

The Role of BEE in Transforming the Petroleum Industry in South Africa:
Progress Made Since the Signing Of the Industry Charter on Empowerment

Academic Programme: Master of Business Leadership

Study Leader: Professor AE Booysen

Final report submitted by: Zamikhaya Dyaphu (Zama)

Student Number: 31333192

Contact numbers: 021 403 4173

Cell 083 632 4174

Email: zama.dyaphu@engenoil.com

Table of Contents

	Page
CHAPTER 1	
Orientation	
1.1. Introduction	8
1.2. Objectives of this research	9
1.3. Scope, focus and limitations of the study	9
1.4. Importance of the study	10
1.5. The research question and phenomenon	11
1.6. Definition of key terms	12
1.7. Description of the study	16
1.8. Layout of Chapters	18
CHAPTER: 2	
LITERATURE REVIEW	
2.1. History of Transformation, Regulation and Deregulation	20
2.1.1. Lessons From Abroad – The Australian Example	22
2.1.2. The South African Petroleum Industry Background	26
2.1.2.1. Industry background	26
2.1.2.2. The Regulated Petroleum Industry Environment	27
2.1.2.3. The Role of The Petroleum Industry in the Country's Economy – South Africa	28
2.1.2.4. Regulation vs. Deregulation Debate – Advantages And Disadvantages	29
2.1.2.5. What Happened After 1994 In The Petroleum Industry In South Africa	32

CHAPTER: 3

POLITICAL, ECONOMICAL, SOCIAL AND TECHNOLOGICAL ANALYSIS

3.1. Political and Legal Environment	36
3.2. Economic Environment	37
3.3. Social Environment	38
3.3.1. Education	38
3.3.2. Road Safety	39
3.3.3. HIV/AIDS	39
3.4. Technological Environment	40
3.5. The Porter Model Analysis	41

CHAPTER: 4

CHANGE THEORY AND BROAD BASED BLACK ECONOMIC EMPOWERMENT ANALYSIS

4.1. Introduction and Definition of the concept of "Change"	55
4.2. Change Paradigms	56
4.3. Typologies of Organisational Change	58
4.4. Approaches to Change	58
4.5. Triggers of Change	59
4.6. Resistance to Change	60
4.7. The Role of Leadership during Change	61
4.8. Business Case for Change and Transformation in South African Economy	62
4.9. Change Implementation in A S.A. Business Environment	68

CHAPTER: 5

CRITICAL ANALYSIS OF THE IMPLEMENTATION PROCESS OF AND ITS OUTCOMES

5.1. What Has Happened So Far Regarding BEE in South Africa	70
5.1.1. Positive Outcomes of BEE in South Africa	72
5.1.2. Negative Outcomes of BEE in South Africa	72
5.2. The Malaysian and the American Lessons	74
5.2.1. How the Process of Empowerment Unfolded In Malaysia	75
5.2.3. The Positive Outcomes of the Empowerment Process In Malaysia	76
5.2.4. The Negative Outcomes in Malaysia	77
5.3. The United States of America	79
5.3.1. Positive Results of the Empowerment Programme In America	80
5.3.2. Negative Results of the Empowerment Programme In America	80

CHAPTER: 6

RESEARCH DESIGN AND METHODOLOGY

6.1. Introduction	82
6.1.1. Definition of the Method Used	82
6.1.2. Criticism of the Case Study Research Method	83
6.2. Primary Data	83
6.2.1. Reasons for choosing a particular method of data collection	85
6.3. Secondary Data	85
6.4. Unit of Study	86
6.5. Sampling and Sample Size	86

6.6. Data Entry and Data Analytic Technique	87
CHAPTER: 7	
ANALYSIS OF THE RESULTS	88
CHAPTER 8	106
RESEARCH FINDINGS AND DISCUSSION OF THE FINDINGS	95
CHAPTER 9	
CONCLUSIONS AND RECOMMENDATIONS	110
References	122
Appendices	127
Appendix C: Management Profile by Sector	
Appendix D: SAPIA HRD Strategy Document	
Appendix E: Column on Black economic Empowerment Criticisms	
Appendix F: Chemical Sector Growth	
Appendix G: Merger between Engen and Sasol Oil: Merger watchdogs can get help, But their teeth must stay sharp	
Appendix H: Focus On Empowerment in the Energy Sector	
Appendix I: Empowerment: time for government to unleash an impi	
Appendix J: Highlights of the South African Liquid Fuels Summit	
Appendix K: End Job Losses! Fight Poverty and Unemployment!	
Appendix L: Race and Inequality	
Appendix M: Management of Occupational Exposure to the Human Immunodeficiency Virus (HIV)	

List of Tables:

Table 1: Summary of Data Reflecting Industry Status	95
Table 2: Determination of Asset Ownership	97
Table 3: Employment Profile of the Industry	101

List of Figures:

Figure 1: RSA Primary energy utilisation	27
Figure 2: Porter Model of Analysis	42
Figure 3: Depiction of Industry ownership Pre charter	98
Figure 4: Post Charter status of industry ownership	99
Figure 5: Illustration of employment demographics	102
Figure 6: The racial gap on employment	103
Figure 7: The gender gap	104
Figure 8: Industry total procurement spend	105
Figure 9: Procurement spends on BEE suppliers	106

CHAPTER: 1

ORIENTATION:

THE ROLE OF TRANSFORMATION IN THE PETROLEUM INDUSTRY IN SOUTH AFRICA

1.1. Introduction:

The importance of transformation within corporate South Africa has recently attracted the attention of academics, practitioners, political activists, champions of human rights and agents of business and social change. In the centre of the debate is the issue of transformation, change and real empowerment of businesses in South Africa. This can be regarded as the second phase of the struggle against the abolished system of “Apartheid”. It is a struggle for economic freedom. “Economic empowerment is a continuation of what the political struggle achieved in 1994 for democracy. “It is not something that has been dreamt up by some elite intellectuals,” Macozoma (2005) BMF Online.

Amongst the key industries behind the process of empowerment in South Africa is the petroleum industry. The industry in the past has made history in terms of being one of a highly secretive industry and became a strategic government asset. Again during the new dawn it became the first industry to embark on transformation by adopting its own transformation charter in 2000 to address the imbalances of the past, a move which was not welcomed by many as it was perceived as being creating economic instability for the country. With specific reference to the charter on empowerment and transformation of the industry, the reason for the study is to investigate the extent to which the industry has managed to achieve its empowerment objectives and transformation goals on the main pillars of

empowerment as stipulated in the charter (Liquid Fuels Industry Empowerment Charter 2000).

1.2. Objectives of This Research

The purpose of this research is to investigate the degree to which transformation has been implemented and progressed in the industry. The primary purpose is to assess and measure empowerment progress in the Petroleum industry in South Africa since the signing of the industry empowerment charter in November 2000.

The objective is also to provide a quantitative indicator of the progress made with regard to various aspects of the charter. These aspects or elements include equity ownership, management control, employment equity, capacity building, skills development, procurement opportunities and community development initiatives and programmes. The purpose is also to investigate whether the process of empowerment has created value for businesses. To identify barriers and challenges if any for transformation within the industry. The study will also investigate the question of industry status in the form of regulation and the role it plays in fulfilling the objectives of the charter.

1.3. Scope, Focus and Limitations of the Study

Due to logistical and cost limitations, the study will concentrate on the petroleum industry in South Africa and mainly on the marketing and refining companies commonly referred to as "Downstream activities". Individual consumers of petroleum products are excluded from the investigation as they have little or no direct influence in the transformation process. The research is limited to the current six major players in the industry namely: BP, Caltex, Engen, Total, Sasol and Shell.

It is also the intention to get views on the progress that has been made in each of them. The research is also limited to the pillars of empowerment as mentioned in the previous section. Reaching out participants that are not based in greater Cape Town might be a challenge. It is therefore provisionally envisaged that if costs become a problem other methods of obtaining the information might be used such as electronic mail and telephonic interviews. The oil industry representatives meet regularly to address issues of empowerment in the industry; therefore it might be possible to approach companies via the industry forum.

1.4. Importance of the Study

The stakeholders in the petroleum industry have embraced the process of change and transformation. These different role players seek different benefits from change and transformation. Government expect delivery on the national agenda on issues of economic transformation. Previously disadvantaged business people who voted for the current government to power expect creation of opportunities for ownership of stakes on various oil major companies or a conducive climate for participation without limitations. Small entrepreneurs expect procurement opportunities to grow their businesses. Women are wary of gender marginalisation on empowerment front. Gender tends to be given little attention in the process of empowerment. Ideally, if the transformation process is to play a significant role in South Africa, the outcome should be that South African society should increasingly be defined on socio- economic lines as in other countries, rather than almost exclusively on the basis of skin colour (Browning: 1989). Since petroleum products are amongst the key commodities that are crucial for country's economy, consumers both commercial and individuals are expecting

transformation of the industry in terms of price considerations of petroleum products. Marketers and retailers on the other hand are highly concerned with shrinking profits and market shares as well as the industry which is becoming overtraded. Shareholders are concerned with returns on their investments and whether BEE is values add or a value destroyer. It is therefore important to note that transformation of the industry also encompasses other issues such as consumer matters rather focusing purely on the political and economic agenda. The research seeks to provide a framework for incorporating the essential elements of transformation agenda on business activities and measurement for monitoring the progress. By so doing a contribution to the base of the academic field of economic transformation and social transformation is significant.

1.5. The Research Question and Phenomenon

BEE is a system that seeks to transform the new South African economy. It is a system that is specifically designed to provide opportunities to those that were previously denied participation in the mainstream of the economy and eradicate imbalances of the past. The research question is to investigate to what extent has the process succeeded thus far in the petroleum industry in South Africa. The research report seeks to investigate whether there has been any progress made in the petroleum industry in terms of the stipulations of the industry charter on empowerment. It further explores whether there has been a value - add created by the process of transformation for the business within the industry. In other words, has the transformation process brought some benefits to the companies' bottom line profitability? What is the role of transformation in the way businesses

are being perceived in relation to the changing business environment in South Africa?

1.6. Definition of Key Terms

BBBEE – Broad-Based Black Economic Empowerment, the term became widely used since 1988 in the context of South Africa's search for a new political dispensation. The concept was initially BEE. Then it later changed to Broad Based Black Economic Empowerment or BBBEE. As defined in the BBBEE Act No.53 of 2003, it means the economic empowerment of all black people including women, workers, youth, and people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies that include, but are not limited to increasing the number of black people that manage, own and control enterprises and productive assets; facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises; human resource and skills development; achieving equitable representation in all occupational categories and levels in the workforce; preferential procurement; and investment in enterprises that are owned or managed by black people;

BMF – Black Management Forum is an organisation that stands for empowering and developing managerial leadership and talent especially amongst blacks and by trying to put them on equal footing with managers from other backgrounds

SAPIA – South African Petroleum Industry Association, a body made up of

Multinationals and South African petroleum companies which are: Engen, Sasol, BP, Shell, Total, Caltex, PetroSA. This body serves as a mouth piece for the industry on issues of common interests (Colin McClelland, 2005)

DME – Department of Minerals and Energy. This is a government department that oversees the mining minerals and energy sector. Amongst its responsibilities is to regulate these industries by means of issuing licences mining and trading licences.

PPA – Petroleum Products Act, the enabling legislation for all regulations in the petroleum sector in South Africa which was designed under the then prevailing United Nations Oil embargo to regulate the industry.

Oil /Petroleum Industry: those private and state owned enterprises with commercial activities in one or more parts of the value chain; and whose business activities are, in South Africa; and who are signatories to the Charter or who are new entrants to the oil industry.

Historically disadvantaged South African (HDSA) also referred to as PDIs: refers to all persons and groups who have been discriminated against on the basis of race, gender and disability. HDSA refers to designated groups, which are defined as “black people” (Africans, Coloureds and Indians,) and people with disabilities. For the purposes of this report, these persons shall belong to the designated groups.

HDSA Companies: are those companies, joint ventures, trusts, consortia or organisations that are owned or controlled by HDSAs and which operate on a basis to meet all aspects of the Charter. Those HDSA Organisations which operate within, and which directly supply, the industry submit affidavits to Government reconfirming their ownership status in December of each year. Government will publish this list annually.

Ownership refers to equity participation and the ability to exercise rights and obligations that accrue under such ownership. Note that “Ownership” excludes share options that might be exercised at some future date or other similar obligations that are intended to transfer ownership at some future date or on attainment of some future state or status.

PPC – Parliamentary Portfolio Committee on Minerals & Energy, which serves as a “watchdog”. It is made up of representatives from different political parties

BusinessMap Foundation – an empowerment association that keep information and research on empowerment issues throughout all industries

Empowerdex – an empowerment evaluation and rating agency which evaluate the legitimacy of BEE relationships across all sectors

MITI – Ministry of Trade and Industry in Japan

FRA – Fuel Retailers Association, an association mainly made of service station dealers

NEP – New Economic Policy which was adopted to redress issues of economic inequalities in Malaysia

R & M companies – Refining and Marketing companies

Upstream - refers to prospecting and exploration of crude oil and excludes refining, wholesaling and marketing of finished petroleum products

Downstream - refers to refining and marketing activities of the petroleum industry

LFIC – Liquid Fuels Industry Charter on Transformation which was signed by oil companies and government in South Africa in 2000 to address issues of transformation within the industry

Change Management - Change management is defined by Bateman and Snell (2002) as an effective management process which occurs when a company moves from its current status to the future without much cost to the company.

Regulation – Oxford dictionary explain the concept of regulation as “subject to restrictions, prescribed rule, authoritative direction in accordance with regulation”.

Deregulation – according to Frank (1990) “Deregulated society means that a society is free from government imposed restrictions, laws, directives and orders”.

Franchisees – a person or small business granted a licence to sell a company’s product or operate under a company’s name exclusively within a stated area

WOESA – Women in Oil and Energy South Africa. An organisation that organises for the recognition of women in the gas and energy sector

OPEC – Organisation of Petroleum Exporting Countries

The Petroleum Retail Marketing Franchise Act of 1980 (Australia)

The Industrial Conciliation Act No 28 of 1956 – an act of parliament passed by the Nationalist Party to prohibit registration of Black Trade Unions and also to implement job reservation along the racial lines

Industrial Co-Ordination Act of 1975 in Malaysia – This act requires that companies that want to do business in Malaysia must ensure that at least 70% of the entity is owned by Malaysians and must be locally incorporated. It also requires that proposed price increases on products must be approved by the ministry.

White Paper On Energy Of 1998 – deliberation by government and stakeholders which links the re-regulation of the liquid fuels industry to transformation, by stipulating that at least 25 percent of the equity in the various entities that have operating assets in the South African liquid fuels industry should be held by the historically disadvantaged by 2010.

Employment Equity Act no 55 of 1998 – an act of parliament under the new democratic government which seeks to achieve a diverse workforce, eliminate unfair discrimination and promotion of economic development and efficiency in the workforce

The 1964 Civil Rights Act (United States of America) - made racial discrimination in public places, such as theatres, restaurants and hotels, illegal. It also required employers to provide equal employment opportunities. Projects involving government funds could be cut off if there was evidence of discrimination based on colour, race or national origin.

1.7. Description of the Study

Petroleum companies compile reports on annual basis reporting on the progress on empowerment and submit these reports to SAPIA who in turn submit the reports to DME on behalf of the industry.

The research is observational in nature. It is based on the researcher's observation of the unfolding process of empowerment and transformation in South Africa. BEE is about change, it is therefore essential to illustrate by making reference to theories of change and their applicability to the empowerment environment in South Africa. The study is done in a specific industry that is petroleum industry. It is therefore important to review this industry and the context of the research in terms of the socio-political, economical and legislation environment. This will mainly be covered in the discussion of the literature review. It is also important to note that issues of gender inequalities are highly debated in the BEE front and therefore cannot be left unattended when one pursue a discussion on empowerment. More over it is commonly said that oil companies become wealthy by exploiting the land and people of countries where

they explore (Turner & Oshare, 1993). Exploitation is of special concern to women because it affects them negatively twice as hard. Women's labour is often cheaper than men's labour because women's rights are marginalised in patriarchal and capitalist societies. Oil companies use this to their advantage in order to build profit margins. It shall be of interest also to bring to the front the question of empowerment of women theory in the industry in terms of those elements highlighted in the charter. This is embedded in Longwe and Clarke's writing (1999) on women activists and the oil industry. BusinessMap Foundation (2003) conducted a study in the field of empowerment in South Africa in 2003. The study and its methodology used looked at the issue of black ownership of JSE listed companies. They focused mainly on the numbers of black individual's beneficiaries using a headcount figure that has not been adjusted for the relative black economic empowerment in specific industries. Further, the study did not define companies or institutions that are black in terms of definitions as per BEE Commission Report in 2001, and this may lead to distortion and overestimation of black ownership. BusinessMap study took the headcount measure as a starting point and adapted it to reflect current and historical black/white economic disparities to provide a more accurate reflection of black beneficiary ownership. The study used a detailed shareholder analysis and ignored issues of indirect empowerment such as procurement and employment equity. The study also analysed the JSE's broad ownership patterns and summary of top 200 JSE companies. This approach ignored companies that are not listed on the stocks market and therefore cannot be taken as representing a true picture of the situation in SA. The following section serves as a guide for pointing the reader in terms of the

discussion throughout this paper and what to expect in each chapter. It gives a logical flow of discussion and presentation of arguments.

1.8. Layout of Chapters:

Chapter 1 is the orientation to the study of transformation within the petroleum industry in South Africa. In this chapter key terms that are commonly used in the transformation language within the petroleum industry are defined. Objectives, scope and limitations of the report are also defined.

Chapter 2 of this report deals with literature survey and illustration by way of examples transformation issues within the petroleum industry that had taken place elsewhere. It draws on the lessons from other countries that experienced transformation and change of the petroleum industry. Failures and successes with regard to transformation in these countries are also highlighted.

Chapter 3 focuses on the Political, Economical, Social and technological analysis of the petroleum industry in South Africa. The analysis is done using Porter model as a tool of analysis. The focus on this chapter is on the specific petroleum industry issues again using Porter's Five Forces model.

Chapter 4 is the application of change theory and analysis thereof of BBBEE against change theory. This chapter also looks at various Organisational Change Theories and Approaches and Triggers and Drivers of Change.

Chapter 5 is the review of what has happened so far with regard to BBBEE since the conception of South Africa's new democracy. It also gives a brief summary of what happened in other countries such as Malaysia and United States of America with regard to issues similar to those that BBBEE is trying to address.

Chapter 6 gives an account of the method followed in the quest of addressing the research question. It contains information on the methodology followed, unit of study, sampling, data gathering and analytic procedures.

Chapter 7 is the interpretation of the findings and answering of the research question. In chapter 8, there is a detailed discussion of the findings and observations made. Chapter highlights by drawing conclusion and make recommendations based on the findings.

The following chapter which is chapter 2 is mainly the beginning of the discussion on the subject of empowerment and transformation of the industry. The discussion focuses on countries whereby empowerment had already happened by highlighting successes and failures of the processes. In the quest for transforming the industry by either deregulating or maintain a status quo of regulated petroleum industry, examples are drawn from those countries like Japan and Australia that once regulated and deregulated their petroleum industries.

CHAPTER 2

HISTORY OF TRANSFORMATION, REGULATION AND DEREGULATION OF THE PETROLEUM INDUSTRY:

2.1. Lessons from Other Countries:

Terry and Frank (1990:17) stated that “Deregulated society means that a society is free from government imposed restrictions, laws, directives and orders”. Deregulated economies are highly characterised by consumer autonomy. There is a wide choice for industry in terms of product offerings and on how to improve services. A company’s success therefore depends on consumer appreciation and patronage of a service differential, brand and product and other marketing related activities. Kotler (1991:221) affirms that an increase in competition as a result of deregulation will leave companies with no choice but to cultivate competitiveness by paying as much attention to competitors and their strategies.

In most parts of the world, deregulation of the petroleum industry is a common trend. According to Knott (1993:38) Japan’s petroleum industry was deregulated by Ministry of Trade and Industry (MITI). Deregulation did not help the oil market as the recession during this period signalled a fall in fuel oil demand. Kotler further emphasises that deregulation in most national economies result in price wars and stimulate the interaction of market forces. Bruce (1993:26) notes and argues that the South African situation is very delicate and requires full consultation as it may bring about negative consequences. Bruce’s observations from abroad revealed that deregulation led to severe job losses in countries like United Kingdom where after deregulation the number of service stations reduced from 35 000 to 21000, in a period of 10 years, In the United States they were reduced from 315000 to

150000 in twelve years, in France from 50000 to 185000 in six years, Belgium from 3690 to 2300 in eighteen years, in Australia from 20000 to 10000 in ten years and in Germany from 41000 to 18000 in twenty years. It is against this background that the debate for regulation is essential to facilitate the entry of the previously disadvantaged (Bruce, 1993).

It is evident that deregulating the industry will not create jobs, but could rather increase the level of unemployment. This is the situation that South Africa could not afford as it is already confronting job losses within the textile and the mining industries. Business reviews that result in job losses are contrary to the government's objectives of jobs creation. A number of myths persist about employment and unemployment in SA, ranging from the argument that low skill levels alone explain mass unemployment to the belief that the informal sector is the fastest-growing sector while workers in the formal sector form high-wage elite (Business Trust: 2004). A review of the official data demonstrates weaknesses in all these beliefs (Makgetla: 2005). Unemployment figures still show disparities along gender and racial lines. An unemployed person according to Makgetla is most likely to be a young African woman with 11 years of education, who has been seeking work for years but has never held a job. Unemployment runs at 60% for adults under 30, and at just under 30% for older people (counting as unemployed anyone who would take paying work immediately). The petroleum industry is one of the absorbers of such employees in their service stations forecourts where these people are employed as pump attendants. The contribution of all stakeholders is vital for the transformation process to be successful. Tanzer (1989:245) revealed that in Japan motorists subsidised the industries by paying for gasoline, a

systematic way of taxing the consumers to the benefit of manufacturers and exporters.

In conclusion, the role of MITI spelled doom for the Japanese oil industry. This was before the concept of deregulation was embraced. Historically countries that once regulated and deregulated their oil industries include Australia, India and Japan. In this writing emphasis will be more on Australia which re-regulated and then deregulated.

With regard to change and transformation reference shall be made to Malaysia and the United States of America as these provide a similar scenario to South Africa. These are societies that went through political, societal and economic change and transformation. The reason for inclusion of the concepts of regulation and deregulation is because of different views with regard to the co-existence of the two phenomena, that is government control in the form of regulation and the role that regulation or deregulation could play in achieving objectives of empowerment.

2.1.1. The Australian Example:

The Australian example set a scene for South Africa. It could be regarded as a learning experience when reviewing the debate on regulation versus deregulation of the petroleum industry. It gives an indication of what could be expected in the two environments. Each of the two environments that is regulated and deregulated environment has their own pros and cons as could be seen in the Australian example and other similar situations. The Australian downstream oil industry continues to be faced with difficulties of being part of open economy within Australia-Asia region where comparative industries are still protected from foreign competition and regulated (e.g. India). Also the Asia-Pacific region is characterised

by surplus refined petroleum products and very low refining margins. Refineries in this region are on average not operating at full capacity. Historically the Australian case revealed that the oil industry in Australia has been deregulated and the consequences were such that since 1980 the number of Refiners and Marketers dropped from nine to four and three refineries closed down. Employment numbers in the industry dropped by almost half since 1980's and there have been also major reductions in the number of distributors and service stations (ACIL Economics, 1997). The pressure came from major oil companies and other lobbyists for deregulation. Eventually, the two pillars of Australian oil industry regulations were removed in 2000. On the other hand there has been enormous pressure from small retailers and distributors for re-regulation of oil industry so that small players could be profitable and survive. A Study of the Australian Oil Refining and Marketing Industry reveal that oil industry in Australia has been built on a platform of refineries, producing fuel to supply a nation-wide network of fuel distribution and retailing. This system has ensured security of supply of fuel and other petroleum products to all sectors of the economy and the community. This system is now under severe challenge, from a combination of new import sources, regulation that serves to advantage imports over domestic production, and new entrants to the industry. The regulation framework gives new entrants a competitive advantage over refining and marketing. The downstream i.e. marketing and refining oil industry makes a major contribution to the Australian economy through substantial value added petrol prices which are among the lowest in the world, and services and quality standards comparable to any other country. In particular, the industry adds value to Australian resources. Compared to other resource industries, the degree of domestic processing of the resource, crude oil, is very high and thereby save

substantial foreign exchange; accounts for around 3 per cent of gross domestic product. The industry makes a major contribution to aggregate employment and the trade balance. It also passes on around 90 per cent of the value added by the industry to the Australian community through excise and other taxes. The industry meets around 40 per cent of Australia's total energy demands; and provides a high level of energy security for Australia, through self-sufficiency in the full range of petroleum products. In order to remain competitive, it was required of Refining and Marketing companies to attain maximum efficiency at all levels of operations. Such challenges were a normal part of business. However meeting this challenge was made more difficult by the existence of Federal legislation and regulation, which apply, only to the refining and marketing companies. This regulatory framework included: The Petroleum Retail Marketing Franchise and Sites Act. These Acts were designed to limit vertical integration of the R&M companies. Their effect was to limit the ability of the industry to restructure and rationalise, and so to realise all possible operational efficiencies. There was a loss of some of the benefits of vertical integration, with consequent increased distribution and marketing costs, reduced competition, and higher retail prices. Price Surveillance Authority (PSA) of 1983 of Wholesale Prices of Petrol and Diesel. Price control was unnecessary in capital cities, due to the high level of competition, and ineffective in country areas, which were and still are generally, supplied by distributors (not covered by the controls). Concerns about fuel prices in country markets were best addressed by removing the restrictions on R&M companies (Access Economic, 1991).

Similarly to foreign countries which undergone deregulation, oil companies in South Africa under regulated environment have also been active in closing small service stations, thereby removing jobs and small businesses at a time when South Africa

faces a major unemployment challenges. If the industry deregulate it is highly likely that more people will lose jobs than they currently are especially at the service stations where unskilled labour in the industry is concentrated.

For the purposes of this report, BEE shall be analysed in the context of change management in which it is taking place in South Africa. Black Economic Empowerment like Bumiputera in Malaysia is a change and transformation of the existing state of economy. The type of change that is experienced by corporate South Africa with regard to empowerment is the one that developed from the country's political change. In beginning the debate the writer shall view change from the macro perspectives, that is from a country and industry's perspective. The theoretical explanation of the change process shall always be linked with what is happening in the empowerment arena and petroleum industry in particular within the South African business environment. The environment in which change occurs is a system and therefore a change in one part of the system necessitates a change in another part of the system in order to achieve equilibrium (Van Tonder, 2004). The change in the form of empowerment is a continuous or second order change process within South African political sphere.

The above section focused mainly on issues of regulated and deregulated petroleum industries in other countries such as Australia and Japan. It can be concluded from the Australian example that deregulation of the petroleum industry is inevitable despite problem associated with it. It is clear that a road leading to deregulation is not an easy road. It has its negative effects which had been notice mainly on employment and small operators. For South Africa, the process has to be carefully managed in order to avoid casualties. The following argument reveals the

status quo in the South African petroleum industry. It begins by looking at the brief background of industry and then looks at the current on going debate with regard to transformation of the industry from the marketing, social, economical and political view points.

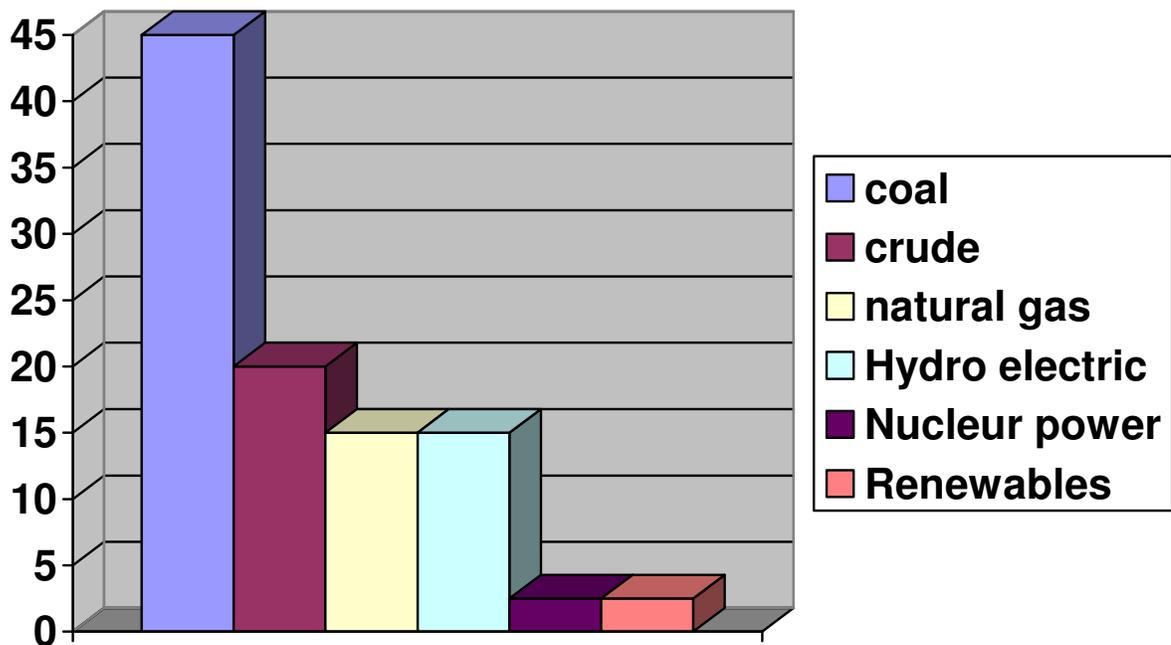
2.1.2. The South African Petroleum Industry Scenario

2.1.2.1. Industry Background

According to the South African Business Guidebook (2005), South Africa is the leading economic power in Africa as well as a key player in the African oil industry, while liquid fuels are an important component of the South African energy sector. The history of South Africa's oil industry goes back to 1884 when the first oil company was established in Cape Town to import refined products. Since then the industry has grown and matured. Today the country processes approximately 20 million tonnes per annum of crude and consumes 23 million tonnes of liquid fuel products of which 45 % is gasoline and 26% diesel. Until the 1990s, the upstream oil industry did not exist. There are currently small producing oil fields off the South East coast of South Africa. A nearby gas field provides the raw materials for Mossgas Synfuels plant at Mossel Bay. A gas field has been discovered off the West coast of South Africa and exploration continues in a number of offshore areas. There are plans to pipe gas from Mozambique and Namibia to South Africa's industrial heartland. All South Africa's liquid fuel requirements are manufactured within the country, with imports occurring when there is a need to balance supply with demand. Most liquid fuels are produced from imported crude oil although South Africa is one of the few countries in the world with substantial synthetic oil- from - coal and oil - from - gas.

Figure 1: RSA – Primary Energy Utilisation (1993)

The figure below reflects sources of raw materials such as coal and crude which are used extensively by the Petroleum industry and form part of primary energy utilisation in SA.



(Source: SAPIA)

South Africa's abundant supplies of cheap coal, liquid fuels only provide 21% of the energy requirements of the country. For the same reason South African refineries have extensive upgrading capability in order to maximise the production of gasoline and diesel at the expense of fuel oil which is primarily used for bunkering. The major liquid fuel markets are in the Gauteng area of South Africa, so companies with easy access to this region from their manufacturing plants are at a strategic advantage (SA Business Guidebook, 2005). These are Sasol and Total which own refineries in Secunda and Sasolburg respectively.

2.1.2.2. The South African Regulated Petroleum Industry Environment

The industry is under the control of the SA Government and is regulated by the Government's Department of Mineral and Energy which, in turn, is monitored by a Parliamentary Portfolio Committee. The Minister of Mineral and Energy Affairs is the responsible minister. The South African Petroleum industry was under unyielding regulation during the apartheid period in terms of the Petroleum Products Amendment Act (72 of 1979). This act made it impossible for the customer to benefit from the quality service facilitated by a free market economy. During the regulatory period from 1979 to 1994 in SA, crude oil imports were carried out by state owned procurement agencies. This caused the petroleum oil companies to systematically relax their marketing activities as they were protected from competition at the expense of consumers.

2.1.2.3. The Role of The Industry in the Country's Economy – South Africa

The White Paper on Energy has emphasized the strategic necessity of a stable petroleum industry. Liquid fuels underpin the national economy, directly affecting its efficiency and costs. The oil industry's wholesale turnover is now more than R40 billion annually. Besides enabling jobs in every sector in every part of the country, the industry itself directly provides 10,000 jobs, apart from the 4 900 petrol stations that employ some 45 000 pump attendants. The industry's returns were at their lowest level at the end of the last decade and continue to be under pressure. This is of concern, unless revenues improve, oil companies will find it difficult to carry through the new decade the investment programmes needed to underpin the

growth of the industry and the economy. The petroleum sector plays a significant role in the supply of energy to the people and industries of SA and contributes approximately 10% to total government revenue (Carli, 1998:23). While government focuses on economic growth and Black Economic Empowerment, the petroleum companies want an increase in profit margin and the consumers of the petroleum products are calling for improved services and reduction of fuel prices. It is for the first time in 2005 in the history of SA that the pump price for a litre of petrol exceeded R5.00 mark. The service station dealers are unhappy and uncertain about their future. The argument which is often raised with regard to new players that still want to enter the industry is that the industry is overtraded and there is a limited room for opportunities and growth. Since the dawn of the new dispensation there has been a relief or impartial regulation in terms of pricing of certain products and allowing certain marketing activities in the industry. In June 1998, the SA Government issued a green paper on the South African energy sector which proposed deregulation of the industry. This was followed by a white paper in December 1998. The White Paper on Energy is the result of years of active consultation between government, labour and business. It is a clear policy statement for the future governance and growth of the energy sector. Parastatals like the Central Energy Fund, CEF and the now defunct Strategic Fuel Fund (SFF), are involved in administering strategic oil stocks, state oil assets and product prices. A Liquid Fuels Industry Task Force (LFITF) has been considering proposals to re-regulate the South African downstream oil industry. NEDLAC issued a report setting out the views of each of the parties in the forum on the future regulation of the South African liquid fuel industry.

2.1.2.4. Regulation vs. Deregulation Debate – Advantages and Disadvantages

Regulation of the industry in SA simply means that government determine the price and profitability of petrol. It holds power to license operators within the industry. It also outlines the conditions for granting of such licenses. Through managed liberalisation of the industry it makes it mandatory for petrol refiners, wholesalers and operators to be licensed in an effort to protect employment (White Paper, 1998). Various submission during the government's White Paper on Energy (1998) revealed that there were debates in favour of and against deregulation. Those who favoured deregulation argued that deregulation eliminate control of petrol prices by government and thus minimising interference and increasing efficiencies. Market forces not government should determine the price of petrol as well as the profitability. Self-service at petrol stations would increase efficiencies and cut unnecessary costs which inflate the price of petrol. Argument against deregulation was that, deregulation would have negative effects on employment and small and medium enterprises. It would detriment equitable participation by those who were previously disadvantaged. Deregulation could make it difficult to deal with existing inequalities in the current ownership structures within the industry. Deregulation as proposed in the White Paper does not necessarily address the question of how sustainable employment will be created and maintained. Deregulation is perceived as a threat to thousands of jobs. It will also benefit only well established multinationals not new entrants. It is estimated that in excess of 60 000 jobs could be lost in the industry if deregulation goes ahead. Downsizing through shrinking profit margins could actually lead to motorists being vulnerable to few operators. In conclusion, one needs to ask whether SA petroleum industry is really ready for deregulation or should maintain the status

quo of regulating the industry. Deregulation would not be ideal as this is an emerging economy. Regulation is part of nation building as the government is facilitating entry by the previously disadvantaged individuals. Deregulating at this stage could spell disaster for transformation. Alternatively if deregulating, there should be a proper monitoring process to make sure that there is an equitable participation by small businesses in the industry. The majority of SA's 5,000 service stations sell fuel at a loss, and about two-fifths would close if the fuel market were deregulated. According to Business Day (28.10.2005) Jeff Osborne, the Chief Executive Officer of Retail Motor Industry organisation argued against deregulation by raising the following important practical issues, Osborne argued that fuel-station owners in SA were worse off than ever while their suppliers, oil companies, were reporting record profits. For example oil giant Shell reported a 67% rise in third-quarter profit on October 2005, while BP confirmed that quarterly net profit was up 34%. The contrast was partly due to "one-sided franchise agreements" between oil companies and service station owners. One could conclude that oil majors are not playing a fair game with their partners. Osborne further argued that oil companies would become "all powerful" and colludes to raise fuel prices if the market was deregulated. Government said in a 1998 policy paper that it aimed to liberalise the market. The relationship between oil companies and franchises is slanted in the oil companies' favour. Franchisees' profit is likely to be squeezed further after deregulation. Osborne also anticipates that in city areas the price would initially fall, but prices would rise "almost instantly" in rural areas, where only one or two oil companies had service stations. Unemployment record among pump attendants is likely to exceed 60,000 as franchisees could adopt self-service. Despite its stated policy, the Minerals and Energy Department has also said it has serious concerns over the effects of deregulation, particularly in rural

areas. Regulation is key to government for controlling the industry. Champions of transformation are of the view that in order for the industry to be transformed to acceptable levels it needs government intervention otherwise it will be a free for all. The increase in oil exploration and production, however, increases the risk for environmental damage and without government control by imposing restriction human lives and ecology are at risk (Radebe: 1999). Disadvantages of Regulation According to Wilcox and Mackenzie (1997:31) in India all petroleum products were controlled and they are still controlled through regulatory laws. This type of situation leaves operators with no choice but to manage their trading activities within the bounds of specific regulations. It also discouraged entrepreneurial spirit. In South Africa there is still a regulatory constraint known as Price Monitoring System which is specifically meant to prohibit fuel promotions on the forecourt. Presently the South African petroleum industry is partially regulated. Those who believed in free market system believe that deregulation is the only way of achieving transformation, which will also allow participation by both local and foreign investors. They see deregulation as a prerequisite for the industry to be able to make a contribution to the country's social objectives and ensure commercial viability of the sector.

2.1.2.5. What Happened In The Petroleum Industry In South Africa After 1994?

A period leading to 1994 was the toughest period in the industry's history in South Africa. The period was characterised by insecurity, cost cutting and job losses prior to the democratic government inauguration. Companies were focusing on leaner structures which came as a result of the United Nation General Assembly passing a resolution in November 1987 for an oil embargo against South Africa. The only

government that did not support the call for sanctions against South Africa was the United States of America (www.mbendi.co.za). Although an assurance was given to the subsidiary of an American company doing business in South Africa that this company would not leave, however, it was a month later that the company disinvested from South Africa. When the new government came into power in 1994, most organisations that left the country during apartheid return to the country. For the petroleum Industry the period after 1994 meant an end to the Official Secrets Act No.16 of 1956. Immediately after the democratic government was put into place, the petroleum industry joined hands together in July 1994 to form an association. This was an initiative of the six major petroleum companies with refining and marketing operations in South Africa. The association was to be known as South African Petroleum Industry Association abbreviated as "SAPIA". Among the key objectives of coming together of the petroleum companies were to represent the common interests of the petroleum refining and marketing in SA of which the debate on the deregulation of the industry featured prominently. Also to promote understanding of the industry's role and contribution to economic and social transformation issues by engaging different stakeholders in the process. According to SAPIA annual report (2003) the petroleum industry was the first industry in South Africa to transform and made written commitments to the process by adopting the Petroleum Industry Charter on Transformation in 2000. This charter was the first empowerment charter in the history of South Africa. The role of the government became crucial for the industry post 1994. It was a period when the government adopted a White Paper on the Energy Policy of the Republic of South Africa in December 1998. The Policy challenges and issues raised on the White Paper included the following:

- Building of an efficient and international competitive industry

- Continued and stable availability of quality products at internationally competitive and fair prices.
- Reasonable balance between interests of industry participants and consumers
- Creating of an environment conducive to synergistic investments in the petroleum industry
- Industry supportive of government's broader social and economic goals
- Restructuring of the state's involvement in the industry to one more appropriate to SA's changed political and economic circumstances
- Meaningful inclusion of those interests which have been historically disadvantaged
- The optimum and efficient utilisation of liquid fuels
- An efficient network of pipeline and storage infrastructure while protecting against the abuse of market power and restrictive practices in the natural monopolies (Department of Minerals & Energy White Paper on the Energy Policy :1998)

The above discussion focused on issues affecting the industry at present. It also focused on the historical background of the industry to illustrate the reasons for such issues that are dominating the debate. Regulation, Deregulation and Transformation of the industry are the central theme of the discussion. The quest for transformation of the industry needs to be understood in a midst of other factors in the country's economy. In the rapidly changing global picture, one needs to take into cognisance that a climate for the achievement of transformation objectives is predetermined by the political, economical, social and technological factors. While these forces are categorised independently, it is imperative to remember their fundamental interaction.

These are the factors that would make or break the transformation agenda. They are discussed in detail in the next chapter.

CHAPTER 3

POLITICAL, ECONOMICAL, SOCIAL AND TECHNOLOGICAL ANALYSIS OF THE PETROLEUM INDUSTRY IN SOUTH AFRICA.

3.1. Political and Legal Environment:

The industry is highly regulated by means of various forms of legislations which govern the industry. For example, The Petroleum Product Amendment Act (PPA), BEE Act and the Liquids Fuels Charter which was enacted into law in 2003. There are government agencies which are active in the industry such as Central Energy Fund (CEF), Department of Minerals and Energy (DME). The role of government agencies is very crucial in this industry. Government agencies can limit or even bar entry by refusing to issue trading licences and permits for oil companies. The South African government requires oil companies to have licences in order to open up new service stations and distribute petroleum products. These operating licences are normally granted with heavy restrictions including but not limited to issues of BEE and Environment. The industry is also characterised by active pressure groups which always keep oil companies on their toes, for example environmental groups which focus on issues of air pollution, oil spillages etc. Some trends in the political environment include protection of companies from each other on issues of unfair pricing practices, protection of consumers from unfair business practices as well as protecting interests of society in general against unrestrained business behaviour. Employees of the industry especially lower categories are unionised and belong to a central collective bargaining council. The number of public interest groups has increased lately. The emphasis from these groups varies from issues of ethical behaviour of oil companies and demanding of socially responsible actions, women

demanding opportunities and recognition by oil companies. For example Women in Oil and Energy South Africa commonly known as “WOESA” is a mouth piece for recognition of women rights to participation in the oil and gas industry in South Africa.

3.2. Economic environment

An understanding of the country’s economic environment and of the industry’s economic environment in particular is important because of the implications it may have for strategy development. For example, a capital intensive industry such as the petroleum industry where investment in a single plant can run into several billions of rands, a firm can stretch the burden of high fixed costs by pursuing a strategy that promotes high utilization of fixed assets to generate more revenue per rand of fixed asset investment. Amongst the key features of the economic environment factors of interest rates, inflation, exchange rates. These are factors that affect consumer buying power and spending patterns. Markets require purchasing power of the country’s citizens. The available buying power in an economy depends on current income, prices, savings, and debt and credit availability. How does this apply to the transformation agenda? Companies in industries that are required to transform need to grow their businesses in order be able to accommodate empowerment partners otherwise it would be not viable to accommodate new partners on dying businesses. For equity buyers, it is important that they are credit worth and have fair business acumen in order to add value to the businesses they are about to own. Buying of equity stakes requires funding by major financial institutions. The country’s state of economy plays a role in this part because the cost of finance could actually determine whether funding is affordable

by means of reasonable interest rates. Since South Africa became a play in the global markets, foreign investors have become interested in investing in companies in the country. Foreign investments in this instance is attracted by an investor friendly environment by means of for, example exchange controls are not stringent.

3.3. Social Environment

The industry employs in excess of 11 000 people. One of the major concerns within the industry at the moment is the scourge of HIV/AIDS. In his delivery speech of the SAPIA annual report for 2004, The Chief Executive Officer advised that the industry through its concerted efforts has decided to roll out a national HIV/AIDS awareness and education programme to an estimated 40 000 service station personnel throughout the country. This is to help to curb the spread of the virus which may affect the industry and SA negatively. The focus has been on the aspects knowledge, attitude, perception and behaviour. One of the major characteristics of the industry which also shape the industry is with regard to the consumer and social lifestyle. Convenience marketing has become a strong feature of the industry due to increasing number of cash rich and time poor customers.

3.3.1. Education

The industry through its individual member companies is providing professional tutoring and career guidance services in previously disadvantaged secondary schools. Its aim is to improve matric results and provide career guidance in township schools. This is achieved by providing extra classes, discussions of previous exam papers, tests, study guides, career guidance workshops and seminars on every Saturday to the students until they write end-of-year exams. And

also environmental problems as mentioned earlier on, are a concern. Specifically, there are campaigns which are trying to help in the development of an integrated management system to reduce the risk of uncontrolled fires, control invading alien vegetation, capacitate disadvantaged communities and promote education on fire prevention. There are other education intervention methods within the industry in order to improve the standard of education and literacy rate amongst mainly the previously disadvantaged communities.

3.3.2. Road Safety

The industry engages on numerous initiatives to promote safe driving on SA roads network. As argued earlier on, a sizeable portion of the petrol price goes to compensation of road accident victims and this affects the industry's profitability, because the more the accidents the more the claims for accident victims which leads to financial constraints to the fund as a result the RAF portion of the petrol pricing may need to be increased in order to meet the claims.

3.3.3. HIV/ AIDS

The primary concerning issue for corporates in Southern Africa with regard to HIV/AIDS is the management of occupational exposure to the disease. The disease poses a liability to companies as they have to face problems with regard to employee turnover and exorbitant medical costs associated with the treatment. It is often said that with HIV/AIDS if one is not infected he or she is affected. For example a domestic worker of an employee may suffer from the disease and obviously the corporate worker has to be affected by this. According to the South African Department of Health (1999) release report on HIV/AIDS and Management of

Occupational exposure the issue poses an administration challenges for both the employer and the employee. For example in cases of claims, sometime employees have to prove a link between occupational injury and the infection. Most companies acknowledge that the scourge of HIV/AIDS requires concerted effort and investment at all fronts. The spread of the disease has already started to affect some of the industries. The impact of this on business is huge. In an industry that is labour intensive like the petroleum industry it could even is worse. In South Africa it is estimated that around 5 million people are already infected. This is based on reported cases only. Petroleum industry is directly and indirectly involved in the transportation business. This sector that is transport is regarded as one of the high risk areas and the disease is prevalent within the sector. Drivers of bulk fuel trucks drives long distances and they are away from home for a number of days. They end up engaging on unprotected sexual intercourse with sex workers along the long distance routes. There have initiatives within businesses in South Africa to educate employees about the disease and its management. Awareness and reporting of HIV/AIDS cases could assist management in terms of planning and budgeting. For example, medical aid contributions need to be adjusted to accommodate those that may need special health care attention as a result of this disease.

3.4. Technological Environment:

The most important force shaping industries and companies today is technology. Through technology or lack of it company is either able to adapt or die. Production technology is currently standard. However, new technology is creeping in and it creates a competitive edge amongst competitors. The industry through Sasol has a highly developed synfuels technology which is used to produce petrol from coal. The

net oil imports amount to 250 000 barrels per day and its crude refining capacity is estimated to be at 519 million barrels per day and oil consumption is in excess of 469 000 barrels per day. The country's fuel demand is about 21, 5 billion litres a year (Sapia annual report: 2003). For consumers it is a value add advantage to the business. For example the introduction of e-fuel (offered by all other oil companies except BP) which offers a competing product known as Fuel master in the service stations has helped various companies including government to combat fuel fraud and increased fuel cost savings. Fuel Master and E-Fuel are the use of the latest smart card technology to make refuelling more convenient and a lot faster. It provides customers with a secure, hassle-free, cashless, card-less alternative to filling up with petrol instead of using cash. Major changes have been made in improving efficiency in production technologies. As highlighted earlier on the issue of converting coal to petrol and gas to liquid technology.

3.5. The Porter Model and Its Application to the Petroleum Industry in South Africa

Porter's five forces model (1995) is a powerful tool for systematically diagnosing the principal competitive pressures in a market and assessing how strong and important each one is, see diagram below which illustrates the interrelation amongst these forces. Michael Porter described a concept that has become known as the "five forces model". This concept involves a relationship between competitors within an industry, potential competitors, suppliers, buyers and alternative solutions to the problem being addressed.

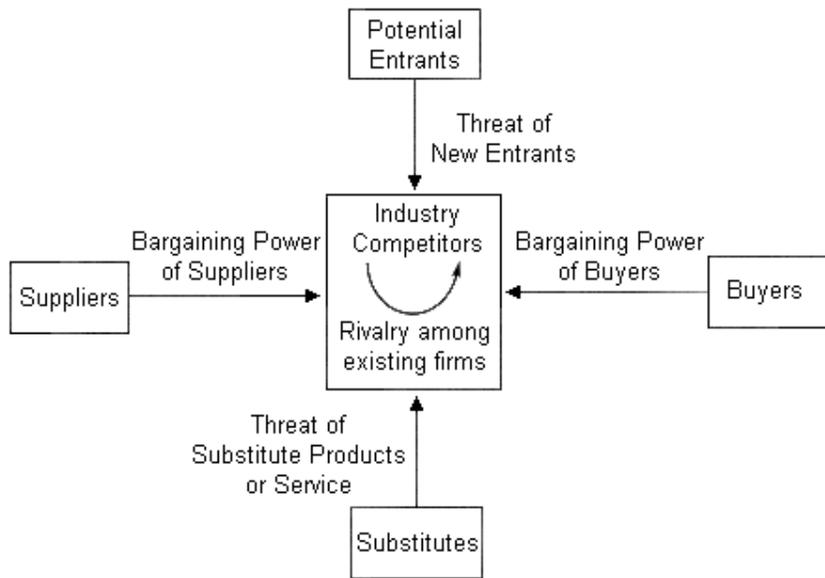


Figure: 2 Source: Business Resources Website: www.brs.com. Accessed 25/10/2005

While each industry involves all of these factors, the relational strengths vary from industry to industry. The forces may be explained as, the rivalry among competing sellers in an industry, the potential entry of new competitors, the market attempts of other companies in other industries to win customers over to their own substitute product, the competitive pressures stemming from supplier-seller collaboration and bargaining and the competitive pressures emanating from seller-buyer collaboration and bargaining.

- **Product Characteristics:** The product is standard; there is however a clear differentiator in terms of additives used in producing petrol. The current drive now is towards introduction of clean fuels which is free of lead from 2006.
- **Economies of Scale:** Economies of scale in the industry are moderate. Larger Companies like BP & Shell through a joint ownership of a refinery produce far more than other individually owned refineries. Production costs are far more similar across the spectrum of the industry.

Capacity Utilization:

- Plant efficiency is highest and operates for 24 hours a day except during shut downs for refinery routine maintenance and currently upgrading for clean fuels in the early part of 2006 to meet government requirements on emission.
- Industry Profitability:
The status can be summed up as average to high but also characterised by volatility. The commodity nature of the product makes it highly sensitive to exchange rates and international crude oil prices. A percentage movement in the exchange rate or an unfortunate international event such as Tsunami, Hurricane Katrina and September 11 had significant impact on the bottom line. For retailers the margins are currently 41cents per litre before overhead expenses are deducted. In order to remain profitable, retailers have found alternative profit opportunities (APO) such as carwashes, bakeries and convenience stores etc which do not form part of the petroleum products.
- Market Size: The rough petroleum market is in excess of R40 billions per annum. Production from existing refineries is not enough to meet the countries needs hence imports of refined products in some instances especially during refinery shut downs.
- Scope of Competitive Rivalry: The scope is both local and international. Petroleum products are sourced from world markets such as Middle East, Gulf and some produced by making use of coal mined locally. Angola, Sudan and Equatorial Guinea are currently viewed as the countries with vast potential for exploration of crude oil. All multinational oil companies are ramping up or prospecting and exploring crude oil levels in these countries.

- **Market Growth Rate:** Petroleum industry fundamentals are robust. Demand for crude oil is very high. Demand for crude oil is expected to exceed supply for the foreseeable future. Currently the talks are around the issue of using renewable alternative resources of energy. The current market growth of finished petroleum products is around 3%.
- **Number Of Companies In Industry:** Several companies in the world. In SA there are seven major players with market share ranging from 28% to 6%. Engen is a dominant player in the market in terms of market share currently at 28 %, BP 17%, Caltex 16%, Shell 18%, Total 11% and Sasol 7%, other small companies such as empowerment companies make the remaining 3%.
- **Customers:** There are two different types of customers i.e. commercial (parastatals and businesses) and retail customers (individual customers). The industry is currently feeling the pain of skyrocketing oil prices as the nation's dependence on foreign oil continues to grow and the synfuels cannot produce enough for country's needs. However, a sustainability plan is required in order to reduce SA's dependence on foreign oil. The country relies heavily on crude oil imports from countries such as the Middle East, Saudi Arabia, Iraq and other crude oil producing countries. About 60% of country's oil needs are based on imports. 40% is met by synfuels producers such as Sasol and PetroSA (Financial Mail, 9 September 2005) .Increasing oil prices on world markets have negative impact on country's economy. For example, increase prices of petroleum products automatically lead to transportation costs which ultimately affect prices of food and other basic requirements. Oil prices have been on their all time high during the September month in 2005 to around \$67

a barrel. Crude oil prices have climbed to more than 50% compared to the same period last year. High crude oil prices have negative effect on consumer spending, corporate profits dwindle and ultimately the industry contribution to total GDP decreases and has negative effect on inflation.

- Degree Of Vertical Integration: The current status of the industry is that of a Mixed nature. What is clear though is that refiners cannot be retailers in terms of the law governing the industry. Retailing is done through franchising. Traditionally the status is separated as exploration often referred to as “upstream” and refining and marketing referred to as “downstream”. The trend is more towards vertical integration that involves exploration, refining, marketing but still exclude retailing. Sasol has in during the latter earlier part of 2004, opened its own service stations under its own brand after the expiry of the Sasol Blue Pump agreement where under this agreement it was required of other oil companies to host a Sasol pump on the forecourt and guarantee a certain amount of product to be bought from Sasol. Sasol is currently entering a joint venture agreement with Engen Petroleum Limited. If the competition authority gives a go ahead of the merger, it will mean that in excess of 35% market share of the industry is in the hands of one entity. This will also mean that 65% of the country’s refining capacity is controlled by this joint venture.
- Ease of Entry/Exit- Are There Barriers to Entry In SA petroleum Industry?
New entrants to a market bring new production capacity, the desire to establish a secure place in the market, and also substantial resources with which to compete. It is noted that the seriousness of the competitive threat of

entry depends on two classes of factors, namely, barriers to entry and the expected reaction of incumbent firms to new entry.

- Specific barriers may relate to: Capital requirements, the larger the total investment amount needed to enter the market successfully, the more limited the pool of potential entrants. This industry is characterized by large start-up investments, thus the pool of entrants is low.

Access to distribution channels – a potential entrant may face the challenge of gaining adequate access to buyers. Petroleum companies have had a stranglehold over the distribution channel over the years, hence their dominance. They use a system called accommodation whereby they only draw from each other's refinery and supply to their own branded service stations. Retailers source their products from their mother brands. It thus makes it difficult for a new entrant to have access to the distribution channel if the new entrant does not have its own refinery or storage facility in the proximity of the service station.

- Regulatory policies – government agencies can limit or even bar entry by requiring licenses and permits. Most governments require petroleum companies to have refining and retailing licenses. These refining and retailing licenses are normally granted with heavy provisions relating to socio-economic, environmental, safety and royalty factors. These factors can significantly increase entry costs.

The abovementioned issues notwithstanding, interested outsiders with resources, competencies and brand-name recognition, may enter the industry easily. Afric Oil, Masana Petroleum Solutions and Tepco are classical

examples. They have been set up by oil majors to facilitate entry by previously disadvantaged groups.

It is noted that the best test of whether potential entry is a strong or weak competitive force in the market place is to ask if the industry's growth and profit prospects are attractive enough to induce additional entry. When the answer is no, potential entry is weak, when the answer is affirmative, then potential entry adds significantly to competitive pressures. In the case of petroleum industry in SA, the answer is a resounding "no" based on the fact that the industry is already overtraded in terms of selling the core product and the scope for growth and profitability is almost none existing. As a result alternative profit opportunities have become popular whereby service stations are no longer selling fuel only but fast moving consumer goods in the convenience stores have gained popularity.

- Refining:

The high cost of exploration and refining equipment (setting up plants) indicates difficulty in entry or exit once the costs of exploration and refining are already incurred. The current proposal by Drako oil to set up a refinery in Richards Bay indicates that the costs of such an investment are estimated around R26billion.

The recent proposal by Drako Oil and Gas to build a new refinery reveal that the cost of setting up an efficient refinery to service the country's needs is estimated to be in the region of R26billion rand (Business Report: 19/08/2005). This makes it almost impossible for previously disadvantaged to enter this area of the industry. Besides huge financial requirements to enter this area of the industry, technical requirements and logistics associated with

this are also huge barriers. The alternative to this is that previously disadvantaged South Africans through the Industry charter on empowerment would buy equity stakes on existing refineries (LFIC, 2000).

- Marketing and retailing:

Entry into the wholesale and retail level is possible in South Africa. Capital costs for new retail operations are relatively low as independent dealers currently carrying major brands provide a fertile recruiting ground. The cost of building a new urban service station including a convenience store is estimated at R4m excluding the land. By law South African petroleum companies are not permitted to run service stations themselves. Therefore, it's feasible for a new retailer to enter the downstream market using existing dealers at a minimal cost as all that will be required will be supply of petroleum products and conversion of ownership from one operator to another. The relationship between the independent operator and the petroleum company is managed through a franchise agreement. These independent operators contribute significantly to the small business sector. As argued earlier on, self service was never allowed so as to preserve the employment opportunities on forecourts. Currently there are about 4800 service stations in South Africa which employ in excess of 45000 and in excess of 200 000 people are reliant on service station jobs i.e. dependants of the service station employees (Fast facts on the South African Oil Industry,2000).

One of the key reasons for the study is to find out if there have been any shifts in

Terms of ownership of these opportunities amongst blacks.

- Outsourcing and Procurement Activities:

The petroleum industry in South Africa procure goods and services to the tune of R49 billion per annum. These include raw material such as crude and engineering services etc. The Minister of Minerals and Energy and the Deputy President of SA have vociferously raised their dissatisfaction with regard to the progress made on procuring goods and service from black owned companies by the industry. The estimated procurement figure to date from black companies is about 7% of the total industry procurement bill. Speaking at the launch of the South African Supplier Development Agency, the then Minister of Minerals and Energy Phumzile Mlambo-Ngcuka said that true empowerment would be realised when there was active participation by the previously disadvantaged, women rural and disabled in the procurement of oil. Echoing her words Minerals and Energy Minister Lindiwe Hendricks said the seven percent spend of the total procurement that was attributed to this category of the population was very low and could be increased to about 25% (Bua News,12/09/2005). Areas identified as barriers include lack of disseminating of information regarding procurement opportunities to black companies by company personnel and also lack of providing technical support to the suppliers through developing business skills in areas of human resource development, quality and reliability processes and marketing; and equipping black suppliers with monitoring, auditing and reporting skills to ensure successes and compliance.

- Pricing and the tax regime : the price of petrol is made up of various taxes over

And above production and distribution costs. Taxes such as fuel levy, road accident fund, import duties are amongst the few charges which lead to ultimate pricing of the product.

- Regulatory Constraints with Regard Transportation of the Product. Petroleum products are hazardous in nature and the requirements to transport such products are usually very burdensome. Labelling and packaging have to meet legislated requirements and failure to comply may have repercussions to the particular company whose brands appear on the labelling of the product. Advertising and promotions is prohibited on the forecourt and no discounting of petrol is permitted nor can petrol be sold on credit to the consumers.

- Rivalry Among Competing Sellers

It is noted that the strongest of the five forces is the battle for position and buyer favour that goes on among rival companies in an industry. Price competition is minimal in the industry because the price of petrol is standard and is regulated. The real rivalry among companies revolves around providing higher quality service and instils to the consumers' mind that each brand's product is better than the next brand's products. For example Engen's dynamic unleaded fuel versus BP's Cleaner Fuel. Key customers place a premium on higher quality service and after sales service, hence the importance of this aspect. Rivalry can be characterized as high because of the following observations: Rivalry tends to become more volatile and unpredictable the more diverse competitors are in terms of their visions, strategic intents, objectives, strategies, resources, and countries of origin. The industry has companies who have diverse market shares on the world markets where

some of the players are dominant forces. Strategies for gaining market shares differ from volume-driven to niche-market players. The country of origin of companies spans the world and these companies have operations outside of the countries of origin. For example Sasol is a South African company that has operations across the globe, Engen is a South African company that has operations mainly in Southern African states and is exploring markets in Central and Northern Africa. Rivalry also becomes intense when industry conditions tempt competitors to use competitive weapons to boost their business. Angola and Equatorial Guinea are cases in point. They are renowned for their vast reserves of Oil and after the end of the war in Angola, there is a scramble by major petroleum industry players to prospect and explore markets in that country. Rivalry can thus intensify in those countries.

- **Competitive Pressures from Substitute Products:**

Firms in one industry are quite often in close competition with firms in another Industry because their respective products are good substitutes. The presence of readily available and attractively priced substitutes creates competitive pressures pressure by placing a ceiling on the prices an industry can charge for its product without giving customers an incentive to switch to substitutes and risking sales erosion. Good indicators of the competitive strength of substitute products are the rate at which their sales and profits are growing, the market inroads they are making and their plans for expanding production capacity. The advent of the synthetic fuel and cars that are run on gas industry are seen as a substitute for crude base petrol. Current industry consensus is that gas is not a real threat considering that most cars are still run on petrol and conversion of petrol or diesel engine to gas requires cash. Car manufacturers are seriously

considering, manufacturing of cars which use Liquefied Petroleum Gas (LPG) instead of Petrol and Diesel.

- **Competitive Pressures from Supplier Bargaining Power and Supplier-Seller Collaboration:** This aspect relates to whether suppliers can exercise sufficient bargaining power to influence the terms and conditions of supply in their favour and the extent of supplier-seller collaboration in the industry.

The industry requires crude oil for the refining process. These are supplied by foreign companies which are members of a cartel known as “OPEC” i.e. Oil producing and Exporting Countries such Iran, Iraq, Venezuela, Saudi Arabia. This is a limited pool of supply sources and can be very challenging if these suppliers can collaborate ‘against’ buyers. Suppliers can thus have greater bargaining power.

- **Competitive Pressures from Buyer Bargaining Power:**

This aspect relates to whether buyers have any leverage in negotiating favourable terms with suppliers. Companies have a stronger bargaining power in the negotiating terms because of generally low or no switching costs to competing brands, e.g. fuel suppliers, engineering service providers, consulting services providers. Consumers are quite aware that prices are regulated on petrol and there is no much difference either on convenience products. Convenience products are also available cheaper from chain stores such as Pick’n Pay. The foregoing analysis of the industry utilizing Porter’s five forces model indicates that the petroleum industry is a highly competitive market. The following section focuses on change as worldwide phenomenon and brings forward a theoretical argument of various theorists and writers. An

attempt will also be made to relate issues of change in a broader perspective and how the situation is shaping in a South African scenario.

3.6. Major External and Uncontrollable Factors That Affect Businesses

In summary, there are various factors that play a significant role in the survival or failure of a business or businesses in a particular industry. Some of these factors are beyond industry or a particular company's control. These include political, legal, social, economic and technological factors and more importantly the role that the government plays, for example in the form of regulations. Industry captains have to be wary of such factors and need to make sure they minimise the negative impact in which these factors may have on the business. Strategies to deal with these factors need to be devised. Failure to recognise these factors could lead to a particular company to be out of business. It is also important to note that businesses do not exist in a vacuum. It is their interaction with other businesses that determines their survival. These include competitors, suppliers, buyers, new products and often people that identify a gap in the market and try to fill that gap by becoming new players within the industry. Different issues such as profitability, market growth, number of industry players, ease of entry etc are crucial in the thriving or failure of different businesses. In order for management and leadership to ensure the survival of the businesses they need to be proactive so as to minimise the negative impact of these forces. One of the survival strategies for businesses in dealing with these factors is constant change. These factors often necessitate changes within industries. Some of the examples include but not limited to, recessions, market growth, high demand for the products versus production capabilities, change in the economy, change in legislation etc. The

identification of change as one of the key strategies is dealt with in the following chapter. The chapter focuses on how change in a South African business environment came about. The chapter focuses on change paradigms, different types of change, approaches to change, forces that triggers change, how change is being perceived by different stakeholders and the role of leadership during change process. Finally the chapter highlights the reasons why businesses in South Africa, all of a sudden find themselves confronted with what appears to be a legislated change process.

The above discussion described the environment in which businesses Operate. These are internal and external factors. Sometimes in order for The business to deal effectively with the pressures that are exerted by These forces, businesses constantly embark on the process of change in Order to align itself with changes that are happening in the environment. The following chapter focuses on the process of change and how this Change should be managed.

CHAPTER 4

THE ANALYSIS OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT AGAINST CHANGE THEORY:

4.1. Introduction and Definition of the Concept of Change

Change is defined by Van de Ven and Poole in Van Tonder (2004) as an empirical observation of difference in form, quality, or state over time in an organisational entity. In a South Africa context this empirical change in form has been experienced in the transformation of government and businesses since 1994. In an organisational context, it is commonly argued that organisations do not exist in a vacuum. Organisations operate in an environment which sometimes they do not have control over. Change as influenced by the environment is usually inevitable. Therefore, change is not independent of the environments in which organisations operate because quite often change is triggered by the environment. In South Africa economic empowerment and political change are at crossing points. It is important to understand the components of the environment in order to understand the environment of organisations and their effects on change. The environment of the organisation is made up of the external and internal components. As Nkomo (2005) argued the external environment is composed of socio-cultural, technology, political, legal, economic and ecological influence. The internal environment is composed of informal and formal subsystem. The informal subsystem is composed of politics, leadership and culture. The formal subsystem consists of management, goals, strategy, structure, operations and technology, but our emphasis and focus

here is on the political environment as a trigger of economic change although management is also relevant as it plays a crucial role in the process of change and transformation. An organisation's survival also depends on understanding the entire environment where it operates. Organisations are influenced by politics, economy and technology of the country in which they operate. The ecological influence is also one of the relevant issues in the petroleum industry. Petroleum companies because of the amount of emission they produce during refining process are constantly under attack from environmentalists and neighbouring communities because their activities lead to health problems and to the depletion of the ozone layer. As a result various laws are being introduced to protect nature which in return restricts the operations of the companies. For example, petroleum or oil companies are required by law to reduce emissions by 2006 to acceptable levels and stop producing petrol that contains lead failing which they will face public liability which results in huge fines. This requires huge sums of investments in order to carry out these strategic and legislative projects.

4.2. Change Paradigms:

The theory surrounding the concept of an organisation is depicted in different ways by various theorists. In order to understand the nature of an organisation one has to look at the four paradigms in which theorists grouped together in accordance to their views on the nature of an organisation (Van Tonder, 2004). These paradigms explain the nature of the organisation in the following manner:

Firstly, radical humanists describe an organisation "as being constructed by people, constraining human development, alienating employees, an inadequate expression of human nature and consequently an entity that must pursue the democratic ideal of

restoring power to the employee, a manifestation of deep psychic processes (activities and events), being created for the people rather than the people created for organisations, challenge to the established order” (Van Tonder, 2004:22). Institutionalising BEE it means restoring power to black people in general and restoring human dignity black women employees who so long had been double oppressed by the system within organisational structures and in the society in general. Secondly, radical structuralist theories view an organisation “as consisting of structures with intrinsic tensions; emphasising self-generated change; and empirical feature of an underlying organisational form personified in the larger societal context, and being part of a larger context, only to be understood in terms of its role in this context” (Van Tonder, 2004:22). The relevance of the process of change and transformation in the petroleum industry is that it is within the parameters of what is taking place in the South African society at large. It is understood in terms of its own contribution and roles within the BEE and social change contexts. Thirdly, interpretive theories have a view of the organisation as “consisting of activity and shared meaning; symbolic in nature; a socially constructed reality; more a result of members own actions than they recognise” (Van Tonder, 2004:22). The reason towards the joint initiative by the industry in adopting the process of empowerment was to ensure consistency in approaching the process through shared meanings, structures and socially constructed realities. Functionalist theories view the organisation as a formal, empirical entity; a phenomenon plagued by problems of effectiveness and efficiency; being structured and controlled to the point of efficiency and effectiveness; an entity that can be reduced to general principles which managers and practitioners can assess current practice; capable of minimising disruptive change by creating adaptability and organised change; being focused on the here and now; a web of

ordered relationships, which is predictable and controllable; preoccupied with stability and certainty, viewing people as tools or resources” (Van Tonder, 2004:22). The petroleum industry which committed to the charter is highly aware that the success or failure of the objectives depends on each signatory’s own actions.

4.3. Typologies of Organisational Change:

Amongst the two typologies of change which are First Order Change or Type I and Second Order Change or Type II, BBEE in South Africa can best be described as a mixture of both typologies. It is often argued that SA situation is very unique. It posses characteristics of both first order and second order change. The change that is taking place in SA is continuous, incremental, transformational, frame-bending, radical and evolutionary which the characteristics of both change typologies are (van Tonder: 2004)

4.4. Approaches to Change

One could argue that it is highly unlikely that there is a single approach to change and change management. Beer and Nohria (2000) subscribe to the views of change within institutions. Until recently change in business has been an either or proposition. Either quickly create economic value for shareholders or patiently develop an open, trusting corporate culture. But new research indicates that there is a soft and hard approach to change. Combining these two approaches can radically transform the way businesses change. Beer and Nohria further argued that these two types of change theories are based on very different and often unconscious assumptions by senior executives, consultants and academics. The first theory that Beer and Nohria bring forward to the debate of institutional change and

transformation is Theory E. This theory is based on the hard approach and it entails that change is based on economic value. According to this theory, change strategies are the ones that make the headlines. This theory regards shareholder value as the only legitimate measure of corporate success. Change usually involves heavy use of economic incentives, drastic lay offs, downsizing and restructuring. The second theory of change introduced by Beer and Nohria is Theory O which is based on organizational capability. This theory takes a soft approach to change and the goal is to develop corporate culture and human capability through individual and organisational learning. Companies that subscribe to this theory reap the benefits of loyalty and commitment from employees and retention is reasonably high (Beer & Nohria: 2000). Corporate cultures and human capital are being built and retention strategies are being put in place by various organisations. It can be concluded from these theories that South Africa presents characteristics of Theory E while trying to fulfil the needs of Theory O.

4.5. Triggers of Change

New Economic Dispensation and Social Transformation:

One of the major and memorable achievements for SA was the abolition of the Apartheid policies and for Black people in particular was the right to exercise vote in electing government of choice. It was a beginning of the new dispensation and this could be regarded as the major breakthrough in the SA black communities. However, there were still challenges lying ahead in order to make sure that SA as a country was transformed in all its sectors. The economic and social transformation then followed. There were proposed mechanisms in order to bring about social and economic transformation. It was then that the concept of BEE was born. Firstly, the

immediate area of focus was the transfer of means of economic ownership by black people through the process of BEE. BEE became a dominant theme in the SA boardrooms and in the society in general. Different industries together with government negotiated settlements on how this transfer of means of ownership could be achieved and agreed on time frames. Prior to this introduction black did not own any significant percentage on formal business in SA. Secondly, the question of who controls businesses became critical. It was argued that ownership without controlling is meaningless. Black people never controlled any businesses before except in traditional industries such as taxi industry. Thirdly, the employee demographics of the SA workforce left much to be desired. Through apartheid policies, blacks were deliberately excluded from doing certain kinds of jobs by means of legislation such as Job Reservation Act. Opening of job opportunities to blacks came across some serious challenges, for example there was and still is a serious shortage of skilled black people. One of the root causes was the lack of access to education by black which led to uneducated and unskilled black population. These are some of the aspects which triggered change in SA and in which the effectiveness of BEE program could be measured.

4.6. Resistance to Change

In conclusion, one could argue in support of the foregoing theories of organisational change. It is evident that organisational change is inevitable. There are not many options for organisations with regard to change and the environment in which they function. Organisations need to embrace changes in order to adapt and remain sustainable and competitive or reject changes and die a natural death. Organisations are part of a bigger picture of the society in general and therefore movement within

the society necessitate changes within the organisations. This is also viewed as part of the external influence on organisations.

Based on the above analysis of change theories, a conclusion can be made with relation to the South African transitional period. In South Africa, political, social as well as economic influences seem to play a significant role in the process of change. For example, in South Africa one of the key deciding factors when organisations initiate change is to outline to authorities the benefits of such a change for the economy in terms of job creation, competition enhancement, consumer considerations etc. A recent case of the hostile takeover bid of Goldfields by Harmony and ABSA-Barclays deal stand as a proof to this fact. In the first case it was stated in the argument against the takeover in front of Competition Authorities that the takeover will certainly lead to 7100 job losses and would negatively affect Black Economic Empowerment initiatives and progress within the mining industry (Business Day,10/5/2005). In the same case the defendant questioned the appellant's commitment to issues of transformation and labelling the claims on BEE by the appellant as being "crude and simplistic". Downsizing and restructuring for efficiencies and effectiveness are inevitable while on the other hand targets of employment equity and building of new corporate cultures with an African flair have to be met. Based on these theories one could argue that BEE in South Africa emphasises value creation rather than value destruction. Downsizing, lay-offs and restructuring are inevitable during organisational changes.

4.7. The Role of Leadership in Change Management:

The success and failure of any change process depends mainly on the role that leadership plays in the process. If leadership adopt a wait and see attitude there will

be no success, but if leadership buys in, success is almost guaranteed. Also key to the success of change is the competency of leadership. The more effective leadership is the better the chances of change process to succeed. Smith and Carstens (2003) argued that some of the key success factors for change and leadership is the availability of visionary leadership, leadership with a mission, leadership that is able to act as an effective change agent, leadership with strategic competence, leadership that is able to conceptualise the concept of change, negotiator, able to develop team oriented structures and systems, specialist in communication etc.

The following section illustrate why leadership in SA both political and business saw it as important to embrace change and transformation in all social and economic sectors of the country.

4.8. Business Case for Change and Transformation of South Africa Economy:

The Economic Justice Agency saw the justification of the BEE programme based on the following reasons:

Business contribution to expansion of production base;

Expanded as well as new markets and consumers, it brings a knock on effects on demand, in turn spin offs for growth;

Acquisition and /or retention of rights under new dispensation;

Management of socio –political risk by business and a form of structural reparations programme with economic benefits for broader society rather than certain individuals.

The current crisis in Zimbabwe in terms of political economic transformation can serve as a lesson for South Africa in terms of aligning political transformation with business risks. In his state of the Nation address in 2003 President Mbeki warned

South African people that failure to embrace BEE could lead to a crisis reaching uncontrollable levels like in Zimbabwe (State of the Nation Address on 14/02/2003);

Good corporate governance and playing by rules of the game: According to Economic Justice Agency (2003) the rationale for BEE in South Africa is to address the legacies of colonial and apartheid disempowering of black majority. It also seeks to address the continuing vast racial and gender inequalities in distribution of and access to wealth, income and skills which cannot self correct. It also further addresses the issue of restricted economic potential and contribution of black people to growth and development and limited ability to expand productive base. Through BEE racial disparities acting as hamper on further growth of economy, racial skewed consumption patterns which act as growth inhibitors can be eradicated. If BEE is ignored it has a potential to cause socio-political instability in future with dire consequences. This has been the case with South African petroleum industry. Captains of the industry saw a need that change was important in order for the industry to survive and to manage its image. There was a burning commitment to transform the industry immediately after the political dispensation was achieved in 1994. Also to become a global player after the uplifting of the economic sanction against SA required true commitment. For years SA was almost completely isolated from international economic realities and global competition owing to control exercised by the Apartheid regime. Before the rise of industry charters on transformation which some are still being drafted, the petroleum industry was the first industry in SA to implement such charter in 2000 (LFIC, 2000). The changes in politics after 1994 necessitated changes in the economy and in business. Generally it is argued that businesses should do introspection before engaging in the process of

change. The nature of change in respect of BEE does not allow such an opportunity. It is a type of change that is mandatory in nature. It requires companies to change at levels prescribed by the law in terms of BEE Act of 2005. Patterson (2004) argued that complying with Broad based Black Economic Empowerment Act is not just good law, it is good business. Patterson further explained that the broad-based is essential because an economy based on a single group is not sustainable in the long run and will not meet aspirations of most South Africans. In the Annual Report of SAPIA (1998:4) the then Minister of Minerals and Energy Affairs, Minister Penuell Maduna stated unequivocally that “political freedom is meaningless without economic empowerment of the Black majority”. The elements of the transformation process which were then dominating the agenda were job creation, delivery of affordable energy, alleviation of poverty and improved economic performance. All stakeholders endorse the concept but many fear that the atmosphere is immersed by insecurity. In the SAPIA Annual Report (1997:2) the minister further argued that transformation should serve the genuine interest of all South Africans and those of Blacks in particular. In addition, not regulating the industry could cause serious problems for BEE. It could lead to creation of major barriers to entry to the industry. The South African oil industry is in the throes of transition from a secret industry designed to support a small group in the face of boycotts and sanctions to a transparent industry run in the interests of the whole population. The death of the Apartheid regime in South Africa meant the birth of new democracy. It also meant the change of organisations and change at personal level to accept new ways of doing things. According to van Tonder (2004:8) we have been influenced by the bulk of literature which is concerned with change primarily at an organisational, societal or cultural

level. This in turn has been dominated by the management of change within organisations. For businesses transformation and change means a fundamental shift in the way in which business delivers value to the customers and stakeholders, resulting in dramatic change in strategies, processes, technology and the utilisation and management of human resources, to meet the needs of the global economy. It is also the achievement of full worker rights and social equity flowing from political democratisation, followed by further evolution to socialism. There are elements associated with transformation and change. These elements include but not limited to restructuring, business processes engineering, human resources, customers, job creation, fair treatment of labour and recognition of employee rights, affirmative action, alleviation of poverty, regulated markets etc.

Van Tonder (1999) writes about change and transformation as two separate issues. He describes the former as a steady state, incremental or step by step, sequential change which generally evolves over extended periods of time does not have a disruptive influence on the system and is generally within the control of the system. The latter is defined as a type II change which is characterised by a major, disruptive, unpredictable, and paradigm-altering and system wide change which has a very sudden onset and escalates rapidly to a point where it is perceived as being beyond the control of the system. From van Tonder's definition of these two concepts one could conclude that the type of change which is BEE in South Africa can best be described as a blending of type I and type II change. BEE is done in an orderly manner, step by step; change is sequential, formal, logical, normal and incremental. Areas that need to be attended are being addressed in a way that is acceptable to most players. It is a negotiated settlement between government, business and other relevant stakeholders. It possesses the characteristics of type II change because

although it is not disruptive, unpredictable and not beyond control, however, it alters organisations in most of their structural facets, for example the changes in staff demographics through employment equity implementation, equity dilution, new leadership and obviously leads to new leadership style and cultures.

The objective of change and transformation is to create lasting relationships based on trust, harmonisation of tension and delivery on government's promises to the previously disadvantaged (Browning: 1989). In support of this view and the actions of the oil companies, Manson (2002) argued that the petroleum industry has been working hard at appearing to be socially responsible over the last few years, but a content analysis of SA media shows that the society remains to be convinced of petroleum's new socially conscious agenda. Society's patience is running low as it sees numerous environmentally unfriendly practices and allegations of involvement with suppression and uprooting of local communities in oil-rich but war torn, poverty stricken and corrupt developing countries. As part of government's commitment to transfer wealth to the previously disadvantaged Blacks in South Africa, the Department of Minerals and Energy entered into an agreement with the major industry players. The agreement was that by 2010 a target of 25% of the industry should be under the control of Black people. By Black it meant the indigenous African, coloureds and Indians, people that had no right to vote prior to 1994. The definition also excludes naturalised citizens. The BEE Commission which was appointed by The State President of the Republic of South Africa has adopted a broader definition of BEE against which a workable and sustainable BEE programme can be designed and implemented as part of a new growth Plan for the economy. This definition has been tested in debate, in consultations and in the general public.

Kriek and Nkomo (2005) recently conducted a study focusing on the drivers of change in South Africa. The study reveals that new dispensation, social transformation, globalisation, efficiency and streamlining demands are the key drivers of change. These key drivers are associated with the following elements of change:

- Strategic repositioning (industry, market, position, vision and organisational identity. At industry level change will enhance competition. For the country it means competing on world markets and positioning South Africa as a brand on its own.
- Restructuring and downsizing. Although it is not a popular driver of change because it yields negative results in most cases, it is inevitable. For example the petroleum industry in the United Kingdom and France after deregulation huge number of jobs was lost due to a large number of service stations that was closed down as a result of deregulation.
- Culture change (values, mindsets). For decades that South African organisations have been dominated by Western culture, the new dispensation demands that there must be new type of corporate culture, best described as Afrocentric culture.
- Staff transformation. (employment equity and affirmative action). Change and transformation in the BEE context calls for transformation of corporate boardrooms from male and pale to inclusion of blacks and women irrespective of race.
- Skills and knowledge development. One of the challenges facing the country is the shortage of required skills and knowledge. In order to address this problem the government has introduced learnership programs. Black

Economic Empowerment is about giving opportunities to those that were excluded from participating in the mainstream of the economy.

- Becoming customer focused. Customer focus is a competitive tool for businesses. It helps in customer retention and growing existing business as well as getting new customers.
- Movement of emphasis from labour relations to Human Resources Management. Employee rights and recognition of human capital have become important. There has been a drive to treat all employees as equal irrespective of gender, race, colour, creed and sexual orientation. These have been enacted into law under the Employment Equity Act.
- Globalisation - South Africa has been launched into a competitive global marketplace. To become a global player, one has to abide by the standards such as human rights embracing and other world protocols that may be deemed necessary by world or regional controlling bodies. This is one of the reasons why South Africa was isolated from world events such as sports, economic participation etc due to its apartheid policies and human rights violations.

4.9 Change Implementation In A South African Business Environment

One could argue that the fact that South Africa legislated changes and change management process in business is an indication that there was a resistance to change amongst corporate South Africa. The process was not embraced from inception. The government decided to intervene in order to make sure that change would happen in an orderly manner. This was done through

implementation of various laws such as BEE Act, Employment Equity Act etc. There are visible areas that required change in South Africa. These included changing corporate culture, staff transformation to reflect demographics of the country. It is acknowledged that there is a severe skills shortage amongst black people and women in South Africa. It is against this background that skills development and skills transfer has become a popular item on the agenda in both business and government sectors.

The above discussion has focused on change theories as described by various writers, change paradigms, typologies of change, forces that trigger change and the reaction to change. It also highlighted by way of illustrating why change in South Africa has become inevitable and eventually legislated. The following chapter is a demonstration of the successes and failures of the legislated change process within businesses in South Africa which was implemented after the political change came into effect. The chapter focuses on the positive and negative outcomes of the process of change. It also illustrates by way of drawing examples from similar societies where this type of change was once implemented. The following chapter focuses on South Africa as it is currently going through the process of transforming businesses. The chapter pays special attention to what has happened so far regarding changes in the BEE process. It also highlights the negative and positive outcomes experienced thus far. A link is made between what is currently happening in South Africa and what had happened in Malaysia and the United States. These are societies that went through the same process as South Africa although approaches might be different.

CHAPTER 5

CRITICAL ANALYSIS OF THE IMPLEMENTATION PROCESS OF BEE IN SOUTH AFRICA AND ITS OUTCOMES

5.1 What Has Happened So Far Regarding BEE In South Africa?

Most industry has its own transformation charter which spearheads the direction in terms of Black Economic Empowerment. Some charters are in the process of being implemented others like Liquids Fuels Industry Charter have been enacted into law. Bouche & Booyesen (in Booyesen) 2005 noted that the first wave of BEE deals in SA for the most part has come and gone. These deals have predominantly been complemented by large corporates using speculative structures, many of which added no value as a result of the JSE collapse of 1998 which virtually led to the drying up of BEE deals as per (BEE Commission Report, 2001:5). There were many critics associated with these deals. Critics of the process argued that government's initial actions to ensure meaningful participation in the economy by blacks were fragmented and somewhat unfocused. There was no clear interpretation of the concept of BEE. According to Matabane (February: 2005) "The New Jacobins" there is of course a problem with BEE and Transformation. Some beneficiaries seem content to be rent-seekers and not entrepreneurs. Empowerment will be nothing but enrichment if those with access to capital through BEE are risk averse and seek only allowance income. Some Black people through the empowerment process are

making a living out of collecting Board Fees by seating on number of Boards of Directors as Non-Executive Directors and appearing on company letterheads. The process has resulted in the mushrooming of few black elites that are seen as the only beneficiaries of the process. These tend to be political connections or cronies of the ruling party. The nature of the empowerment deals is such that they are mostly taken by ruling party's political cronies including its former employees. The debate is that government employees to their own individual advantage are manipulating the process. This argument is supported by Terreblanche (2003) and Rautenbach (2005) as noted by Booysen (2005). They argued that a number of very prominent black empowerment deals were concluded within large corporates, as they look to address or improve their economic credentials at ownership level. Political, social and economic pressure from government and its subsequent measures in the form of preferential procurement and employment equity led to some few companies trying to avert the process of empowerment by making cosmetic and artificial changes in their structures. This resulted in the problem of "fronting" in order to secure contracts not only amongst them but with the government itself. A case in hand as audited and reported by the Department of Public Works revealed that an amount in excess of R400m on government contracts was spent on companies that falsified their identities by disguising as empowered companies (Business Day, 14 September 2005).

Equity deals which were concluded often lack broad baseness in their structures. These deals excluded mainly women, disabled and rural communities. In order to avoid this bad practise, the government through pressure from different fronts it started to introduce codes of good practice which is simply the monitoring and evaluation tool to carry out checks and balances of the process (Business Day ,15

Sep. 2005. BEE has not yet benefited the poor; these have not yet seen changes in their lives since political independence and economic freedom were achieved. One major prominent feature of the process is the introduction of industry charters.

5.1.1. Positive Outcomes of BEE in South Africa

There has been a significant increase in direct and indirect shareholding of ownership and assets amongst blacks. Booysen (2005) noted that based on the survey by Unisa' Bureau of marketing Research there has been a steep increase in the income levels of African blacks and Indians and a steady increase in the income of coloureds during the late 1990's. The study also indicated that 23% of the richest people in South Africa are black. However, there are conflicting figures with regard to official unemployment in SA. Some are estimating unemployment at 43% and others at 26%. There have also been noticeable changes in terms of social and economic power amongst blacks. Marketers are highly focusing on this group as a niche market. Products are being designed to cater for the needs of the black population whose income levels have increased drastically during the past few years.

A startling finding is that women until recently were the most marginalised group in South Africa irrespective of race. The debate about women entrepreneurial activity and BEE in South Africa has gained momentum recently through government efforts to bring women to the fore both in private and public sector. It is only in government structures where a commendable progress has been made. They occupy in excess of 40% of the South African cabinet posts.

5.1.2. Negative Outcomes of BEE in South Africa

The adoption of transformation policies also resulted on the emigration of whites, young and scarce skills personnel as they viewed the policies as a reverse discrimination. The official figures of emigration revealed that in 2005 1.6 millions of South Africans abroad were whites (Bennett 2001b).

It is understood that in South Africa women are still under represented in terms of equity ownership, senior management appointments and procurement opportunities. As Robinson (2005) argues women empowerment in corporate corridors are still lacking behind. Some see the process of empowerment as Black Male Empowerment (BME) and predominantly “old boys clubs”. Women owned businesses battle to gain access to procurement opportunities and they are often placed in the least skilled and lowest paid jobs in organisations. Women entrepreneurs are allowed very little space to fail. The criticisms also go for the Petroleum Industry Empowerment Charter. Although the Charter aims at 25% Black ownership and control of the industry by 2010, it has not set specific targets for women empowerment. Sonja Sebotsa, an executive at Women’s Development Bank argues that the targets in the BEE Act and the related Industry Charters are too low to make any significant difference for women. Enterprising women’s research findings (2004/5) revealed that nearly all women owned enterprises belong to the lower end of the small, micro and medium enterprises. The poor representation of black women among the total representation of blacks and of women suggests that inadequate attention is being paid to compounded disadvantaged of race and gender. South Africa is empowering its way to equitable working environments after a history of entrenched gender and racial discrimination. While huge strides have been made in this regard, women and the disabled are generally kept at the back of the queue while their male counterparts advanced in leaps and bounds. Women are

significantly under represented in the boardrooms of corporate South Africa. Women hold only 7.1% of board directorships. According to Empowerdex (2004), a highly regarded BEE rating agency, a total of 53 black women directors hold 70 directorship positions on the Johannesburg Securities Exchange (JSE). This number represents about 2.3% of total JSE directorships. Only 5 of the 70 women directors wield real power with executive directorship while the rest are non-executive directors. What makes things even worse is the fact that BEE does not make a gender differentiation at ownership level. Women have been grouped together with the disabled. These are always marginalized groups of the society. One business executive woman commented that the treatment of women as poor cousins of BEE is a sign of a paradigm still haunted by the ghost of inequality from the past. One can conclude that the politics of empowerment are not only embedded on racial issues they also need to seriously address the issue of gender emancipation and empowerment.

The strong stance taken by major corporates as well as government departments to implement BEE by dealing strictly with BEE compliant entities has yielded some problems. White owned companies that do not embrace BEE resorted in falsifying ownership structures where black people serve as 'fronts' for white owned businesses. This is done to secure contracts under false pretence. In these fronting arrangements blacks have no capacity, responsibility or control of the businesses they are alleged to own. This is regarded as fraud and government has beefed up measurement to deal with this problem. Few arrests have been made recently for companies that are engaged in fronting activities. (Creamer, 2005)

5.2. The Malaysian and American Lessons

The following discussion is predominantly based on the latest findings of the De Klerk Foundation that compare the South African Empowerment programme to that of Malaysia's Bumiputera and USA' empowerment of the minorities. There is also to a certain extent reference to the Malaysia literature on Bumiputera Programme.

After the 1969 racial riots in Malaysia the government saw it necessary to implement policies that will correct the racial imbalances created by the colonialist government. Abdullah (1997) states that the programme in Malaysia started with the introduction of the New Economic Policy (NEP) in 1970, which accorded Bumiputera, preferential treatment in order to correct the racial imbalances between Malays and non-Malays. A target was set that within a period of 20 years from 1971 – 1990; Malays would own and manage at least 30 % of the commercial and industrial activities of the economy. The law known as Industrial Coordination Act (ICA) was passed in 1975. The act provided the state with the means to implement the equity policies. The constitution of Malaysia was also amended in such a way that it discouraged non-Bumiputera to question the constitutionality of the programme with regard the special rights and privileges of the indigenous Malays. It was regarded as treasonous to question privileges and special rights bestowed upon Malays.

5.2.1. How the process of empowerment unfolded in Malaysia?

The NEP stressed national unity as the overriding objective and it contained a three - pronged development programme. The first prong approach aimed at reducing and eventually eradicating poverty by raising income levels and increasing employment opportunities for all Malaysians. The second prong approach was the essence of the affirmative action scheme aimed at accelerating the process of restructuring Malaysian society to correct economic imbalances. The government set up a

timetable of 20 years from the inception of the NEP for the achievement of the restructuring targets. The third prong approach was the national ownership of assets. In 1991 the National Development Policy (NDP) replaced the NEP, which marked a retreat from state-interventionism and a greater acceptance of policies by market forces. The NDP placed less emphasis on setting targets for ethnic restructuring and income redistribution and more emphasis on growth and income raising policies. The NDP which formed part of Malaysia's 2020 Vision emphasised the eradication of hardcore poverty whilst reducing relative poverty.

5.2.2. The Positive Outcome

Initially the results of the NEP were impressive. The New Economic Policy successfully improved the socio economic positions of the long neglected and economically backward Bumiputera groups and eliminated the identification of ethnic groups with economic function. Overall income inequality as well as inter-ethnic and rural-urban inequality has declined since the mid 1970s. Malaysia achieved remarkable economic growth and development since the 1970s and it emerged as one of the most successful economies in Southeast Asia by the late 1980s. The expanding economic pie made it easier for the Chinese to accept preferential treatment of Malays, including Malay domination of Malaysian politics and the bureaucracy (Koon, 1997 & Jafta, 1998). The structural changes brought about by The NEP were accompanied by political and economic stability. Malaysia experienced an average annual growth rate of 6.7% during the NEP's life span. The Bumiputera ownership of corporate wealth grew from 2.4% in 1970 to 27.2% in 1988. The overall incidence of poverty in Malaysia fell from 49.3% in 1970 to 22.4% in 1987. The role of education in the process of empowerment cannot be

underestimated, the total number of Bumiputera professionals in various fields increased from 4.9% in 1970 to 25.1% in 1988.

A useful lesson for South Africa in the Malaysian case is the role of government in business and transformation. In his book entitled "The Malaysian Experience of Affirmative Action: Lessons for South Africa", Emsley (1996) states that very few governments publicly perceived aversion to economic growth, yet the ability of governments to foster growth has varied greatly across the world. The Malaysian performance has been one of the world's best.

5.2.3. Negative Outcomes

The period of empowerment in Malaysia did not only bring about positive results. It has not been without flaws and challenges. The negative trends in the transformation process are also noticeable. Despite Malaysia's exceptional economic growth and success in closing the inter-ethnic inequality gap, intra ethnic income inequality, particularly intra-Malay inequality has started to rise since 1990 (Henderson, Hulme & Phillips :2002). Gini – coefficient of inter –Malay shows that an inequality has risen from 0.4 in 1968 to 0.4495 in 1997.

Studies by the De Klerk foundation in Malaysia in 2005 found that the Bumiputera preferential treatment provided for by NEP alienated the Chinese population in general. Chinese felt the NEP discriminated against them. As Constitution made it treasonable to question provisions in the Constitution pertaining preferential treatment of Malays, little dialogue about affirmative action took place. Non Malays were not allowed to express their views about empowerment policies which increased their sense of alienation. The sale of 30% stocks by non Malay enterprises to Bumiputeras at discounted prices opened the exploitation of the system by non

Malays. They took the opportunity to bid for government contracts. This led to the emerging of new Malay elite which in partnership with non Malays benefited from the NEP policies and government preferential treatment. This prompted more economically successful ethnic minorities to label the system “crony capitalism”. The similar situation is occurring in South Africa’s BEE programme. The programme is seen as the system meant to benefit a few elite which has political connections with the ruling party and is doing less in creating jobs and alleviating poverty. The upsetting factor is the lack of a broad base and the domination of empowerment deals by same individuals something identical of “crony capitalism”. Invitation to empowerment deals is linked to right political profiles which are used to cash in on their connections. Like South Africa’s BEE programme Malaysia model focuses too much on equity stakes and ownership and ignores indirect empowerment.

Malaysian situation with regard to gender empowerment reveals that the feminisation of labour force in Malaysia resulted in women being concentrated in low skilled jobs and labour intensive operations and in clerical and secretarial positions, rather than in the ranks of Chief Executive Officers, managers or supervisors. The success of the manufacturing sector in Malaysia is set to be built on the back of low-waged women labour. Women also earn less than men for the same type of job in some sectors in the private sector. In a 1992 study conducted in Malaysia, it was discovered that the average monthly income of women factory operators was RM267 compared to RM493 for men operators. Another study conducted 9 years later in 2001 showed that women managers and assistant managers in the hotel industry earned less than their respective male counterparts.

From the discussion above this lead to conclusion that, Malaysia could be seen as a model for South Africa to learn from not to be imitated.

5.3. United States Of America

Since the 1960s Affirmative Action policies in the US have been the primary weapon to combat racism and gender discrimination. The US provides a useful lesson with regard to the application of empowerment policies. However there is a slight difference with the American system compared to that of South Africa. The US empowerment was focusing on emancipation of the minorities like South Africa's Afrikaner empowerment. The turning point in the history of American society and inequalities took place in 1964 when the Civil Rights Act outlawing discrimination against Black people was enacted. The law gave Black people a legal recourse against any discriminatory practices. The US government took proactive steps to and set up proper structures to promote black businesses in the country. From 1972 to 1992 Black business grew significantly from an estimated 188 000 to 621 000. Besides these efforts and strides the economic gap between Blacks and Whites in the US remains unequal more than 30 years later. Affirmative Action continues to be a divisive issue in the United States. In 1996 California voters ended affirmative action policies within the state with passage of proposition 209. In 2003 The Supreme Court of California upheld affirmative action in the admission practices of the University of Michigan. Despite controversies surrounding the issue of affirmative action in the US, it is correlated with increased levels of participation of minorities and women in employment, education, business and government contracts. This is pursued through the use of numerical goals, timetables and even formulas to measure the progress. Quotas are generally not considered as they are being viewed as unlawful.

5.3.1. Positive Results of the empowerment programme in the United States:

The total population in the US in the late 1990s was estimated at around 244 million people. It was made up of 69% non-Hispanic whites, 12% black, 13% Hispanic (any race), 4% Asian and Pacific Islanders and 1% American Indian/Eskimo (Smith:2002). Between 1992 and 1995 the percentage of female managers and professionals grew from 40.5 % to 48 %, blacks from 5.5 to 7.5% and Hispanics from 5.2 to 7.6%. The percentage of women joining labour force rose substantially from 36 to 55% in during the period 1964 to 1994. Education and training enrolment of black college students rose from 7.8 to 11.3 between 1970 and 1990. As a result of the economic restructuring process, the proportion of blacks in professional and managerial jobs rose from 10% to 17%. The proportion of blacks with at least formal qualifications at tertiary level doubled from 6% of all blacks to 13%. The restructuring process of the US economy also brought about creation of new job opportunities especially for those that were most economically disadvantaged. There was an increase in the number of black people that earning larger paychecks and were holding and secured jobs than before.

5.3.2. Negative Outcomes

This is a perception that the affirmative action policies benefits are not worth the costs. Affirmative action is also associated with weak moral justification. Those previously benefited from the discriminatory practises like white men became angry and accuse the system of robbing them of promotions and other opportunities. At times extreme social stigma is attached on those whose success has been deemed to be unwarranted. Those that are meant to benefit regard the process as insulting.

For obvious reasons the application of the programme of affirmative action created bitterness and tension between ethnic and gender groups.

5.4. Similarities Between SA's BEE, Malaysia's Bumiputera And America's Emancipation Of Minorities:

The above discussion has focused on the practical implementation of the change process in South Africa. It demonstrated results yielded by the process both negative and positive. It also revealed that this type of change was once implemented elsewhere in the world in similar societies such as the United States of America and Malaysia. In both these instances, similarly to South Africa, the process yielded negative and positive results. In conclusion it is evident that for South Africa to expect the change process to succeed without problems is a fallacy. The two similar societies discussed should serve as guide for South Africa but not models to duplicate as SA's situation is unique.

The following chapter is industry case studies which serve as a benchmark in terms of what has been the experience in this industry in terms of implementing the process of change. The chapter is dedicated in gathering the data so as to bring forward the evidence in order to conclude if the process is in indeed becoming a success or a failure. It will specifically look at the petroleum industry on what has happened so far the key activity was to gather evidence in this regard.

CHAPTER 6

RESEARCH DESIGN AND METHODOLOGY

6.1. Introduction

In order to investigate the issue of empowerment and transformation progress in the petroleum industry in South Africa, the researcher adopted a case study method. The reasoning behind is that case study research excels at bringing us to an understanding of a complex issue or object and can extend experience or add strength to what is already known through various research (Abramson: 1992). A case study approach emphasizes detailed contextual analysis of a limited number of events or conditions and their relationships. Abramson discloses that a case study research methodology had been used by researchers over a number of years in the discipline of social sciences. The qualitative nature has been used to examine contemporary real life situations and provide the basis for the application of ideas and extension of methods. As mentioned above, the design utilised for this study was a case study with a limited primary data collection. This approach put more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. Although hypothesis is often used, the reliance on qualitative data makes support or rejection more difficult. An emphasis on detail provides valuable insight for problem solving, evaluation and strategy. This detail is secured from multiple sources of information. It allows evidence to be verified and avoids missing data (Cooper & Schindler: 2003).

6.1.1. Why a case study method was chosen for this study?

The case study research method was chosen based on its suitability for this type of research. BEE is a contemporary economic, social and political phenomenon in

South Africa. It is based on a real life context as it aimed at changing lives of individual, addressing social inequities and a new political dispensation. Yin (1984) argued that a case study research methodology is an empirical inquiry that investigates a contemporary phenomenon within its real life context, when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used. The process of empowerment and transformation in South Africa is a current phenomenon. The researcher is basing the research on empirical approach as the process of BEE unfolds in South Africa.

6.1.2. Criticisms of the Case study method

Abramson (1992) ascertain that critics of this method believe that the study of a small number of cases can offer no grounds for establishing reliability or generality of findings. Others strongly feel that the intense exposure to study of the case biases the findings. In this case the researcher has been exposed to the activities of the industry with regard to empowerment issues and thus can bias the findings. Some writers dismissed case study research method as useful only as an exploratory tool. Despite its criticisms researchers continue to use the case study research method with success in carefully planned and crafted studies of real life situations, issues and problems. Case studies are often labelled as being scientific worthless. The following sections focus on the findings on what exactly is the status of petroleum industry in South Africa with regard to empowerment five years later after signing of the empowerment charter.

6.2. Primary Data Collection Procedure

The primary material for the research came from raw data from the industry. This material was supplied by the industry representative body. Due to the nature of sensitivity of information required, individual companies preferred to supply raw data using this channel. Information from the industry representative body referred hereto as SAPIA was supported by filling in of the questionnaire which was initially distributed to individual companies. Primary data was also obtained by engaging subject's experts both inside and outside the industry. Information was also gathered by attending BEE forums and workshops. Independent analysis of reports from agencies such as Department of Labour, Statistics South Africa and other agencies was also carried out. Another method employed in primary data collection was by means of field notes. Note taking was done during SAPIA discussions on BEE that took place on various occasions. Mental notes were also made and transcribed immediately after discussions took place.

The special focus on gathering primary data was to gather views and opinions of different subjects on the BEE implementation and progress thus far. The interest was on each of the elements mentioned below:

- Equity Ownership by HDSAs
- Management and control
- Employment equity
- Skills development
- Enterprise development
- Preferential procurement
- Corporate social investment

6.2.1. Why Was The Method Of Electronic Mailing Used Over And Above Methods?

Advantages:

The method was chosen on the basis that a computer delivered survey tend to decrease non response error.

It also offered the most cost effective way of collecting data as the researcher incurred no cost in distributing the questionnaires. Major petroleum companies in South Africa are allocated in major cities and this would have been costly to conduct personal interviews as the researcher had to travel for this purpose.

The electronic mail was personalised to the participant.

It also facilitates easy access to what might otherwise been a difficult person to reach. In this case it was not easy to secure appointments to meet with executives of the oil industry. They were busy preparing for the World Petroleum Congress which was going to take place in Johannesburg in September 2005.

Disadvantages:

The participants did not respond immediately to the electronic mail. It was discovered when the researcher made telephonic follow ups on the questionnaires sent that emails were forwarded to SAPIA to give a consolidated industry progress on this matter.

6.3. Secondary Data:

The source of secondary data was review of other studies conducted in the area of BEE in South Africa. The studies included Empowerdex study which was identical to own study. The organisation was commissioned by the government. The mandate was to investigate and evaluate the state of transformation in the Petroleum and Liquid Fuels Industry in South Africa. Their sample included the six major petroleum

companies operating in the industry. In collecting and analysing a secondary data for own research, there was also a comparison of the South African scenario with lessons from other countries such as Malaysia Bumiputera Programme and America's empowerment of minorities. These two countries provide a lesson for South Africa of what to expect during the transition phase. They provided both positive and negative outcomes based on their own experiences.

6.4. Unit of Study

The unit of study regarding issues of empowerment and transformation is the petroleum industry in South Africa. The areas of focus in evaluating the progress are the means of economic ownership, occupational levels and job grading between the Black population and the White population. Comparing the two population groups in terms of equity would actually reveal if there has been a shift from one group dominating the other.

6.5. Sampling and Sample Size:

Industry information received on behalf of the following companies:

BPSA

Caltex/Chevron

Engen

Sasol

Shell

Total

The six companies listed above are the companies that are signatories to the charter and are members of SAPIA. They represent the petroleum industry of South Africa. It

is these six companies that are targeted for BEE in the petroleum industry in South Africa.

6.6. Data Entry and Data Analysis Techniques:

A file called MBL Questionnaire was created on a personal computer. The data was entered into a table and was recorded under relevant sub - topics that relate to the areas of measurements of empowerment as guided by the research question. The responses were classified into categories such as equity ownership, procurement, human capital, skills development, enterprise development and corporate social investments. Data of various companies was separated so that only those parts that relate to the research question could be captured. Information gathered by primary and secondary data was then aggregated and analysed. The percentages in some instances were derived by summing the numbers to arrive at a cumulative figure.

The data analysis approach adopted was that of exploratory data analysis. The exploratory data analysis approach was chosen for its suitability in terms of gathering evidence that indeed there has been a progress or no progress on BEE implementation in the petroleum industry in South Africa. The chapter deals specifically with analysis of the results based on the data received in order to conclude whether the industry has progressed on BEE or not. The analysis was also done by means of graphical techniques over summary statistics.

CHAPTER 7

ANALYSIS OF THE RESULTS:

7.1. Introduction

In a case study method the researcher examines raw data using interpretations in order to find linkages between the research object and outcomes with reference to the original research question. Throughout evaluation and analysis process, the researcher remained open to new opportunities and insights. The technique used in analysing the data in this study was that of exploratory data analysis. This type of analysis as argued in the previous chapter was occupied with discovering the evidence regarding progress on empowerment within the industry (Cooper & Schindler: 2003).

The following chapter is the detailed analysis on what questions were asked in the questionnaire and what were the responses given. The chapter also provide a sample of the questionnaire is found on the appendices. There are also tables and graphs that illustrate and provide summary of what information was supplied. Based on the responses to the questions, the interpretation of the results and discussion was done in the following manner.

7.2. BEE Equity and ownership: The question was asked in order to establish whether major petroleum companies that are members of SAPIA had indeed fulfil their obligation in terms of empowering HDSA's at shareholder level across the value chain as required by the Liquid Fuels industry charter.

7.2.1. It was discovered that prior to the signing of the charter in November 2000, only 5% of the total assets of these multinational enterprises was owned by HDSA's. This was voluntarily done by one of the major petroleum companies. The shareholding sold to

HDSA's was 20% of the gross asset value of the company. The rest of the other companies reported a zero percent ownership by HDSA's during that period.

7.2.2. After the charter was signed, four additional companies acquired HDSA partners. Three of these companies sold 25% of their shareholding throughout their value chains. One company's shareholding though 25% but it was only on the marketing division not on the total asset base of the company. The total percentage of HDSA ownership equates to 18% of the total value of the assets.

7.2.3. Management and Control:

The intention in asking this question was to find out Whether HDSA shareholders played a role in the management and control of their interests in businesses. The question specifically related to directorship and board representation of the companies.

7.3.1. In the period leading to November 2000, there was a total number of 95 Directors. The number of black executive directors including black females was 31 which equates to 33%. There were only 7 women directors both black and white which made up 0.1% of the total directorship. The number of black women in executive control was 4 at the time.

7.3.2. The post charter status on executive control showed that the number of black directors in executive control increased to 41. There was only one female in executive control. The situation deteriorated for black female directors in executive control. The number dropped from 4 to 1.

7.4. Human Resources and Employment Equity Profile:

The period before the charter was also a period characterised by implementation of

“Affirmative Action” policies in South Africa. The issue of Affirmative action became part of the Liquid Fuels Industry Charter. The question was asked to measure progress in terms of racial demographics and gender within petroleum companies in South Africa.

7.4.1. During the period prior to 2000, the industry had an estimated number of 9088 employees. Of the total number of employees, black employees amounted to 5736, women employees both black and white made up 2107 of the total workforce. The number of women classified as black was 1182.

7.4.2. Post charter information revealed that the number of people employed in the industry increased to 11618. The number of black employees increased by 1854 to 7590. The number of female employees also increased by 585.

7.5 Skills Development And Occupational Categories:

The question links directly with the previous question on employment equity. It was a two fold question. Firstly, it sought to establish information about racial and gender issues with regard to job categories. It also tried to assess the placement of black people and female employees in the organisational hierarchies of different companies in the industry? Secondly, to determine the amount of spend on developing black employees within the industry.

7.5.1. The findings were that prior to the signing of the charter, there were about 7606 skilled and professional employees in the industry. There was no data available in terms of racial demographics in this area. The information available was on unskilled personnel. The unskilled personnel in the industry amounted to 985 of which an enormous number of 963 were black employees. Of the unskilled personnel, 49 were females and 27 were in fact black females. The amount of spend on training and developed

employees was unknown. In the period after the charter 1% to 3% of total payroll budget.

7.5.2. A detailed post charter review of the industry on skills development and occupational categories based on 2004/2005 employment statistics submission to the Department of Labour 2004/2005 reflected that black males at top management level including executives of the six companies made up 36% that is 15 out of 41 top managers and there was only 1 black female executive and no white females. Senior management was made up of 57 black males, 12 black females, 147 white males and 18 white females. At middle management, 617 black middle managers were black, 165 were black females, 842 middle managers were white males and 176 were white females. The professional and technical skills level showed that, of the 4486 professional and technically inclined workforce, 1948 were black males, 926 were black females, 1061 were white males and 551 were white females. The semi-skilled category had a total number of 3060 of which 2155 were black males, 324 were black females, 397 were white males and 184 were white females. Unskilled workforce totalled 151 of which 141 were black males, 6 were black females, and 3 were white males and 1 white female.

7.6. Indirect Empowerment and Procurement

One of the key deliverables of the charter is to balance the supplier profile of goods and services to the industry in terms of the racial and gender breakdown of the suppliers to the industry. The question was asked based on the procurement expenditure of the industry on goods and services. The industry was also asked to list

expenditure on the areas listed on the questionnaire on their raw materials, commodities and services that they buy. The aim was also to compare opportunities that were commonly awarded to black suppliers versus traditional suppliers.

7.6.1. Prior to the charter, the industry's total procurement bill was in excess of R40.1 billions. The estimated amount spent on suppliers classified as black under was R344.4 millions. This equates to less than 1% of the total procurement bill.

7.6.2. The post charter procurement expenditure on black suppliers increased to R759.2 millions. The annual total procurement expenditure was estimated at about R49 billion. There was no differentiation in terms of gender and procurement opportunities awarded to suppliers of goods and services. The total figure also included items such as crude, parastatals and utilities such as electricity and local government.

7.7. Supportive Culture And Enterprise Development

The question was asked to find out if there was a shortage of black suppliers within the industry. This was a follow up question on the previous question on procurement of goods and services. The bases of this question was on the assumption that if indeed there was a shortage of black suppliers in the industry, measures and initiatives are being taken to develop black suppliers that wanted to be in the industry.

7.7.1. This area was never given attention prior to the charter. Suppliers that supplied the industry with goods and services were predominantly white. Black entrepreneurs were never regarded as serious players. This was acknowledged in the empowerment charter hence the initiative to develop and support black suppliers. In order to avoid a "free for all" situation, classification of suppliers began.

of suppliers in terms of race and gender. The data could not be quantified as such. Attention started to be paid in this area when black suppliers made themselves known in the industry.

7.7.2. The charter emphasised that the issue of creating a supportive culture and development of black enterprises needed attention. As a result individual companies engaged on the series of initiatives in order to address these two issues. The suppliers were then categorised according to equity held by blacks in the shareholding structure of the enterprise. Three classifications came up based on the definition which were embedded on the charter. There were those suppliers that were classified as “Black owned” suppliers. These were the suppliers that had a black shareholding in excess of 50% in their structures. There was “Black empowered” suppliers, these were suppliers that had a black shareholding in excess of 25% but less than 50%. The last category were suppliers that were classified as “black influenced”. These were suppliers that had a black shareholding ranging from 5% to less than 25%. Supportive initiatives included issues such as training and preferential credit terms.

7.8. Corporate Social Investments

The question on corporate social investments sought to measure a level of corporate involvement in the communities in the areas that they were doing business in.

7.8.1. The period leading to the adoption of the charter was a period dominated by lack of focus on corporate social investment. Communities were not seen as a priority and therefore no significant investment was made.

7.8.2. One of the legs of the empowerment charter in assessing responsible corporate

citizenship required that businesses should be able to invest back in communities where they draw labour and sell their products. The amount of investments on communities could not be quantified for this study, however, CSI was more focused on issues such as HIV/AIDS, education, road safety, environment and sport. These issues cut across companies.

7.9. Summary:

The basic focus of the above section was to analyse quantitative and qualitative data received from the industry. The analysis of the data was directly linked to the research question in terms of measuring progress that has been made on empowerment thus far. It also looked at comparing the two periods that is prior to the charter and the period after the charter information was available. Each section highlighted in the charter in terms of deliverables, attempts were made in order to establish whether indeed there was progress made by comparing status prior to the charter and current status. Both qualitative and quantitative approaches were critical in doing the analysis. The following chapter is a detailed discussion of the findings. The detail will also incorporate the tabulation and graphical presentation of the findings in order to emphasise certain points where necessary. Based on observations it will also be important to keep on asking the “why” in order to understand and make meaning out of the information from both primary and secondary sources.

CHAPTER 8

RESEARCH FINDINGS AND DISCUSSION OF THE FINDINGS

To refresh the research question, the six elements were equity ownership by HDSA's, management and control by HDSA's, employment equity progress, skills development, supportive culture and enterprise development, indirect empowerment by means of procurement activities and corporate social investment.

Description of the table 1:

- Aggregated information reflecting industry status prior and post charter status
- Table 1 below illustrates the information supplied by the industry. It entails summary of quantitative data. It also projects the scenario measuring the impact of empowerment according to charter.

Table 1: Summary of Data reflecting Industry Status

Core Components of BEE	Prior to signing of the charter	Post charter review
Equity ownership (share of economic benefits)	5,8%	18%
Management		
Executive control/including Directors	95	41
Black people in Executive control and /or Executive Board	31	16
Women in executive control (black & white)	7	8%
Black women in executive control/executive	4	1

<u>Human Resources Development and EE</u>		
Total number of employees in the industry	9088	11618
Number of employees classified as Black	5736	7590
No. of women employees	2107	2692
No. of women employees classified as Black	1182	1621
<u>Skills Development</u>		
Total amount spent on training as % of total industry payroll	unknown	1.3% -5%
Total number of skilled and professional employees in the industry	7606	9772
% of skilled and professional black employees in the industry		6367
Number of unskilled employees in the industry	985	151
no. of unskilled employees that are black	963	147
No of unskilled employees that are females	49	7
No. of unskilled employees that are females and black	27	6
<u>Indirect Empowerment</u>		
Total Procurement expenditure for the industry	40 197.7	49 205.8
Procurement from Black empowered businesses as	759.2	344.4

% of total procurement		
% of procurement from engendered enterprises	Not classified	Not classified
Enterprise development Investment in Black owned and empowered businesses as a proportion of industry total assets	unknown	unknown
Community Investments Total industry community investments projects Percentage of investment in disadvantaged communities projects as a proportion of total community investment projects	unknown	unknown

8.1.1. Analysis: Equity Ownership

In order to quantify the equity ownership analysis of the industry by HDSA's one could also explore the issue of the actual assets that were owned by HDSA's in the industry. These assets are tabulated in the table below.

Table 2: Determination of asset ownership

The table below is a measurement of industry's total value based on the assets of the six companies. The value may vary from company to company based on the performance of those assets.

Business Sector	Net Book Value of Assets in SA Petroleum Sector (including Subsidiaries & Associates) (Million Rands)		Turnover Per Annum (Million Rands)		Operating Profit Per Annum (Million Rands)	
	Prior	Post charter	Prior	Post	Prior	Post
Exploration & Production	869.0	2 081.0	935.0	1 277.0	322.0	368.0
Crude & Oil Trading	1 193.0	200.0	1 462.0	1 438.0	374.0	504.0
Pipelines & SBM's	112.2	111.2	-	-	-	-
Shipping	-	-	40.0	70.0	-	-
Refining/Synfuels	8 527.1	8 455.9	30 071.1	33 286.6	2 074.4	2 184.2
Lubricants Manufacture	325.3	183.8	903.1	1 382.9	81.3	72.3
Road Transport Equipment	201.9	183.3	90.0	90.0	-	-
Wholesaling	5 019.9	7 408.9	15 743.7	41 218.5	504.6	1 630.5
Retailing	3 293.6	3 159.4	20 183.9	15 901.5	1 048.1	1 081.5
Other	156.9	170.2	742.2	749.6	12.5	(179.5)
TOTALS	19 698.9	21 953.7	70 171.0	95 414.1	4 416.9	5 661.0

The amounts reflected in the table above indicated either a decrease or an increase in total assets in each of the business areas.

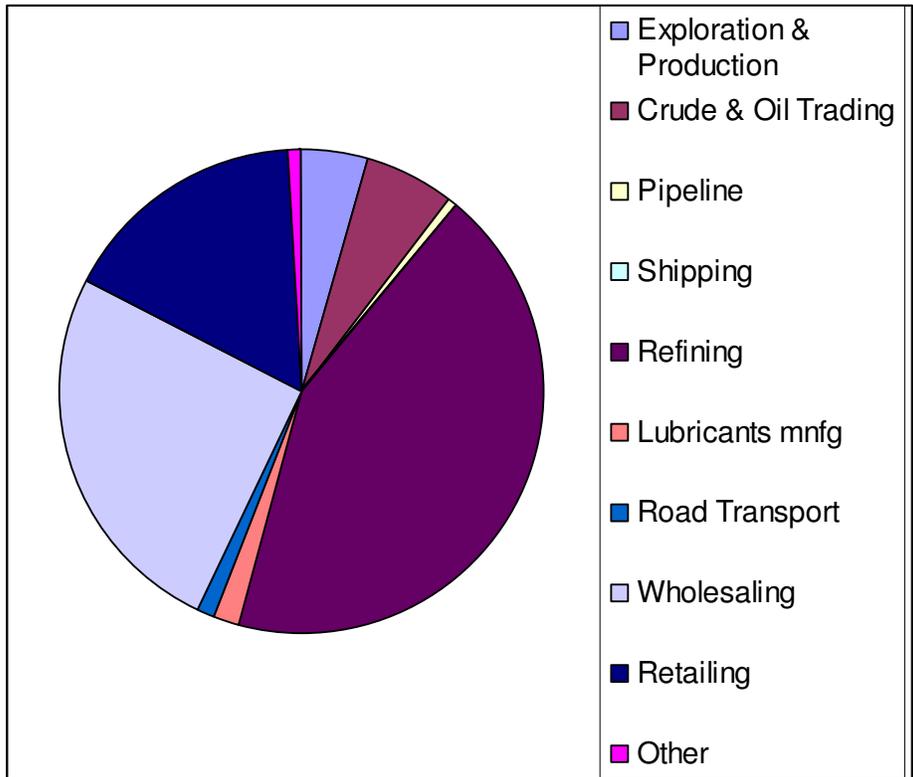
There has been a noticeable increment in the exploration and production area of the business. This could be attributed to the fact that there were oil and gas exploration found on the coasts of Southern Africa. A drastic drop in the crude oil and trading area is also shown. During the period after the charter, one of the major petroleum companies disposed its exploration asset to a foreign company. The company was regarded as the strongest in the upstream business in South Africa. There was also a significant drop in the area of lubricants manufacturing, the cause for that could be the import of cheap finished and packaged goods from the East that were sold below cost compared to local manufactured lubricants.

Road and Transport assets reportedly decreased. In the quest for efficiency and better control, companies preferred to outsource transport and distribution services to third parties.

Wholesaling increased significantly due to demand of finished petroleum products by small BEE companies that buy the product from major petroleum companies and distribute to own clientele.

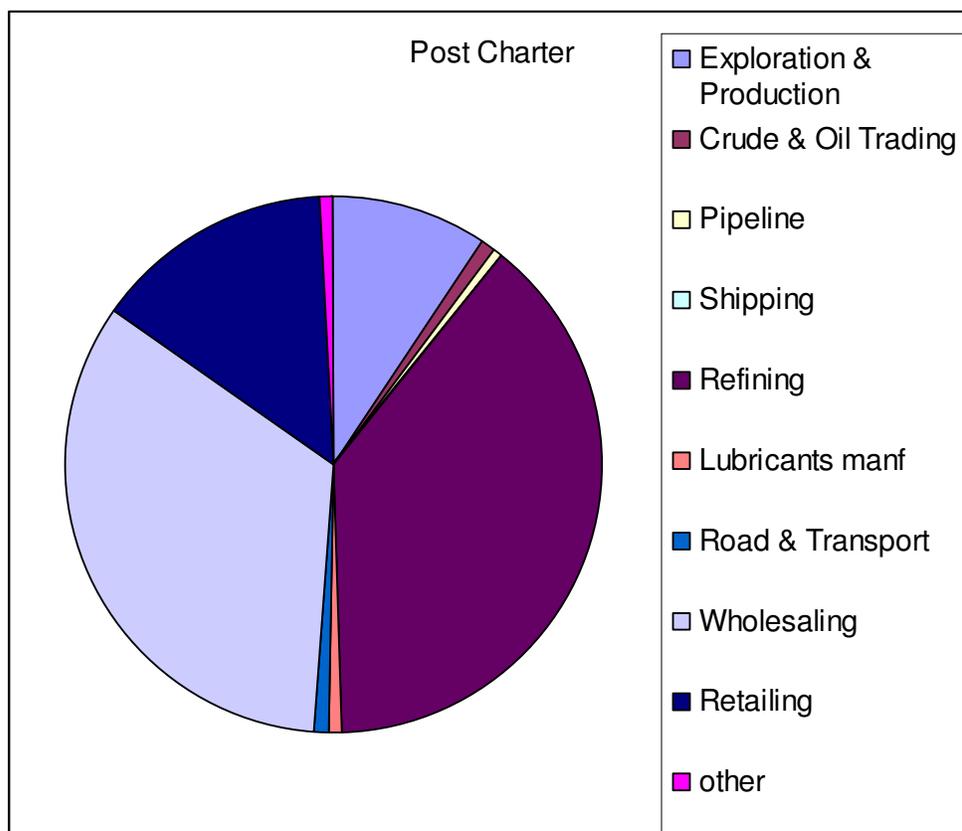
Overall, there has been a significant increment on the total assets for the industry. The 5% BEE ownership in terms of assets would obviously worth more in the post charter period because of growth in asset base.

Figure 2: illustration of Industry Ownership Prior To the Charter



The above figure demonstrates that the majority of assets of the industry were at refinery, wholesaling and retailing. The figure for crude is for raw material and feedstock used to manufacture petroleum products. Although we argued that deals that exclude refinery may be seen as not being viable, wholesaling and retailing which form part of marketing have a reasonable value in terms of the net book value. Such deals that are on marketing activities cannot be discounted as HDSA may still realise value out of them.

Figure 3: Post Charter status in terms of industry asset ownership



The above graph indicated that there was an increase in terms of asset ownership by the major petroleum companies operating in South Africa. As it was also shown in table 2 above that asset ownership increased from R19,7 billion in the period preceding the charter to R22 billion in the post charter period. Simply put in terms of the findings it meant that of the R22 billion worth of industry assets 18% of that would be owned by HDSA's. However, one could challenge the fact that some of the deals excluded some areas of the value chain. Conclusion that can be drawn from these findings would be that one of the deals included only marketing arm of a big petroleum company and excluded other areas as well as the refinery operations which constitute a major portion of the industry total assets. It could therefore be a fallacy to believe that actual HDSA ownership of the industry is indeed 18%. It could

actually be less. There was still a hope in terms of achieving the target as outlined by the Chief Executive Officer of SAPIA during the discussion. The CEO argued that “the oil industry has done very well in terms of achieving its objectives on equity. The 25% target would easily be met when the merger between two of the major oil companies is finalised. One of the deliverables in the deal is allocation of 25% equity of the merged company to HDSA”.

One of the major criticisms of the process of empowerment was that the term HDSA was too broad. Although in terms of the definition in the charter it was clear who is actually benefiting out of the deals. Implementation of the empowerment process tended to focus mainly on selected HDSA's. The general outcry is that BEE has not yet empowered the actual people that needed to be empowered. The often criticisms of the empowerment process is that empowerment deals always attempt to buy a political favour. It is only people with political connections that eventually become owners of empowerment transactions. A case related directly to the industry was the one whereby in an intended BEE transaction one of the major beneficiaries was the former Minister of Minerals and Energy. One could argue that empowerment so far has managed to enrich a few elite not to empower the needy as it was intended. The discussion continued to explore other avenues of empowerment. The second issue to look at was the question of whether the shareholders were in fact playing a role in terms of managing their interests or at least a fair representation by HDSA's in the boards of these businesses where they have invested. This point could be elaborated by evaluating the face of boardrooms in corporate South Africa. It suffices to say that equity ownership has thus far seemed to have progressed in this industry, one also need to look at the question of who controls the means of ownership. Point 1 on the

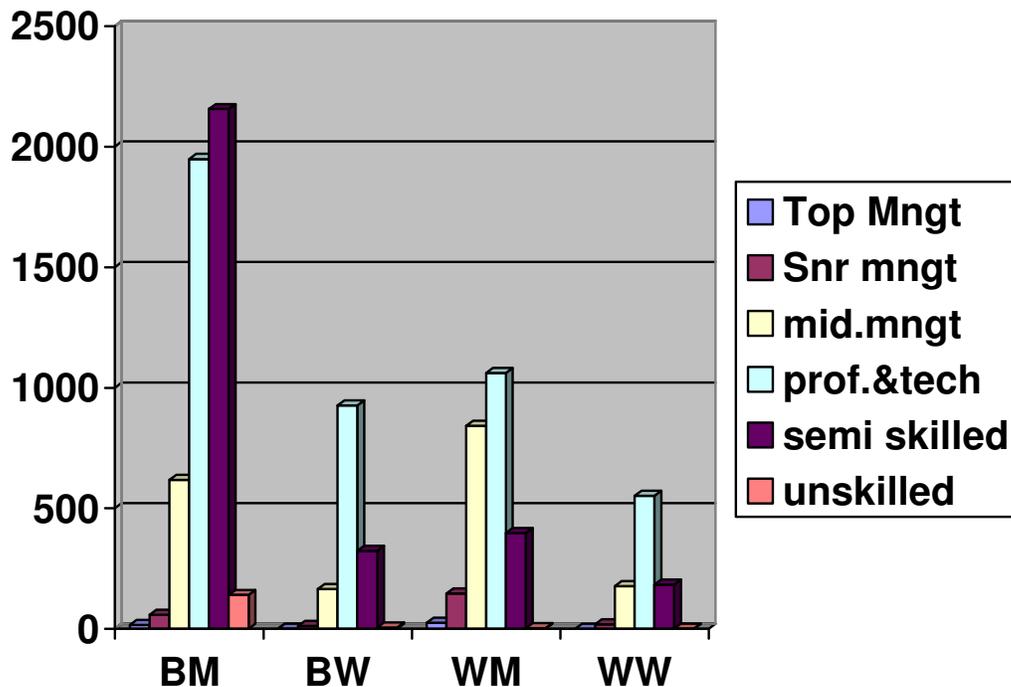
table 2 below illustrates the point in terms of management and control of the means of ownership and production within the petroleum industry in South Africa.

Table 3: Employment Profile of the Industry 2004/2005

Occupational levels	Males(BCI)	Women(BCI)	White males	White females
1. Top management incl. executive	15	1	25	0
2. Senior Management	57	12	147	18
3. Middle management	617	165	842	176
4. Professional and technical skills	1948	926	1061	551
4. Semi-skilled	2155	324	397	184
5. Unskilled workers	141	6	3	1

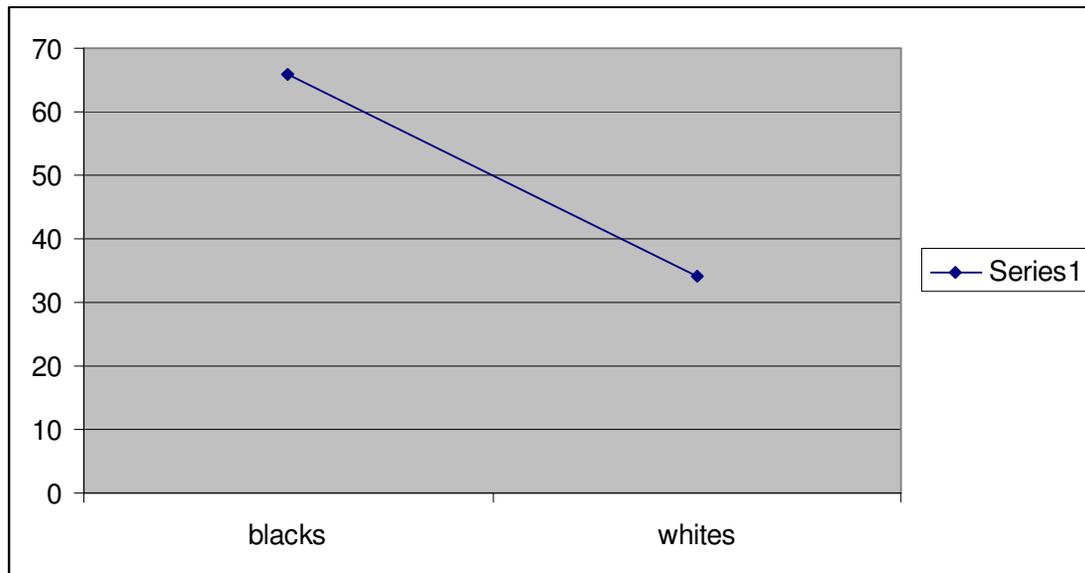
From the table above it can be deduced that black males were in majority compared to other groupings. They exceeded 50% of total workforce followed by white males at 25%. Black females constituted 15% while white females were at 1%. The majority of males both black and white were concentrated at top, senior, middle management, professional and technical skills levels. Conclusion can be drawn that decision making within the industry was still skewed towards males and white males in particular.

Figure 4: Illustration of employment demographics of the industry. It is a summary of occupational categories within the industry.



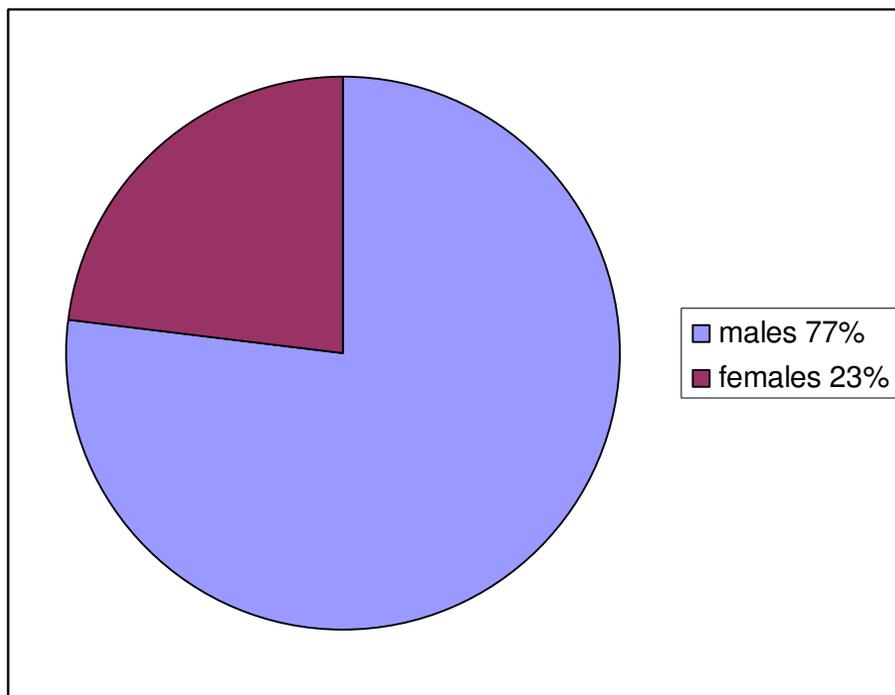
The findings discovered that one of the biggest challenges facing the industry was the turnaround of employment profile in terms of closing the racial and gender gaps at top management and senior level. Women were thus far the most under represented group across all categories. At middle management level which is a feeder to the next level of top management, racial imbalances were still skewed towards white males and black males. Majority of black employees were concentrated at professional and technical level as well as semi-skilled level.

Figure 5: Racial Gap between Black And White Employees in the Industry



From the above figure it became evident that majority of employees in the industry were black at above 60% and white employees at 34%. Occupational categories are still skewed in favour of white males. White females are a minority and under represented as well. The Employment Equity Act made provisions in order to address the plight of female. They have been incorporated as a designated group with regard to employment equity opportunities.

Figure 6: The Gender Gap



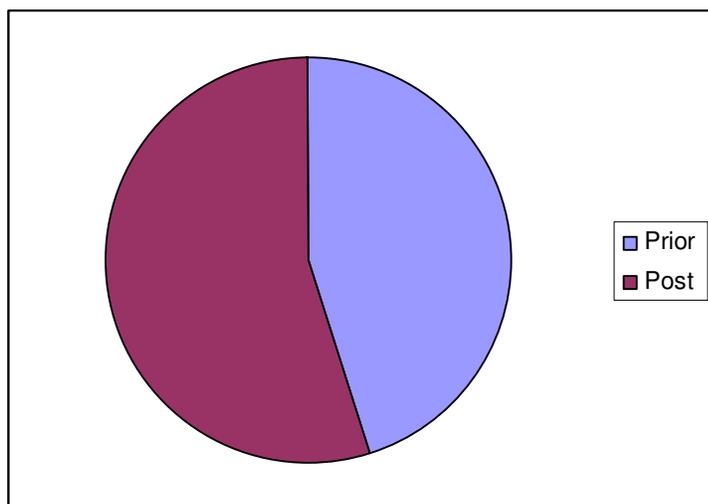
Female employees made up 23% of the total industry workforce. White females and black females are severely under represented in terms of employment in the industry. Their under representation is noticeable throughout occupational categories and more especially at top management and executive level.

8.3. Training and Skills Development:

The shortage of black skilled managerial and experienced personnel was one of the challenges facing the industry. Prior to the signing of the charter, this area has never been a priority in terms of up-skilling black people. The history of the country with regard labour practices, education and job reservation legislation will always be the scapegoat for the insufficient number of qualified black people and women in general. In order to avert the skills shortage problem, each member of the industry has set aside 1% to 3% of total payroll to address training requirements staff.

8.4. Procurement Opportunities/ Indirect Empowerment

Figure 7: The Procurement Bill over the Two Periods

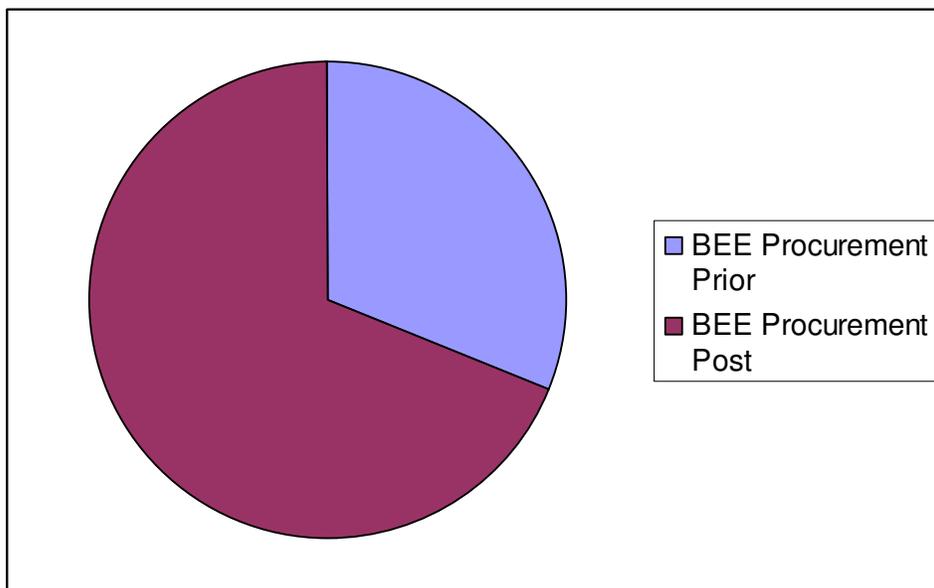


The total procurement bill for the industry was in excess of R40 billion and only 1.9% of the total procurement bill went to companies that were owned by previously disadvantaged South Africans. The figure includes crude oil purchases, parastatals, utilities such as Eskom and municipalities. The total cumulative amount of goods and services or what is commonly known as discretionary spend amounted to R21 billion. There was no differentiation in terms of company ownership by means of gender and therefore procurement spend could not be classified according to spend on women owned businesses. In 2004, which equates to a period of four years after the charter was signed, only 7% of the R49 billion of the industry's procurement bill went to BEE suppliers. This is a slight improvement from the 1.9% achieved prior to the charter. Empowerdex findings on this area agreed with own findings. The figures on both studies were accurately reported as the actual spend across the industry rather than

average spend and both studies came up with 32% of procurement discretionary spend on BEE companies. Empowerdex qualified their findings by signalling that figures could be inflated due to lack of quantification of excluded items such as crude.

Figure 8: The Procurement Spend on BEE suppliers over the two periods

There has been a significant increase in terms of procurement spend on BEE companies. This could be attributed to the fact that there have been more charters in different industries that require suppliers to comply in terms of BEE ownership. Also suppliers that were previously not BEE compliant had recently been transformed to acquire BEE status.



8.5. Supportive culture and Enterprise Development

There were various initiatives which were implemented by individual companies. These included preferential credit terms for BEE suppliers compared to what a

company would offer to a well established traditional supplier. There were also quantifiable joint efforts by the industry. The establishment of South African Supplier Development Agency commonly known as “SASDA”. The mandate of the development agency was to enforce a supportive culture and enterprise development. This agency was founded and funded by the seven major oil companies including PetroSA at a cost of R750 000 per company per annum. Through this agency BEE suppliers would be able to access contracts that are available within the petroleum companies.

8.6 Corporate Social Investments

CSI has always been forming part of marketing and sponsorship activities. It has never been regarded as a key business activity. Based on the above analysis of the findings, conclusions can be drawn using the integration of primary and secondary data. Prior to the Charter various initiatives which were implemented by individual Companies prior to collaboration were difficult to quantify, due to the fact that there was no differentiation between CSI initiatives, sponsorships and marketing activities in some areas. As one of the CSI managers within the industry suggested that “let’s get together for the common good. All for one and one for all”. She further suggested that the industry need to pool resources, be they financial, in-kind or expertise. Pooling resources together would make the whole greater than the sum of the parts. The obligation of corporate entities to contribute to the well being of people beyond factory gates was first championed by Professor of Business, Meyer Feldberg of the University of Cape Town in 1972. Feldberg urged business leaders to learn from model of their US counterparts. The model encouraged business to get involved in the communities in which they operate, sell products and draw their

workforce from. The model was based on the Good -for- Business notion that socially responsible behaviour is fundamental to the long-term growth, prosperity and profitability of the business (The CSI Handbook: 2004). Since then, CSI in South Africa has had a relatively short but dynamic history. The period prior to the democratic conception of SA was characterised by severely distorted social priorities. Government policies dictated corporate directions and had complete disregard for the living conditions, health and education of black people. This behaviour by government and some of the industry captains created acute societal imbalances and unacceptable deficiencies. The only visible force which opposed to these practices was the organised civil society in the form of Non Governmental Organisations (NGO). NGOs directed much of their efforts at mobilising support against the regime and its policies with the result that many pressing social and developmental priorities remained largely unaddressed. The period of the late 1970s was a turning point in the relationship between society and business in SA. The incidents which included the 1976 Soweto students protest intensified conflicts and escalated political, social and economic pressures which erupted in large scale urban societal dysfunction. Having realised that the situation was inevitable businesses across all sectors including mining and petrochemicals responded by rallying together despite desperate attempts by government to put a stop into this relationship between business and society. The ultimate outcome of the relationship was the formation of the Urban Foundation which had a clear mandate of playing a critical role in laying the groundwork for development and symbolising a constructive response by SA businesses to the dire situation in the country.

The central theme of the preceding chapter was to detail a discussion of the findings on various elements of the charter. The analysis and discussion of the

findings assisted in arriving to the conclusion of whether to agree or disagree that there has been progress made with regard to empowerment in the petroleum industry in South Africa. Having discussed interpreted the results of the study and discussed the findings, the following chapter shall be dedicated at looking on what conclusions could be drawn and set of recommendations to be made.

CHAPTER 9

CONCLUSIONS AND RECOMMENDATIONS

The research report was focusing on the key aspects of the petroleum Industry with regard to progress on transformation and empowerment using both primary and secondary sources of information. The detailed discussion and analysis of the information on the previous chapter has led to the drawing of the conclusions and recommendations on this chapter.

8.1 Equity Ownership Status – Post Charter Period

It is noted that five of the six petroleum companies have entered into BEE Equity transactions and that only two company's still need to meet the 25% target of the Charter. The current average equity percentage was 18%. The findings on equity issues concur with recent findings by Empowerdex on the same matter. Empowerdex unveiled an estimated industry average of 18.25%; however, they qualified their findings by warning that it is likely that effective ownership by HDSA's in the industry is significantly less than 18.25%. The reason for this qualification was based on the fact that certain companies excluded certain areas of their value chain in their BEE ownership structures, others included all areas of the value chain. The exclusion of certain areas of the business was contrary to the charter which stipulated inclusion throughout the value chain. A recent similar research has been undertaken by MBA students together with a BEE expert (Mbabane: 2004) at University of Cape Town in 2004. The findings of the study revealed that despite economic empowerment drive that started 11 years ago, SA's business ownership profile remains largely unchanged. The study focused on empowerment in general and mainly across the industries. For example, enterprising women magazine in 2004/5 ascertain that there has not been much achieved in terms of BEE in South Africa. The concern was raised about the

petroleum industry in particular. It was argued that the industry despite being the leader on transformation issues not much has been achieved especially for women. This assertion to a certain degree is in line with the research findings of the BEE progress in the petroleum and liquid fuels industry in that the process has yielded results which vary for each of the elements analysed and extremely disappointing with regard to gender. The overall impression of the study in this area was that the industry has shown commitment and dedication to the principle of empowerment and was trying hard to achieve the objectives, although there was no quantification of targets. Conclusion can be drawn with regard to the progress on equity transformation that there has been significant progress made in this area. This affirmation is based on the fact that the industry is halfway through in terms of achieving the targets. The stipulated period is 2010 and already 72% BEE ownership has been achieved that is 18% out of the target of 25% by 2010.

8.2. Employment Equity

One of the issues raised about the industry with regard to Employment Equity is that women are still not receiving training commensurate with stated equity objectives. No one could explain why so few HDSA women are employed in senior positions despite claims of training programmes.

At senior management level, 27% of the total senior management was made up by blacks with only 7% being females. This is definitely a slow progress compared to the findings of the BEE Commission's report of 2001. According to the report in 1999, the oil sector had 30% black management of which 12% were females of all races (See appendix on management profiles by sector 1999). Black females constituted .03% of the senior management. _+1100 professionally qualified, experienced specialists and

middle management are employed and of the total employment in this category both white males and females constituted a majority of this level at 64%. With regard to skilled, technical, academically qualified and junior management, there is a majority of blacks in this category. Black equals 55% of this occupational category and also a percentage of 30% is women. The findings also reveals that the higher number of employees categorised as blacks is more concentrated on lower grades such as semi-skilled and unskilled. At this level blacks make up 73% of total employees in this category. The lowest category in the industry is insignificant for whites as there are only 22 white employees out of 985.

Based on similar study conducted within the industry by Empowerdex, there were discrepancies with regard to the total number of people employed compared to this study. An estimated number of 900 employees were unaccounted for. This could be attributed to reporting mechanisms and timing differences with regard to reporting. Although there were discrepancies in terms of total numbers, however, the findings were almost similar. Comparing the two studies, i.e. this study and Empowerdex, the latter discovered the following findings with regard to aspect of employment equity. Black representation in relation to white representation slips down from half at professionally qualified and middle management level to one third at senior management level. There was a well representation of black males in terms of management of control and management, however, gender disparities were enormous in all areas of occupation within the industry. The greatest proportion of the workforce according to the study is found at the skilled and technically qualified level at 43% of all employees. Black employees constituted 29% of all employees at this level, the rest is made up of white employees i.e. 14%. At the semi skilled level which made up 28% of all employees, 24% of these are black. Unskilled level made 2% of all employees and

97% of these were black. Also according to the study, concurring with our findings, the gender gap across all employees and all race groups was significant in the industry. Male representation outweighs that of female representation at 73%. Total female representation was 27%, a slight difference of 3% between the two studies the former being 30%.

8.3. Employment Profile after the Implementation of the Charter – Management and Control

The findings discovered that one of the biggest challenges facing the industry is the turnaround of employment profile in terms of closing the racial gaps. Out of 68 Executive Directors in the industry, Black Directors constituted 45% and female directors both black and white made up 10% of the industry's executive directorship with black females only making up 6% and white females at 4%. As for non executive directors, only 15 % of the total non executive directors were black including females. In this area there was a difference of 7% compared to a similar study conducted with regard to directorship representation within the industry. The study found that black directorship representation was 52% of which 44% was occupied by black males and 24% was made up of black male's non- executive directors. Of the 52% only 1% of executive directorship was occupied by black females whilst 7% black females played a role of being non-executive directors. There was a discrepancy between the two studies with regard to black female executive directors in the industry. According to the study by Mbabane and others on Employment Equity progress, only 90 black people as defined in the BEE Act 51 of 2003, or an equivalent of 4.3% of the total number of directors of the top 200 JSE listed companies are executive directors with direct influence on the boards on which they sit. The issue of gender representation also

takes a centre stage. The research confirms that out of 2099 directors at top 200 companies, only 427 are black directors of which 337 are non- executive directors and only 96 or equivalent of 4.6% are women. Irrespective of whatever way one looks at the gender matter, it is evident that women in management and controlling positions of the big businesses are still severely underrepresented and the petroleum industry has not yet done an improvement to change the profile of women representation. Employment Equity, research on the general study revealed that with regard to Employment Equity there has not been a significant change. Hiring is still skewed in favour of white males. There are also huge disparities between the black groups such as Africans, Indians and Coloureds in terms of the progress. According to the study, skilled Indians males have benefited the most. White individuals still dominate the face of employment in SA making 81% of the top management levels. There is also a severe under representation of black women in executive positions. It is estimated that 84% of positions held by women are also held by white women. This suggests that the problems and challenges of transformation are not unique only to the petroleum industry in SA, it is a problem in other industries as well.

8.4. Skills development

The response to the question in this area was that allocation of budget for training was not done according to race and therefore racial analysis could not be done across the industry. The average and standard practice was that 1% to 3% of each company's total payroll is allocated for training budget.

A study by Empowerdex based on site visits and perusal of company documents came to the following findings that, of the 7424 delegates trained during the twelve months period of 2004/5 71% of the delegates were black and that R35.2 million was

spent on blacks. This compares favourable with our findings of 1-3% of total payroll as this equates to 1.8% of total payroll. There have been various initiatives with regard to addressing challenges posed by lack of skills and underdevelopment of black people and women. The report notes that in this area, petroleum companies in conjunction with the controlling Department of Minerals and Energy have embarked on various initiatives such as the establishment of Vukani Petroleum Institute, where candidates are being trained on all petroleum related activities both in upstream and downstream. There are also other initiatives such as Department of Labour controlled Sectoral Education and Training Authority (SETA) and particularly a training authority for the Petrochemicals industry known as Chemical Industry Education and Training Authority (CHIETA). Initiatives also include bi-lateral relations with relevant countries. Government endeavours to secure training opportunities for historically disadvantaged company's staff. During the discussion with industry representatives on personnel development, it was sighted that there are currently 25 students in Malaysia/ Petronas University to study Science and Engineering and Information Technology. This is an initiative which involves petroleum companies and government to address critical areas in the industry. Mbabane launched a scathing attack on industries in general with regard to this area. Mbabane raised a concern saying that despite the fact that money to spend on skills development has never been a problem, a serious challenge emanates from the fact that skills are often misaligned with the demand by the economy. Number of young black people that are trained through SETAs cannot be absorbed by the labour market.

8.5. Procurement Spend – Post Charter Period

In 2004, which equates to a period of four years after the charter was signed, only 7% of the R49 billion of the industry's procurement bill went to BEE suppliers. This is a slight improvement from the 1.9% achieved prior to the charter. Empowerdex findings on this area agreed with own findings. The figures on both studies were accurately reported as the actual spend across the industry rather than average spends and both studies came up with 32% of procurement discretionary spend on BEE companies. However, Empowerdex qualified their findings by signalling that figures could be inflated due to lack of quantification of excluded items such as crude. Procurement is recognised as being the most powerful tool to promote greater HDSA participation in the industry. The significant challenge in this area is getting BEE suppliers involved in crude procurement. Crude constitute 70% of the industry's procurement bill. Crude is purchased based on country to country supply negotiations and on worldwide deals to take advantage of pricing. If crude, utilities such as electricity and municipality services were to be excluded in this exercise, BEE procurement would represent 22% of the industry's discretionary spend. Some of the issues raised during were issues of what actually constitutes procurement expenditure based on the fact that the charter requirements are across the industry's value chain and therefore there should be no exceptions. The issue of defining a BEE entity was also a challenge. It was arguable whether the procurement with BEE should be on how the charter defines a BEE entity which is a majority shareholding of 50.1% by Blacks or on the minimum meeting of requirements which is 25.1% which is a common practice across industries. The industry ended on a compromise of reporting anything above 25.1% BEE shareholding but under two separate categories. The first category is a 25.1% BEE shareholding and the second category

is a 50.1% BEE shareholding. For the purposes of this report there was no differentiation between the two categories on procurement reporting.

8.6. Supportive culture and Enterprise Development

There were various initiatives which were implemented by individual companies. These included preferential credit terms for BEE suppliers compared to what a company would offer to a well established traditional supplier. The only quantifiable joint effort by the industry was the establishment of South African Supplier Development Agency commonly known as SASDA. The mandate of the development agency was to enforce a supportive culture and enterprise development. This agency was founded and funded by the seven major oil companies including PetroSA at a cost of R750 000 per company per annum. One study argues this point that in general black small and medium enterprises are not getting the type of support they should be getting. They are often taken aback by lack of funding and bureaucratic red tape which impede on their operations. A similar study conducted in the petroleum industry identified lack of supportive culture which is not clearly defined in the charter. It was interesting to note that joint efforts were in place to address the issue.

8.7. Corporate Social Investment

The CSI spend could not be quantified in our study due to lack of data. CSI has always been forming part marketing and sponsorship activities. Not much attention was paid into this area. It is estimated that CSI in the petroleum industry ranges between R257 000 per annum to R53m across the companies. A research on CSI and conducted by Trialogue (2004) reveals that petroleum industry is one of the rated

industries on CSI and features prominently on rated development sectors such as education, job creation, HIV/AIDS, social development and sports development. One can conclude by saying that due to the nature of its business the petroleum industry will always try and strike a balance between environments, people, communities especially neighbourhoods to the manufacturing plants and profits. Lack of data quantification in this area was attributed to the fact that it was always overshadowed by sponsorships and marketing activities. The period post 1994 is characterised by some major shift in focusing the objectives of the CSI and enterprise development. CSI in the democratic era in SA can best be described as the period of organizational alignment and CSI to core business. There has been a shift from the giver and receiver relationship to the formation of partnerships. Companies are getting more and more involved in the project that they are funding. Projects that are funded must have a logical fit with the company. Today's CSI is blessed with senior management involvement. Since the publication of the King II report on Corporate Governance, CSI has been one of the major focus areas for corporates. As a result CSI and enterprise development form part of financial reporting through "Triple Bottom Line" reporting (King II Report: 2002). Post Charter CSI and Enterprise development provides an integrated framework for internal management and reporting. Formulas are being used to determine CSI budget which is often based on meeting charter requirements. Within the petroleum industry, there has been a shift from operating in silos by individual companies to more focus on high profile industry specific projects that are corporate driven. It offers transparency of achievements, lessons learned, definition of projects and amount spent by corporates.

Based on the above findings and conclusions which had been obtained by utilising both primary and secondary sources of information, the following conclusions can be suggested.

Recommendations:

➤ BEE Equity Ownership

It has been discovered that some of the deals do not include all areas of the value chain. In order to ensure that deals meet the required specifications in terms of the charter, all areas of the charter need to be taken into account when a deal is structured. Empowerment need not to be on certain areas of the value chain and leave out others. The charter emphasises 25% total ownership of the industry by 2010. When the proposed Broad-based balance Scorecard by Department of Trade and Industry on evaluating empowerment deals such deals would not get a full recognition. See Appendix on BBBEE Scorecard and Codes of Good Practice.

➤ Management and Control:

The role of Black shareholders in the industry need to be seriously reviewed. HDSA shareholders should be encouraged to exploit more aggressively the opportunities that their exposure affords them on the local boards. The tendency is that black shareholders are playing the role of being non-executive directors and as such not accountable for the daily operations of the business. Shareholder activism needs to be encouraged. Companies should not do BEE deals merely for compliance purposes. As a result of this practice BEE implementation only ends at Shareholder level. This is one of the reasons that there is a sizeable amount of Black non-executive directors in the industry. They do not have a control and management of their interests on BEE deals. One of the underlying causes for BEE implementation in

South Africa was to create equal opportunities for all and not the enrichment of the few as is currently the case. This was also to ensure skills transfer.

➤ Employment Equity:

The progress made in this area is commendable. There are still gaps though in terms of racial discrepancies at senior management level. The women under representation at all levels need to be addressed as a matter of urgency. Intervention strategies need to be put in place. For example, management acceleration programmes targeted for black women may be development introduced.

➤ Skills Development:

Skills that are developed by the industry should be aligned with industry demands. In areas where black people tend to be severely under represented such as finance and engineering must be given a special focus. Also development of blacks in core and critical areas of the industry such as refinery need to be quantified.

➤ Procurement And Outsourcing:

Procurement is recognised as being the most powerful tool to promote greater HDSA participation in the industry. The significant challenge in this area is getting BEE suppliers involved in crude procurement. Crude constitute 70% of the industry's procurement bill. Crude is purchased based on country to country supply negotiations and on worldwide deals to take advantage of pricing. Some of the issues raised during survey were issues of what actually constitutes

procurement expenditure based on the fact that the charter requirements are across the industry's value chain and therefore there should be no exceptions. The industry and the government need to join forces to assist BEE suppliers to become significant players in the areas of crude supply. This could be done by assisting such suppliers with overseas networks and financial backing. As a starting point a certain percentage of the crude budget should be allocated for crude to be bought from black suppliers.

➤ Supportive Culture And Enterprise Development:

The SASDA initiative needs to be supported in order to increase a pool of BEE suppliers in the industry and in areas where there is a severe shortage of these.

➤ Corporate Social Investment:

Corporate Social Investment for the industry should be targeted. It should focus on areas that are related to the business such as environment, education and road safety as well as Health . The focus should also be on neighbourhoods closer to the refineries which are constantly affected by spillages and emissions.

REFERENCES

- Abdullah, F.H. 1997. "Affirmative Action Policy in Malaysia: To Restructure Society, to Eradicate Poverty" in Ethnic Studies Report. XV (2), July. [Online] Available: [March2004] accessed 20/04/2005.
- Abramson, P. R. (1992). A Case for Case Studies. Thousand Oaks, California: Sage Publications.
- Access Economics.1991. The Right Price? Profitability, Investment, Competition and the Consumer: A report of the Australian Petroleum Industry, December 1991.
- ACIL Economics.1997. Turning Point or Crisis. A study of the Australian Oil Refining and Marketing Industry.
- Bateman T B, Snell S A .2002: Management: Competing in the New Era, 5th Edition, McGraw-Hill.
- Beer M, and Nohria N .2000: Breaking the Code of Change. Harvard Business School Press.
- Booyesen, L. (2005) Social Identity Changes in South Africa: Challenges Facing Leadership. (Inaugural Lecture, Graduate School of Business Leadership) University of South Africa. Midrand.
- Bruce, N.S.1993. A survey of the petroleum industry [supplement].Financial Mail: December.
- Browning, P.1989. Black Economic Empowerment: Shaping South African Business for the 21st Century. Johannesburg, Fontein Publishing.

BuaNews Online. agency to fuel transformation in liquids fuel industry. 12 September 2005.

BusinessMap Foundation. 2005. Economic Transformation & Empowerment. (accessed 28 March 2005) <http://www.businessmap.org.za/divisions.asp>.

Carli, L. 1998. Deregulation will thwart newcomers. *Martin Creamer Engineering news*, 18(41):31.

Charter for the South African Petroleum and Liquid Fuels Industry on Empowering Historically Disadvantaged South Africans in the Petroleum and Liquid Fuels Industry. 2000. <http://www.sapia.co.za>.

Cooper, D.R. & Schindler, P S. 2003. *Business Research Methods*. 8th ed. The McGraw-Hill. New York.

Creamer, T. 2005. *Creamer's Media Engineering News*, 2005.08.03.

Emsley, I. 1996. *The Malaysian Experience of Affirmative Action: Lessons for South Africa*, Cape Town: Human and Rousseau.

Empowerdex. 2005. *Preliminary Findings: Evaluation of the State of Transformation in the Petroleum and Liquid Fuels Industry*. Unpublished Paper.

Fast Facts On The South African Oil Industry. Sixth Edition. January 2000. Pretoria.

Henderson, J, Hulme, D, Phillips, R and Nur, N.A.M. 2002. *Economic Governance and Poverty in Malaysia*. [Online] Available: [March 2004].

Kahn, A.E. 1971. *The Economics of Regulation Principles and Institutions*. 6th ed. New York: John Wiley & Sons Inc.

Knott, D. 1993. Japan's deregulation under threat. *Oil and Gas Journal*:38, May.

Koon, H.P. 1997. "The New Economic Policy and the Chinese Community in Peninsular Malaysia" in *The Developing Economies*.

Kotler,P.1997. Marketing Management analysis, planning, implementation and control.9th ed.Englewood-Cliffs,N.J:Prentice Hall.

Longwe, S & Clarke, R.1999. Towards Improved Leadership for Women's Empowerment in Africa: Measuring Progress and Improving Strategies. Unpublished final draft of the report for Africa Leadership Forum. Accra. www.africaleadership.org.

Macozoma, S. 2005. Paper presentation on the BMF Conference. BMF Online. Accessed June 20, 2005, <http://www.bmf.org.za>.

Mashabela, P.2005. Enterprising Women in South Africa: 10 years on. A survey on the empowerment of women in the private and public sector. Rivonia. Johannesburg.

Makgetla, N. 2005. End Job Losses! Fight Poverty and Unemployment. The Shopsteward, Special Edition. June 2005.

Mays,N. & Pope, C.1995. Researching the parts that other methods cannot reach, an introduction to qualitative methods in health and health services research. British Medical Journal.311,42-45.

Mbabane, L. (2005, November 6). Empowerment: time for government to unleash an impi. Sunday Times.

Nkomo, S. M. & Kriek, D. 2005. Challenges and Issues of Managing Change in African Contexts. Graduate School of Business Leadership. Unisa. Midrand.

Parahoo,A.K.1997. Nursing Research, Principles, Process, and Issues. London, Mcmillan.

Radebe,M.1999.Challenges of deregulation to government. Press Conference.

Said, S. 1999. Oil Industry landscape key issues for black economic empowerment: Critical policy issues. Cape Town: Institute for Policy and Social Research. May 6.

Singh, R. 1999. An Evaluation of the strategic implications of the Government's proposal to deregulate the Liquid Fuels Industry in the Republic of South Africa, University of Cape Town. MBA Dissertation (unpublished).

South Africa Petroleum Industry Association. 1998. Issues facing the industry. SAPIA Annual Report. Cape Town. The institute.

South African Business Guidebook. 2005. The SA Economy. Werkmans Inc. Johannesburg. South Africa.

South Africa. Black Economic Empowerment Act. No. 51 of 2003. Pretoria: Government Printer.

South Africa. National Department of Health. (1999). Management Of Occupational Exposure to the Human Immunodeficiency virus (HIV). Pretoria. Government Printer.

Smit, H. & Carstens, L. (2003). The Influence Of Leadership Role Competencies On Organisation Change Outcome In The Manufacturing Industry In South Africa. SA Journal of Human Resource Management, 1(2), 45-52.

Smith, A M. 2002. Inequality in the United States. Cornell University. 2002. <http://falcon.arts.cornell.edu/ams3/rich1.htm1>.accessed 07/11/2005.

Tanzer, A . 1989. World's worst oil policy? Forbes: 245, July 24.

Terry,M & Frank, V.1990. Consumer power in free market. Cape Town. Creda Press.

The Global Entrepreneur Monitor. 2004.South Africa. Centre for Innovation and Entrepreneurship, Graduate School of Business University of Cape Town.

Dialogue Publication, 2004. The Corporate Social Investment Handbook, 7th Ed. Kenilworth. Cape Town.

Turshen, M. 2004. The Politics of Oil in Africa. The Barnard Centre for Research On Women. <http://www.barnard.edu/sfonline/rverb/turshen5.htm> Accessed 24/4/2005).

Turner, T.E. & Oshare, M .O. 1993. Women Uprisings Against The Nigerian Oil Industry In The 1980.Canadian African Studies Association. Annual Conference, May.

Van Tonder,C.L. 2004. Organisational Change: Theory and Practice. 1sted. Pretroria. van Schaik.

Vietor, R.H.K. 1996. Contrived Competition Regulation and deregulation in America, 2nd ed. USA: First Harvard University Press.

Wimmer, R. D. & Dominick, J.R. (2003). Mass Media Research : An Introduction,7th Edition. Wadsworth Publishers. Belmont. California.

Wilcox. & Mackenzie,W. 1997. Indian Refiner/Marketer Must Adapt To Changes With Deregulation. Oil & Gas Journal:31,October 20.

Yin, R. K. (1994). Case Study Research: Design and Methods. (2nd ed.) Thousand Oaks, CA: Sage.

APPENDICES:

Appendix A : covering letter

Date 8th September 2005

Introduction: MBL Research

Topic : A Study On The BEE Progress Made By The Petroleum Industry Since The Signing Of The Industry Charter On Empowerment.

Dear Participant.

As discussed with representatives of the petroleum industry on procurement at the meeting held at Cape Town hotel on the 17th of August 2005, please find the questionnaire to be filled in an return before the 26th of September 2005.

Just to refresh your memory, I am currently undertaking an MBL Programme with Unisa and my research topic is on BEE in the oil industry. The aim of the study is to measure the progress made since the signing of the industry charter on empowerment.

I am also aware of the concerns raised by some of the members in terms of divulging competitive information to an industry colleague. I would like to welcome your suggestions on how best to approach this matter as to avoid revelations of company identities.

In order to complete my research report within stipulated time period, I will appreciate your co-operation and swift response to this matter.

Colin from SAPIA has also indicated his willingness to assist, but I will utilise SAPIA if needs be.

Thanking you in anticipation.

Your sincerely

Zamikhaya Dyaphu

Appendix B : Questionnaire

1. DEFINITIONS

Unless the context clearly indicates otherwise, the following definitions are to be used. They are generally those used by the Signatories to the Petroleum and Liquid Fuels Charter ('the Charter').

Oil Industry: those privately owned enterprises with commercial activities in at least some parts of the value chain; and whose business activities are principally, but not exclusively, in South Africa; and who are signatories to the Charter .

The Value Chain for purposes of this survey, means (i) exploration and production of oil and natural gas; (ii) supply and trading including third party procurement and disposal of products, intermediates, feedstocks and crude oil; (iii) oil refining, including lubricant base oil manufacture, lubricants blending and chemicals manufacture; (iv) synfuels manufacture, including gasification and synthesis; (v) transportation including road transport and coastal shipping; (vi) storage and handling including liquid fuels pipelines, single buoy moorings, bulk depots and storage tanks; (vii) oil marketing, commercial, wholesale and retail; including aviation, marine and LPG, wholesale and retail infrastructure and networks.

Historically disadvantaged South African (HDSA): refers to all persons and groups who have been discriminated against on the basis of race, gender and disability. HDSA refers to designated groups, which are defined as "black people" which means Africans, Coloureds and Indians, women and people with disabilities (as per The Employment Equity Act 55 of 1998). White women are not defined as HDSA's.

HDSA Companies: are those companies, joint ventures, trusts, consortia or organisations that are owned or controlled by HDSA's and which operate on a basis to

meet all aspects of the Charter. Those HDSA Organisations which operate within, and which directly supply the industry.

Ownership refers to equity participation and the ability to exercise rights and obligations that accrue under such ownership. Note that "Ownership" excludes share options.

Control of a business entity can be achieved in a number of ways; [a] a quarter of the share holding position, i.e. 25% + 1 equity share; [b] an effective controlling share holding; [c] a majority of a board of directors; and/or [d] in terms of a shareholders agreement. Note that as with Ownership, "Control" excludes future dated obligations or intended rights.

Questionnaire

Where necessary, please provide your responses in a separate document with clear references to each of the questions in this questionnaire

Information Checklist: Please ensure that you provide the following information, pertaining to the period prior to the charter and period after the signing of the charter: Average figures may be given.

DESCRIPTION	CHECK
General Information	
Supply Chain Details – Diagrammatic	<input type="checkbox"/>
Organogram of company shareholding	<input type="checkbox"/>
Ownership	
Auditors/directors valuation of the business operation/asset currently and prior to the charter	<input type="checkbox"/>
Details of Financing of BEE Transactions	<input type="checkbox"/>
Evidence of BEE shareholding percentage in holding company	<input type="checkbox"/>
Evidence of BEE shareholding percentage in subsidiary companies	<input type="checkbox"/>
Management and Control	
Formal management organogram prior to the charter and after the charter	<input type="checkbox"/>
Financing	
Details of how the BEE deal was funded	<input type="checkbox"/>
Sustainability	
Details of Financial Indicators and Ratios	<input type="checkbox"/>
Employment Equity	

Most recent Employment Equity Report that is submitted to the Department of Labour and information prior to the charter if available	<input type="checkbox"/>
Most recent Employment Equity Plan, if there is one	<input type="checkbox"/>
Copy of Affirmative Action policy	<input type="checkbox"/>
Capacity Building/Skills Development	<input type="checkbox"/>
Most recent skills development plan and report/Work Skills Plan that is submitted to the sector SETA – CHIETA , if any	<input type="checkbox"/>
Details of other training programmes, including internal training, in place to fast track BEE	<input type="checkbox"/>
Schedule for Skills development expenditure during the past four to five years and comparison with period prior to the charter	<input type="checkbox"/>
Supportive Culture	
Supportive initiatives for BEE	<input type="checkbox"/>
Preferential Procurement for the two periods under comparison	<input type="checkbox"/>
Attach a list of all subcategories including spend that make-up the Categories	
Corporate Social Investments	
Details of social development initiatives for the two periods	<input type="checkbox"/>
Preferential Credit	
Details of Preferential Credit offered to BEE Companies	<input type="checkbox"/>
Details of enterprise development initiatives	<input type="checkbox"/>
Information if any on business operations/assets that were sold to black parties	<input type="checkbox"/>

1. General Information Requirements

- Please attach a diagram showing the holding of each of your shareholders and your shareholding, and that of other entities, in each of your principle operating subsidiaries and associated companies in the Oil Industry
- For your company, including each of your subsidiaries and associated companies which is not submitting a separate return, please complete the Schedule of Financial Information.

2. Ownership

2.1. Sale of Equity

The Control Target is set at 25% + 1 equity vote.

Please provide information of the sale of equity in the holding company:

Organisation or individuals	Percentage ownership ¹	Ownership by black people ³	Black women holding	Black designated groups ²	Operational involvement
	%	%	%	%	Yes/No
Total Holdings					

1: Percentage Ownership = Physical ownership of the equity instruments in the enterprise

2: Black Designated Groups = black workers, black unemployed people, black youth, black aged people, black disabled people and black people living in rural areas

3: Black people = African, Coloured and Indian Indigenous South Africans

Please answer the following questions:

1. Which of your shareholders are controlled by HDSA's or HDSA Companies and what is the nature of that Control (see definition of control). The question focuses on your company as a whole and is not only confined to Liquid Fuels.
2. Which of your principal operating subsidiaries and associated companies in the Oil Industry are controlled by HDSA's or HDSA Companies and what is the nature of that Control; and what is the shareholding of those HDSA's and HDSA Companies.
3. What percentage of equity relates to un-exercised share options held by HDSA's and

HDSA Companies and indicate what agreements, if any, are in place to increase the HDSA shareholding within your company?

4. Are there any formal agreements in place which commit the shareholders and the company to increasing HDSA share holding? Please indicate the timeframe over which these agreements apply.

3. Control and Management

3.1. Directors

Roles and Responsibility ²	Industry Experience Number of years	Date of Appointment	Gender (M/F)	Population Group A/I/C/W/NSA ³	Executive / Non-Executive

1: Directors as listed per the company's CM 29 or the members of a close corporation as listed per the CK 1 / CK 2

2: E.g. Managing Director, Chair Person, Financial Director, etc.

3: A-African, I-Indian, C-Coloured, W-White, NSA-Non South African

3.2. Director Evaluation

Please answer the following questions with regards to the directors:	Yes	No	N/A
Do all of the members on the board have equal voting rights? If not please specify the voting rights of individual directors in a separate schedule.			
Does the executive chairman have a casting vote?			
Does the non-executive chairman have a casting vote?			
Is there any succession planning or fast tracking mechanisms in place to increase the number of black executive directors? If yes, please provide a copy of plans and supporting documents to verify its existence.			
Are there any obstacles or restrictions to increase Black Management Control? If yes please provide a documented explanation.			

3.3 Senior Executive Management

Roles and Responsibility ²	Industry Experience Number of years	Date employed in current position	Gender (M/F)	Population Group A/I/C/W/NSA ³	Board Representative Yes/No

- 1: Senior Executive Managers = Upon the authority of the Board to undertake the day to day management, who have individual responsibility for the overall management, the financial management and who are actively involved in the development and/or implementation of the strategy
- 2: E.g. Chief executive officers, chief operating officers and chief financial officers, etc.
- 3: A-African, I-Indian, C-Coloured, W-White, NSA-Non South African

3.4 Other Management

Roles and Responsibility ²	Industry Experience Number of years	Date employed in current position	Gender (M/F)	Population Group A/I/C/W/NSA ³	Board Representative Yes/No

- 1: Other Managers = other than senior executive management, who are appointed by or upon the authority of the Board to undertake the day to day management and who are actively involved in the development and/or implementation of the Enterprise's strategy in so far as it relates to their area of responsibility
- 2: E.g. Chief executive officers, chief operating officers and chief financial officers, etc.
- 3: A-African, I-Indian, C-Coloured, W-White, NSA-Non South African

4 Financing

Please provide financing schedules for concluded BEE transactions. If a detailed financing schedule exists for all transactions within the value chain, please attach

4.1. Please provide Financial Effects for any concluded BEE transactions:

Financial Effects		Before the transaction	Adjustments	After the transaction	Change (%)
	Earnings				
	Headline earnings				
	Net asset value				
	EPS (cents)				
	Fully diluted EPS				
Shares in issue ('000)					
	Weighted average number of shares				
	Actual number of				

	shares in issue				
	Fully diluted number of shares				

1.1

4.2. Schedule of Financial Information

1	2	3	4	5	6	7	8
BUSINESS STREAM (Split into elements in the Value Chain)	Value of Hydrocarbon stocks held at this point at year end (R'million)	Net Book Value of Assets in the SA Oil Industry (R'million)	HDSA % Share of Assets in [3]	Annual turnover (R'million)	HDSA % Share of Turnover in [5]	Operating profits before interest, tax, depr'n and amortization (R'million)	HDSA % Share of profits in [7]
[I] Exploration & Production							
[ii] Supply and Trading							
[iii] Oil Refining							
[iv] Synfuels							
[v] Transportation							
[vi] Storage and Handling							
[vii] Oil marketing							
[viii] Other (Specify)							
Totals							

5 Employment Equity

5.1. Please provide an **Employment Equity** profile below, indicating Disabilities as well as Race classification

Occupational	Male	Female	
---------------------	------	--------	--

Level	African	Indian	Coloured	White	Disabled	Sub-Total	African	Indian	Coloured	White	Disabled	Sub-Total	Total
Senior Management (excluding management considered under control and Management)													
Professionally qualified and experienced specialists and mid-management													
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents													
Semi-skilled and discretionary decision making													
Unskilled and defined decision making													
Total Staff Compliment													

5.2. Please answer the following questions:

Does the entity have the following:	Yes	No	Informal
-Employment equity plan			
-Employment equity committee			
-Affirmative action plan			
Are there any obstacles or restrictions to increase Black Representation? If Yes, please explain.			
Are there any fast tracking mechanisms in place? If Yes, please provide documented explanations and supporting vouchers.			

6. Capacity Building/ Skills Development – please

Skills Development and Training				
Course/Training Detail	Date of training	Total delegates trained	Number of Black people trained	Training Spend (R)

Total				

1: Black people = African, Coloured and Indian Indigenous South Africans

2: Training Spend = Cost of the trainers, training material and venues

6.1. Please complete table detailing **External** Training Initiatives:

Skills Development and Training				
Course/Training Detail	Date of training	Total delegates trained	Number of Black people trained	Training Spend (R)
Total				

6.2. Please answer the following questions (Please supply the necessary documentation as evidence):

	Yes	No
Is there a skills development policy/plan?	Yes	
Is there a skills development Committee?	Yes	
Were any bursaries awarded to staff? If so, how many and what value		
What was the cost to company payroll for the 2 periods		

7. Supportive Culture

Please answer the following:

Supportive Culture	Yes	No
Is there a dedicated personnel that looks after BEE issues		
Is there a Finance mechanism that assist black start up businesses		
Are there internal training that are meant for company BEE suppliers		

If you answered **yes** to any of the above, please provide details and supporting documentation

8. Procurement

8.1. Procurement

Procurement is the amount paid to suppliers for goods and services rendered.

8.2. Total Procurement (Please Provide **Separate** details for the 2 periods on procurement expenditure)

TOTAL PROCUREMENT CALCULATION:	
Purchases	
TOTAL	

ADDITIONAL INFORMATION REQUIREMENTS	SPEND
Corporate Social Investment expenditure and donations	
Investment in the equity of enterprise development initiative	
Cost/value of equipment and other assets supplied to enterprise development initiative	

8.3. Please answer the following questions:

	Yes	No
Does the entity have an affirmative procurement plan/ policy in place?		
Are there defined affirmative procurement targets for the duration of the plan/ policy?		
Has the company implemented structures to improve supplier quality?		
Does the company implement a specific mechanism when adjudicating tenders or selecting suppliers? Please Explain criteria below:		

8.4. Details of BEE suppliers and subcontractors (You may append a list of additional BEE suppliers, if necessary)

	Outsourcing and Procurement Category (excludes expenditure on internal activities)	Total spend for use within South Africa (Rand mill)	Total no. of Suppliers	% Total BEE Spend	Spend split by ownership and / or active control of Supplier by HDSA's			
					Over 50%	No. of Suppliers >50.1%	25.1% to 50%	No. of Suppliers 25.1% to 50%
1	Civil and Maintenance							
2	Electrical and Instrumental Maintenance							
3	Industrial and							

	Mechanical maintenance							
4	Transportation							
5	Logistics							
6	Additives							
7	Chemicals and allied products							
8	Marketing and Advertising							
9	IT & IM (info management and hardware)							
10	Professional Services							
10	HSE Spend							
11	Finance and Insurance Services							
12	Telecommunications							
13	Packaging							
14	Service Industries							
15	Protective Clothing and Uniforms							
16	Stationery and Consumables							
17	Food, catering and offices services							
	TOTAL							

- 1) **Supplies**, in this schedule, means crude oil, hydrocarbon feedstocks, natural gas, and coal converted in oil refineries and synfuels plants
- 2) **Civil and Maintenance**: general civil, chemical and mechanical engineering and construction contracts, heavy construction contracts, specialist trade contracts and includes plumbing and fitting services
- 3) **Electrical and Instruments**: general and specialist heavy and light current engineering and supply contracts including supply of pumps and switchgear and specialist instrumentation services including computer control equipment for plant and machinery
- 4) **Health and Safety**: Protective clothing and uniforms, personal safety equipment, safety signage, safety audits, safety training, first aid training, health counseling, Aids awareness
- 5) **Packaging**: includes pallets and containers for own use as well as for products; drums, cans, bottles, labels, labeling equipment, packaging machines
- 6) **Logistics**: clearing and forwarding services including ancillary activities (e.g. couriers)
- 7) **Chemicals**: particularly lube oil and fuel additives, includes water treatment and

- cleaning chemicals and materials for own use
- 8) **Global Procurement:** spend under contracts initiated by your parent company abroad for supply to meet your local needs such as catalysts, refinery equipment, computing and telecoms hardware and software, advertising materials, brand promotion and protection
 - 9) **Enterprise Development:** Supplier development, franchisee training, facilitation of actual supply by HDSA companies to global parent companies
 - 10) **Transportation:** includes road and sea transport of products, intermediates and feedstocks purchased or sold on an FOB basis but excludes supply from parastatals
 - 11) **Marketing and Advertising:** sponsorships, forecourt signage, POS and promotional goods and services, public relations and event management
 - 12) **Information, Computing and Telecoms:** includes supply of hardware, software and maintenance
 - 13) **General Services:** Recruitment agencies, external skills and management training, plant and office security, catering, call centre outsourcing, environmental protection and rehabilitation, provision of staff benefits (e.g. company cars, cell phones, memberships), travel and accommodation agents
 - 14) **Financial Services:** Auditing, Tax advisers, merchant banking, asset leasing, project finance
 - 15) **Corporate Social Spend.**
 - 16) **Other:** spend not belonging to any of the stated categories

9. Corporate Social Investments

List social initiatives along with the corresponding expenditure below, classifying each initiative into one of the following categories:

Initiative	Category of Spend	Spend Amount (R)
Education		
Community and Rural Development		
HIV / AIDS		
Health (Excluding medical aid contributions)		
Welfare		
Environmental Conservation		
Sports Development		
Arts and Culture		
Other		
Total amount invested in corporate social initiatives		
Net profit after tax (NPAT) of the rated entity as at the latest financial year end		

10. Preferential Credit Please answer the following questions:

Please list details of Preferential Credit terms offered to suppliers, if any?			
Supplier Details	Bee Status	Details of Preferential \ Credit Terms	Monetary Equivalent