

Is metal getting a colour rinse?

Is black economic empowerment (BEE) sufficiently tied in with industrial growth?

Ganief Bardien

highlights the results of a current study in the metal industry, which has revealed that the way BEE is being implemented could be hampering rather than assisting in overall transformation.

'Despite the enormous potential in this country you South Africans suffer from a major lack of self confidence... in the 60s Korea's only natural resource was fish and look where they are now'

Ha-Joon Chang, economics professor,
Cambridge University

Despite being at the heart of the industrial base of the South African economy no BEE charter currently exists in the metals sector. Research into BEE tends to focus mainly on issues of ownership instead of ensuring a more equitable distribution of economic gains derived from empowerment activities. There are few studies that investigate the dynamics of BEE at the firm or industry level. For policymakers such knowledge is critical if the appropriate interventions and strategies are to be considered at industry level where much is assumed but little is known about how BEE is implemented. The following are some of the key questions that need further investigation in the metals and other sectors of the economy:

- Although black-ownership has steadily increased in the real economy, what is the nature of such ownership?
- What are the procurement practices of established firms in these key sectors and what has been the impact of the Preferential Procurement Act and the industry charters in the mining and petroleum sectors?
- Are black managers rising through the ranks of firms to become key decision-makers or are they marginalised to perform non-essential responsibilities?
- Do workers on the shopfloor receive meaningful training to upgrade the current skills base of the economy or do they only receive non-production related training?

The following themes emerged during a survey conducted on behalf of the National Union of Metalworkers of SA (Numsa) as part of a study on BEE.

THE NATURE OF OWNERSHIP

In the absence of a BEE charter in the metals sector, firm behaviour has largely been informed by charters in other industries and the possible impact of the

Preferential Procurement Act on sales into the government sector. It is interesting how some firms have 'proactively' adopted ownership targets of 25%+ pointing to the influence of the mining, petroleum and other sector charters.

Black-ownership in some firms is largely a passive response and limited to engagements at the board level. Black executives are appointed mainly as non-executive directors to focus on issues of corporate governance and BEE compliance. Where some firms sell a large part of their output into state-owned enterprises, they aggressively pursue ownership arrangements preferably with female black-owned firms – mostly in unrelated sectors – to boost scorecard ratings when tendering on government contracts.

In contrast, white owners and executives are generally more familiar with the technical and marketing issues affecting the firm's production. In most cases the background of the average white decision-maker is both technical and managerial having emerged either through the ranks of the firm or another firm in a related industry or having founded the firm because of some kind of engineering, technical or design background.

Notwithstanding the legacy of apartheid largely responsible for these structural inequalities in the economy, operational decision-making by black executives remains a long-term challenge in the metals sector.

PROCUREMENT

Less than 10% of material and technical inputs are procured from BEE firms in the metals sector. In most cases there are simply no BEE firms that offer intermediate inputs or have the technical design, research and development capabilities to offer these products.

Whilst BEE legislation has slowly

emerged over the past decade the issue of preferential procurement and related enterprise development is not new. State-owned entities like Eskom have had preferential procurement policies in place since 1995. One would assume that at least one or two medium to large autonomous manufacturing or technically capable BEE enterprises would have emerged from these initiatives; particularly given Eskom's excellent enterprise development component to its preferential policies.

Large multinational firms in the engineering sector continue to benefit from the large upgrading and refurbishment projects of state-owned enterprises with minimum commitment to black-owned enterprise development in this sector. In general BEE firms supply only non-essential support services such as security, gardening, cleaning, printing etc.

EMPLOYMENT EQUITY

The advancement of black managers in the firms interviewed is cause for concern. There is an unusually large concentration of black executives in human resource and related functions at the firms surveyed thus far. There was however, little mention of black operations managers, industrial engineers, design engineers, manufacturing experts or technical specialists. Whilst the firms reported that these skills are generally in short supply, it seems almost non-existent amongst black professionals.

SKILLS DEVELOPMENT

Unskilled and semi-skilled workers receive very little training that can be classified as upgrading of skills, the survey revealed. Although most firms recognised the need for upgrading skills of shopfloor workers, few have coherent strategies to achieve this objective. The exceptions being the large motor and tyre manufacturers. Here sophisticated human resource practices and collective bargaining agreements facilitate skills training and development in terms of operational needs. In general most shopfloor workers only receive safety-related, adult basic education and HIV/AIDS awareness training. These skills are neither transferable nor assist workers to find other employment in cases of retrenchment.

WAY FORWARD

In the next five years government through the state-owned enterprises intend spending at least R134 billion in upgrading and refurbishing existing infrastructure, and adding new capacity at Eskom and Transnet. Some of the new power generation technologies are particularly sophisticated, including a South African designed pebble-bed modular nuclear reactor, a combined cycle gas turbine (CCGT) power station and an open cycle gas turbine (OCGT) power station. Transnet has similar ambitions to use advanced technologies when sourcing new capacity.

The value chains and firm linkages in these industries are enormous. Many of the big-ticket components like turbines and related parts will be sourced internationally from a few large multinational firms. These leakages are unavoidable since South Africa simply does not have the existing technology and capacity to produce some of these goods. Given the urgent need to add new capacity to both the power generation and railway infrastructure, the time to achieve local economies of scale in the manufacture of these components is simply not available.

However, the opportunity for government lies in charting an industrial policy for the capital expenditure programme that will either rejuvenate ailing manufacturing industries like the rail carriage and boiler manufacture industries in Gauteng or will lead to completely new industries in advanced materials technologies like ceramic wear parts or composite building materials.

This will require careful scrutiny of each part of the value chain. A power station or rail-system comprises an enormous amount of parts and components made of a variety of materials like metals (ferrous and non-ferrous), ceramics, plastics and advanced materials (polymer composites). Preliminary desktop research into the composites materials industry indicates that SA already has significant technological capabilities in these industries.

The implications for BEE are equally far-reaching. Government could consider some of the following options in awarding the contracts:

- With each contract government could include conditions of skills transfer at

each level of the value chain. This would require offering generous bursaries countrywide to black candidates in the fields related to the actual manufacture of these components. Part of the training should be hands-on participation with an expert supervisor whether production occurs abroad or local. The training should include some kind of monitoring or auditing mechanism by an independent expert to see that predetermined goals are achieved.

- In terms of BEE ownership, government could through various funding institutions offer favourable loans to black entrepreneurs to enter into predetermined manufacturing and engineering industries. These firms will then be locked in for the duration of the entire project through preferential procurement and enterprise development. These initiatives should be regarded as pilot projects rather than pure commercial arrangements. Each project should have an independent project management team with certain monitoring and governance responsibilities.
- As for skills training and development, government could initially consult with the unions to identify a database of retrenched members to offer some skills upgrading in low to medium technical skills required during the capital expenditure programme. National skills centres could then be set up in each metro with a phased intake of a limited number of unemployed workers during each phase. Workers will be compensated whilst on training. This initiative could be coordinated and funded through the Setas.

Bardien is the programme coordinator for the Corporate Strategy and Industrial Development research programme (CSID) at the School of Economic & Business Sciences, University of the Witwatersrand. This article draws on a current project titled, 'An investigation of BEE in the metals sector of the economy'. The study commissioned by NUMSA is intended to feed into the union's position on BEE in the sector. The project is funded by the Frederick Ebert Stiftung (FES).