs in the black townships of South Africa who can take part in the tendering/procurement process but government and private business will need to improve their communication and their efforts in bringing



them into this process. This will, however require a mindset and policy change in most organisations if they wish to implement an affirmative purchasing programme successfully.

To conclude, Nieman, (1997: 5) argues that the vast purchasing power of government, parastatals and South Africa's large corporations can be a force in bringing previously disadvantaged enterprises to their rightful place in the economy, and lead to normalising South Africa's economy. The affirmative purchasing programme can create alliances between experienced white managers and previously disadvantaged black entrepreneurs which provides an ideal point of departure for harnessing and integrating the creative potential of the informal sector, with the business structure from the formal sector.

## 5.9. CONCLUSION

The aim of this chapter is to look at methods or frameworks where certain aspects must be considered when corporations intend to implement AP programmes. However, certain issues which affect their success where discussed.

Dollinger *et al* defined AP programmes as specific purchasing strategies implemented by corporations to attract small business firms by corporations to attract small business firms owned by minorities and women.

Heinritz *et al* says that AP programmes represent proactive efforts by government and corporation to increase the volume of goods and services purchased from MBEs.

Those definitions complement each other and involve two distinct phases one following the other in implementing AP programmes, because to define the first one uses the words "to attract small businesses" (the first phase) and the second one "to increase the volume of goods and services" (the second phase). Both definitions involve words such as strategies, efforts, which mean that there are certain procedures, which should be considered to implement an AP programme.

Hugo and Badenhorst said that the objective of corporate purchasing programmes is aimed at the empowerment of previously disadvantaged businesses (PDB). This is a valid argument as long as the AP programme is efficiently and effectively implemented and the corporation's genuine objective is to help the integration of PDBs in the economy.

Dollinger et al argued that MBE programmes serve to comply with social responsibility requisites, but at the same time it makes good business sense. It also provides a structured means of facilitating the utilisation of AP suppliers. This argument is one that can be difficult to argue against because as it was seen in the previous chapter, disadvantaged groups are becoming a powerful voice whether there minorities or majorities.

Some of the problems encountered in implementing AP programmes, where discussed. These problems have been experienced by firms trying to implement them and by the AP firms. Therefore, careful consideration should be given so that corporations and AP firms find ways to counteract it.

Factors which disadvantaged supplier's regard as promoting AP programmes are: diffusion of information, good communication, training and development, assistance and government policy incentives.

Hugo and Badenhorst suggest that the following could enhance the development of DBB programmes: the use of second and third tier, corporate supplier forums, corporate assistance programmes and the establishment of central information centres.

Badenhorst suggested a model for a successful AP programme. The following items are part of the model framework: firstly, the objective of the organisation, the origin of the idea and the objective of the AP programme should be addressed when starting to implement an AP program. The next elements addressed are: commitment of top management; the staff orientation; planning; organising the AP programme; publishing the programme; selection of suppliers and control over disadvantaged suppliers.



Nieman suggested a framework to address the obstacles encountered by small businesses relating to the implementation of AP programmes. The following elements were discussed: the establishment of an outreach programme; the creation of a database of small and emerging suppliers; the setting up of a help desk for small and emerging suppliers, the training of small and emerging suppliers on the database; setting up targets and budgets for involvement of small and emerging suppliers; pre-award counselling; the establishment of partnerships or mentoring programmes; financial support; post award counselling; evaluation; feedback and retrain.

In his conclusion, Nieman urges the creation of alliances between white managers and previously disadvantaged black entrepreneurs through the implementation of AP programmes. In his viewpoint this would be the point of departure to integrate the potential of the informal sector into the formal one.

The models presented above can complement each other. Badenhorst's model is a clear strategy to implement the AP programme. Nieman's model describes steps to be implemented to ensure the success of the AP programme. This model can be very helpful especially in South Africa where big corporations are starting to integrate previously disadvantaged small businesses in their business operations. It is important to ensure the maximum success of the implementation of AP programmes because there is a need to comply with government legislation, but at the same time ensure that the resources invested in those previously disadvantaged businesses/individuals rewards the firms in terms of future profits and the sense of having contributing for the development of the local community.