

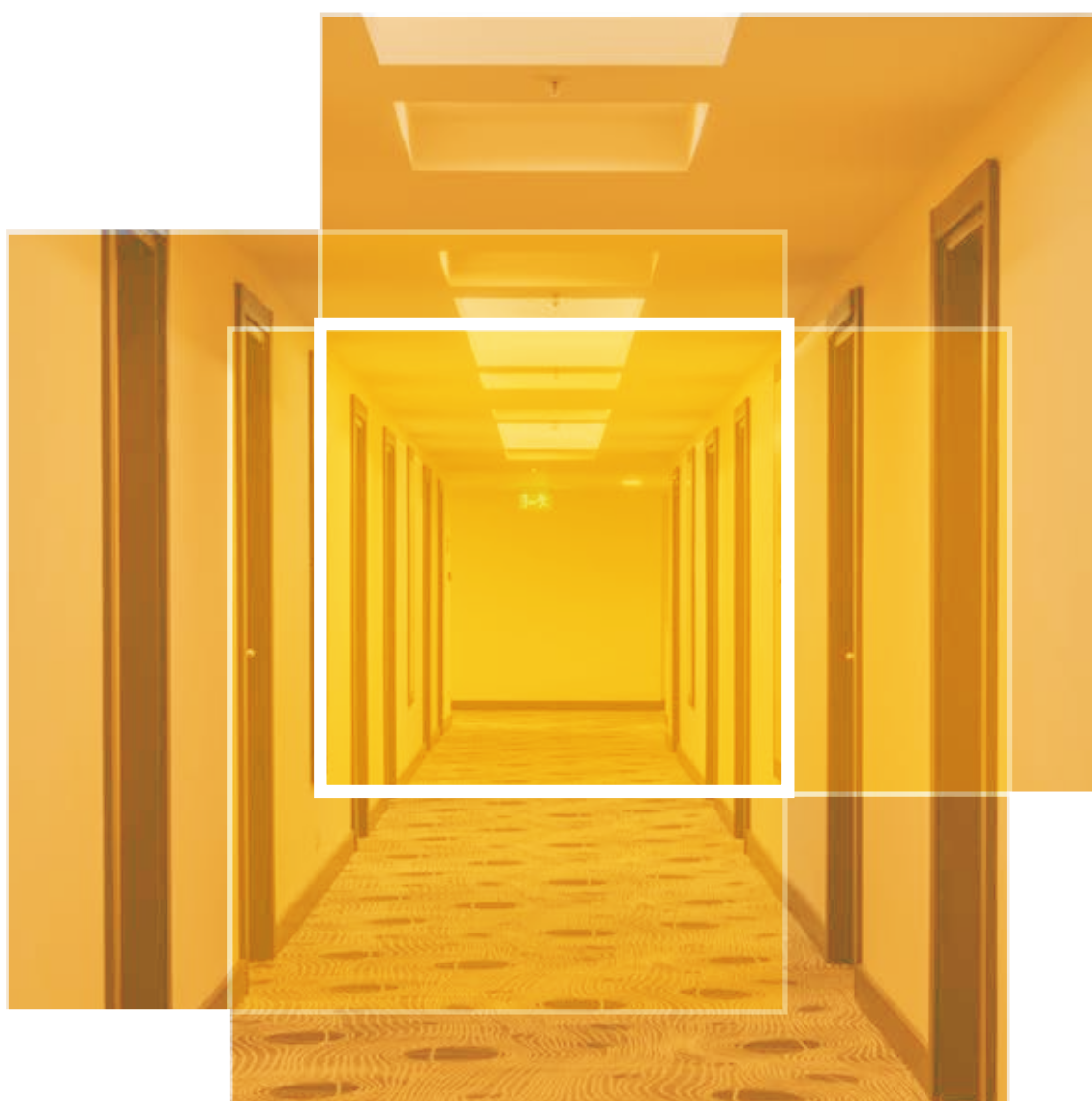


International  
Labour  
Organization

# Case Study

## **Good Procurement Practices and SMEs in Supply Chains:**

Lessons learned from the Sun International  
hotel chain in South Africa



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## EXECUTIVE SUMMARY

### Introduction

This case study looks at the relationship between a large firm in the tourism industry and the small and medium enterprises (SMEs) that supply it, in the context of a legislative framework that incentivises procurement from SMEs. It examines the Sun International group (SI), a multi-national hotel and casino chain located in South Africa, one of the few countries to have legislation that rewards multi-national enterprises (MNEs) for sourcing from SMEs. Companies that seek government contracts must adopt the Broad-Based Black Economic Empowerment (B-BBEE) framework, which rewards them following a scorecard system; in SI's case, it must comply in order to retain its profitable gaming licence. The study, based on interviews with SI's Supply Development Manager and with five of its contracted SMEs, explores the benefits and issues arising from procuring from SMEs and points towards good practice. With perspectives from actors at diverse points across the value chain, it provides an insight into market access and inclusion that is unique, considering the industry's culture of confidentiality.

### Methodology

A literature review on SMEs in the tourism supply chain was conducted to provide a context for the case study. Then, following three months of research to establish contact with large hotel international chains across Asia, Africa and Latin America, SI agreed to be interviewed and gave access to three of its SME suppliers that were engaged in different activities and at various stages of business growth. Before contact was made with the group, two other SMEs proposed by an external partner of SI were interviewed separately; these SMEs only supply one of SI's properties, a large business hotel. Thus, despite the sample being very limited, it was possible to look at different levels of engagement along the chain, both with and without the MNE's knowledge. Interviews of between 90 and 120 minutes were conducted by phone with the five SMEs, while the SI's Supply Development Manager gave two face-to-face interviews.

### Findings: the buyer's perspective

- Worldwide in the hospitality sector, sourcing locally is generally viewed as too difficult to arrange and thus does not happen on a large scale. At the operational level there is a tendency to hold onto long-established relationships with larger suppliers that are seen to be safe and easier to manage. Hotel managers are the most reluctant to deal with SMEs.
- In South Africa, pro-SME legislation is the key single factor influencing MNEs to change their approach. SI identifies three main reasons for sourcing from SMEs: (a) they offer real added value; (b) they contribute to securing the chain's gaming licence; and (c) growing SME businesses is key to creating wealth that trickles down, improving the economic landscape, and in turn bringing more business to the chain. Of these, the second is most pragmatic. When SI contracts SMEs, B-BBEE compliance has first priority in the decision-making process, followed by price and product, with service last on the list.
- Even where pro-SME legislation exists, local procurement only happens in hotel chains where the executive is committed and consciously decides to promote linkages.
- Progress is nonetheless slow. The efforts of Head Office (HO) to push hotels to source from the MSMEs contracted at group level have until now been somewhat curtailed (80 percent of procurement is decided by hotels); this is despite having produced a comprehensive database of suppliers with the input of several external partners, including government. However, the introduction of a new computerised system that will be more efficient in identifying and dealing with non-compliance is set to speed the process, as it is designed to by-pass human interaction (and thus objections).

- In order to secure benefits, it is vital that MNEs have systems to monitor compliance with all requirements made by the group, at any given time, every year. This should entail monitoring SME compliance with labour and business standards that are properly evidenced to ensure fair competition (although this should not become a burden to small businesses).
- The legislation has not remained static, but is continually evolving and becoming more exacting, and it is therefore necessary for MNEs to be proactive in order to remain compliant. SI asserts that it will shortly be integrating a number of international labour standards into its procurement process to this end.

### Findings: the SME perspective

- All SMEs indicated that they have benefited significantly from their inclusion in the SI supply chain, but there are issues as well. The foremost positive consequences are job creation and a marked increase in revenues (of up to 300 percent). While growing sales do not necessarily lead to increased profits as SMEs must invest and cut costs to keep their contracts, it has helped them to become more competitive.
- They have increased their customer base, both within and outside of the chain and with diverse clients. Improved products, a wider product range and economies of scale have increased their competitiveness.
- SMEs have improved labour standards as a result of doing business with SI, but not because the chain plays an active role in promoting and controlling these standards – it is content with mere compliance with the law, assessed by providing external documentation based on self-audits for small companies. Any improvement happens because an increase in revenue provides the cash needed to afford better salaries and bonuses, and employ more people full-time.
- In securing access to markets, SMEs must identify the true gatekeepers, who are not necessarily located at HO or in hotels. (In the case of décor, for example, the interior designer appointed by the hotel drives the agenda, not the procurement staff). Building a relationship with these individuals eases access, especially since their influence extends beyond the property they work for. The best way for SMEs to enter a hotel chain is by starting to supply to one of its properties and pushing for referrals, growing the business slowly but safely.
- The main issues experienced by SMEs relate to growth and sustainability. Once a business relationship is established, growing fast enough to keep up with demand can prove an obstacle.
- Business sustainability is viewed differently by the buyer and the SMEs. On the one hand, SMEs want to grow business with the group so as to earn more and have the opportunity to expand further. From the point of view of the buyer, however, the SME depending exclusively on dealings with the group is undesirable, and there is a fear that quality can suffer with rapid growth. This leaves some SMEs caught in the middle. Avoiding dependency on a single MNE – but also on any single supplier type (e.g. the public sector) – guarantees a sustainable approach to growth. Strategic planning for sustainable growth is crucial, but business planning is neglected amongst the SMEs. Access to mentoring or low-cost funding from external agents can make a significant difference.
- Most SMEs do not realise that they are being contracted largely because they comply with B-BBEE; instead, they believe their service to be the foremost factor. If they understood the importance placed on it, they would be better placed to match the needs of the MNE. Showing compliance is a way for them to enter the supply chain; if they can provide evidence they meet B-BBEE, they will have a much bigger chance of being integrated.

## Conclusion

South Africa's enabling legislation is the catalyst to changing traditional procurement patterns on a large scale. Not only is it pro-poor but it also punishes those that do not embrace it, which makes it a rare example in the Global South of inclusive procurement becoming a daily reality. The impact is tangible and real for SMEs; this case study's informants, both buyer and suppliers, view the legislative framework as an overwhelmingly positive backdrop. External agents can support SMEs to meet legal and business requirements, ensuring they remain competitive and grow sustainably. The ILO has a major role to play here in providing guidance as to how MNEs in the hospitality industry can work with MSMEs to comply with, and go beyond, international labour legislation.

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## 1. Introduction

This case study looks at the relationship between a large firm in the tourism industry and the small and medium enterprises (SMEs) that supply it, in the context of a legislative framework that incentivises procurement from SMEs. It examines the Sun International group (SI), a multi-national hotel and casino chain located in South Africa, and is based on interviews with SI's Supply Development Manager and with five of its contracted SMEs. The focus is on normal procurement rather than on minor projects that showcase small-scale corporate social responsibility (CSR) policies. Two of the SMEs are contracted by a single hotel, while the other three supply SI at the group level. The generous access offered by informants from these diverse points in the value chain provides a unique insight into market access and inclusion, considering the industry's culture of confidentiality.

South Africa is one of the few countries to have legislation that rewards multi-national enterprises (MNEs) for sourcing from SMEs, particularly if they are Black-owned. Companies that seek government contracts must adopt the Broad-Based Black Economic Empowerment (B-BBEE) framework, which rewards them following a scorecard system. Seen as a way to re-establish a fairer society, it also contributes to enhancing the reputation of a company, and most international groups adopt the scheme. In SI's case, it must comply with this legislation in order to retain its profitable gaming licence.

The existence of the B-BBEE framework makes South Africa an ideal location to explore the procurement practices of large corporations regarding SMEs. While this special legislative context means that all the findings will not directly apply to other localities, it offers an alternative to accounts of token CSR activities and points towards good practice.

### 1.1 Report overview

The methodology below describes the selection of the case study and the interview process, and is followed by a short description of the case study actors. Section 2 is a short literature review on SMEs in the tourism supply chain that gives a context for the case study. Section 3 presents the buyer's institutional approach to incorporating SMEs into the supply chain. Section 4 sets out the procurement strategy and practices from the perspectives of the buyer and the SMEs. Section 5 assesses the impact of the supply relationship from all sides. Section 6 is a note on other factors that influence MSMEs in the supply chain, while Section 7 lays out lessons learned and conclusions.

### 1.2 Methodology

#### 1.2.1 Literature review

This overview of local producers in hospitality sector considers five main questions: **1)** Do large hotel chains source locally in developing countries? **2)** Do local suppliers in developing countries benefit in terms of market access and increased incomes when joining the value chains of these large hotel chains? **3)** Do these SMEs improve their labour practices as a result of joining the value chains of a large hotel chain? **4)** What are the internal characteristics/factors that allow SMEs to benefit from the large firm procurement practices? **5)** What are the external characteristics/factors that allow SMEs to benefit from the large firm's procurement practices?

#### 1.2.2 Selecting a case study

Identifying a suitable business to use as a case study was a lengthy and challenging process, and the researchers made several attempts to establish contact with large international hotel chains across Asia, Africa and Latin America. Firstly, few of our contacts in the hospitality industry who are based in the North knew about actual and effective local procurement practices championed by MNEs in the developing world. They were also very reluctant to share information due to confidentiality agreements with their MNE clients. (It is for this reason that some hotel chains are not named here.) Secondly, there were difficulties gaining remote access to SMEs. Several



responsible tourism experts in the UK, Asia, Latin America and South Africa were contacted for suggestions of companies that could provide evidence of good pro-SME procurement practices but only a very short list could be compiled. The two large international chains that were proposed were contacted but declined to participate because they were either in the process of merging or they were reviewing their sustainability policy.

In Latin America, the Starwood hotel group, in partnership with UNICEF, is due to publish a Human Rights Impact Assessment study considering local procurement in April 2016, therefore a decision was taken to concentrate on another continent. In Asia, the Soneva Resorts and Residences group was recommended as an international beacon of responsible tourism practice, but following a month of emails and discussions it was concluded that due to language barriers the three proposed SMEs would be unable to participate. Language was also a barrier when contacting a much larger Thai-owned group.

Elsewhere, a major international chain in Asia which had initially agreed to take part could only propose small community groups or even informal businesses from outside the normal supply chain, which benefited from external mentoring. This made them irrelevant to the study, whose focus was on generalised, 'normal' procurement rather than small projects showcasing low-scale CSR policies, a very common practice in the hospitality industry. This chain's General Procurement Manager provided our first finding: sourcing locally was too difficult to arrange and thus did not happen on a large scale.

### **1.2.3 Interviews with SMEs and buyer**

Finally, in South Africa, the Tourism Enterprise Partnership (TEP), a long-established non-profit specialising in small tourism business training, offered access to three food-producing SMEs that had started supplying the Maslow business hotel in April 2015. TEP were only responsible for initiating contact. Two of the SMEs responded immediately to the request and were interviewed on the phone within 48 hours (see Appendix 1). Looking for more SMEs to consult, the author of this study contacted the Maslow's parent, the Sun International hotel chain (SI). After a series of phone and email conversations with Gordon Reid, the Group Procurement Manager, and Simon Gardner, SI's Supply Development Manager, four more non-food SME suppliers, of various sizes and ownership models and at different stages of growth, were proposed. Three agreed to be interviewed by phone. Simon Gardner was interviewed face-to-face over two sessions, at Head Office and at the Maslow, in Johannesburg (see Appendix 2). Each interview lasted between 90 and 120 minutes.

Simon Gardner appears as SG in this study, while the SMEs appear under their names.

## **1.3 Case description**

### **1.3.1 The buyer**

The Maslow is a business hotel located at the heart of Johannesburg's financial district, with 281 rooms, catering to small and large events of up to 650 people (Sun International, 2015a). The Sun International hotel group comprises 13 hotels in South Africa, three casinos and an online gaming site; the Maslow is the only property without gaming or gambling facilities (Sun International, 2015b). In all, the group owns 27 resorts, luxury hotels and casinos across eight countries in Africa and Latin America, with five partners in three more African countries (Sun International, 2015c).

Almost 43 percent of its shareholders are Black, and 12.6 percent are Black female (Sun International, 2015e:54). The group is owned and based in South Africa. In 2015, the chain's turnover reached nearly US\$680 million (profits: US\$62 million), 80 percent of which was generated in South Africa, with gaming alone representing 82 percent of revenues, making the group a considerable player in the gaming industry on the continent (ibid.:27). It is now invested in growing business in Latin America.

### 1.3.2 The SME suppliers

The five businesses interviewed are of varying sizes, owned by white, coloured and Black individuals,<sup>1</sup> and supply a variety of products and services; some are very specialised (gaming equipment), some offer generic items (food or stationery) – see Table 1 below. All businesses are registered as SMEs; they range from sole ownership to family businesses or are part of a larger conglomerate of other small and medium businesses. The three SMEs supplying to the chain have done so for many years, whereas the two that supply solely to the Maslow only started recently.

**Table 1: Overview of selected SMEs**

Name	Owners		Contracted by		Product / service supplied	Total	No. of employees			
	Ethnicity Gender	Model	Maslow SI	Years			Female		Male	
							Status	Mgt.	Status	Mgt
SME 1 Tassy's Caterer	Black Female	Sole owner	Maslow	1	Bar snacks.	2		FT: 1	PT: 1	-
SME 2 Gugu & Daughters Farming	Black Female	Sole owner, employs family	Maslow	1	50% of the Maslow's fruits and vegetables, washed & packed.	12	FT: 3	FT: 3	FT: 6	-
SME 3 Casino Specialised Services	Indian Couple	Sole owner	Sibaya SI	3 1.5	Gaming equipment, accessories, slots & lighting equipment.	5	PT: 1	FT: 1	FT: 3	FT: 1
SME 4 DSD Shopfitters	White	Family business	Morula SI	9 6	Free-standing furniture for hotels (slot base and bedroom).	80	Hr: 33	FT: 2	Hr: 40	FT: 5
SME 5 Rand Data Forms	White	Owns 20%; 80% by Black owned group	SI	20	Branded stationery and anything that requires digital or traditional printing (e.g. laundry bags, bar coasters, signs).	16	FT: 4	FT: 2	FT: 9	FT: 1

#### SME 1 – Tassy's Caterer

Supplies bar snacks to the Maslow since April 2014.

The business was set up in 2009 by Ms Jasmin Sidikmia when she identified that no one was catering for halal food in South Africa. She started the venture with a friend who left shortly after, and this resulted in her not being motivated enough to develop her business, although she still continued to handle small orders. By chance, one of her clients was TEP which proposed to link her to the Maslow hotel because they liked her food. They were especially interested in her supplying cookies and bar snacks, which she had started to develop as a new product at the time. Ms Sidikmia is the sole owner of her business and employs one further male member of staff, who works part-time.

<sup>1</sup> These ethnic categories have their roots in the Apartheid era, but are still in use today.

## **SME2 – Gugu & Daughters Farming**

Grows own fruits and vegetables and retails produce from other farmers, packaging goods for delivery, which involves cleaning and cutting according to the standards set by chefs. Has supplied to the Maslow hotel since April 2014, now making up 50% of their overall fruit & vegetable supplies; sells to other hotels from other chains.

Ms Gugu Mhila first started as an informal business entrepreneur in 2003. She was located at a taxi rank and worked as a small vendor of dry goods; she quickly started to retail vegetables but realised that these were not popular among her Black clients (not part of the staple diet). In 2005 she started to supply to restaurants frequented by a white clientele, which enabled her to generate enough income to formalise her business and to buy a plot to start farming. This is a family business which employs one of Ms Mhila's blood daughters (17), who helps with the marketing and the deliveries when school is closed, as well as three other adoptive daughters who are responsible for helping buy vegetables from farmers, for managing the food packing process, and for overseeing deliveries to clients. In total, the business employs 12 full-time staff, half of whom are female.

## **SME3 – Casino Specialised Services**

Supplies gaming equipment and accessories to the South African market, focusing on game tables, but also procuring slot machines, lighting equipment, gaming furniture and repair services.

The business was set up in 2011 by Shaun and Ashnee Govender, an Indian couple. Shaun had been in the gaming industry for 20 years and decided to go alone. However, since the business's gaming licence only extended to three regions rather than nationwide, the couple started off by consulting for casinos that needed renovation work done, in effect offering a service of interior decorating for casino. They built a client base in 18 months. At this time a growing number of casinos were redesigning their gaming areas and services. One of these casinos, the Sabbaya (part of SI), offered to purchase a national gaming licence via their Enterprise Development Programme (part of B-BBEE) in order to help the company offer more services. This licence authorises them to service and repair gaming machines throughout the country. The Sabbaya also thought this service would benefit the whole chain. This change greatly increased the scope of operations, and regular clients were suddenly able to purchase more services and products, which also led to a widening of the client base via word-of-mouth. The business employs 5 staff, including the couple. One staff member works part-time.

## **SME4 – DSD Shopfitters**

Supplies free-standing furniture for gaming rooms and bedrooms.

This is a family business started by the father of the current general manager (Mr Steve Chewins), who moved to South Africa from England in 1969 with his three sons. Their venture started at the back of a garage and for many years only employed six or seven staff. It started supplying the SI by gaining entrance through the Marulla Sun (in 1996), the managing director of which eventually joined head office, enlisting them to supply to the whole group (in 1999). This coincided with the chain growing from three to 12 casinos in the following years. In 2010 the business went through a bad period, which prompted the brothers to decide to diversify and add value by supplying free-standing bedroom furniture that does not require structural work (a niche market). The business now employs 80 staff, of whom only seven are full-time; the remaining are all hourly paid but are contracted following strict guidelines agreed by the Workers Union and the Furniture Bargaining Council (representing the manufacturers).

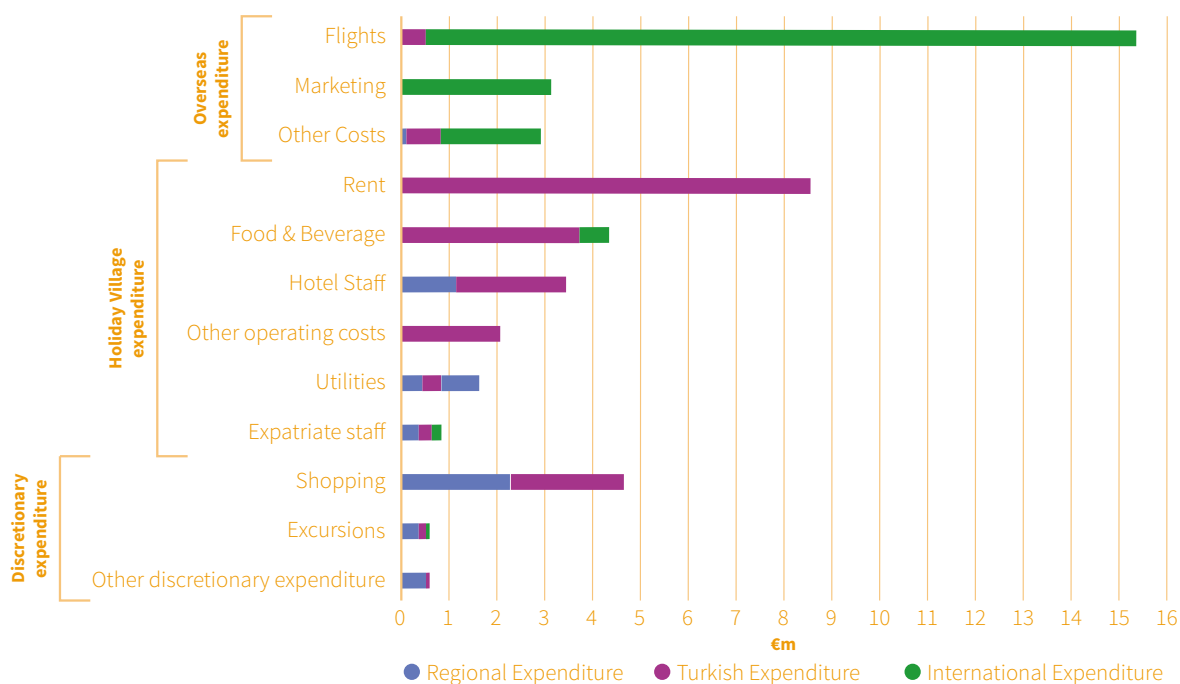
## **SME5 – Rand Data Forms**

Offers several types of printing: web, digital, litho (conventional printing), continuous printing, and takes on additional contracts that can be outsourced if in-house expertise does not exist.

The business is 80 percent owned by the Black-owned Formeset Group (based in Cape Town), which supplies a wide range of services in the printing industry across several companies. The remaining 20% is owned by Mr Richard Thorpe (interviewed), who is trusted to take all operational management decisions independently – the group gets involved in large capital investment decisions only. Mr Thorpe used to work for a French-Canadian-owned company some years ago. Sun International became one of the company's clients on the first day they were formed in the 1980s. The hotel group grew in parallel to the printing business. Mr Thorpe left the company in 1989 and started RDF with two more colleagues; after three years the business was bought by a listed company and then remained with them for about 10 years. Then the three partners carried out a management buy-out and relocated to their current premisses. The other two partners eventually left, and Formeset took over their shares, leaving Mr Thorpe to manage the company. Sun International remained a committed client throughout all the changes. The business employs 16 staff, 40 percent of them female.

## 2. INDUSTRY/SECTOR OVERVIEW

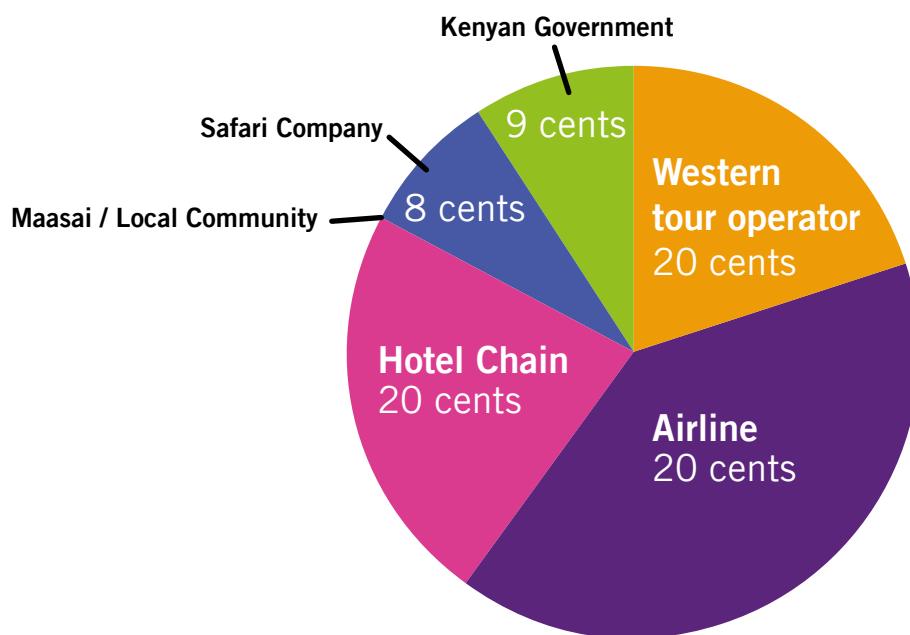
Travel and Tourism is often cited as a sector that makes one of the greatest contributions to the world economy. According to the World Travel Tourism Council (2015), “*despite a number of terrible regional incidents throughout the year [...] it will generate US\$7.8 trillion, will support 284 million jobs across the globe [and] will still grow 1% faster than global GDP*”. It is particularly important to emerging economies, which received 45.3 percent of all international arrivals in 2014 (UNWTO, 2015) and for which tourism has been growing two times faster than in Europe and North America in the last 15 years (The World Bank, 2014). It is the first source of foreign exchange in 46 of the 50 least developed countries (Font, 2006). Consequently, tourism is now seen as a sector that can effectively contribute to poverty alleviation by maximising local economic impacts (Goodwin, 2011; Bolwell & Weinz, 2008; Meyer, 2007). However, tourism also leads to high levels of money leakages, particularly in the Global South; this is because the (global) value chain starts outside of the destination (see Figures 1 and 2 below). According to UNEP (undated) “*of each US\$100 spent on a vacation tour by a tourist from a developed country, only around US\$5 actually stays in a developing-country destination's economy*”.



**Figure 1 - Holiday Village Turkey value chain (45% of the holiday cost related to expenditure outside Turkey)**

Source: ODI (2011:8)

## Share of each dollar spent on conventional safari holiday in Kenya



**Figure 2 - How money leaks away**

Source: *New Internationalist* (2008)

Worldwide, academics agree that the best way to reduce leakage is to expand and strengthen local linkages (Levett & Chandler, 2012; Scheyvens & Russel, 2009) in order “to incorporate local producers into procurement systems and local supply chains” (Rogerson, 2013:339; Goodwin, 2011).

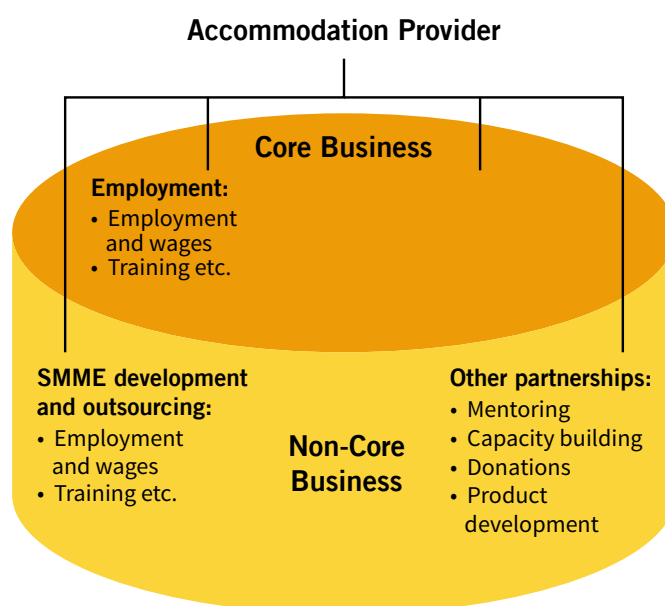
Although small hotels source a larger proportion of their supplies from local producers (Mshenga et al., 2011; Travelwatch, 2006), it is large establishments, especially those that offer all-inclusive packages, that contribute the most to the economy in terms of absolute value of local spending (Travelwatch, 2006); this is despite being responsible for the closure of local restaurants, not benefiting local shops and linking poorly to local excursion providers (ODI, 2011; Langefeld et al., 2004, cited in Travelwatch, 2006).

### 2.1 Do large hotel chains source locally in developing countries?

#### 2.1.1 How can hotels integrate SMEs in the value chain?

The hospitality industry is widely identified as offering the most opportunities for creating linkages (and outsourcing) with the widest host of other economic activities, including food supply (traditional agriculture and other food industries), transportation, furniture making, construction, textile (e.g. linen, clothing), handicraft and souvenirs, laundry and room cleaning services, and excursion businesses (Font et al., 2012; Sigala, 2013; Levett & Chandler, 2012; Font, 2006; Kirsten & Rogerson, 2003). Figure 3 and Table 2 show visual models from the literature.

With one third of all spending-in-destination oriented towards food and beverages (Rogerson, 2013), agriculture–tourism linkages are identified as the most effective way to induce wealth locally and they remain the focus of the existing literature on linkages for hotels (Pillay & Rogerson, 2013; Torres & Momsen, 2011; Rogerson & Rogerson, 2010; Timothy & Teye, 2009; Meyer, 2007; Torres, 2003).



**Figure 3 - Potential linkages between the accommodation sector and the community**

Source: Meyer (2007:565)

Area of Tourism Service	Required Goods and Services	Local Suppliers
<b>Accommodation</b>	<ul style="list-style-type: none"> <li>• Construction supplies and labour</li> <li>• Interior furnishings</li> <li>• Maintenance and repairs</li> <li>• Cleaning and laundry</li> <li>• Security, gardening</li> </ul>	<ul style="list-style-type: none"> <li>• Construction companies, craft persons</li> <li>• Furniture shops, craft persons</li> <li>• Craft persons</li> <li>• Unskilled local labour</li> <li>• Unskilled local labour</li> </ul>
<b>Catering</b>	<ul style="list-style-type: none"> <li>• Fresh food or groceries (vegetables, meat, fish etc.)</li> <li>• Processed foods</li> <li>• Cooking and serving</li> </ul>	<ul style="list-style-type: none"> <li>• Farmers, herdsmen, fishermen</li> <li>• Bakers, butchers, local commerce/markets</li> <li>• Unskilled local labour (except for chef) to be trained on the job</li> </ul>
<b>Transportation</b>	<ul style="list-style-type: none"> <li>• Vehicles</li> <li>• Fuels</li> <li>• Porters</li> <li>• Riding Animals</li> </ul>	<ul style="list-style-type: none"> <li>• Driver (taxi), boat/canoe owners</li> <li>• Filling stations</li> <li>• Unskilled local labour</li> <li>• Local farmers or herdsmen</li> </ul>
<b>Activities/Programmes</b>	<ul style="list-style-type: none"> <li>• Guided tours</li> <li>• Cultural events</li> <li>• Courses, workshops</li> </ul>	<ul style="list-style-type: none"> <li>• Skilled guides</li> <li>• Local performance groups</li> <li>• Skilled instructors</li> </ul>

**Table 2 Local supply of goods and services to tourism businesses**

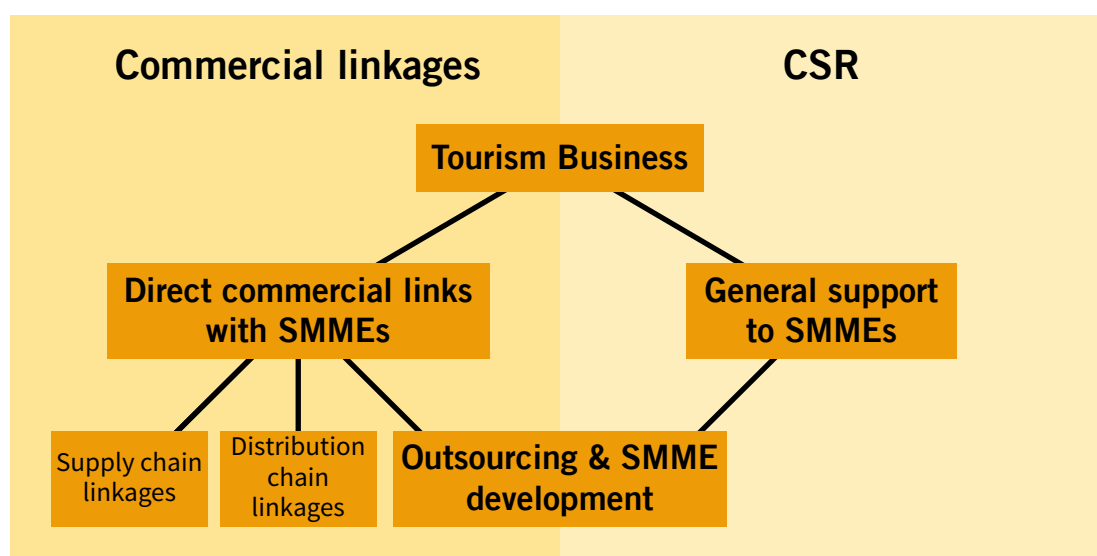
Source: Steck et al. (1999), modified by Strasdas, (2002), cited in Meyer (2007:572)

### 2.1.2 Do hotel chains source from local SMEs?

Large groups operate following different business models, which often result in the chain having little control over the day-to-day management of the property, leading to groups increasingly acting as ‘consultants’ rather than ‘operators’; for example, only 4 percent of Hilton hotels are directly managed or leased (Cleverism, 2015), whilst in 2009, Intercontinental Hotels Group only owned 0.4 percent of its hotels and franchised 75 percent of its rooms (The Economist, 2009) – according to an anonymous source this has increased to 85 percent today.

Effectively, there are no requirements regarding the amount of local procurement that should take place, and because contracts have been signed, chains are in no position to impose new demands on franchisees as this would be illegal. They can only make recommendations. In reality, Tuppen (2015) argues that local procurement only happens in hotels where the local management teams have made a conscious decision to promote linkages.

There are examples of holiday companies developing resort brands positioned as offering quality, authentic and home-sourced local and international gourmet cuisine (e.g. Sensimar resorts for adults, part of Thomson UK/TUI Group), but as they cannot be enforced, the vast majority of local procurement initiatives are being introduced as actions to do with corporate social responsibility; they are generally tackled as projects that aim to either ‘give back to communities’ or to ‘protect the environment’, and are implemented by a Corporate Social Responsibility or Sustainability Manager, independently from, or in collaboration with, the Procurement department (see Figure 4 - Linkages and support to MSMEs below).



**Figure 4 - Linkages and support to MSMEs**

Source: Deloitte Touche Tohmatsu (2004, cited in Meyer, 2007:564)

There are initiatives focused on promoting market access to SMEs. For example, the Intercontinental group, which has the biggest number of rooms in the world, runs a Diversity in the Supply Chain programme together with its Global Strategic Resourcing unit (Intercontinental Hotels Group, 2016b). Likewise, the seven largest US-owned chains (representing 70 percent of the top ten international companies), seem to grow local procurement via Supplier Diversity Programs that are very inclusive of the country’s minorities but do not mention, apart from the Marriott, minorities outside of the USA – see Appendix 1 and Hotel Exhibit 1 below). Thus, although a lot of work seems to be invested in small business integration, it is geographically restricted and does not provide a true picture of local procurement in properties located in LEDCs. In fact, chains do not release information by country or even by continent (which is predictable since many operate via franchises).

DIVERSITY	2011	2012	2013	Target
Minority- and Women-Owned Open Hotels <sup>a</sup>	600	614	640	700 by 2015
Inclusive Purchasing	\$567M	\$491M <sup>b,c</sup>	\$468M <sup>c</sup>	\$476M by 2015

**Hotel Exhibit 1 - Marriott Inclusion Initiative**

Source: Marriott (2014:13,21)



## 2.2 Do local suppliers in developing countries benefit in terms of market access and increased incomes when joining the value chains of these large hotel chains?

Several studies show that local food businesses in particular benefit in many ways. They become more professional and learn how to access markets by growing production within demanding quality constraints, which increases their chances to expand their business and sell to more clients within and outside of their region (Ashleigh et al., 2004; Torres, 2003). Thus, they can access credit more easily (Meyer, 2007), which facilitates product diversification and makes the business less reliant on a single crop (Goodwin, 1998). They gain a marketing edge by being made aware of the latest trends in the hospitality business, which contributes to building a strong brand (Mshenga et al., 2011). They also learn new skills which might be transferred to other food supply chains (Rogerson, 2013).

## 2.3 Do these SMEs improve their labour practices as a result of joining the value chain of a large hotel chain?

There is no mention in the literature of the role hotel chains should play in putting pressure on their suppliers to adopt more ethical labour practices. According to Oines (2015) and Stoeber (2015) they tend to select suppliers who share their ethos and stop trading with those that do not.

Existing literature on CSR in hotels is predominantly concerned with analysing environmental rather than labour practices: in the last 10 years, only four studies have considered social impacts, highlighting the difficulty in getting hotels to participate and, most importantly, to provide any evidence of concrete achievements – for example, they will commit to fair trade, wages and benefits, but the vast majority are satisfied with complying with local legislation or paying just above the living wage (Font et al., 2012) – see for example Hotel Exhibit 2 below.



### Hotel Exhibit 2 – Intercontinental Hotels Group Code of Conduct

Source: Intercontinental Hotels Group, 2016c

The only data that could be found relates to donating money to charitable organisations or community projects, providing opportunities for training (especially on sustainability/environmental initiatives and, recently, human trafficking and the sexual exploitation of children), facilitating career advancement (through internal 'universities', although it is impossible to know where exactly), and increasingly asking staff to volunteer their



time into their local communities (de Grosbois, 2012; Bohdanowicz & Zientara, 2008).

By far what matters the most to large hotel corporations is environmental accountability and performance, which is not only closely linked to energy and cost savings, but also to helping ‘save the planet’. This is of particular concern among customers, who can be involved in practical actions that transform them into participants and brand advocates (e.g. reducing the carbon footprint during the stay becomes part of the experience), because they value companies that show environmental responsibility (Sigala, 2013). Two unique studies have highlighted this: one set in Greece, which showed that more tourists would boycott a hotel accused of causing environmental damage than of unethical labour behaviour (Tilikidou et al., 2013); the other in Hong Kong, which found that guests place a heavier emphasis on the environment as part of hotel branding (Kucukusta et al., 2013).

Thus, hotel corporations focus disproportionately on ensuring their franchisees comply with greening procedures in two ways. On the one hand, they push or make it compulsory for properties to run efficiently (water, energy and waste management are recurrent criteria for actions across all main chains, with some corporations also considering hazardous substance management, wildlife and landscape protection and the adoption of new sustainable technologies). On the other hand, they expect suppliers to meet specific green production standards (de Grobois, 2012:903). The vast majority of large hotel corporations have systems in place to check that suppliers’ green credentials are verified and controlled. However, many auditing procedures rely on suppliers self-assessing their performance and compliance (anonymous source), without having to provide hard evidence of how they comply. Equally, these schemes are very expensive to maintain, so they can only be implemented by very large chains.

## 2.4 What factors determine SMEs’ ability to benefit and capture value added?

Linking with local producers is very challenging: “*there is no simple formula for increasing the use of local [...] products in the tourism industry*” (Berno, cited in Pillay & Rogerson, 2013:50). Barriers to linkages first identified in 1983 by Belisle in the Caribbean (Rogerson, 2012) remained the same 20 years later in Torres’ seminal 2003 work on tourism and agriculture in Mexico. They are set out in full in Table 3 below.

Demand related factors	Supply related factors	Marketing and intermediary factors
<ul style="list-style-type: none"> <li>the type of visitor accommodation with respect to ownership, size and class</li> <li>tourism industry maturity</li> <li>the type of tourist</li> <li>the promotion of local cuisine</li> </ul>	<ul style="list-style-type: none"> <li>physical limitations</li> <li>entrenched production patterns (eg. plantation crops for export)</li> <li>the quantity and quality of local production</li> <li>high prices of locally produced food</li> <li>technological and processing limitations</li> </ul>	<ul style="list-style-type: none"> <li>marketing and infrastructure constraints</li> <li>supply poorly adjusted to demand</li> <li>spatial patterns of supply</li> </ul>

**Table 3 Factors that affect the characteristics and strengths of linkages in destinations**

Source: Meyer et al. (2004:1)

### 2.4.1 Demand related factors

According to Torres (2003), foreign-owned and large hotels prefer to import produce to meet the needs of a clientele with more conventional taste, concluding that linkages are more likely when dealing with non-mass tourists – although, as seen earlier, they would be the most efficient in large hotels or resorts where capacities are large enough to have a significant impact on the local economy. Research carried out first by Torres (2003) and then Pillay & Rogerson (2013) finds that the chef and the size of the domestic market play a crucial role in integrating local sourcing and cuisine – see Table 4 on the next page.

Decision	By chef	By chef & management	By management	Group	Total Surveyed
Foods served & menu decisions	21	17	6	6	50
Food supplier decisions	13	11	11	15	50

**Table 4 Food decision-making in KwaZulu-Natal hotels**

Source: surveys by Pillay & Rogerson (2013:54)

### 2.4.2 Supply related factors

Lack of professionalism due to poor-quality land, lack of food self-sufficiency and processing infrastructures are the main barriers associated with supply: local producers are unable to compete on price, quantity, quality and consistency (Levett & Chandler, 2012; Rogerson, 2012; Mitchell, 2008; Torres & Momsen, 2004) – see Table 5 below. In fact, the vast majority of larger hotels in developing countries resort to distributors or wholesalers to organise purchasing and deliveries, and these act as the ultimate gatekeepers (Rogerson, 2013; Travelwatch, 2006; Torres, 2003). Further whilst in the majority of cases, the food is sourced within the country or the region, it is rarely sourced locally (Mitchell et al., 2015; Torres, 2003) – namely within a 40-kilometer radius (Rogerson, 2013).

Considerations in local buying decisions	Percentage
Price	14.3
Quality	34.7
Supply reliability	8.2
All of the above	42.9
Total	100.0

**Table 5 Purchase considerations in local buying decisions – Kenyan Coast**

Source: Mshenga et al. (2011:16)

### 2.4.3 Marketing & distribution factors

Lack of trust between intermediaries and producers is the main barrier to linkages: intermediaries accuse producers of not meeting contractual terms, while producers accuse intermediaries of exploiting them to maximise profits. Acting alone and geographically dispersed, local producers are unaware of market demands, or are ill-equipped to meet them, and too often have not formalised their businesses to make them market-ready (Rogerson, 2013; Mshenga et al., 2011; Torres, 2003).

In a rare report on an initiative linking informal arts and craft makers to hotels in the Gambia, the Travel Foundation (2014:1) highlights other reasons that motivate retailers supplying hotels to import rather than source locally made goods: *“lack of innovative product designs and diversity of Gambian craft products; comparatively high prices and low quality for certain locally produced craft products; unwillingness to compete with the local craft markets; willingness to promote other African artists and offer something different”*. They explain that the main challenges faced by local artisans include: *“lack of business knowledge and skills to access markets, no training available to develop new skills and products, and lack of understanding of the range, type and quality of products required”*.

### 2.4.4 Factors facilitating linkages

Several solutions are proposed to make linkages work as a result of lessons mostly learned from failed initiatives. Table 6 below attempts to summarise them under the themes highlighted by Torres (2003), showing that the consumers, rather than the intermediaries, appear to be the real gatekeepers to sourcing locally. However,

it is clear that supply plays a crucial link in promoting local produce and thereby fostering demand, and that by organising small events and including opportunities to sample local experiences (e.g. food, excursions) throughout the stay, demand can easily be encouraged by bringing guests into contact with local products and services.

Demand related	Supply related	Marketing & Intermediary related
<ul style="list-style-type: none"> <li>• Transport to/from local producer(s) organised by hotel</li> <li>• In-house training of international chefs for them to learn 1) about local produce 2) how to cook them 3) local language to communicate and agree supply with local producers.</li> <li>• Employment policy focused on recruiting local chefs more likely to cook local food and to speak the language of the producers.</li> <li>• Local cuisine workshops in resorts scheduled weekly, with menus featuring a local dish daily.</li> <li>• Health and safety/hygiene training of local producers organised by hotel, and delivered by chef to meet his/her standards.</li> <li>• Souvenir shops in resorts that source produce locally with weekly local markets in resorts selling local produce.</li> <li>• Active promotion of local excursion businesses to spread economic benefits to other areas/communities.</li> <li>• Design of marketing material about local sourcing schemes to use for hotel promotion.</li> <li>• Institutionalised commitment to make local sourcing integral to management approach (part of franchise agreement).</li> </ul>	<ul style="list-style-type: none"> <li>• Collaboration (e.g. co-op) between farmers to stagger production throughout the year and provide consistent supply capability.</li> <li>• Formalisation of producers so they can issue invoices.</li> <li>• Choice of one intermediary as preferred partner to link to hotels/clients.</li> <li>• Focus on targeting new hotels for supply (once contracts are set up, there is real reluctance to change suppliers).</li> </ul>	<ul style="list-style-type: none"> <li>• Signed contracts that clearly set out specifications for product attributes, including food safety.</li> <li>• Non-exclusive contracts that enable producers to reach a wider market to sell to more customers.</li> <li>• Organised transport to/from local producer(s).</li> </ul>

**Table 6 Facilitators of linkages**

Source: adapted from Pillay & Rogerson (2013), Rogerson (2012, 2013), Mshenga et al. (2011), ODI (2011), Meyer (2007) and Torres (2003).

## 2.5 What external characteristics/factors would facilitate SME integration into the procurement practices of large firms?

Governments have a decisive role to play in promoting linkages, but this is rarely a priority in regional and local tourism master planning (Rogerson, 2013). For example, there could be more linkages between policies and departments (e.g. agriculture and tourism, arts/creative industries and tourism) or incentives (e.g. tax benefits) to support projects aiming to directly reduce poverty (Bright, 2004, cited in Meyer, 2007:571). This could be part of an accreditation system that recognises and promotes businesses that buy locally, regardless of size (Meyer, 2007). Government agencies can facilitate the inclusion of small producers in the value chain by helping to improve three key 'business enablers' identified by the World Economic Forum (2010): market information, access to financial services and infrastructure (both 'hard' – e.g. roads, access to water – and 'soft' – capacity of farmers, quality standards). Meyer (2007) suggests that this is best achieved by setting up a Destination Marketing Company/Organisation (DMC/DMO).

### 3. THE BUYER

#### 3.1 Sustainability

Sun International's procurement strategy focuses on generating positive impacts in the communities where it operates. In the context of B-BBEE, it highlights Enterprise & Supplier Development as an underpinning component of its sustainable approach (see Table 7 below). Its Enterprise & Supplier Development Policy states that *"all South African business enterprises have an equal obligation to redress the imbalances of the past by facilitating constructive participation by Black South Africans at all levels within the economy"* (Sun International, 2015d). In fact, B-BBEE grading requires by law that a business spend 3.5 percent of its net profit on developing Black suppliers, which is the single key external factor responsible for the practice of SME sourcing. Today, Black MSMEs represent 3 percent of SI's business, and this is set to grow to 12 percent within three years. In total, SI has 10,000 suppliers, of which 6,000 are active, and of those 2,000 are MSMEs.

The primary focus of our procurement function is to create and maintain an efficient and equitable supply chain aligned to business imperatives.

At the same time, and in support of the group's Vision, our supply chain seeks to create genuine value for the communities in which we exist. It is this vision that drives our philosophy behind sustainable procurement practices, particularly related to Enterprise & Supplier Development.

To this end, Sun International seeks to partner with suppliers who share a similar vision for South Africa, and who will support us in meeting these objectives.

We invite such suppliers who believe that they have a relevant product or service offering to register as a potential supplier to our group.



#### Table 7 Suppliers

Source: Sun International (2015d)

SG cites three main reasons for sourcing from local SMEs:

- They offer real added value: they are hungrier than MNEs for business and offer better value in terms of what they are ready to provide on top of the product or service they make or sell, even if they are not always as price competitive.
- They contribute to the SI B-BBEE rating: the SI has to support these SMEs if it wants to get government contracts (which today represents 2 percent of total income), and crucially retain their gaming licence, which is key to their business (it is possible to opt out of B-BBEE but by opting in one must comply to the legislation governing the scheme).
- Supporting SMEs is critical to growing the country's economy: there is a need to secure income from the middle class for the economy to thrive and impact on the the poorer, as well as on the chain.

Since traditional procurement is about having as few suppliers as possible to generate economies of scale, supporting SMEs requires a high level of commitment and hard work. SI created SG's post, Supply Development Manager, in order to take on this task. His four main responsibilities are to:

- rationalise supply;
- meet B-BBEE criteria by facilitating access to markets for SMEs;

- ensure that SMEs remain sustainable and have a long-term development plan with SI (must grow capacity slowly but surely);
- do all of this within budget.

In 2015, local SME sourcing represented 20 percent of the total procurement budget, valued at R3 billion (US\$193.5 million). However, what matters most to the group is the B-BBEE 'Recognised Value' it represents, which is what is taken into consideration to score points (equivalent to 125 percent of the real value that year). For example, if the SME is in Black and female ownership, SI gets more 'Recognised Rands' for every 'Real Rand' spent. A graded level 1 SME supplier will earn SI R1.35 per actual Rand spent. To comply with B-BBEE, the minimum 'Recognised Value' that can be achieved is 15 percent.

SMEs are sourced to supply food and beverages, operating equipment, operating supplies, for maintenance and repair services, soft furnishing and service advice (legal firms, cleaning, landscape – all outsourced services). All procurement is from South African-owned companies, and all South African-made products and services are sourced directly from the producer (60 percent of the total SME procurement; the remaining 40 percent is done via a small number of SA distributors that import foreign goods).

### 3.2 Labour Standards

Several of the labour standards listed in the questionnaire (see Appendix 1) are in the process of being included as part of the procurement process. A series of criteria is being introduced with the aim of checking on due diligence to align organisational practice to B-BBEE requirements, which has now been extended to include new legislation on ethical employment. This shows a recent shift towards adopting a wider understanding of 'efficient supply chain' management that is no longer solely based on best price and product.

It is only in the case of large tenders or contracts that SI requires suppliers to produce a Ministry of Labour Certification showing that the company complies with their Sectorial Determination Regulations (e.g. in the construction sector every employee has to be health and safety certified). Every industry is governed by these agreements, which are the result of talks between employers and unions. This ensures that suppliers comply with the Labour Relations Act of that sector (every sector is different, with some indication of very poor relations between both parties). This process never applies to MSMEs, as they do not have to comply with these same laws.

Certain things are a given. For example, since training is one of the B-BBEE grading measurements, there is a tendency on the part of the hotel chain to assume that it takes place if the supplier has been issued with a certificate. All interviewees agree that labour laws are very, even excessively, protective of workers' rights in South Africa, especially in the case of dismissal. However, these laws do not accommodate for compulsory contribution into a national social security system that would guarantee access to free or affordable healthcare (they do however force companies to pay for accidents in the workplace under the Workman's Compensation rule); or for payment of a minimum legal or living wage (although the sectorial agreements cater to this).

## 4. PROCUREMENT STRATEGY AND PRACTICES

### 4.1 Definition and goals of the procurement policy

The SI works on a hybrid model whereby certain commodities are contracted at Head Office (HO) level in order to maintain consistency of the brand – e.g. crockery for three- or four-star hotels, chef uniforms (logo, jacket), stationery, linen, towels, guest amenities: all items that carry the brand. Other products such as toothpicks, WC paper, cleaning chemicals are also sourced from suppliers contracted by HO.

Nevertheless, procurement is hugely decentralised – 80 percent is done at hotel level (HO only contracts 900 suppliers out of a total of 6,000). One third of these (330) are group-appointed for all the properties, while the rest service HO only. HO signs all contracts but negotiations are done on the ground at hotel level. As remarked by SG, the group's priorities can conflict with those of the hotel (e.g. the hotel might want to contract an expensive supplier because it delivers food on time and consistently, whereas the group might think that it is too expensive, which triggers an Escalation Procurement Procedure to decide 'who wins').

Moreover, in certain instances, it is outsiders that in reality choose the supplier. For example, the interior designer or architect decides on materials, finishes, furnishing and decor in a new casino or refurbishment, and his/her specifications will directly impact on the supplier selection process, rendering any existing procurement system in place obsolete, if the supplier is not already listed, against all efforts made by HO to promote certain SMEs they have contracted. (This is, however, how DSD Shopfitters entered the supply chain).

## 4.2 Framework for the practice

The SI uses four main criteria to assess the suitability of an SME: right product, right price, right service and B-BBEE compliance. If each of these criteria were to be weighted, B-BBEE compliance, price and product quality would each account for 30 percent of the decision-making process, with service only accounting for 10 percent. In fact, SMEs get contracted first and foremost if they comply with B-BBEE. The SME must now also qualify as 'empowering' (a concept that has just been introduced in legislation), be 51% Black-owned and graded B-BBEE between 1 and 3. If the SME does not meet all these criteria but is competitive, SG can action the Escalation Procurement Procedure for the final decision to be taken at executive level. Actually, it is much easier for SMEs than MNEs to match these criteria as most are Black-owned and will B-BBEE self-audit (which is the rule for businesses generating under R50 million that qualify as QSEs – Qualifying Small Enterprises, or earning less than R10 million if they are EMEs – Exempted Micro Enterprises). MNEs undergo stringent external audits; for example, it takes three months to audit and grade SI.

## 4.3 Stakeholders and relationships

Recommendations from hotels play a crucial role in giving SMEs access to the rest of the chain, especially as the group rarely publishes tenders (although SG would like this to happen more often) but instead uses requests for quotations, whereby the hotel/group will consult an existing internal database of suppliers who will be contacted if they are thought suitable for the contract in question. This is how Casino Specialised Services was able to grow its business with the whole chain.

Here, access to a network of strategic external stakeholders and partners is crucial (e.g. Tourism Enterprise Partnership (TEP), Business Development Incubators, networks of business entities – the Black Business Council, the Government Database of Black Entrepreneurs/Suppliers). It is used to populate the internal database of suppliers. Most helpful has been the government online directory managed by a third party (B1SA). SI now has a database of 150,000 Black MSME suppliers, which enables hotels to filter and find a supplier or suppliers to contact for requests for quotations. In addition, the external partner can recommend a supplier: such was the case for Tassy's Caterer and Gugu & Daughters Farming supplying the Maslow, both of which were suggested by TEP.

## 4.4 Process from the buy-side perspective

A few years ago, SG instigated a 'journey of introspection' to analyse why and how SI had been successful in sourcing from local SMEs. None of the group's properties could identify any reasons: they had not done anything to 'make this happen'. He concluded that it was pure luck; in his words: *"the SMEs just ended up where they were needed, at the time they were needed"*.



In fact, until now HO has not been able to force hotels to use the suppliers they recommend, as the ultimate contractual decision lies with each property's managing director. Deviance from group standards can be escalated but complaints are based on random reporting, which is not enough to build strong evidence of repeated non-compliance (audits of hotels used to take place but these were too costly to maintain). It can also be a very antagonistic procedure, creating tension between the operational and executive arms of the group. One major barrier to change is culture within the organisation: the resistance comes at the operational level because hotel managers are used to dealing with their preferred suppliers (*"I like you, let's do business together"*), and are unwilling to take risks. Additionally, they are reluctant to source from a variety of suppliers: one SME alone cannot replace an MNE, hence the same job needs to be undertaken by two smaller companies, and very few hotels want to manage a multi-supplier chain for a single service. The difficulty with such behaviour is that it shifts the risk from the hotel/casino as a unit to the whole group: what appears to be a safer approach in the short-term for the property manager is exposes the chain to long-term risk, as local sourcing from SMEs must increase in order for the licence to be renewed.

A second issue with the current framework is that all suppliers are not treated the same way, with large suppliers being handled very carefully to ensure supply stays constant and affordable, while SMEs are forced into agreeing to more stringent conditions because they are ultimately easily replaceable. Moreover, there is an assumption that MSMEs should be grateful to have been given business – thus they must remain price-competitive, their product cannot be faulty, their customer service must be consistent and they must retain their B-BBEE rating.

## 4.5 Process from the SME perspective

### 4.5.1 Goals

The two SMEs that were contracted by the Maslow in April 2015 were very clear about their growth goals, and they shared similar ambitions and strategies (although Gugu & Daughters Farming is at a more advanced stage of planning). These are set out in table 8 below. As Black female entrepreneurs, both felt very strongly that their primary goal was to create employment – the owner of Gugu & Daughters Farming mentioning that it was intrinsic to her culture – and identified widening their product and client portfolio as a strategy to do so.

Tassy's Caterer	Gugu & Daughters Farming
<ul style="list-style-type: none"> <li>Hire more people and employ them full-time, and allocate one staff member to be responsible for one specific hotel.</li> <li>Sign a contract with the Maslow to supply halal food to the staff canteen – I am already in talks to do that.</li> <li>Supply more and a wider range of products to the Maslow: need to speak to the chef.</li> <li>Supply to other hotels: I am in discussion to supply to two of the other hotels with the snacks.</li> </ul>	<ul style="list-style-type: none"> <li>Create 200 jobs: where I come from there is 95% of unemployment, and this is the reason why I want to expand.</li> <li>Generate R8 million in 2016 – in 5 years, diversify into seafood and reach a R30 million turnover.</li> <li>Have access to each chef at each of the restaurants in the hotels: they are gatekeepers to business.</li> <li>Get machinery for cutting and cleaning because hotels expect to have all food chopped.</li> </ul>
<ul style="list-style-type: none"> <li>Market corporations (private companies).</li> </ul>	<ul style="list-style-type: none"> <li>Get a bigger farm and especially have an orchard to grow 80% of all supply from our farm and 20% from local farmers.</li> <li>Accumulate more cash flow: this is very important as I have to pay the farmers every day in cash.</li> <li>Renegotiate payment terms.</li> </ul>

**Table 8 Goals (Tassy's Caterer and Gugu & Daughters Farming)**

Source: Fieldwork interviews

Culture played an equally important role for DSD Shopfitters, which, as a family business started by the father, is strongly driven by the aim of leaving a lasting legacy to the next generation. All other established SMEs are more immediately concerned with handling the current economic recession, although they also identify widening their product and client portfolio as their most preferred growth strategy.

#### 4.5.2 Challenges and risks

Once again, new entrants have similar challenges. As shown in Table 8 above, payment conditions are a major barrier to markets and it is very difficult to accumulate enough cash flow. Gugu & Daughters Farming states *“I have to pay the farmers every day in cash but I have to wait two months to get paid by the hotels and other clients; government agencies are especially bad payers (they pretend they have not received my invoice, so I have to drive to the offices to hand it in by hand to make sure they pay me; they use all sorts of techniques to avoid paying)”* – in fact, all SMEs complain about government business, but continue to chase it in the hope that things get better.

On the theme of finance, poor access to loans makes it very challenging to buy the necessary equipment to grow business, and both food companies are already missing out on potential orders, running the risk of slowing the impact of the media coverage they have benefited from. DSD Shopfitters is also in the same situation: despite having been able to finance their new factory, the rate at which it is being built is too slow to keep up with placed orders.

An additional challenge with the two newly contracted SMEs has to do with not being skilled enough to write a complete business plan (including, for example, social marketing or pricing), despite having attended state-sponsored training. The other three SMEs are also challenged by the necessity to think more strategically, but not for the same reason: they simply are not finding the time to do so. Skills affect Tassy's Caterer and Gugu & Daughters Farming in one other way: neither are professional cooks, which restricts their ability to innovate or understand the standards set by head chefs.

Unlike the newly contracted SMEs, which are struggling to keep up with demand, two of the more established companies are struggling with the rate at which business is reaching them, for several external reasons: the economic downturn coupled with the poor exchange rate; the lack of adequately qualified staff to operate complex machines; and constant and unpredictable technological innovations which create uncertainty as to which trend should be embraced next.

More fundamentally, another reason has to do with the way SI operates: one SME complains that even when it is ready to grow, it is not given the opportunity (the SME wants to be the sole supplier to a newly built casino, which is an opportunity that will not present itself again for many years – but SI will not take that risk). As recognised by SG, SI gives preferential treatment to larger suppliers, especially if these are long-standing.

Another challenge is that the group does not control implementation of HO procurement guidelines (again, in line with SG's comments). A few years ago, Rand Data Forms decided to audit several of SI's properties and found very little compliance in displaying the generic branded items they produce, which were clearly sourced from competitors and did not follow HO guidelines. Repetitive re-branding makes this a more common occurrence, especially after a period of three months when everyone goes back to old habits. The SME did complain to HO but this resulted in the hotels dropping them as suppliers; this is a risk Rand Data Forms will not take again, and it will produce goods outside of the group's procurement specifications in order to keep repeat business, especially as it manufactures in very large quantities. The fact that Head Office does not have a tight grip on procurement compliance results in SMEs being potentially by-passed despite complying with group policy, and being a key ally to HO as controllers of hotel compliance, to their detriment.

One last risk mentioned by the largest SME relates to B-BBEE legislation. The government wants more disadvantaged populations to own businesses; selling off 51 percent of the company would enable DSD



Shopfitters to move up to a grade 2, as it would move from being white-owned to being mostly in Black ownership, which would give it a significant competitive advantage. However, such a major change is naturally a huge risk for any firm, but particularly a family business with its own customs and decision-making processes.

## 5. IMPACTS

### 5.1 SME perspective

#### 5.1.1 *Job creation and benefits*

Most of the evidence indicates that jobs were created as a result of contracting with the Maslow or the group. In the most successful case, the whole workforce (DSD Shopfitters, with 73 staff) was employed as a result of supplying to SI. However, business growth has not always led to a corresponding increase in jobs, for a number of reasons. Improved staff performance has yielded greater productivity for the same number of posts; some SMEs have increased the hours of their existing staff, offering full-time rather than part-time employment; elsewhere, constantly controlling the costs of production in order to remain competitive in the current economic environment has put a stop to the creation of new jobs.

Conditions of work have improved in a variety of ways, but the cost of certain benefits (e.g. a pension scheme) is too prohibitive for MSMEs to afford. For all companies interviewed, salaries were above the sectorial benchmark, although it was not possible to assert whether this was common practice anyway. Increases in salaries varied from 7 percent (per year – Rand Data Forms) to 50 percent (in the first year of contracting with the Maslow – Tassy’s Caterer); the owner of Tassy’s Caterer also started to pay herself a salary. All MSMEs are reliant on the business they do with SI to pay better wages and benefits, although not all staff have been able to profit because investments have been necessary to keep up with demand or to deal with unforeseen events, such as this year’s drought (Gugu & Daughters Farming).

The largest three MSMEs pay the most benefits, and this could not happen without the business provided by SI/ the Maslow (either the amount paid out is greater or more staff are included in the scheme). Gugu & Daughters Farming offers a monthly bonus as high as the salary if individuals meet pre-set targets; Rand Data Forms provides a Christmas bonus and is able to contribute 55 percent to a pension scheme for its staff. The largest SME (DSD Shopfitters) can afford to comply with all its industry’s sectorial requirements, and has two staff members dedicated to ensuring all rules are adhered too. Because it employs more than 50 staff, it has to comply with an Employment Equity Plan, which for the furniture-making sector goes beyond BBBEE requirements and is assessed by external auditors. This level of compliance has hugely contributed to avoiding strike action since setting up the business, which is exceptional in South Africa.

#### 5.1.2 *Labour conditions*

As indicated earlier, SI does not put any pressure on SMEs to show evidence of compliance with labour standards; this was verified by all SMEs but Gugu & Daughters Farming, which explained that the Maslow did enquire about all the questions listed in the questionnaire (see Appendix 1), although it did not ask for any evidence to corroborate the SME’s claims. All SMEs stated they had de facto implemented all these practices (although one had not informed its staff about their right to set up a union).

Rand Data Forms explains that although its contract with SI was 40 pages long it did not include any requirements regarding labour conditions: it was mainly a service level agreement. In fact, all SMEs think that they were not asked for evidence of compliance because they represent very little business to the group. One SME (which wanted to remain anonymous) makes an important point regarding the commercial value of requiring from suppliers that they adhere to these requirements, as it is impossible to compete on price with those that do not. Many comply once, at the time of contracting, but no evidence is produced thereafter, since SI has no systems in place to audit compliance on a yearly basis.

### 5.1.3 Overall revenues, custom and market access

For Tassy's Caterer, which did not have any big clients before the Maslow, sales with the hotel alone have more than doubled revenue. Gugu & Daughters Farming has seen very fast growth, now supplying 50 percent of the hotel's fruits and vegetables; it estimates that in its first year of supplying, sales grew by 25 percent, also as a result of contracting 10 new hotels from other groups (e.g. The Marriott, City Lodge) – this would not have happened without supplying to the Maslow first. The case of DSD Shopfitters shows that growth can be sustained; it now supplies to all other major hotel groups in the country, having gained over 16 years a 90 percent and 40 percent share of the South African hotel and casino markets respectively (it also is the only SME to export). All SMEs supply to other hotels and to other clients in the public and private sectors.

The case of Casino Specialised Services shows how important referrals are inside SI, especially in the world of gaming: 40 percent of its new business was generated as a result of first contracting with Sibaya Casino, which led to an impressive 300 percent increase in turnover in three years. SME4 shares the same story as it entered SI through another casino, which led to similar sustained and high growth (from R1.5 million as a result of procuring to the Morula Sun in 1996, to a R7–10 million yearly increase between 1999 and 2011 when the company started supplying to the group, culminating at R30 million in 2015). However, the dramatic growth of these SMEs coincided with SI's own expansion at the time – it would not have reached such levels otherwise. Additionally, DSD Shopfitters was very lucky in that the manager of the Morula Sun was eventually promoted to HO, which greatly facilitated the opening of markets through referrals. In the cases of Tassy's Caterer and Gugu & Daughters Farming, head chefs are identified as gatekeepers, since it is upon their recommendations to others that the SMEs were able to access other hotels.

This growth in sales is, however, not always followed by equivalent growth in profits, especially for the new entrants, who must invest in equipment to keep up with demand and requirements relating to meeting quality standards with consistency. For example, before it supplied Maslow Gugu & Daughters Farming generated R460,000 net revenue but last year invested R395,000 to buy equipment, and it will need to invest still more this year to purchase more land and machinery (hotels expect all food to be chopped and packaged). On the other hand, pressure to remain competitive can lead to proportionally reduced profits, as is the case for DSD Shopfitters, whose profits as a share of revenue have halved (from 10 percent to 5 percent).

Hence, accumulating capital can be challenging, and many businesses find this difficult (especially start-ups that rely on heavy equipment), but the capacity to save is also directly related to the business set-up: Gugu & Daughters Farming and DSD Shopfitters are both family ventures and as such reinvest as much as possible to grow their legacy, whilst avoiding relying solely on loans at all costs, which of course has an impact on speed of growth.

### 5.1.4 Competitiveness

All but one SME have become more competitive by lowering production costs, generating economies of scale and adopting faster production methods. These come as a result of investing in better equipment and facilities, being asked to produce in vast quantities, which reduces cost per unit, hiring more staff, freeing up time to concentrate on strategic rather than operational matters, or through staff being more skilled at producing a better quality product. Incidentally, Rand Data Forms has become more productive as a result of the hotels' failure to operate effectively: there is so much focus on food and beverages and linen procurement that hotels always leave orders of printed products to the last minute, forcing the SME to turn around orders efficiently within 24 hours. This characteristic has become a valuable unique selling point to attract other clients. Additionally, due to high staff turnover at the hotels, and the SME having been contracted for so long by the group, Rand Data Forms is in a position to advise hotels on quantities and product types they need, helping ill-informed procurement staff and further strengthening ties with the group as well as demonstrating a better understanding of the priorities of all properties.

Some SMEs are producing better quality products at the hotel's request, or because they feel more confident to innovate as a result of encountering other companies they have been asked to collaborate with. For example, Rand Data Forms has been asked to make unusual products to follow some advertising agency concepts, which are very 'high tech' (e.g. invitations whose content spins and unfolds). The range of products has also widened for all SMEs, as they have grown their portfolio in order to stay competitive or find new niches. DSD Shopfitters, which started supplying gaming table bases, has now diversified into bedroom furniture, another type of free-standing equipment. Gugu & Daughters Farming, meanwhile, has started to grow micro greens, other miniature crops, berries and herbs as requested by various head chefs.

### 5.1.5 Other impacts

As new entrants, the two SMEs contracted upon recommendation from TEP have benefited from substantial media coverage, generating word-of-mouth, opening doors and increasing credibility.

For Casino Specialised Services, a major advantage has been gaining access to more preferential payment credit terms extended to 30 days, while SI pays within seven days of deliveries (as a way to support the business and earn more B-BBEE points); this has freed up the cash necessary to support business growth.

An advantage for Rand Data Forms, which is white-owned, has been to gain a better awareness of B-BBEE requirements, leading to a better grading and access to public sector contracts.

### 5.1.6 Success factors

All SMEs believe that it is the quality of their customer service that has made all the difference in being able to procure to SI and other MNEs. Three main criteria are highlighted:

- Commitment: *"we are very dedicated and show great resilience"* (Tassy's Caterer); *"we do not take our clients for granted"* (Gugu & Daughters Farming); *"we offer levels of after-care service unmatched by our competitors"* (Casino Specialised Services); *"we can be trusted and are passionate about what we do"* (DSD Shopfitters); *"we are always ready to do the impossible"* (Rand Data Forms).
- Timing: *"we understand how important it is to supply on time"* (Tassy's Caterer and DSD Shopfitters); *"we repair equipment immediately"* (Casino Specialised Services); *"we can deliver emergency stocks very quickly unlike all our competitors"* (Rand Data Forms).
- Meeting customers' needs: *"we respect our clients and listen to feedback"* (Gugu & Daughters Farming); *"we understand when they want us to work at night"* (Casino Specialised Services); *"we pre-empt the needs of our clients"* (Rand Data Forms).

The quality of the product comes second (Tassy's Caterer and DSD Shopfitters), with statements about paying great attention to detail (Gugu & Daughters Farming), which could be linked to not compromising on food hygiene and safety (Gugu & Daughters Farming).

Rand Data Forms offers a unique advantage in that it bears the cost of stocking by invoicing SI as it needs its products, even when they are produced in very large quantities; this is despite knowing that SI does not appreciate the amount of savings this generates for hotels.

When asked if SI had made special requirements of them to assert whether other factors might have played a role, Tassy's Caterer mentioned that it was asked to prove it was a formal business (with a credit letter and a bank account), and Gugu & Daughters Farming needed to show that it could comply with health and safety standards (to ensure the cold chain was maintained by acquiring a refrigerator truck). Casino Specialised Services and

DSD Shopfitters were alone in remarking that keeping their existing B-BBEE rating was important to maintaining their business partnership (they had to provide a B-BBEE certificate) – although they did not seem to realise how crucial this was.

## **5.2 Buyer perspective**

### **5.2.1 *Perceived impact on buyer***

The first and foremost impact of procuring from MSMEs is commercial: failure to comply with B-BBEE legislation would result in no longer being able to retain a gaming licence, which would be catastrophic for the group.

To achieve this, SG is launching a centralised order system that will enable HO to view each hotel's spending and monitor the products they buy (whether group/generic or hotel contracted), and the price at which they buy (to control if it matches the contract price or is cheaper/more expensive than what HO specifies). This system will provide total spend visibility. It will also be possible to look at a particular product on any particular day to generate hard evidence of non-compliance and estimate its cost to the group – namely the risk of not being able to score enough B-BBEE points. As an organisation, SI has not managed to appreciate the full impact of non-compliance: this is because it has been able to achieve a good B-BBEE rating until now. According to SG, it can no longer afford to adopt a reactive attitude, as the law is becoming increasingly stringent and the government is losing patience for change to take place.

This system will run in sync with another new procedure that aims to minimise the perception of risk in dealing with MSMEs, together with ensuring due diligence of all suppliers (regardless of size). They will need to upload all legal and compliance documents, which will trigger a procurement check: all the legal, mandatory and transactional documents to be produced as and when orders are placed are currently being defined and decided. In this context, the ILO standards are very helpful. It will be possible to control a company's compliance as often as is judged necessary (e.g. tax clearance checks), according to the level of risk the business represents for the group.

The second main impact is one related to reputation in relation to the country's political context, whereby there is a tangible sense that involving MSMEs in the supply chain will contribute to the growth of the economy and the creation of a fairer society, which will impact strongly on making the country a safer place to live, visit and do business in.

### **5.2.2 *Perceived impact on SMEs***

SI does not monitor the impact it has on all MSMEs it contracts, only on those that it supports financially. B-BBEE offers the option of 'sponsoring' businesses by offering financial and mentoring support, for which more points are given. In that context, SI has a responsibility to ensure that the recipient MSMEs develop sustainably, and as such will set up targets over three years that will be regularly reviewed to track progress to ensure it does not become dependent upon the group. For the SMEs interviewed (not all of which are part of this support scheme), the percentage of their total business represented by SI or the Maslow ranges from under 15 percent (two SMEs) to 33 percent (one SME) and up to 75 percent (two SMEs), which shows the concern to be justified.

Moreover, SI will not grow an SME that they feel is not equipped or ready to cope with a potential surge in business, even if that SME complains (which was the case for one interviewee), as there are fears that quality would not be maintained. For this reason the SME only receives 'chunks' of contracts, which also acts as a way of dealing with objections from new casino owners who are very nervous about the idea of working with small companies.

SI has no evidence that MSMEs improve their working conditions or management practices as a result of dealing with the group. There have been attempts to audit product quality to see if this improves as a direct result of the relationship, but without conclusive results.

## 6. EXTERNAL FACTORS

The South African government is clearly the strongest force behind the drive to include MSMEs in the supply chain – although it also requires the moral commitment of key staff in the organisation, who are making things happen to benefit both the organisation and the MSMEs. As openly stated by SG, the same levels of integration would not be reached if it was not for B-BBEE (if any levels at all).

The obligation placed on companies to dedicate 3.5 percent of their net profits to supporting Black SME suppliers (when they opt in to comply with B-BBEE) is releasing funds that can enable a business to grow from operating in one area to the whole country. For example, Casino Specialised Services benefited from funding accessed by the Sibaya casino (their entry property into SI) as part of the B-BBEE Enterprise Development Programme. The property thought the chain could benefit from the SME's services and used the money to pay for the SME's country-wide gaming licence, authorising them to service and repair gaming machines (until then the SME's licence only extended to three regions). This was a catalyst to starting servicing other hotels in the group.

DSD Shopfitters provides one example of a way the Department of Trade and Industry (DTI) has been key in helping finance their new factory: in addition to a bank loan (R1.2 million) and accumulation of capital (R2 million), the remaining R1.5 million was subsidised by the DTI with tax-free repayments because the company was able to demonstrate good financial performance.

## 7. LESSONS LEARNED AND CONCLUSIONS

### 7.1 Introduction

The South African government's initiative to encourage local procurement relies on a two-part approach that creates an enabling environment: good (to facilitate entry) and better behaviour (to reward the best) are both incentivised, and failure to comply is punished. The state provides a landscape that forces MNEs into action for fear of losing a crucial element of their income. At the industry level, the hotel group provides linkages to markets, but also systems designed to ensure that contracted SMEs are used by hotels, not merely listed on a directory, and that non-compliance has consequences. The particular benefits and issues arising in procuring from SMEs are explored below in section 7.2, from the perspectives of the buyer and the SMEs respectively.

#### *7.1.1 What are good practices of large buyers to integrate SMEs in the procurement chain?*

MNEs must have in place a system that controls compliance to labour and other legal practices for all suppliers, regardless of size, on a yearly basis, and which can be checked at any time. In South Africa, one SME recommends the following minimum checks: a tax clearance certificate, a workman's compensation and an unemployment fund letter of good standing, to prove the business is compliant.

Evidently, many of the laws are too cumbersome for micro and small businesses, but a series of criteria could be developed on the basis of affordability and ease of implementation tailor-made to the size of business (e.g. micro, medium) and coupled with access to an advisor that would support SMEs in being compliant, the cost of which could be shared between the MSME and the MNE (with preferential tariff according to size of turnover), in order to ensure that the service is valued by both parties.

Integration of SMEs in the global supply can contribute to the sustainable growth of the SMEs and MNE. Here

there is clear evidence of business growing between and benefiting both parties over many years, although some SMEs would like to grow bigger but this is discouraged by the MNE on the basis that rapid growth might not be sustainable for them.

SMEs do improve labour standards as a result of doing business with SI, but not because the chain plays an active role in promoting and controlling these standards. It is content with mere compliance with the law, assessed by providing external documentation based on self-audits for small companies. Any improvement happens because an increase in revenue provides the cash needed to afford better salaries and bonuses, and employ more people full-time. Here the owner of the SME has a large role to play, since he/she could decide to use profit growth to other ends.

### ***7.1.2 What are the drivers of those practices and the process through which they are developed?***

Within the MNE, in common with the vast majority of similar initiatives aiming to integrate responsible tourism as a core business principle, the most important driver is commitment at the executive level. However, this company commitment is usually triggered by one individual, driven by strong ethical values (to make society a fairer place), and his/her ability to make this agenda relevant for the organisation, as well as the resilience and patience to achieve this goal regardless of the objections encountered on the way. Nevertheless, it is the legislation that provides the main incentive for large companies to adopt a pro-SME procurement policy. Without compliance SI would not be able to operate at its current profit levels, so there are strong pragmatic motives for endorsing a such a policy. More generally, a growing economy that enables the MNE to increase its business is another precondition for providing opportunities to SMEs to enter markets, once again reinforcing the role that the state has to play.

### ***7.1.3 What are successful models and how can other buyers adapt and implement them?***

The study's key informant from the buyer's perspective, SI's Supply Development Manager, proposes a practical five-step process to ease the implementation of inclusive procurement in an international hotel chain:

- Align the policy of sourcing locally to the long-term objectives of the organisation, to make it relevant at executive level.
- Document clearly and concisely how sourcing locally fits into the company's existing objectives and vision.
- Get commitment from the executive before implementing anything on your own initiative.
- Present the policy as non-negotiable to people at the operational level: emphasise legal and/or company requirements.
- Maximise computerised processes to reduce human interaction and eliminate potential objections. (Requires access to proper technology.)

Such a plan is generally useful because it takes into consideration that other less economically developed countries do not have South Africa's pro-SME legislation. However it still relies on the procurement manager being driven to convince the executive to implement change.

Buyers also need to take advantage of services that are provided by external agencies (either public or voluntary sector organisations), especially those that offer financial help to SMEs, but also business mentoring over a period of years, to ensure together that the business will not fold and can remain a reliable supplier.



## 7.2 Lessons learnt

### 7.2.1 The buyer

Worldwide, sourcing locally is generally viewed by MNEs as too difficult to arrange and thus does not happen on a large scale in the sector. At the operational level there is a tendency to hold onto long-established relationships with larger suppliers that are seen to be safe and easier to manage. Even where pro-SME legislation exists, local procurement only happens in hotels where the executive consciously decides to promote linkages. (Where there is no such legislation, it is often viewed by MNEs as a value-added CSR activity.) But in this case study, notwithstanding the commitment of senior management, HO control over implementing procurement guidelines at the hotel level has been limited, resulting in SMEs being potentially by-passed despite complying with group policy.

SI identifies three main reasons for sourcing from SMEs: (a) they offer real added value; (b) they contribute to securing the chain's gaming licence; and (c) growing SME businesses is key to creating wealth that trickles down, improving the economic landscape, and in turn bringing more business to the chain. Of these, the second is most pragmatic. When SI contracts SMEs, B-BBEE compliance has first priority in the decision-making process, followed by price and product, with service last on the list. This runs counter to the belief of the SMEs surveyed, which all view the service they offer as their chief selling point. If they understood the importance given to compliance, they would be better placed to match the needs of the MNE: showing evidence that they comply with B-BBEE is a way for them to enter the supply chain, where they will have a much bigger chance of being integrated.

In order to secure benefits, it is vital that MNEs have systems to monitor compliance with all requirements made by the group, at any given time, every year. This should entail monitoring SME compliance with labour and business standards that are properly evidenced to ensure fair competition (although this should not become a burden to small businesses).

The legislation has not remained static, but is continually evolving and becoming more exacting, and it is therefore necessary for MNEs to be proactive in order to remain compliant. To this end, SI asserts that it will shortly be integrating a number of international labour standards into its procurement process. If achieved, efficient supply chain management will no longer solely be based on the combination of best price and product.

The commitment to source from MSMEs needs to be both organisational and operational: it needs to be part of the strategy, and also what is required to maintain it, to ensure it lasts. Changing company culture at the operational level is a very long process, thus going for automation and spending as little time as possible talking about change by introducing computer systems that control the whole process seems to be the most effective option – even if this approach can be seen as dictatorial and uncompromising.

### 7.2.2 The SMEs

All SMEs indicated that they have benefited significantly from their inclusion in the SI supply chain, but there are issues as well. The foremost positive consequences are job creation and a marked increase in revenues (of up to 300 percent in the case of one business). While increased sales do not necessarily lead to increased profits, as SMEs must invest and cut costs to stay contracted, it has helped them to become more competitive.

They have increased their customer base, both within and outside of the chain and with diverse clients. Improved products and a wider product range have allowed them to become more competitive. SMEs report improved labour conditions, although as mentioned above, this is not a focus of SI's procurement process. There are also opportunities to benefit from additional sources of funding under the B-BBEE Enterprise Development Programme, which one SME in this case study has availed of.

In securing access to markets, it is essential for SMEs to identify the true gatekeepers. In the case of food, head chefs have the final say; in the case of decor, the interior designer appointed by the hotel drives the agenda, not the procurement staff in the property or at HO. Being able to build a relationship with these individuals will ease access, especially since their influence extends beyond the property they work for. The best way for SMEs to enter a hotel chain is by starting to supply to one of its properties and pushing for referrals, growing the business slowly but safely.

The main issues experienced by SMEs relate to growth and sustainability. Once a business relationship is established, growing fast enough to keep up with demand can prove an obstacle, and one SME reports having missed out on opportunities for this reason. Accumulating capital is challenging: cash reserves to enable rapid growth are not easy to acquire, although these can be achieved by negotiating good payment terms right from the start. Likewise, poor access to loans makes it very difficult to buy the necessary equipment to grow business.

Business sustainability is viewed differently by the buyer and the SMEs. On the one hand, SMEs want to grow business with the group so as to earn more and have the opportunity to expand further. From the point of view of the buyer, however, the SME depending exclusively on dealings with the group is undesirable, and there is a fear that quality can suffer with rapid growth. Strategic planning for sustainable growth is crucial, but business planning is neglected amongst the SMEs, either because of a lack of skills or a lack of time. Access to external agents that provide mentoring support over several years, as well as funding at very low cost, can make all the difference. Avoiding dependency on a single MNE – but also on any single supplier type (e.g. the public sector) – guarantees a sustainable approach to growth. So does an ability to innovate and look for opportunities to diversify products, although this needs to be in keeping with the original offer to keep costs down. For this to happen, it is necessary for SMEs to master the skills of being able to write a business plan, or to seek help and make time to do so.

### 7.3 Conclusion

South Africa's enabling legislation is the catalyst to changing traditional procurement patterns on a large scale. Not only is it pro-poor but it also punishes those that do not embrace it: a combined 'carrot and stick' approach, which makes it a rare example in the Global South of inclusive procurement becoming a daily reality. The impact is tangible and real for SMEs; this case study's informants, both buyer and suppliers, view the legislative framework as an overwhelmingly positive backdrop.

Local procurement by MNEs can happen by default, outside of legislative incentives, as long as the SME happens to supply the product that is needed at the time it is sought. However, the process can be optimised if government and companies work in parallel to create an environment that both rewards compliance and punishes bad behaviour. External agents can support SMEs to meet legal and business requirements, ensuring they remain competitive and grow sustainably to generate long-lasting and far-reaching impacts. The ILO has a major role to play here in providing guidance as to how MNEs in the hospitality industry can work with MSMEs (without burdening them), to comply with, and go beyond, international labour legislation.



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## APPENDICES

### APPENDIX 1 – SME QUESTIONNAIRE

**Company Name:**

**Duration:** mins

**Interviewee name:**

**Interviewee position:**

#### I. Profile

- What is the legal status of your company?
- How many people work in the company?

male / female      full time / part time (female) / hourly paid

- What is your area of activity?
- What is the story of your business (start year, why set up, growth trajectory)?
- When did you start supplying the hotel chain?
- What % of your total products and services do you sell to the hotel? %

Do you supply to other hotels of the same chain?      yes      how many?      %

Do you supply to other hotel casino?      yes      how many?      %

Do you supply to other companies?      no      type?      %

#### II. Benefits from being included in the value chain

- How much money did you generate before you started supplying the hotel?

turnover/sales      rand      profit      rand

- How has your business improved since you started supplying the hotel?

increased sales yes/no      How much?      %

increased profits      yes/no      % of increase      %

more clients      yes/no      How many?

cheaper production cost/economies of scale      yes/no      Explain

faster methods of production      yes/no      Explain

more staff      yes/no How many?      permanent / hourly paid      men/ women

more capital      yes/no How much?

more products yes/no Explain

better marketing      yes/no Explain

other      yes/no Explain

- Are you now offering better working conditions than before?

better pay      yes/no % of increase

better benefits yes/no Explain

- Has the quality of the products you sell improved as a result of working with the hotel?

yes/no Explain what changes were made

Estimate the costs

Explain who funded

- Do you have more opportunities for growth now that you are supplying to the hotel?

yes/no Explain, if yes – accomplishments & plans for the future

Explain, if no – barriers to growth

### III. Relevance of procurement practices

- In order to sign the contract, did the hotel chain asked you to show evidence that:

Signed contract with General Procurement from SI that covers all these

» you have written contracts for all employees that meet your country's legal requirements?

yes/no Explain

» you offer opportunities for training and career progression?

yes/no Explain

» you pay staff the minimum legal living or minimum wage?

yes/no Explain

» you pay staff overtime and for all the hours they work?

yes/no Explain

» staff work less than 48 hrs per week

yes/no Explain

» staff gets paid annual leave

yes/no Explain

» you are supportive to staff when it comes to combining work, family and personal life (paid maternal leave/ rates/duration; flexible hours; parental leave)

yes/no Explain

» you don't employ children or people below the minimum working age?

yes/no Explain

» you do everything in your power to offer stable and secure working conditions (staff turnover rate; duration of contract; earnings of casual workers)?

yes/no Explain

» you treat men and women in the same way, offering them the same opportunities when it comes to roles with responsibilities?

yes/no Explain

» staff work with the correct equipment & are trained in H&S?

yes/no Explain

» staff are paid in case they have an accident at work?

yes/no Explain

» you pay into the national social security system so that staff have guaranteed access to free/affordable health care

yes/no Explain

» staff are aware of their right to set up a union?

yes/no Explain

» staff know how to report problems?

yes/no Explain

» Is your staff aware of all these requirements?

yes/no Explain

» Are there other requirements that the hotel or other hotels make of you?

yes/no Explain

#### IV. Success factors and challenges

- Why do you think your company has been successful in being able to supply the hotel chain?
- What problems did you face to meet the hotel's requirements?

Internal          External

- Which problems are you still facing?
- Who could best help you improve to meet these requirements?
- What are the biggest challenges you face to scale your operations and improve your staff working conditions?

## APPENDIX 2 – MNE QUESTIONNAIRE

**Company Name:**

**Duration:**      mins

**Interviewee name:**

**Interviewee position:**

**Roles:**

### I. Relevance of procurement practices of larger enterprises to SMEs

- Why do you source from SMEs?
- What % of your total procurement budget is allocated to procurement from SMEs?          %
- What proportion of local SME procurement is done:

directly with the SME via the general procurement department of the chain          %

via a wholesaler          %

other          %          Explain

- What is the total value of the budget allocated to procurement from:

local SMEs      rands    foreign SMEs      rands



- How many SMEs do you source from?

local / foreign

- For which types of inputs?
- How do you select your SME suppliers?

you work on recommendations from hotels in the chain yes / no

you publish offers for tender yes / no

you give contracts to SMEs you trust and know yes / no

you have a policy to include SMEs in your VC yes / no Explain your selection criteria

other Explain

## II. Specific questions about the SMEs interviewed

- How did you get to know about each SME?

SME1

SME2

SME3

SME4

SME5

SME6

- Is the business you do with each of these SMEs

SME1 constant seasonal ( months) Why?

SME2 constant seasonal ( months) Why?

SME3 constant seasonal ( months) Why?

SME4 constant seasonal ( months) Why?

SME5 constant seasonal ( months) Why?

SME6 constant seasonal ( months) Why?

- What made you decide to contract each of these SMEs

reasons applying to all SMEs:

reasons applying specifically to each SME:

- What factors would stop you from continuing this relationship in the future?

factors applying to all SMEs:

factors applying specifically to each SME:

- Do you incorporate the following areas in your procurement policy (in brackets are minimum expectations to use as prompts if needed – taken and/or interpreted from ILO manual)

» Legalising work (written contract; meeting country's legal requirements)

yes/no What exactly?

» Opportunities for training and career progression

yes/no What exactly?

» Adequate earnings (living/minimum wage; type of pay; pay of overtime; pay for all hours worked)

yes/no What exactly?

» Decent working time (less than 48 hrs per week; paid annual leave)

yes/no What exactly?

» Combining work, family and personal life (paid maternal leave/rates/duration; flexible hours; parental leave)

yes/no What exactly?

» Work that should be abolished (child; employment below minimum age)

yes/no What exactly?

» Stability and security of work (staff turnover rate; duration of contract; earnings of casual workers)

yes/no What exactly?

» Equal opportunity and treatment in employment (gender discrimination on pay & role)

yes/no What exactly?

» Safe work environment (H&S equipment & training; paid leave in case of accidents)

yes/no What exactly?

» Social security (company contribution; guaranteed access to free/affordable health care)

yes/no What exactly?

» Social dialogue, workers' and employers' representation (unions; system for reporting & escalating problems)

yes/no What exactly?

- Do you control that these requirements are applied and sustained?

yes/no

- How?

Training                      yes/no                      how often?

Auditing                      yes/no                      how often?

Buyer's complaint                      yes/no

Rely on certification                      yes/no                      for what?

Other    what?

- Do you report on the compliance of these SMEs?

yes / no                      Why?

- Do you have any policy about minimum prices for products sourced from SMEs?

yes/no Explain

- How do you monitor this policy?
- Are there sanctions against wholesalers that do not pay these prices?
- Do you have any policy about regular orders to SMEs?

yes/no How do you monitor this policy?

Are there any sanctions for wholesalers that do not offer regular orders?

### III. How have SMEs you contract benefited from working with you?

- Have you noticed an improvement in the labour conditions they apply?

yes/no What exactly?

which SMEs?

- Have you noticed an increase in their commercial activities (more clients/ higher sales /increase in staff)?

yes/no What exactly?

which SMEs?

- Do you track the SMEs' progress?

yes/no How exactly?

#### **IV. What have you found to be the most important factors contributing to SMEs being able to meet your requirements?**

- What must the SME demonstrate to be contracted by the hotel chain (internal factors - seller)?
- What have been the key success factors to the hotel chain being able to source from local SMEs (internal factor – buyer)?
- What have been the key external factors that have facilitated or enabled sourcing of local SMEs?

### **APPENDIX 3 – Procurement Policies Top 10 Hotel Chains Worldwide**

Rank	Group	Extract from policy statement	Business Eligibility	Supplier Diversity Programme
1	<p><b>Intercontinental Hotel Group</b></p> <p>Online application form and invoicing via registration on internal system (Ariba® Supplier Information Management)</p> <p><i>British owned</i></p>	<p>We recognise that we have a significant part to play in local economic development and we promote responsible business practices right across our supply chain.</p> <p><i>We encourage our hotels to source goods and services locally where ever possible.</i></p> <p><b>Doing business with IGH</b></p> <p>IHG is committed to working with partners and suppliers that best meet the needs of our organization, our owners, our brands, our hotels and our guests. We aim to work with partners who are amongst the leaders in their fields.</p> <p><i>We value our relationships with our global, regional and local partners and suppliers.</i></p> <p>We strive to develop strategic relationships that add significant value and innovation across our brands and regions. IHG is committed to responsible procurement and we actively look to work with suppliers who share our values.</p>	<p><b>Vendor checking and accreditation</b></p> <p>Our suppliers must provide relevant data to support our responsible procurement strategy.</p> <p>The <b>Supplier Handbook</b> provides the following guideline (extract):</p> <p>must comply with all applicable local and international laws and regulations, and the IHG Vendor Code of Conduct</p> <p><b>Code of Conduct</b> asks of contracting staff that they ask:</p> <p>Is it legal?</p> <p>Is it ethical?</p> <p>Is it safe?</p> <p>Is it consistent with the Code and IHG's policies and procedures?</p> <p>Is it consistent with our Winning Ways?</p> <p>Would I be comfortable explaining it to my friends and family?</p> <p>How would I feel if it was made public in the newspapers or online?</p>	<p>We ensure we apply best practice to our relationships with suppliers and responsible business practices throughout the procurement process.</p> <p><b>Diversity in the supply chain</b></p> <p>We operate a supplier diversity programme in collaboration with IHG's Global Strategic Resourcing.</p> <p>This supports our commitment to provide suppliers equal access to <i>purchasing opportunities and economic stimulus in local communities</i> in a way that reflects the diversity of our guest base and communities.</p> <p><i>We track and report our supply chain diversity profile and during 2014 our spend with diverse suppliers was \$51.6m</i></p>

Rank	Group	Extract from policy statement	Business Eligibility	Supplier Diversity Programme
2	<p><b>Hilton Worldwide</b></p> <p>Sourcing via Avandra Procurement Solutions, a leading North American procurement services provider</p> <p>Four simple step online application form, evaluated to determine company eligibility, with notification if selected. All suppliers must have online account</p> <p><i>US owned</i></p>	<p><b>We don't find suppliers. We find partners.</b></p> <p>We're committed to selecting the very best suppliers to continue the quality, service, and value our owners and guests have come to expect. We negotiate and work with thousands of suppliers to deliver products to our hotels that meet or exceed each brand's specific standards.</p> <p>New suppliers are typically given consideration only when there is a need for a new bid or contract for a particular product or service.</p>	<p>at least three years of business history</p> <p>a record of excellent customer service</p> <p>competitive pricing</p> <p>rigorous standards for quality, consistency of service, and on time delivery</p> <p>meeting Avendra's insurance and indemnification requirements</p>	<p>Hilton Supply Management is committed to the Diversity Principle of Social Responsibility:</p> <p>proactively promote purchasing from, and the development of, socially diverse suppliers.</p> <p>encourage diversity within Hilton Supply Management and the entire corporation.</p> <p>proactively promote diverse employment practices throughout the supply chain.</p> <p>Companies must be at least 51% owned, operated, and controlled by a member of one of the following minority groups – women, Asian American, African American, Hispanic American, or Native American, veteran and LGBT suppliers.</p> <p><i>Those minority group members also must control the management and daily operations of the company.</i></p> <p>We participate in various activities and events to expand business opportunities and relationships within the minority-owned or women-owned Business Enterprise.</p>

Rank	Group	Extract from policy statement	Business Eligibility	Supplier Diversity Programme
3	<p><b>Marriott Hotels</b></p> <p>For most sourcing, via Avandra Procurement Solutions (see Hilton) with online application form.</p> <p>For other commodities, email capability statement to the Supplier Diversity team.</p> <p>Some hotels have their own eProcurement portal (e.g. Islamabad)</p> <p><i>US owned</i></p>	<p><b>Corporate diversity - Suppliers</b></p> <p>Over the last decade, Marriott has spent over \$4 billion with diverse suppliers.</p> <p>Marriott is an active corporate member of multinational organizations that support the development of diverse and historically excluded suppliers</p>	<p>These criteria apply specifically to minority businesses outside of the USA:</p> <p>Business History: minimum 3-year business history</p> <p>Commodity: provide value-added products and/or services</p> <p>Quality &amp; Service: meet or exceed our high standards of quality and service; Quality Assurance inspected by an approved third party for applicable businesses</p> <p>Pricing: offer competitive pricing</p> <p>Insurance: meet our insurance and indemnification requirements</p> <p>Other areas: on-time deliveries, innovation, preferred hospitality experience</p>	<p>Company must be a for-profit enterprise and at least 51% owned, operated and managed by a diverse entity. The diverse entity must belong to one or more of the following classifications:</p> <p><b>United States</b></p> <p>Disabled</p> <p>Lesbian, Gay, Bisexual, or Transgender (LGBT)</p> <p>Minority</p> <p>African American</p> <p>Asian American</p> <p>Hispanic American</p> <p>Native American</p> <p>Service-Disabled Veteran</p> <p>Service Veteran</p> <p>Woman</p> <p><b>Outside of the United States</b></p> <p>Minority (Based on Location)</p> <p>Woman + criteria in left column</p>



Rank	Group	Extract from policy statement	Business Eligibility	Supplier Diversity Programme
4	<b>Wyndham Worldwide</b>	Enterprise Supplier Management	minimum three-year business history	Our mission is to develop and implement an approach to supplier diversity which becomes part of our daily culture, achieving results that add value by reducing costs, improving quality and/or increasing revenue through the identification and use of competent diverse suppliers: minority-owned (African American, Asian American, Hispanic American, and Native American) disadvantaged business enterprises woman-owned businesses lesbian, gay, bisexual, and transgendered businesses veteran, disabled veteran and disabled-owned businesses
	Online application form	We believe in enhancing the supply chain by building partnerships with both diverse and non-diverse suppliers who meet standards of excellence.	competitive pricing and cost saving solutions	
	No acknowledgement of registration		service (on-time delivery)	
			quality assurance	
	<i>US owned</i>		proven financial viability	
			geographic scope (i.e. national or regional distribution)	
			value added capabilities Risk Management requirements	
			hospitality references a plus	
			social responsibility/ sustainability strategy	

Rank	Group	Extract from policy statement	Business Eligibility	Supplier Diversity Programme
6	Accor	<b>Procurement Charter 21</b>	<b>Commitment of Suppliers</b>	None.
	French owned	<p>Respect for people and the environment is one of Accor's core values. The Group has developed a Sustainable Development program named PLANET 21.</p> <p>The search for performance, especially economic, must be achieved in a way that respects both people and the environment.</p> <p>Procurement plays an essential role in the implementation of this PLANET 21 program by selecting products and services that respect personal well-being and help reduce environmental impacts.</p> <p>To succeed Procurement shares its principles of sustainable development with its suppliers, entrepreneurs, sub-contractors and service providers.</p>	<p>Accor is asking its suppliers to sign this Charter through which they agree to:</p> <p>comply with the Charter;</p> <p>ensure that their own suppliers and sub-contractors fulfil these same criteria;</p> <p>participate in Accor's evaluation process and implement any necessary action plans;</p> <p>authorise Accor and/or external providers commissioned by Accor to conduct sustainable development audits and implement any necessary action plans.</p> <p>Accor's suppliers must comply with the:</p> <p>National or international regulations relating to its activities;</p> <p>United Nations Universal Declaration of Human Rights;</p> <p>Core Conventions of the International Labour Organization;</p> <p>United Nations Global Compact that Accor joined in 2003.</p> <p>Accor is hereby stating its principles of action related to the management of its procurement activities.</p>	<p>In France, concept of 'diversity' is not recognised in law as all people are born 'equal'.</p> <p>It is illegal and culturally unacceptable for companies or the State to ask about racial origin and sexual preferences.</p>

Rank	Group	Extract from policy statement	Business Eligibility	Supplier Diversity Programme
7	<b>Starwood Hotels and Resorts Worldwide</b>  In-house Supply Chain team.  In 2003, first hotel group to introduce online registration for minority-owned businesses to maximize their contracting opportunities throughout its 400 North America hotels and resorts.  US owned	<b>Supplier Diversity Policy</b>  We foster lasting relationships with minority businesses to provide opportunities that are mutually beneficial to both parties. We are committed to providing economic opportunities for all members of the communities.  We believe that the development of a community's resources benefits the company and the entire community as well.  We support and encourages the participation of all of properties and corporate offices in seeking out and taking the steps necessary to assure Diverse Suppliers a fair share in the economic opportunities available.	to provide quality goods and services at fair market pricing  track record of consistency in established channel of distribution  desire to exceed partnership expectations  ability to work collaboratively on world class branding initiative  outstanding industry reputation, hospitality references a plus	<b>Starwood's supplier diversity program allows:</b>  increased competition and lower costs.  increased innovation and access to suppliers who might not otherwise have access to the buying arena.  support of the local community and economy by supporting suppliers from traditionally under-represented populations.  Same criteria as Wyndham but also recognises small disadvantaged businesses and firms located in high unemployment areas.
9	<b>Home Inns Hotel Group</b>  Chinese owned	<b>Centralised procurement</b>  We have implemented a centralized procurement system to allow us to obtain the best pricing available for the quality of goods sourced to our hotels in order to minimize the operating expenses of our hotels. As a leading branded economy hotel chain in China with nationwide scale, we are able to exert leverage over our suppliers of commodity goods and services.	Not found	Not found

Source: Avandra (2015), Accor Hotels (2012:1-2), Breaking Travel News (2003), Hilton Worldwide (2015a & 2015b), Home Inns (2016), Intercontinental Hotels Group (2016a & 2016b, 2015a:3 & undated:5), Marriott (undated a & b and 2015), Starwood (2016), Wyndham Worldwide (2014 & 2016).