

Sustainable Enterprise Development through Strategic Sourcing

Sebonkile Cynthia Thaba
Transport and Supply Chain Management
University of Johannesburg
Johannesburg, Auckland Park, 2006, SA
scthaba@uj.ac.za

Abstract

The study is reviewing literature looking into the importance of strategic sourcing in ensuring sustainable enterprise development. As organisations are mandated to create jobs as well as support local procurement. There is no way to ensure success without strengthening the strategic sourcing in ensuring a win-win situation among the stakeholders. Through collaboration and integration among stakeholders (public and private sector) strategic sourcing can be a great source for enterprise development. Some organisations in South Africa are already collaborating with government in developing enterprises. This papers demonstrate that supporting enterprise development should not only organisations spending but a win-win situation among the interrelated stakeholders. Data was collected through latest published document from scholars, public sector, government and the private sector based mostly based in South Africa.

Keywords

Strategic Sourcing, Enterprise Development, Transport Sector, Procurement, Supply Chain

1. Introduction

1.1. Background

Organisations like Imperial logistics, Development Bank of South Africa (DBSA) and SAB Miller agrees that enterprise development is a way of eradicating poverty and creation of sustainable jobs, is related to strategic sourcing covering large part of procurement. According to Anderson and Katz (1997) procurement is rapidly an important driver of organisations financial performance through the buying of good and services from other organisations is a significant role played in the organisation cost structure. As companies legally operating in South Africa are enforced to procure locally as well as developing sustainable enterprises through initiatives of Broad Base Black Economic Empowerment (BBBEE), scorecard, and Corporate Social Investment (CSI) for eradicating poverty and producing opportunities for sustainable jobs. Procurement becomes a leading role player in ensuring organisations operating in South Africa are able to deliver what is expected from them. According to Miszczak (2014) strategic sourcing lack maturity in the market and it is clear that is a work in progress and many companies did not benefit from it. This can only be achieved when the companies are able to come with a value chain which integrate procurement, strategic sourcing with enterprise development. According to Boateng (2016) by adopting strategic sourcing, both public and private sector procuring organisations can begin to seriously move towards value chain sourcing and productivity improvements as opposed to just buying. National Treasury (2015) states that a crosswise contracting through collaboration is vital for strategic sourcing and for transversal contracting, members in both private and public sectors who are skilled and professional of supply chain need to participate in cross-locational and cross-functional teams. Strategic sourcing could be an answer to a pillar to come with interventions which will lead to sustainable enterprises.

This study concentrate on the transport sector as it saw a gap when it comes to sustainable supplier and enterprise development. The transport sector include the public, private and government department and municipalities. Enterprise and supplier development is the B-BBEE scorecard with the highest weight, Table 1.

2. Literature review

The study chose literature review as suitable strategic sourcing business model for transport sector to leverage sustainable supply chain management and enterprise development which will lead to socio-economic development. Boateng (2016) defines Strategic Sourcing as conscious and selective process of applying business strategies and relationship management skills to purchasing expenditure areas in a way that it ensures the results of organisation's overall goals. According to Chen and Guo (2014) strategic sourcing is considered as the most integral component of the organisation's overall goal strategy. Talluri and Narasimhan (2004) states that strategic sourcing decision making must not only be based on operational standards like delivery, costs and quality but also include long term goals and abilities of suppliers such as pushing for quality management practices, design and development competencies and cost reductions know-hows.

Du Toit and Vlok (2014) states that the theme of supply chain management (SCM) has gotten broad enthusiasm from researchers and also practitioners in the field and is a significant point as is governing component in organizations' procedures to enhance productivity it incorporates the administration of all activities and segments within an supply chain. According to Boateng (2016) supply chain management is about working together collaboratively ensuring long term shared benefit, by breaking down isolations and self-centred thinking within a value chain figure 2.1. According to Cieslik (2016) participation in value chain will bring an increase in sustainability projections for transforming those who are benefiting into stakeholders, bringing interventions and involving current stakeholders as well, when the project is implemented. At the root of this approach lies the assumption that local communities can be effective channels of development if they receive a genuine delegation of powers and responsibilities in Figure two, strategic sourcing is one inner internal piece of supply chain and procurement which can lead to sustainable supply chain management (SSCM). Frostenson and Prektert (2015) distinguish traditional SCM and SSCM, stating that the SCM is concerned with management of material, information and capital flows while SCM stresses on the three sustainable development factors, economic, environmental and social goals with the aim of achieving the stakeholders goals and more importantly to be seen as an activity that seeks to meet the needs of the present generations without compromising the likelihood of future generations to meet their needs.

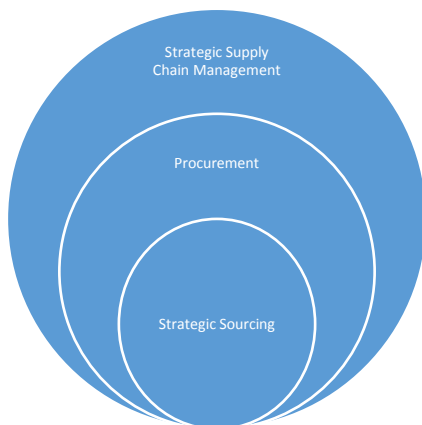


Figure 2.1. Systematic Diagram linking SCM, Procurement and Strategic Sourcing. Source: Boateng (2012)

Ryan (2012) states that the key to South African national strategy for sustainable development is not just for achieving the job creation for short term goals but is about achieving long term goals for the economy that grows and be on the

same level with developed countries. Boateng (2016) mentions that “Africa can avoid the short term gain long term syndrome” by encouraging sourcing aspects of SSCM which will take time to strengthen up but eventually will lead to potential benefits of strategic sourcing in table 3.1. Imperial logistics South Africa (2016) states that to achieve enterprise development scorecard points is a matter of working hard in skills development and preferential procurement which will not be achieved in a short term process.

3. Research methodology

4. Findings

It is find out that, most of the organisations in the transport sector are mandated to creation of jobs as well as sustainable supplier and enterprise development. According to the desktop research and few visit to the organisation, what is not yet being exploited which can create business opportunity, environmentally friendly, sustainable transport, and creation of jobs and most importantly reduction of poverty is the renewable energy. The study identified three organisations which are currently working towards renewable energy, or have tried the renewable fuels before. Currently South Africa is still heavily relying on fossil fuel and other non-renewable fuel. The country have not yet come with a value chain model which can replace fossil fuel and concurrently eradicate poverty and create employment.

Companies like Scania South Africa are going green by manufacturing fleet which can use the renewable fuel, but the challenge, the transport companies like bus commuter, taxi services, freight and rail are not yet utilizing renewable energy.

Companies like Putco are willing to strengthen enterprise and supplier development and have several projects running within the organisation. Which shows that the model is there what is needed is supporting the most sustainable enterprise development and this can be the renewable fuels. For example Scania and Putco can work together in strengthening enterprise and supplier development, which will definitely count in their scorecard. It is just a matter of integration from the government level up until to the SMMEs level creating a integrated value chain, which will count to enterprise and supplier chain development, socio economic development and job creation. Figure 5.1 shows the long term benefits

Table 3.1. Strategic Sourcing: Long term benefit

Potential benefits	Requirements Optimisation		Socio-economic development optimisation
Cost/price	Requirement/Demand	Improved sourcing processes	
Improvements <ul style="list-style-type: none"> • Lower unit price • Volume discounts • Payment term discounts Supply Chain Savings <ul style="list-style-type: none"> • Cost of Capital • Warehousing costs • Shipping costs Reduced Lifecycle Coasts <ul style="list-style-type: none"> • Maintenance costs • Operating costs • Disposition costs 	Management <ul style="list-style-type: none"> • Question demand • Optimise consumption • Encourage substitution • Review and alter product mix and usage Forecasting Requirements specification Review <ul style="list-style-type: none"> • Simplify specifications • Alternative products 	Improved sourcing processes Management <ul style="list-style-type: none"> • PO Processing • Accounts Payable • Receipts/Warehousing • Standardised procurement process • Other operating efficiencies Performance Monitoring <ul style="list-style-type: none"> • Structured metrics and periodic review of contractor performance 	<ul style="list-style-type: none"> • Local empowerment • Job creation • SMME growth • Industrialisation • Supplier Development • Economic development <ul style="list-style-type: none"> - Rural - Urban - Regional - continental

Source: Boateng 2016,

The strategic sourcing means a long term benefit, like Boateng 2016 stating that

1.1. Transport sector leveraging enterprise development through emerging enterprises of renewable energy (RE)

According to Yamamoto (2016) in Japan a feeding law implemented in 2012 to promote RE which contributed to a wide range adoption of photovoltaic (PV) power generation , the private companies collaborated with municipalities forming public–private partnerships in which the municipalities provided sites to companies for power generation, communities play an important role in facilitating decentralized RE diffusion. Strategic sourcing should be a long term goal where stakeholders are willing to work together towards empowering and encouraging communities they are responsible for, to participate in educational programmes which will equip the communities with the relevant skills and expertise to can be partners in the stakeholders businesses. To achieve South Africa organisation it could be government, civil society or companies, need to first address the main challenge South Africans are facing which is lack of education which results in limited skills and expertise to can run successful enterprise. Working on this limitation from the roots will lead to sustainable enterprise development. All the affected stakeholders need to play a role in establishing a value chain which it's believed will be strong enough to reduce the imports of various products which could be easily produced as well as successfully procuring locally. With the right technology, skills and expertise South Africa can manage to produce renewable fuel in replacement of fossil fuel learning from the RIEPPPP programs in Eskom holdings South Africa.

1.2. Enterprise and supplier development in South African context

There are so many terms in South Africa which are associated or linked to enterprise development. The terms and new legal concepts are aiming to equalize the two economies that are still being experienced by the country. So far poverty and unemployment are still playing a huge role in South Africa. Hence after 20 years still many people are not seeing what empowering has done so far. According to Herman (2013) in South African status so far empowerment is a standard but unclear element designed to have impressive effect of development but is lacking meaningful content created as results of socially complex and contested past experiences the country faced. This is due to lack of implementing roots of the problems South Africans are faced with. Khumalo (2014), Thaba and Mbohwa (2015), and Kanyane and Ilorah (2015) have identified the main cause of failure of some of this initiatives especially in the enterprise development sector particularly with cooperative enterprises which is lack of relevant skills, literacy and continuous training are the main drives of unsuccessful of SMMES. Which this is with the particular group targeted by government to play role in the economic development of South Africa. Most of the people in this group, still lacks the capability as well as expertise to can run successful enterprise. Even those some of the challenges are find with the policy, legislation and politics.

The terms such as BBBEE (Broad Base Economic Empowerment, enterprise development, Reconstruction and Development Programme etc., all can have different objectives but their overall goal is one, eradication of poverty and creation of sustainable job opportunities. According to Verwey (2011) BEE compliance is measured by means of a scorecard which is based on various elements. The BEE scorecards consist of seven elements namely economic development, supplier and enterprise development, management control, preferential procurement, ownership, employment equity and socio-economic development. All mentioned above can be reached through the strategic sourcing with the relevant companies which will be cost efficient as well as addressing South Africa's socio economic challenges. Vitasek (2016) states that there is existence of different statistics, expertise in the procurement field agree that companies spend between 40-80% of revenue with suppliers by assisting them with their manufacturing, developing, selling and servicing of the products approximately one-portion of obtainment spend is on procurement that require a more advanced way to deal with sourcing. Metrobus (2016) states that Supply Chain Management Office has been set up to guarantee that it adequately deals with the exercises inside the supply chain, with the sole and ponder objective to expand viability and proficiency of the business units and to guarantee that the procedure is streamlined, successful, straightforward, reasonable and fair Preferential Procurement Policy (PPP). It is gone for expanding the volumes of buys from focused classes of society and to encourage the advancement and usage of such undertakings. Merchandise and ventures will be sourced from focused classes of society with a think perspective of evening out market openness of the already minimized gatherings and in this manner guarantee that they have an important part in the improvement of our economy.

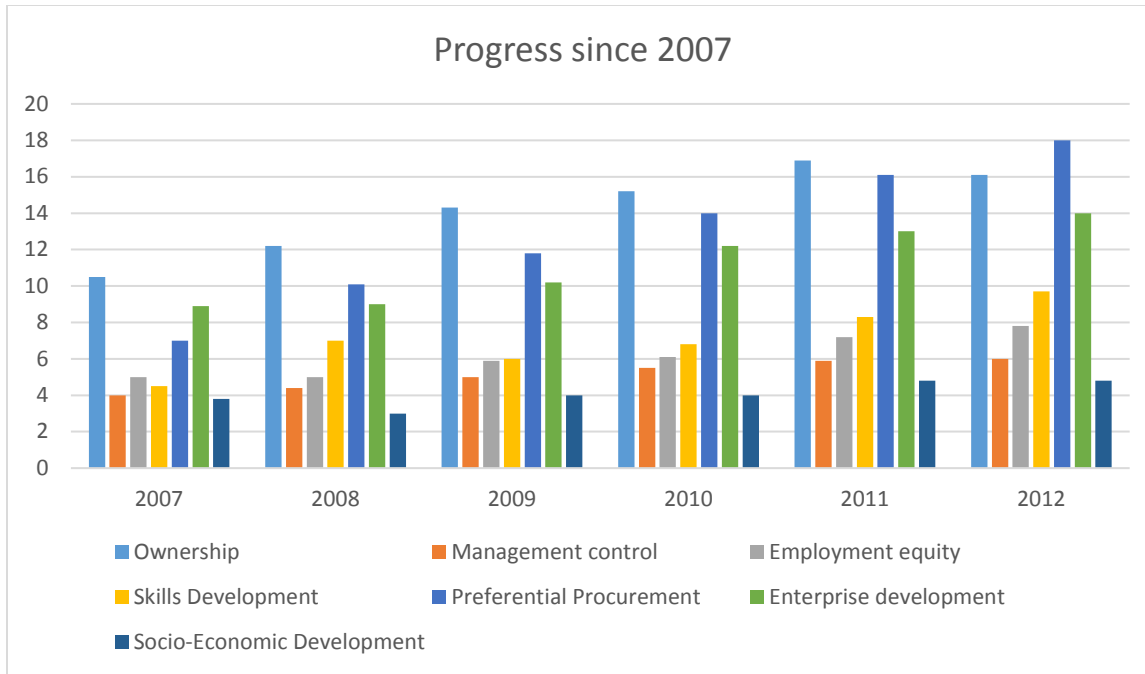


Figure 1.1, B-BBEEE Progress since 2007, Source DTI (2012)

Metrobus' Supply Chain Management policy is planned to be predictable with the objectives of the Broad Based Black Economic Empowerment Act, 2003 (Act 53 of 2003) advancing the standards of the Reconstruction and Development Program and in addition the government's strategies identifying with socio-economic goals. Each and every year B-BBEE is slightly increasing, which shows progress. Figure 1.1 shows that enterprise development and procurements are one of the leading factors which shows positive growth each year. There are organisation who have taken enterprise and supplier development as part of their strategic sourcing. Figure 1 shows that preferential procurement has been recognized as an instrument to make and increment open doors for BBEE ventures and address social economic issues. With the revise score card the enterprise development and supplier development weighting the highest point post comparing to all the other scorecards. It is clear that much needs to be done in terms of enterprise development. For transport sector to initiate new projects it could be very beneficial. Fighting poverty and ensuring equity have to be a step by step process which every organisation had to ensure it strategically plan for it. Need not to only take it as a mandate but part of the organisation's objectives and goals.

Table 1.1, B-BBEEE Score Card Points, Source DTI 2012

Element	Code series	Revised weighting
Ownership	100	20 points
Management control	200	15 points
Skills Development	300	20 points
Socio-economic development	400	40 points
Total	500	105 points

2. Recommendations and Discussion

2.1. Sustainable enterprise development – strategic sourcing- Framework

The government department have leverage to many organisation who are supplying to them. To make it more competitive government should make long term relationship with this suppliers in a way that government encourages and together with suppliers' works on value chain integration. The government contracts with Metrobus, with support from government Metrobus need to come with sustainable enterprises by procuring from the local suppliers. Through a contract there must be goals and objectives a contractor is mandated to achieve.



Figure 4.1. Enterprise development (Enterprise and Supply Development)

For transport contractors to succeed they will need to have a contract with more than one SMME/refiners/manufactures of renewable energy. There will be a need of incubation centre which is supported by both the public and the private sector to train and ensure the readiness of this SMMEs. DTI (2016) states that it initiated the business incubation programmes to develop incubators and successful enterprises with the aim of invigorating communities in order to continue strengthening participation in the economy, the aim is to ensure SMMEs participate in the economy's mainstream by partnering with well-established private enterprises which will assists SMMEs with skills transfer, supplier development and marketing opportunities. With such programmes already in existence, there will be no fuss for the transport sector to betterment the process which will results in corporate social investment.

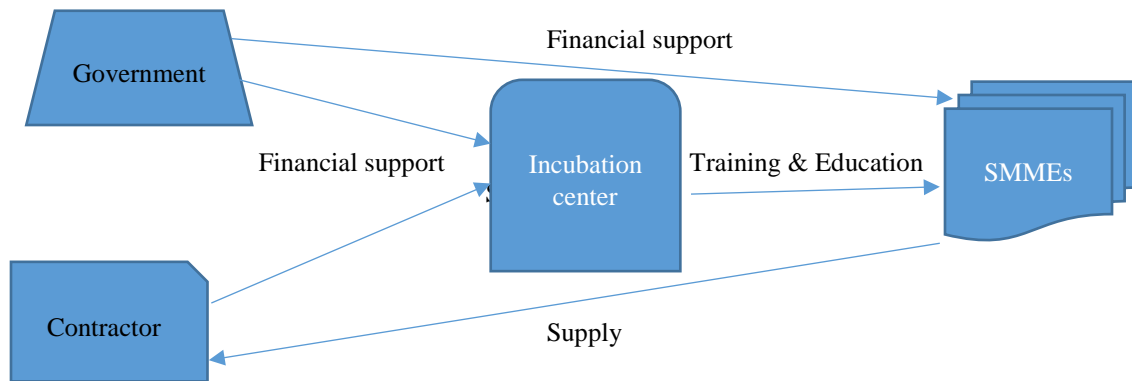
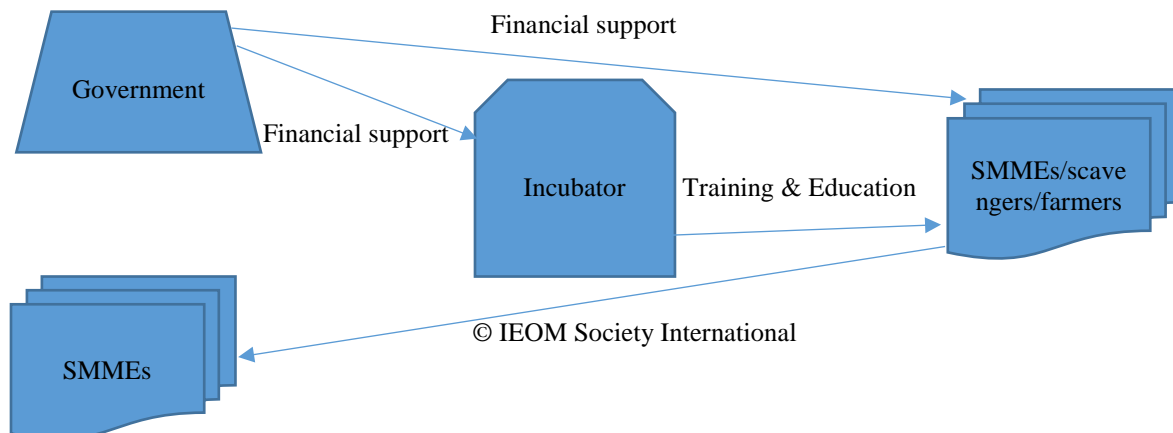


Figure. 4.2. Enterprise Development Value Chain

The SMMEs are also mandated by government to create more jobs and alleviate poverty, this will only be possible when the SMMEs are also able to develop other sustainable enterprises, by strengthening the value chain. This SMMEs will also need to procure locally by supporting the farmers and even the waste scavengers or generators. With biofuels using the virgin oil, they will need to buy from the local farmers. For the waste vegetable oils, the law will need to protect the waste vegetable oil from being exported and easily available for the biodiesel manufactures. In terms of waste the SMMEs with have to help the waste scavengers to formalise their businesses. The value chain can be vertical and horizontal, surely jobs will be increased and poverty level reduced.



Supply

Figure 4.3. Enterprise and supply development value chain

Figure 3,4 & 5 are the lead to a value chain framework which can be used within the strategic sourcing decision making as a weapon to strengthening supply chain, procurement and supply chain in the transport sector which will results in contributing to sustainable transport in CoJ. DoE (2015) states that 1000 of jobs will be created through the biofuels value chain, starting with the agricultural level for farming selected energy crops and infrastructure development for producing, storing and transporting the product to refineries and oil depots. It is very crucial for emerging farmers to enter the production value chain of biofuels, as well as opportunities of sourcing some of the projects from the SADC region to meet the demand of renewable fuels expected.

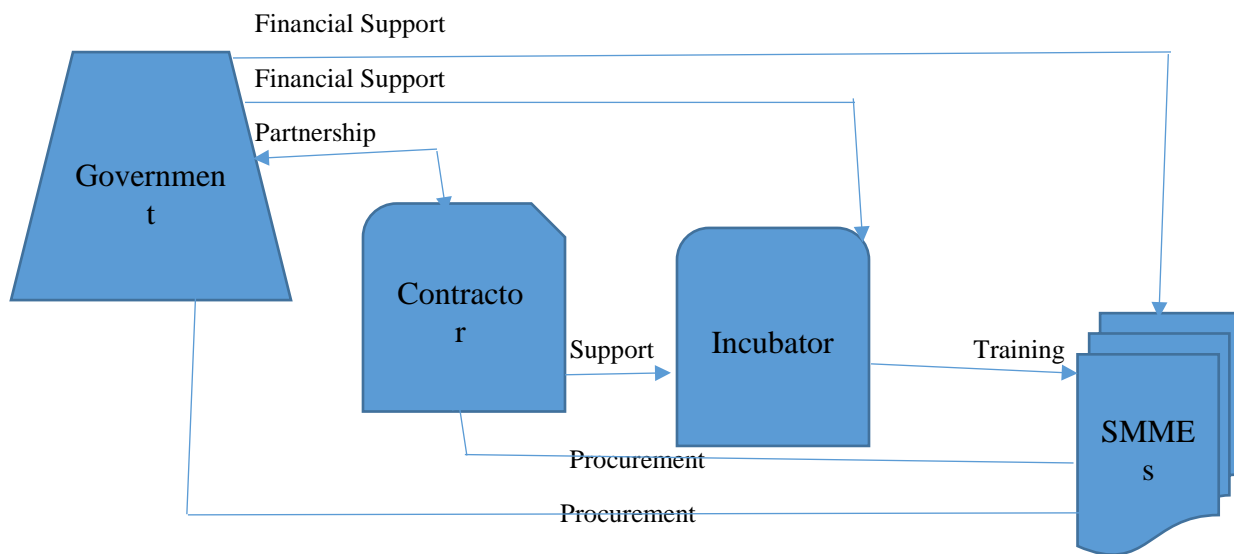


Figure 6. Integrated enterprise and supply development chain

3. Conclusion

It is evident by government that the supply chain within the public sector is having its advantages and disadvantages. DNT (2015) states that “the organisational structures and systems within which SCM takes place are in too many cases not ideal, with inexperienced or under skilled leadership, high staff turnover and lack of motivation. There may also be a lack of suitable equipment, such as computers with dependable internet connections; or information, such as databases giving up-to-date details of available products and services”. There is an evident that the there is a lack of skills and expertise in the supply chain sector within the public sector. Which also is hindering the development with enterprise development in South Africa. Lack of skills and training are also playing a role within the supply chain sector. Future research had to look into continuous learning in order to improve supply chain in the public sector and investigating the effects of poor supply chain in the growth of enterprise development. For future research this model needs to be formulated into survey questions to be tested with the interested stakeholders within the transport sector.

References

- Anderson, M. G., & Katz, P. B. 1998. Strategic sourcing. *The International Journal of Logistics Management*, 9(1), 1-13.
- Chen, J. and Guo, Z., 2014. Strategic sourcing in the presence of uncertain supply and retail competition. *Production and Operations Management*, 23(10), pp.1748-1760.
- Cieslik, K. 2016. Moral Economy Meets Social Enterprise Community-Based Green Energy Project in Rural Burundi. *World Development*, 83, 12-26.,
- DoE 2015. Strategic Plan 2015-2020, Department of Energy (DoE), available via: <http://www.energy.gov.za/files/aboutus/DoE-Strategic-Plan-2015-2020.pdf>
- DTI 2012. Amended Broad-Based Black Economic Empowerment Codes of Good Practice October 2012, Department of Trade and Industry
- DTN 2015, 2015 Public Sector Supply chain management review, Department of National Treasury (DNT)
- Du Toit, D., & Vlok, P. J. (2014). Supply chain management: A framework of understanding. *South African Journal of Industrial Engineering*, 25(3), 25-38.
- Frostenson, M. and Prenekert, F., 2015. Sustainable supply chain management when focal firms are complex: a network perspective. *Journal of Cleaner Production*, 107, pp.85-94.
- Herman, A. (2014). Are we there yet? Exploring empowerment at the microscale in the South African wine industry. *Environment and Planning A*, 46(8), 1927-1945.
- Kanyane, M. H., & Ilorah, R. (2015). The cooperative landscape in South Africa: analysing critical issues. *Africa Today*, 61(3), 2-14.
- Miszczak , M. (2014), Strategic Sourcing: A Paradigm Shift in Supply Chain Management, available via <http://dtpr.lib.athabascau.ca/action/download.php?filename=mba-14/open/miszczakmichaelProject.pdf>
- Mobin, M., Roshani, A., Saeedpoor, M. and Mozaffari, M.M., 2015, January. INTEGRATING FAHP WITH COPRAS-G METHOD FOR SUPPLIER SELECTION (CASE STUDY: AN IRANIAN MANUFACTURING COMPANY). In *Proceedings of the International Annual Conference of the American Society for Engineering Management*. (p. 1). American Society for Engineering Management (ASEM).
- Ryan, G., 2012. A comparison of enterprise development models in South Africa using case studies (Doctoral dissertation).
- Talluri, S. and Narasimhan, R., 2004. A methodology for strategic sourcing. *European journal of operational research*, 154(1), pp.236-250.
- Thaba, S. C., & Mbohwa, C. (2015). The Nature, Role and Status of Cooperatives in South African Context. In *Proceedings of the World Congress on Engineering and Computer Science (Vol. 2)*.
- Wisner, J., Tan, K. C., & Leong, G. (2015). *Principles of supply chain management: a balanced approach*. Cengage Learning.
- Vitasek, K. (2016). Strategic sourcing business models. *Strategic Outsourcing: An International Journal*, 9(2).
- Verwey, I. (2011), Development Planning Division Working Paper Series No. 18, Enterprise development unpacked: A tool for prosperity, Development Bank of South Africa (DBSA).
- Yamamoto, Y. (2016). The role of community energy in renewable energy use and development. *Renewable Energy and Environmental Sustainability*, 1, 18.

Biography

Sebonkile Thaba is a PhD fellow and Lecturer in the Department of Quality and Operations Management, University of Johannesburg, South Africa. She earned her M.Tech in Operations Management from University of Johannesburg. She presented and published 13 conference papers and one book chapter. Her research interest is on Transport sustainability, supply chain and enterprise development.