

# Strategies and models for managing ED in the SA context

April 2008

*EDGE* |

*Leading explosive growth*

# Session 2: Strategies and models for managing ED in the SA context

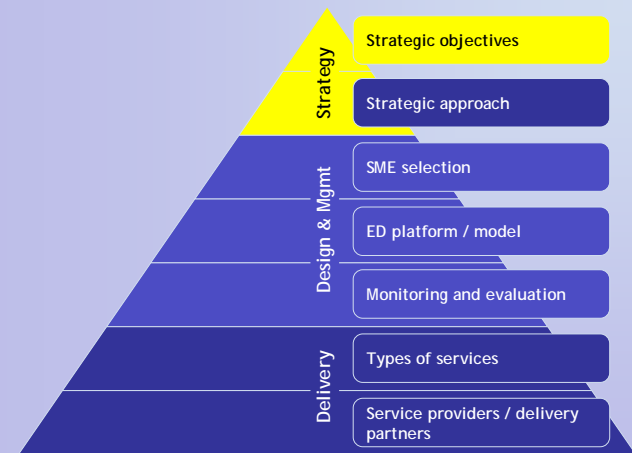
## *Contents*

- ED strategies for the SA context
- An overview of major SA ED models and players
- Understanding ED impact on your business

# Strategic objectives (1 / 3)

- An effective ED program must begin with the right strategy, of which there are 2 components: objectives and approach
- In terms of strategic objectives, the fundamental ED challenge is this: how to translate the 3% ED tax into a powerful, return generating investment
- Starting point: it is up to us to choose to have an impact, the codes will not create impact automatically

Effective ED begins with the right strategic objectives & approach; here we focus on objectives



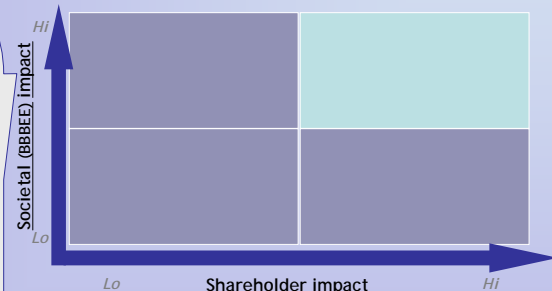
# Strategic objectives (2 / 3)

- The heart of ED strategy is about identifying the most leveraged approach and initiatives to achieve maximum impact for key stakeholders
- Not all strategies will achieve balanced impact: we must actively pursue a win/win approach (see next slide)
- Having clear objectives (esp. a focus on impact, rather than outreach) is crucial: mixing objectives (ala the donor model) is suicidal

The heart of Enterprise Development strategy is about identifying the most leveraged approach and initiatives to achieve maximum impact for key stakeholders

#### Sources of BBSEE impact

- New sustainable livelihoods / jobs
- New short-term / temporary / partial livelihoods / jobs
- Improved income security\*
- Concrete income growth\*
- Improved skills, without concrete income growth\*
- Improved access to / reduced pricing of essential goods and services for poor HDI's
- Improved access to / reduced pricing of non-essential goods and services for poor HDI's



#### Sources of shareholder impact

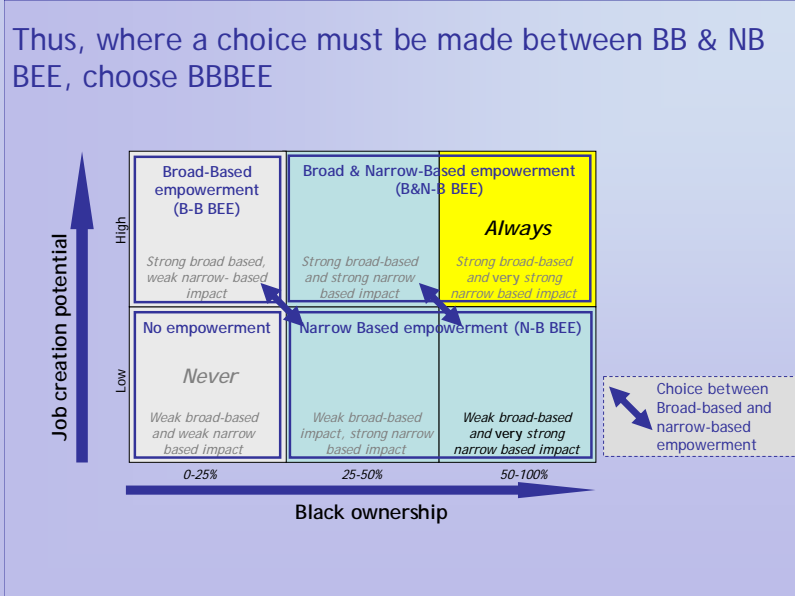
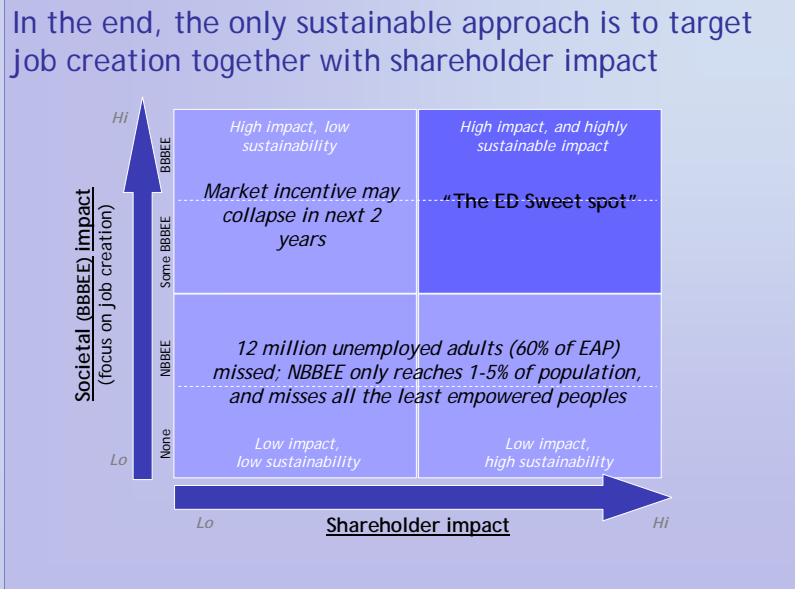
- Improving preferential procurement scores
- Strengthening supply chain performance (cost, quality, reliability, flexibility, service)
- Growing sales through building distribution (growing markets, new markets, new product-market combinations)
- Least cost interventions

Not all strategies will achieve balanced impact: we must actively pursue a win/win approach



# Strategic objectives (3 / 3)

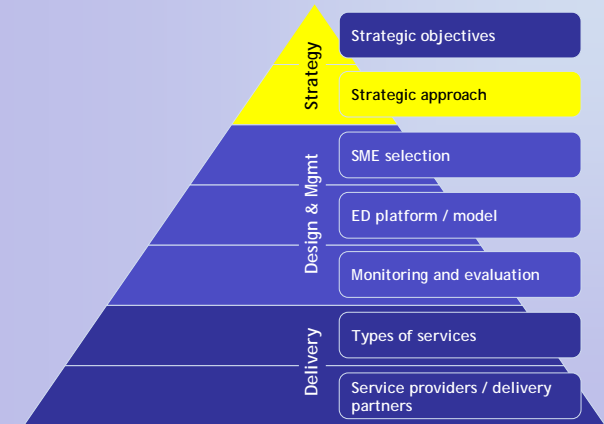
- Since we have the freedom and responsibility to design the objectives of our ED programs, prioritise broad based objectives over narrow-based
  - Global ED is about *creating maximum sustainable livelihoods*
  - SA government also recognizes the need for ED to create jobs
- 2 key areas where the NBBEE / BBEEE decision comes into play: selecting entrepreneurs, and BDS providers
  - Essential to work with effective entrepreneurs
  - Similarly, effective delivery partners are essential
- The good news: Its just as easy to achieve great impact as it is to “buy points” and achieve no impact at all



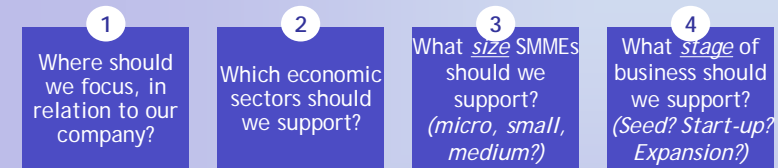
# Strategic approach (1 / 3)

- Many big companies have achieved powerful impact by aligning corporate and development objectives
- But there are several well-intentioned ED approaches that will have no beneficial outcome for SA at all
- There are many decisions to make in regard to ED implementation, but there are 4 key decisions (see right)

Effective ED begins with the right strategic objectives & approach; here we focus on **approach**



There are 4 **key** questions regarding strategic approach



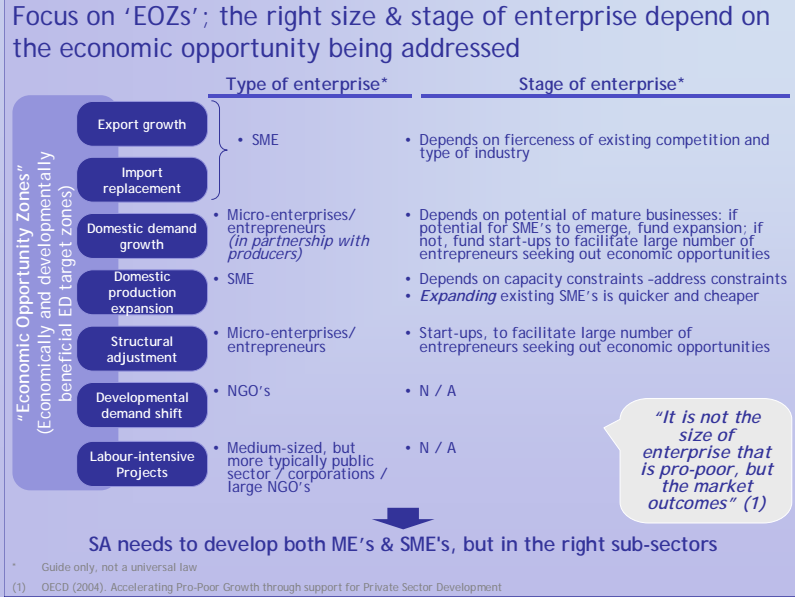
Note: choosing the right institutional ED model is part of the Design & management section

# Strategic approach (2 / 3)

- Prioritise value chain opportunities
- Target “Economic Opportunity Zones” (EOZ’s) to improve chances of a beneficial outcome; in addition, focus on labour-intensive sectors
  - Align with DTI priorities
  - Consider EOZ’s your company is best suited to support
- The right size / form of enterprise depends on the economic opportunity being addressed; however, given a choice, invest in the largest SME possible to achieve greatest impact
- The right stage of enterprise to support also depends on the economic opportunity being addressed

Corporate ED sponsors should prioritise the economic opportunity zones they are best suited to support

	Weight	Lead sectors				Asgi-SA sectors				Smaller opportunities					Other opportunities				
		L-1	L-2	L-3	L-4	A-1	A-2	A-3	A-4	S-1	S-2	S-3	S-4	S-5	O-1	O-2	O-3	O-4	O-5
1 <sup>st</sup> priority Value chain opportunities: SME's within this sector fall within corporate value chain	50%	8		7				5							10				
2 <sup>nd</sup> priority Value-add opportunities: Sector's primary needs align with unique corporate capabilities & resources	30%	6		10			10	3		3									
3 <sup>rd</sup> priority Locality opportunities: SME's within this sector fall within the operating locality	20%				2											6	3		
<b>Overall rating</b>	100%	5.8		6.5	0.4		3	3.4		0.9					5	1.2	0.6		



# Strategic approach (3 / 3)

## DTI prioritised economic sectors

Import / export “Economic opportunity zones”  
*(Strategic economic sectors for job creation in SA)*

	Lead Sectors	Asgi-SA priorities	Other major areas of interest	Still to be researched
Description	<ul style="list-style-type: none"> <li>Four lead sectors that form the central focus for the implementation of the NIPF, having emerged from research and stakeholder interaction</li> </ul>	<ul style="list-style-type: none"> <li>Four sectors from the Asgi-SA priorities framework, which are relatively labour-intensive, rapidly growing sectors worldwide, suited to South African circumstances, and open to opportunities for B-BBEE and SME development</li> </ul>	<ul style="list-style-type: none"> <li>Five major projects / sector niche’s with domestic growth and job creation potential</li> </ul>	<ul style="list-style-type: none"> <li>Five sectors with potential to contribute to competitiveness of tradable activities, and diversify non-traditional tradable activities, with some projects already underway, but no coherent sectoral approach / strategies developed as yet</li> </ul>
Sectors included	<ul style="list-style-type: none"> <li>Capital / Transport Equipment and Metal Fabrication</li> <li>Automotive assembly and Components</li> <li>Chemicals, Plastic fabrication and Pharmaceuticals</li> <li>Forestry, Pulp and paper, and Furniture</li> </ul>	<ul style="list-style-type: none"> <li>Business Process Outsourcing</li> <li>Tourism</li> <li>Biofuels</li> <li>Clothing and textiles</li> </ul>	<ul style="list-style-type: none"> <li>Diamond beneficiation</li> <li>Jewellery</li> <li>Agro-processing</li> <li>Film and television</li> <li>Crafts</li> </ul>	<ul style="list-style-type: none"> <li>Mining and mineral beneficiation</li> <li>Agriculture / agro-processing</li> <li>ICT (services and products)</li> <li>Creative industries</li> <li>White goods</li> </ul>

Source: DTI (2007). IMPLEMENTATION OF GOVERNMENT’S NATIONAL INDUSTRIAL POLICY FRAMEWORK: INDUSTRIAL POLICY ACTION PLAN. August 2007

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# Overview of major SA ED models and players

- Many direct ED models exist globally, most of these are in place in SA
- The appropriate model depends on the needs of the SMMEs being supported
- Most SME's will require medium- to long-term incubation support

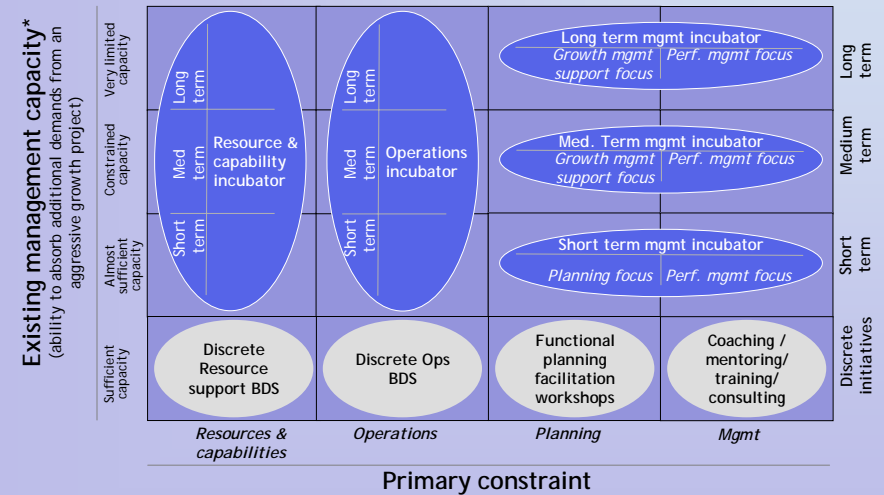
Most global ED models are in place in SA

Primarily financial			Primarily non-financial services focus				
Venture capital	Development finance	Microfinance	Business Centres	Business Incubators	Virtual Business Incubators	Entrepreneur development	Focused Service Providers
<ul style="list-style-type: none"> <li>• HBD Venture Capital</li> <li>• IDC Venture Cap SBU</li> <li>• Anglo Zimele</li> </ul>	<ul style="list-style-type: none"> <li>• IDC</li> <li>• Khula / Ntsika funds</li> </ul>	<ul style="list-style-type: none"> <li>• Grofin</li> <li>• Wizzit Bank</li> <li>• Capitec Bank</li> </ul>	<ul style="list-style-type: none"> <li>• The Business Place (Investec)</li> <li>• SEDA</li> </ul>	<ul style="list-style-type: none"> <li>• Raizcorp</li> <li>• ChemCity (Sasol)</li> </ul>	<ul style="list-style-type: none"> <li>• Edge Virtual incubator</li> <li>• ChemCity (Sasol)</li> </ul>	<ul style="list-style-type: none"> <li>• Endeavour (NGO)</li> <li>• SAIE (NGO)</li> <li>• Enablis (NGO)</li> </ul>	<ul style="list-style-type: none"> <li>• The Business Partners mentoring/coaching platform</li> </ul>
Holistic models							
Sector / VC development	Distribution development	Supplier accelerators	Hybrid models (many varieties)				
<ul style="list-style-type: none"> <li>• Technoserve (esp. rural)</li> <li>• ComMark Trust</li> <li>• ADCI/VOCA (UN)</li> </ul>	<ul style="list-style-type: none"> <li>• Many internal corporate SD programs (e.g. Coca Cola, Unilever, Shell, BP)</li> </ul>	<ul style="list-style-type: none"> <li>• edge Supplier Accelerator</li> <li>• Many internal corporate SD programs (e.g. Sasol)</li> </ul>	<ul style="list-style-type: none"> <li>• edge Virtual Incubator</li> <li>• National ED Platform / EDS</li> <li>• RaizCorp</li> <li>• Business Partners Private Equity</li> </ul>				

# Session 2: Strategies and models for managing ED in the SA context

- Its important that the type of incubation support matches the needs of the enterprise
- Base your choice on the relative advantages and disadvantages of each model (1/3)
- Holistic models, esp. supplier development, have more impact because they create a virtuous cycle for accelerated SME growth

Its important that the *type* of incubation support matches the needs of the enterprise



Note: Excludes the "facilities" consideration; i.e. whether or not the entity requires access to affordable premises & facilities

\* Assumes high calibre management; this measure of capacity focuses on "volume" of management

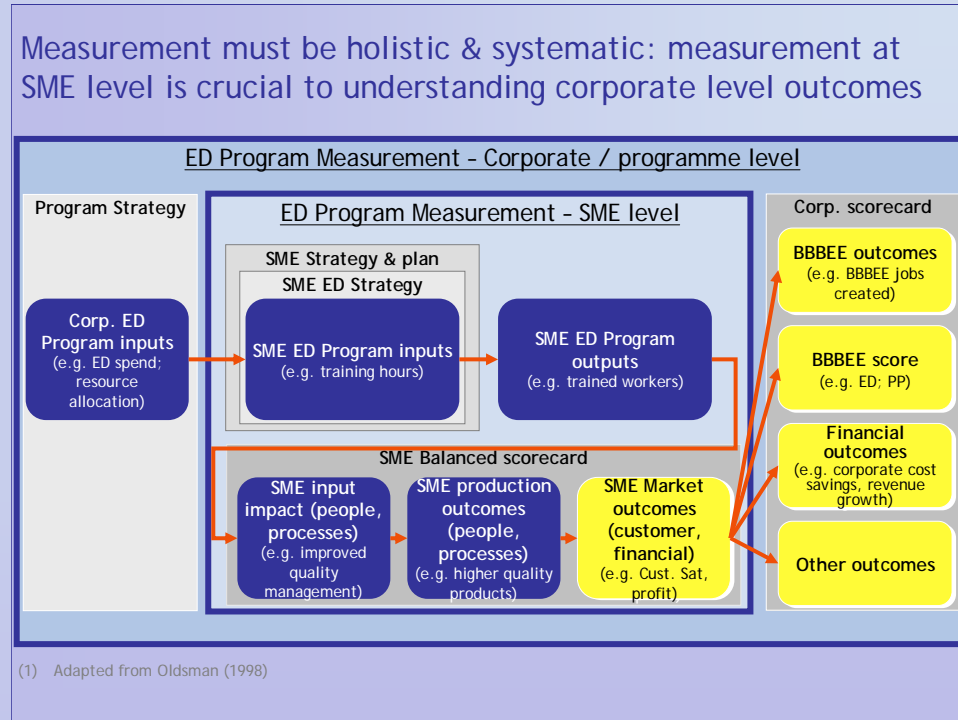
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# Understanding ED impact on your business (1 / 2)

- There are 2 forms of impact for corporate ED sponsors to be aware of: Direct and Indirect
- Measurement must be holistic & systematic: measurement at SME level is crucial to understanding corporate level outcomes
- At SME level, there are 4 general criteria for measuring performance of BDS; effectiveness is most important
- Measuring impact is only possible at an holistic program level, and even then it is difficult



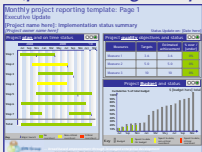
# Understanding ED impact on your business (2 / 2)

- If measurement must take place non-holistically (on a short time frame), use the updated Kirkpatrick's model to determine the best measurement approach
- A Balanced Scorecard approach measures the SME's performance (and the effect of the BDS) on a sustainable basis
- Measurement and reporting must take place at both a Programme and SME level, and must be comprehensive
- Designing a M&E approach is complex: there are several conflicting needs to consider and balance

Measurement and reporting must take place at both a Programme and SME level, and must be comprehensive

**SME impact measurement**

Monthly progress review  
(plan, budget, quality of impact)



• Standard output from incubation process

Annual performance review

**SME B-Scorecard review**

	Customer	Finance	Internal processes	People
Strat. Obj's	Loyal customer	Market leading profitability	Best practice ops productivity	Loyal, committed, engaged team
Measures	CSi	MPR1	OTAT delay	SSS survey
Targets	++ 10%	++ 15%	-- 10%	++ 10%
Incentives	++ 1%	++ 1%	++ 1%	++ 1%
Year 1 performance	++ 11%	++ 7%	-- 5%	++ 5%

• Standard output from Growth planning process; ensures deliverables drive strategy

**Corporate impact measurement**

BBBEE outcomes  
(e.g. BBBEE jobs created)

Objective	Measure	Target	Outcome
*	*	*	*

BBBEE score  
(e.g. ED and PPP points)

Objective	Measure	Target	Outcome
*	*	*	*

Financial outcomes / ROI  
(e.g. corporate cost savings, revenue growth)

Objective	Measure	Target	Outcome
*	*	*	*

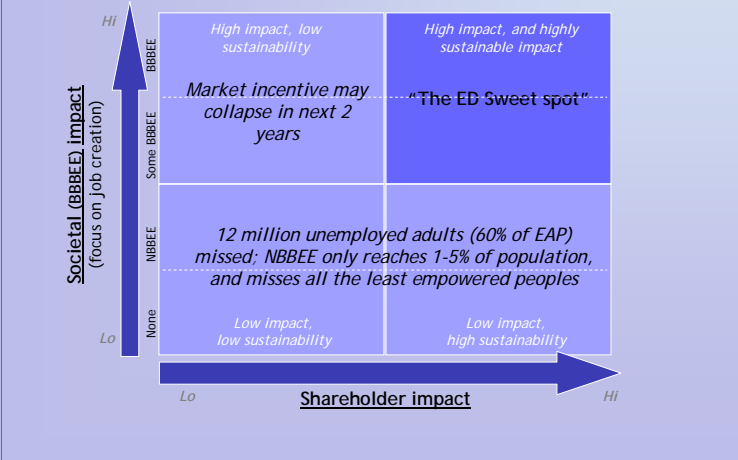
Other outcomes  
(as appropriate)

Objective	Measure	Target	Outcome
*	*	*	*

# Key take-aways

## Strategic objectives

In the end, the only sustainable approach is to target job creation together with shareholder impact



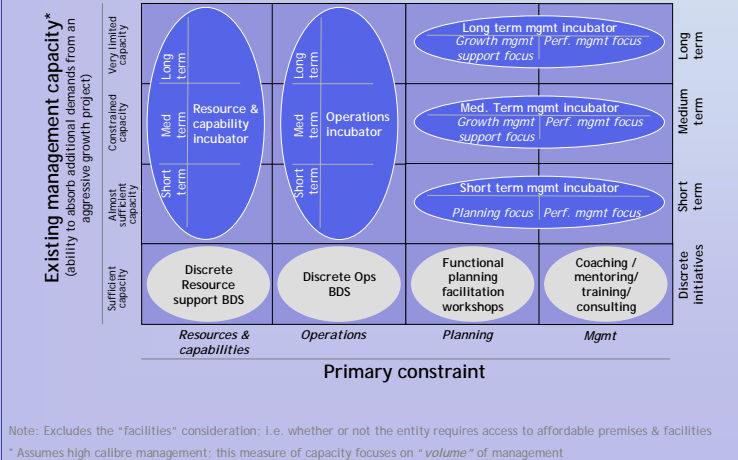
## Strategic approach

Target the right SMME's in the right sectors, and work within the value chain

- 1 Focus on value chain integration
- 2 Target Economic sectors with net positive job creation potential
- 3 Select size of SMME's according to the needs of the target sector
- 4 Select stage of SMME's according to the needs of the target sector

## ED models

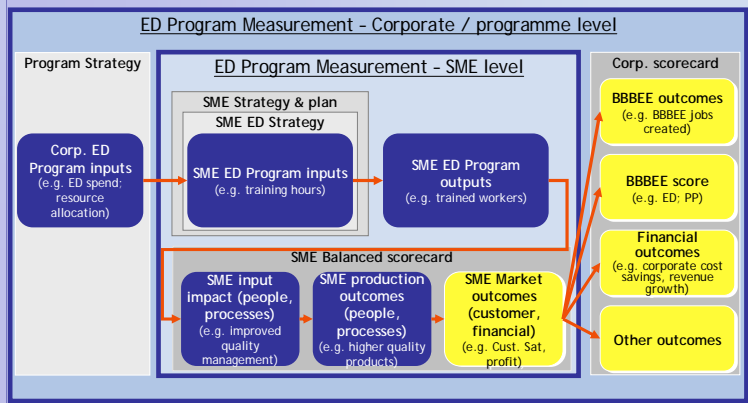
Its important that the *type* of incubation support matches the needs of the enterprise



Note: Excludes the "facilities" consideration; i.e. whether or not the entity requires access to affordable premises & facilities  
 \* Assumes high calibre management; this measure of capacity focuses on "volume" of management

## Measurement & evaluation

Measurement must be holistic & systematic: measurement at SME level is crucial to understanding corporate level outcomes

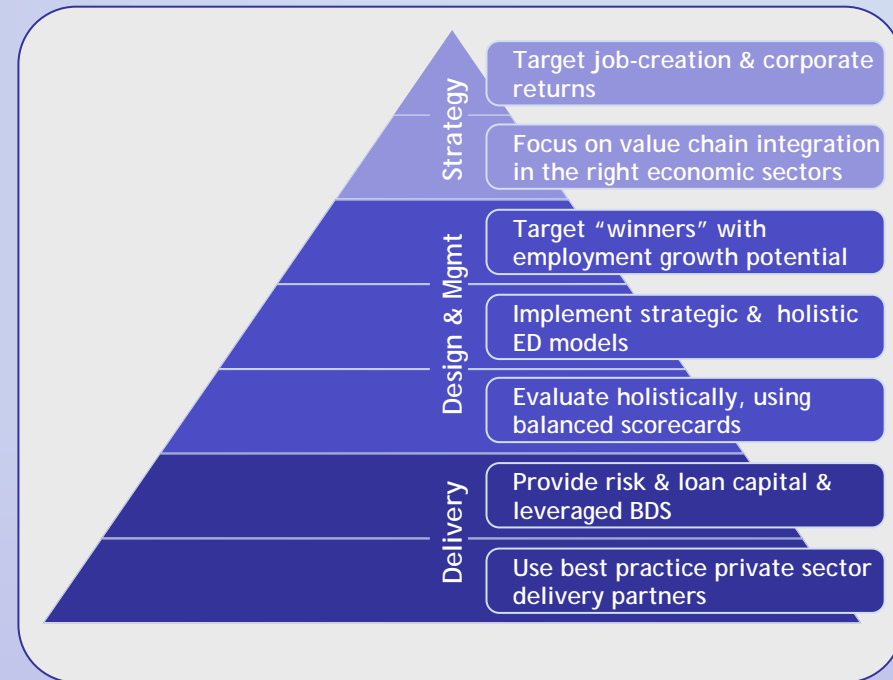


(1) Adapted from Oldsman (1998)

ED can change this nation, but it will not happen automatically; we have the *opportunity* and *onus* to do it right



**Lets not walk past**



Intent is the beginning: if maximum impact is our guiding principle, we can impact this nation!