

**THE EFFECTIVENESS OF ESKOM'S BLACK ECONOMIC EMPOWERMENT
PROGRAMME IN FOSTERING SUSTAINABLE BUSINESSES.**

**A STUDY INTO THE IMPLEMENTATION OF THE PROGRAMME IN ESKOM
TRANSMISSION**

by
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ABSTRACT

This study sets out to test the hypothesis that the Eskom Black Economic Empowerment, as implemented by the Transmission Division of Eskom Holdings Limited, has had only limited success in fostering sustainable businesses.

Although Eskom Transmission has been reporting excellent achievements in terms of the programme, the author argues that the performance measures are flawed in that they do not distinguish between small black owned businesses and large international businesses which conform to the Eskom definition of a Black Economic Empowerment supplier.

Large companies with at least a 10% black shareholding, and meeting other criteria in terms of skills transfer, black management and procurement from other black owned suppliers could qualify as a Black Economic Empowered supplier. By including spend on such suppliers together with the Transmission spend on small, black owned suppliers, distorts the effects of the programme.

The research has highlighted the following concerns:

- The most important reason that employees support the BEE programme is because it is a policy requirement;
- No development of suppliers apart from the indiscriminate use of price matching and setting aside of contracts;
- Supplier assessments are inconsistent and are not always transparent;
- Contract conditions and contracting methods are not always conducive to growth and development of small suppliers;
- Minimal performance evaluation of suppliers is conducted;
- The BEE programme is perceived as being most successful in enriching a few elite black individuals. In addition, it is perceived as having been successful in the creation of non value adding agents for white owned companies;

- Very few respondents to the survey indicated that they spend any time on the development of or giving advice to suppliers;
- There is a 50% impression that BEE suppliers are capable of taking part in Eskom Transmission business;
- A very low percentage of Small Medium and Micro Enterprises and Black Woman Owned suppliers applying for listing in the database are qualified to supply Eskom Transmission;
- The very same suppliers tend to win contracts all the time, hence the indication is that there are few new entrants;
- Historically, the indication is that the suppliers have generally have been on the database since before the implementation of the BEE programme. They have continuously changed ownership to keep pace with the changing requirements of policy;
- The support of BWO suppliers has come at the direct expense of SMME suppliers.

Recommendations derived from this research include:

- Continuing with the current BEE reporting which is external to Eskom, but
- Enhancing Key Performance Indicators to include measurements and targets for job creation as well as support of both SMME and BWO suppliers;
- Structured supplier development programme with dedicated resources to take ownership of the programme;
- Consideration is to be given to the methods of contracting when dealing with SMME and BWO suppliers;
- Supplier performance evaluation is to be enhanced for inclusion of a wider spectrum of suppliers and end users.

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I would also like to thank the members of my study group – Denis, Sashnee, Thembi and Melody – without their encouragement and support, I would not have come this far.

I also thank the participants of this survey for their time and valuable input.

DECLARATION

Unless otherwise stated, this dissertation is the result of my own work. Where others are referenced, such references are clearly indicated and listed at the end of the document.



Henk Langenhoven

11/1/04/2006

ABOUT THE AUTHOR

Due to the nature of the subject under study, it is important that the author provides some background information. This will allow the reader to understand how he fits into the scenario and will also allow the reader to understand some of the underlying assumptions made.

The author grew up in a typical Afrikaans speaking family and attended a local Afrikaans primary school before moving on to a technical high school. Whilst in the employ of Eskom he proceeded to complete his National Diploma in electrical engineering. Once complete, he proceeded with the compulsory 2 years National Service. In January 2006, he would have completed his 23rd year of service with the same company.

Around 1994, Eskom started looking at Supplier Management as a function in the procurement department. The author took the opportunity to move from his position as Quality Assurance Manager to Supplier Management Manager where he embraced the challenge to increase the scope by including Black Economic Empowerment. Up to mid 2004 he was the Supplier Management Manager, then Supplier Management Consultant. With 9 years in this field, the author has built extensive experience.

The author has a personal interest in this subject. He sincerely believes that the only way for South Africa to move forward from the imbalances created in the past, is to allow all people to take part in the economical activities of South Africa. He therefore believes firmly that poverty and unemployment can be eliminated.

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GLOSSARY OF TERMS

QA	Quality Assurance
BEE	Black Economic Empowerment
SMME	Small, Medium and Micro Enterprises
SME	Small and Medium Enterprises
BWO	Black Woman Owned Businesses
OTH	Other businesses
FGN	Foreign businesses
EE	Eskom Enterprise Businesses
SAP	Software based ERP system (implemented by Eskom in 1998)
PPP's	Public-Private Partnerships
BBBEE	Broad Based Black Economic Empowerment
SPV	Special Purpose vehicle
PDI	Previously disadvantaged individual
LBSC	Local business service centre
SETA	Sector Education and Training
NGO	Non Governmental organisation
CBO	Community based organisation
DoL	Department of Labour
DoE	Department of Education
MSE	Micro and Small Enterprises
RFQ	Request for Quotation
QASM	Quality Assurance and Supplier Management section
Tx	Transmission Division of Eskom Holdings Ltd
BAC	Black, Asian and Coloured South African Citizens

DEFINITIONS OF TERMS

BEE	<p>The definition of a BEE, in Eskom’s policies, is a company with an annual turnover of more than R25m and which is at least 10% Black owned. Such a company then also gets measured on Black shareholding, skills development, procurement from Black suppliers, Black women management, employment of the Black disabled as well as other BEE initiatives. If the company scores 9 or more on the table applied, it is regarded as a BEE supplier.</p> <p>BEE is also the general term used for the whole study around creating opportunities for PDI’s to take part in the economy of South Africa. (The author will endeavour to clarify the term where important for understanding.)</p>
SMME	<p>The Eskom definition is a company with an annual turnover of below R25m with at least 50% Black ownership and control.</p>
BWO	<p>As for SMME, the only difference being that the Black shareholding (and control) has to be held by a Black female/s.</p>
OTH	<p>Traditional suppliers that either do not claim BEE status or have less than the required percentage of Black ownership</p>
EE	<p>Eskom Enterprises suppliers, Suppliers that form part of Eskom Holdings Limited</p>
FGN	<p>Suppliers from Countries outside the borders of South Africa, it includes suppliers from neighbouring Countries.</p>
PDI	<p>Individuals from the Black, Coloured and Indian/Asian population. South African citizens.</p>
SPV	<p>Duma Gqubule (1999), A SPV is a ring fenced holding company that is used to house the debt raised by a BEE company to purchase a stake in a listed company. The BEE gets the voting rights in the SPV (and therefore control of the company that is purchased)</p>

Business Indicator (BI)	An indicator used in the Eskom SAP system that indicates the ownership of a company, with reference to the Eskom policy on procurement from black owned suppliers. The BI's in use are EE, BEE, BWO, SMME, OTH and FGN
Price Matching	A mechanism catered for in Eskom's procurement policy that gives a supplier the opportunity to match the price of other competitively priced tenders. The hierarchy of price matching is BWO against SMME, BEE, OTH or FGN and SMME against BEE, OTH and FGN
Source list	SAP list of all possible suppliers that can be considered for a specific project / contract
Tender list	A list of suppliers to be invited to tender for a specific contract or project, usually the result of a squad meeting.
Apartheid	The system of segregation and discrimination on grounds of race in force in South Africa between 1948 and 1991
QASM	Quality Assurance and Supplier Management – the section in Eskom Transmission that are the custodians of the Eskom policy on procurement from black suppliers

CHAPTER 1 – PROBLEM STATEMENT

This chapter details the perspectives of the author and practitioner which emanate from the research:

- The purpose of the study and the background to the problem are clearly stated
- Transmission, the operating division of Eskom Holdings Limited, is put into perspective – In addition, a brief insight into Eskom’s Corporate Social Programme is provided.

1.1 Practitioner Perspective

Black economic empowerment is very important, not only to Eskom Transmission, but to the South African economy as a whole. Furthermore the author has taken a personal interest in this subject. The creation of sustainable businesses amongst the previously disadvantaged sector of the community is one of the key drivers towards eradication of poverty and unemployment in South Africa.

The author has been involved with Eskom’s BEE programme almost from its inception, and since 1997 he has worked as the Supplier Management Manager, responsible for Eskom Transmission’s Supplier Database. This role included managing / overseeing all matters related to BEE. For the last 13 months he has been employed as a Supplier Management Consultant in the Transmission Division of Eskom, responsible for giving advice and guidance to the business on matters related to supplier management practices, with specific emphasis on Black Economic Empowerment.

Within the Black Economic Empowerment programme there are generally two kinds of SMME suppliers:

- Those who were traditionally White owned suppliers and who took on Black partners, thereby converting to SMME,
- Black entrepreneurs who started their own businesses and own them completely. Large Black owned businesses (turnover above R25m annually) are excluded from this study.

In the author's experience, the norm with the latter group of SMME suppliers has been:

- Premature failure of newly established businesses,
- Lack of winning contracts.

At the onset, SMME businesses register with Eskom Transmission, the results of which are:

- They never get invited to tender,
- Tender but never win any contracts,
- Win contracts but fail whilst executing such contracts.

The study will, through the interrogation of the SAP system, endeavour to support this hypothesis.

1.2 Purpose Statement

The purpose of the study is to understand the failure rate amongst SMME suppliers as well as to explore the factors that lead to their failure. The study will further try to identify the shortcomings in the current policy and/or the implementation thereof. Recommendations and or suggestions towards closing the identified gaps in both the policy as well as its implementation will further be sought.

One of the emerging problems that the author foresees in the study is a resistance from the SMME suppliers to divulge information for fear of losing any opportunities of dealing with Eskom Transmission.

According to Flood and Jackson (1991:33) this problem can be described as a complex system as it contains a large number of elements with many interactions between the elements. The system further evolved over a long period of time, and numerous “sub systems” generate their own goals – these could be personal gain, preference to dealing with established suppliers or the drive for maximum profit by suppliers.

The relationship between the various participants in the system can further be described as mainly Pluralist, with some elements of Coercive. “There is a basic compatibility of interest, values and beliefs differ to some extent, all participants do not necessarily agree on the means but compromise is possible to a large extent”.

With the above in mind Flood et al (1991:42) suggests an Interactive and Soft Systems approach as the most appropriate systems methodologies to adopt in addressing the problem. This approach will endeavour to understand the reasons why people do particular things rather than only looking at statistics and making assumptions based purely on such assumptions.

The method of data collection is:

- Literature study,
- Interviews with Supplier management process owners,
- SAP database interrogation,
- Interviews with suppliers, and
- Questionnaires to Eskom employees involved in various phases of the supply chain.

1.3 Background to the Problem

In order to look at the background to the problem one has to go all the way back to 1910, when the first seeds of Apartheid were sown. Apartheid being the notion of people being divided based upon racial backgrounds.

Apartheid became law in 1948 when the Reunited National Party won the “white minority” elections on 25 May 1948. Only white citizens were allowed to vote and participate in Government, whilst black South African citizens were forbidden to participate.

In 1950 South African citizens had to be re-classified as white, black or coloured and all black people had to carry passbooks.

During 1951 the Bantu Authorities Act was passed and “homelands” created – black people would then lose their South African citizenship and become citizens of the homelands. During 1976 and 1981 four such homelands were created and nine million South African citizens were denationalised.

During this period black or coloured people were neither allowed to own land or property, nor stay in or run businesses from “white only” areas. This also excluded them from taking part in Government businesses or contracts.

During the Apartheid era nearly 26 Acts were passed by Parliament to segregate and prevent Black people from actively taking part in the economy of South Africa.

At the time the statistics looked as follows:

	Blacks	Whites
Population	19 million	4.5 million
Land Allocation	13%	87%
Share of National Income	<20%	75%
Ratio of average earnings	1	14
Minimum taxable income	R 360	R 750
Doctors / population	1/44 000	1/400
Infant mortality rate	20% urban 40% rural	2.7%
Annual expenditure on education per pupil	\$45	\$696
Teacher / Pupil ratio	1/60	1/22

Table 1 – Disproportionate Treatment circa 1978

It was only after the elections in 1994, when the ANC won the elections and became the ruling party that Black, Asian and Coloured people were allowed to take part in government contracts, etc. The BEE policy was implemented and driven from Government.

Eskom’s policy on Procurement from Black Suppliers is in direct response to the Government’s policy.

Source: The History of Apartheid in South Africa and Apartheid South Africa.

1.4 Eskom – Structure and Responsibilities

The structure of Eskom Holdings Limited is depicted in the following organisational structure. South Africa, and thus Eskom Holdings, is amongst the lowest cost electricity producers in the world.

Important facts about Eskom Holdings are the following:

- Eskom ranks amongst the Top 10 electricity suppliers internationally;
- Eskom supplies 95% of South Africa's energy and 66% of Africa's;
- Eskom contributes 15% to South Africa's Gross Domestic Product (GDP);
- Eskom has an installed capacity of 40 585 Mega Watts.

Source: Unknown, South Africa's energy supply (2005)

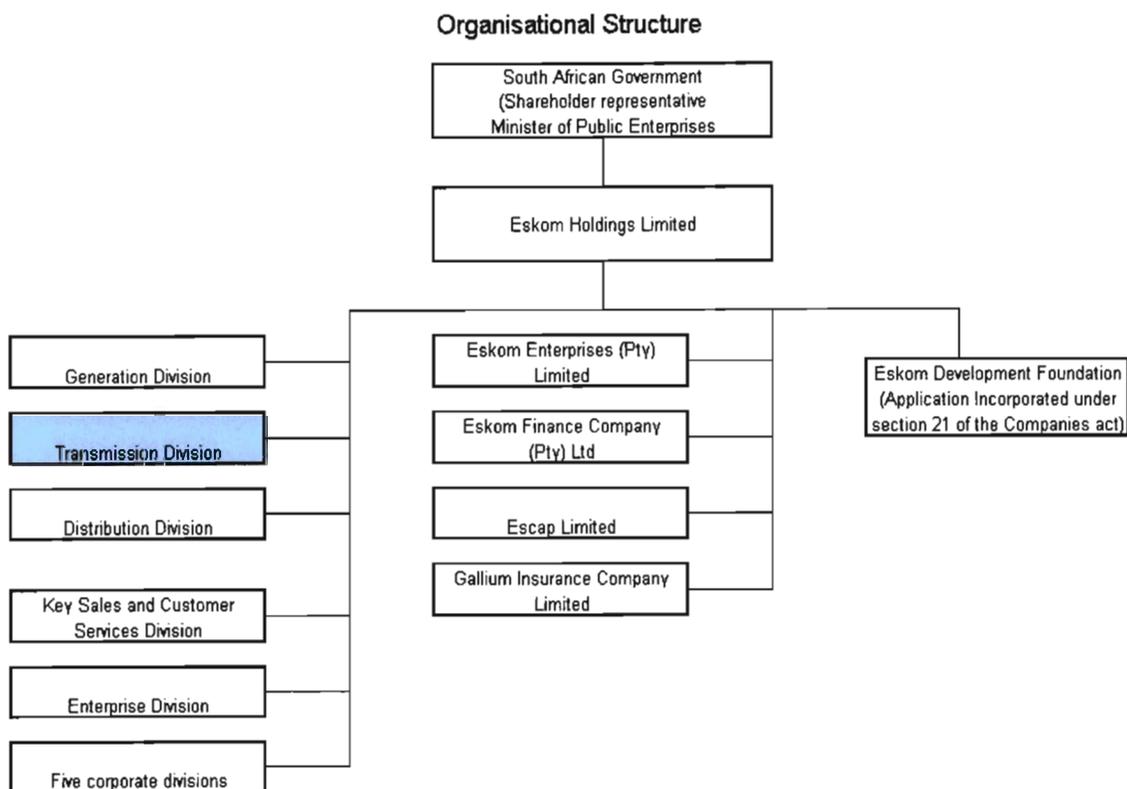
The Division of Eskom Holdings in which the study was undertaken is the Transmission Division, which is essentially responsible for the construction, operating and maintenance of the entire network of power lines and substations in the voltages above 132Kv (132 000 Volts) to 765Kv (765 000 Volts). The network consists of around 27 000 Km of power lines.

The support of Black Economic Empowerment has to be seen against the Vision and Values of Eskom Transmission.

- Vision – “To be the most reliable Transmission Business in the World”, implying that suppliers to Transmission have to deliver in such a way that it does not compromise the Transmission vision. Inferior quality, poor workmanship, late deliveries all have an impact on Transmission's ability to deliver on its Vision.
- Values – “Excellence, Innovation, Customer Satisfaction and Integrity”. All business relations thus have to adhere to the overall values, something that is also expected from Transmission's suppliers.

Drafting of policy and setting of goals, specifically for the Black Economic Empowerment Drive in Eskom Holdings Limited resides at a corporate level. The responsibility for implementation of policy, management of suppliers and reporting on progress and expenditure resides at Divisional level.

Figure 1 – Eskom Holdings organisational Structure



Source: Eskom annual report (2005:4)

Figure 1 – Eskom Holdings Organisational Structure

1.5 Eskom’s Corporate Social Investment Programme

Eskom’s corporate social investment is mainly carried out through the Eskom Development Foundation, a section 21 company. The goal of Eskom’s corporate social investment is to improve the quality of life of previously disadvantaged South Africans. It includes various programmes for skills development, job creation, education and health, with an emphasis on woman, youth and people with disabilities. The Development Foundation operates extensively throughout South Africa in areas that are underdeveloped, especially in rural and new urban settlements. *Source Eskom annual report (2005:3)*

From the above it can be seen that Procurement from Black suppliers, or the BEE programme as it is referred to in Eskom, is not the main driver of Eskom’s corporate social investment. It

is rather an extension of the drive and an effort to ensure that previously disadvantaged South Africans take part in the Eskom commercial environment.

It is thus important to be sensitive to the fact that this program does not target Micro and “Spaza shop” businesses.

1.6 Conclusion

Chapter one of the dissertation aimed to give the reader insight into the author’s perspective to the problem, as well as give some background to the stated problem. The purpose of the study as well as the reasons for selecting this specific problem was detailed.

The chapter further gave the reader insight into the Eskom structure and how Transmission Division fits into the structure. Lastly, Eskom Corporate Social Investment was sketched in brief.

Chapter 2 of the dissertation is devoted to the literature review.

CHAPTER 2 - LITERATURE REVIEW

Chapter two is devoted, in its entirety, to the review of literature. The view of various authors on supplier development and a model for good practice on supplier development has been sought.

The chapter is sub divided and the literature presented in the following categories:

- Good practice in supplier development
- The need for development of suppliers
- Areas that should be targeted or focussed on in supplier development
- Obstacles in the development of suppliers, and
- Various perspectives on the BEE program in general.

2.1 Good Practice – Supplier Development

Supplier development, according to Burt, Dobler and Starling (2003:514) can be defined as *“Any activity undertaken by the buying firm to improve a supplier’s performance to meet the buying firm’s needs”*. It further states that in world class supply chains the development assistance is pro active rather than attempting to provide quick fixes to problems.

Burt et al (2003:514) - It is important that suppliers retain the learning that occurs, as this is paramount to continual improvement. *“Retained learning will also in turn assist such suppliers in developing their own suppliers. Decision to develop as well as the scope of the assistance has to be mutually agreed upon up front”*. Development programmes have to be designed in such a way that the above criterion is met.

Burt et al (2003:516) list the following activities as best practices in Supplier Development:

- “Create dedicated supply development teams – with no other responsibilities;
- Teach a supplier how to develop self, after initial guidance from the team;

- Focus on underlying causes of long cycle times;
- Focus on wasteful activities;
- Involve suppliers in new product and process development at the buying firm;
- Provide training programmes to suppliers;
- Provide education programmes that go beyond training;
- Provide improvement focused seminars for suppliers;
- Provide tooling and technical assistance to suppliers;
- Provide supplier support centres;
- Make available executives, such as process engineers and quality managers;
- Endeavour to ensure that supplier's staff are not fearful of development assistance;
- Set stretch goals to encourage change and innovation;
- Extend accounting systems to enable measurement of improvement;
- Share the savings from the savings realised as a result of the improvements;
- Encourage suppliers to contribute towards improving the processes at the buying firms facilities;
- Provide a feedback loop for suppliers to encourage development efforts;
- Improve the supplier's supply management system".

The following figure depicts the Supplier development process according to Burt et al (2003:522)

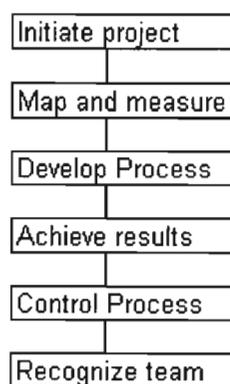


Figure 2 – Supplier Development Process according to Burt et al

This information would be useful in determining a development plan for Eskom Transmission suppliers.

2.2 Why Develop Suppliers?

According to Cronje, Du Toit, Marais and Motlatla (2004:5) small and medium size companies contribute 28,95% to the South African Gross domestic product. The source of the statistics is a study done by Ntsika Enterprise Promotion Agency in 2000. The same study notes that the same companies are responsible for 28,9% of employment in South Africa. Small and Medium size companies are thus an integral part of the economy of South Africa, and, a source of job creation in the country.

98% of top executives interviewed in a study done by Accentive Research and Insights (Nov 2002) concur with this statement – *“fostering entrepreneurial skills is very important to creating wealth in South Africa”* - Cronje et al (2004:39)

Entrepreneurs are integral to the Small and Medium size businesses. In an effort to find a definition of entrepreneurship the author came across the following in Cronje et al (2004:39) – *“There is no hard and fast rule when it comes to the definition of an entrepreneur”*, but the following seems to apply:

- Economists believe that entrepreneurs are driven solely by profit, through the combination of different resources in specific combinations;
- Psychologists see entrepreneurs as achievement orientated individuals who are driven by milestones;
- Marxists view entrepreneurs as exploiters;
- Corporate managers see them as small operators who do not have the ability to manage large organisations;
- Proponents of a market economy see entrepreneurs as the economic force responsible for the prosperity of a country.

The above definition should be exploited in the design of a development plan. If entrepreneurs are driven by profit only, then a development plan should address their needs. Set clear milestones in the development plan, which, if not met, will negatively impact on their business.

Burt, Dobler and Starling (2003:53-54) state that many progressive supply management organisations have developed and implemented programs to ensure that diverse suppliers receive a fair share of their businesses.

The following forces are quoted as drivers of diversity programs:

- Corporate Social Responsibility;
- Supply base broadening;
- Government compliance;
- Government contract requirements;
- Fear of economic boycotts;
- Pass down provisions, and
- Increased competition.

Eskom and South Africa's drive for the support of previously disadvantaged individuals falls within the diversity program as defined by Burt et al (2003: 54)

Development, however, should not only be seen as applicable to BEE suppliers. Burt et al (2003:513) states that "Supplier Development is strategic to any business that outsources parts of their supply chain" (as is the case with Eskom Transmission). Eskom would become increasingly dependent upon its suppliers to continually improve on quality, costs and time. Should a supplier fail to deliver, Eskom has three choices,

- Produce the outsourced item or service internally,
- Change supplier,
- Assist the existing supplier to improve its capabilities.

The choice to develop, rather than change a supplier, is dependent upon a number of factors. According to Burt et al (2003:514) low value items with little impact on the business could easily be sourced from an alternative supplier. In cases where the non-performing supplier supplies an innovative or unique product, or it possesses unique technology, the buying firm

may wish to protect this situation by either bringing the service in house or taking over the company. The third option may be to provide development assistance to ensure the supply is protected. As Eskom has taken the decision not to become involved in non-core activities, the second option is not a viable one.

Another reason for deciding to provide development assistance is where the supplier is a SMME or BWO. This decision is based on the status of a supplier in terms of ownership and is not related to the service or product supplied by such a company.

The Government Gazette No 7501 (2002:5) calls for a monitoring programme to ensure that value for money was achieved and that supplier performance is measured. This in itself can be a tool to ensure that development towards improvement takes place. After all, if supplier performance were not measured, then how would one know what to develop?

The DTI's balanced scorecard makes provision for the measurement of the development function that a company demonstrates. Under the heading "Indirect empowerment score", a company scores up to 10% for "Investment in black owned and empowered enterprises as a proportion of total assets". Source The South African Mechanical Engineer Vol 54 (May 04:11)

In his article "Making Empowerment Work" (Finance week 31 March 04:13), Ajay Lalu, the Director of Empowerment Strategic Services at Ernest & Young, quotes the following as critical focus areas for empowerment to work:

- "Equity ownership;
- Procurement and supplier development;
- Skills transfer;
- Employment equity, and
- Corporate social investment."

Lalu ends the article off by saying that the focus of empowerment has to shift to the unlisted sector where smaller deals are done as the parties are less encumbered by gearing.

In their article Economic Empowerment, second revolution (Financial Mail 09 August 2002) Mahabane and Haffajee refer to the cabinet setting 2014 as the target date for “effective participation of black people in the economy, in terms of ownership, control and skilled occupations”. Although “Effective” is not defined, it does entail that programmes have to be put in place, and implemented, to ensure that the deadline is met.

Itumeleng Mahabane (Financial mail 06 Feb 2004) expresses his view on empowerment as follows: “*Empowerment is about managing risk,.....You can see risk as something to shy away from, and expend your energy and resources on doing this.*”

Eskom should utilise any energy currently focussed towards avoiding real empowerment towards the implementation of development programs for identified suppliers.

In her article “Economic Empowerment in Inner City Communities”, Yvonne Stafford states that small business development is an important component of economic empowerment all over the world. However, one of the problems facing these initiatives is the systems and mandates that are inflexible – often the rules and goals consider the advancement of corporate America rather than the small business being “developed”. She further warns that one should focus on economics and not politics. (New York Amsterdam news (Vol 95:13)

S Mbanjwa (2003:10-11) cites Latham and Mbanjwa as stating that projects may have secondary objectives. In the public sector, deliberate objectives should be set for the support of empowerment, training and or transfer of skills. In his study Mbanjwa (2003:42) points out that clients not only view time, cost and quality as important factors to the success of a project, but also provision of opportunities for development of PDI’s, SMME’s, emerging contractors and local communities.

Rogerson (Chapter 9:133), citing Manning (1996:63-67) as listing the key roles of SMME’s in South Africa as follows:

- Employment promotion;
- Economic redistribution and
- Enhancement of competitiveness.

One of the five objectives of the National Skills Development Strategy is to stimulate and support skills development in Small businesses. Indicator 18 of the Human Resources Development Strategy for South Africa further re enforces this. Skills Development for SMME sector. McGarth (2003:57) citing DoE and DoL (2001:17)

Cronje et al (2004:91) points out that a company like Pick and Pay spends 83 cents of every Rand on inputs from suppliers. Sasol is cited as spending 47 cents of every Rand on suppliers. Eskom is no different with around 27% of every Rand flowing out of Eskom directed at SMME and BWO suppliers. This figure rises to 78% if BEE suppliers are included. (See Chapter 4 for findings on 2005 figures.) 27% of spend in Eskom Transmission relates to large sums of money, thus making business sense from a financial point of view. This, in an effort to develop suppliers in such a market and build on Social Responsibility and legislation in South Africa.

Cronje et al (2004:560) list the following reasons for developing suppliers:

- Affirmative purchasing – the subject of this dissertation;
- Materials or services not available forcing a buying company to enter into an agreement with an existing supplier of similar products to develop a product to satisfy the need, and
- Normal performance appraisal identifying shortcomings with existing suppliers

2.3 Where should Development Assistance be focussed?

In order to focus any development assistance to potential and current suppliers, one has to identify the areas where skills are required. Cronje et al (2004:48) lists the following skills as important to the success of an entrepreneur –

- Knowledge about the industry and environment that they want to operate in;
- Management skills, such as
 - Strategy skills;
 - Planning skills;
 - Marketing skills;

- Financial skills;
- Project management skills and Human relations skills.

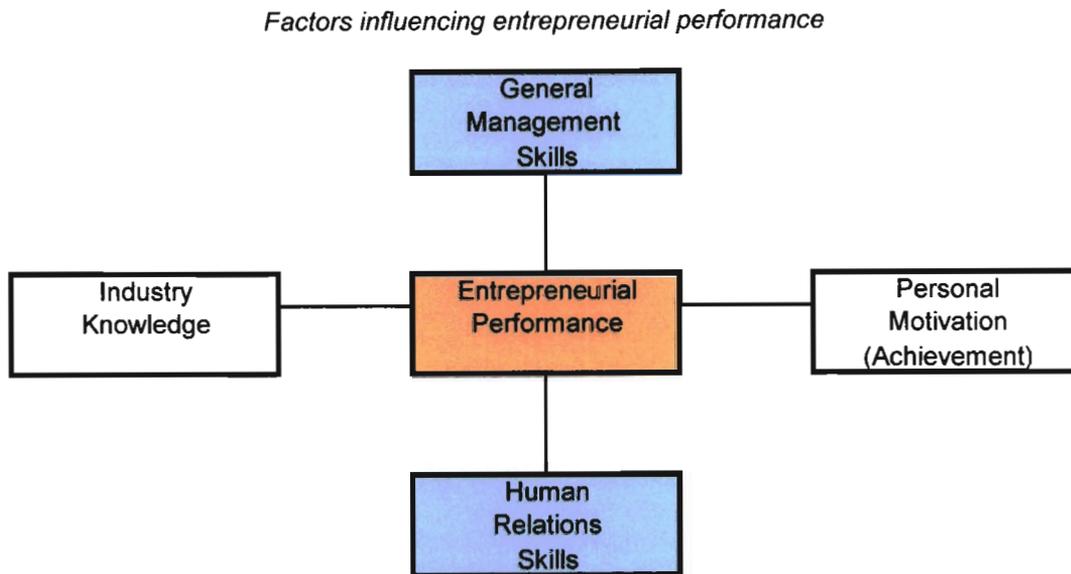


Figure 3 – Cronje et al (2004:49) - Factors Influencing Entrepreneurial Performance

From the figure above it is clear that the only two areas where Eskom could influence the development of a supplier is in general management skills and human relations skills. Focus on these two areas is a major contributing factor towards the performance of an entrepreneur. Personal motivation comes from the individual and knowledge of the industry needs to be a given before any individual decides to take up a specific business opportunity.

Eskom’s Directive “Supplier Management in Eskom” ESKADAAX1 Rev 0 dated June 1999 spells out the development of suppliers as follows:

“Development of Black or Black Empowering Suppliers is done according to the policy on Procurement from Black Suppliers (ESKADAAT6). Where it is deemed necessary to provide development assistance to a potential non-Black supplier, the parameters for such assistance will be set out by the procurement committee involved.

Development areas or areas for improvement are identified during the qualification and/or tendering process. Record is kept of the action required and an agreed time period is given to the supplier to develop to required standards.”

Eskom's Purchasing Pact with Suppliers - ESKADAAX7 rev 1 (1999:8) states that in order to facilitate the development of suppliers some of the requirements for qualification might be temporarily relaxed, although Quality requirements are not to be relaxed.

Transnet's ten-point plan to promote access for BEE enterprises lists as follows:

- Access to tender information;
- Tender advice centres;
- Review procurement procedure for contracts less than R7 500;
- Waiver of security/sureties;
- Break out procurement (packaging into smaller contracts);
- Early payments cycles;
- Preferences/targeting;
- Simplification of tender submission requirements;
- Appointment of a procurement ombudsperson, and
- Classification of building and engineering contracts.

During 2004, the National Treasury issued a Code of Good Practice for Black Economic Empowerment within the Public/Private Partnerships (PPP's), which lists a set of criteria that a BEE company will be measured against. One of the criteria is skills transfer, which is defined as follows: "*A credible plan for skills transfer within the consortium to directly benefit black professionals inexperienced in PPP's (may specify targeting of Black people within a geographical area)*". A PPP can score up to 40% on this rating alone towards BEE status.

Mbanjwa (2003:42-44) refers to a term "affirmative construction" as used by Thebe Bovis South Africa (Pty) Ltd. Affirmative construction is achieved through the breaking up of construction projects into smaller, manageable work packages. A suitable and experienced construction manager then manages each work package.

This technique creates an opportunity for smaller emerging contractors to take part in the construction project primarily due to the following reasons:

- A smaller scope of work can be managed easier by such a supplier;
- Less capital outlay;
- Local community can be involved for labour only contracts;
- Less of a need for performance guarantees or sureties – something that Mbanjwa found as one of the main barriers to entry into formal construction management, and
- Reduced risk to the client.

During his research Mbanjwa (2003:77-78) found that 88% of his respondents agreed that construction management was best suited to empowerment projects.

Some of the following reasons were cited for the above finding:

- More opportunities to involve SMME's due to less risk to the client. Each SMME selected can be an expert in his narrow field;
- The construction manager controls the project;
- Reduced exposure by the client to contractor performance risks;
- Allows mentoring of SMME's;
- Construction manager able to assist in the day to day management of the trade contractors (*skills transfer*), and
- No conflict between client, main contractor and sub contractor, leading to direct assistance given to SMME's by the Construction Manager.

The above finding is an important learning for Eskom Transmission as it highlights the relevance of the contracting environment when dealing with new and inexperienced suppliers, as well as breaking up of large construction projects in smaller, more accessible work packages.

Eskom should work closely with the Local Business Service Centres (LBSC). Rogerson (Chapter 9:138) lists LBSC's as an important vehicle for Supplier Development, stressing three points regarding such LBSC, namely:

- They provide first tier generic services to SMME's. These include business information and general business management advice. Such LBSC's need to develop their programmes to address the needs of the local entrepreneurs;
- The LBSC network is seen as a generator of mutual assistance and information on best practices, retaining responsiveness to local issues, and
- LBSC's have to be accredited with a mark of quality. The accreditation can be withdrawn should the LBSC not comply with set standards.

Rogerson (Chapter 9:143-144) concludes his research in saying that the support infrastructure should be demand driven rather than supply driven, the latter being a problem solving approach that focuses directly on the specific needs of different clusters or sectors of enterprises, as opposed to generic packages. Supply driven implies providing a "fit for all" or "one size fits all" type of support.

Development effort should be focussed on manufacturing and construction enterprises as their chances of survival are far greater than the wholesale and retail enterprises. This thinking is supported by McGarth (Chapter 5:56) whose research found that the age of manufacturing and construction companies were likely to be older than companies in the wholesale and retail industry, implying that their chances for survival are much greater.

McGarth (Chapter 5:58) also found in his study that enterprises run by people who had further education showed a greater entrepreneurial motivation. They were also more likely to receive financial assistance. Many of the respondents, interviewed in the survey by McGarth, cited formal education (apprenticeship or technical college / technikon education) as crucial factors to success in the manufacturing and construction industries.

The implication of this is that such enterprises are more likely to succeed and grow into prosperous companies. Development assistance given to such companies will thus have a greater effect on the SMME programme than assistance given to enterprises owned by

uneducated individuals. A certain minimum educational level should thus be considered for suppliers wishing to receive development assistance from Eskom Transmission.

Findings, conclusions and recommendations of research papers in training of SMME's are as follows: ((Nieman 1999:8-9), citing others)

- The training emphasis in most cases seems to be on conventional management rather than entrepreneurial skills -Ladcani (1999:70);
- Training that addresses daily running of businesses should be adapted to the different cultural groups - Mazibuko et al (1996:12);
- Training needs of people in the informal business sector is vastly different to those in more sophisticated sectors – Hirschowitz et al (1991:31);
- Available training concentrates on commerce and services with little training for market related production – De Waal (1997:12);
- Small business training must be closely related to the small business environment and not based on the management of large enterprises – Govender (1991:326);
- Trainers / educators need to be sufficiently aware of African cultural issues, particularly in the rural areas where traditional knowledge, shared values, attitudes and beliefs exist – Smets (1996:182);
- Simple training sessions with small segments of on going, hands on type training where trainees participate and discuss business matters of mutual concern would seem to have the best results – De Waal (1997:16);
- The trainers must ideally have had business experience, be supportive towards the trainees and preferably speak their home language – De Waal (1997:16), and
- The proliferation of training institutions and courses which could be relevant to SMME entrepreneurs are often the result of a supply approach than based on the needs of the entrepreneurs themselves – Bezuidenhout (1996:11).

Cronje et al (2004:120) lists the following causes of failure amongst businesses:

- 40% - Managerial incompetence;
- 30% - Lack of leadership;
- 20% - Lack of managerial experience, and
- 10% - No industry knowledge

Development assistance has to be focussed at managerial and leadership skills and experience in order to have an impact on the success of businesses.

Cronje et al (2004:481) classifies customer needs into 6 different categories, these being:

- High Quality;
- Low cost;
- Shorter lead time;
- Flexibility;
- Reliability, and
- Better overall service.

Using the operations model, according to Cronje et al (2004:481), advantages could be obtained in all 6 these areas, simplified as:

- Do things right the first time;
- Do things cost effectively;
- Do things fast;
- Change things quickly;
- Do things right every time, and
- Do things better.

A structured approach to the development of suppliers, using methodologies such as the operations model is an option to Eskom Transmission.

2.4 What are the Obstacles to Developing Suppliers?

Eskom Directive “Procurement of Assets, Goods and Services”, ESKADAAB0 rev 2 (1999:3) refers to the quality standards applied to and included in the enquiry document. Only two standards are referred to, firstly ESKASAAU7 – an internal Eskom Document and then the SABS/ISO9000 series. Transmission however has a Transmission specific Quality requirements document under reference TRMASACQ9. The implication of this is that suppliers have different standards to adhere to when doing work for different Eskom Divisions.

Eskom’s Purchasing Pact with Suppliers, ESKADAAX7 rev 1 (1999:9) allows any supplier to be included in the tendering process, provided that there is enough time to be qualified. The implication that this has on the development of a supplier is that the tender list keeps on growing all the time, thus preventing a supplier from being considered as a “long term” development candidate. The Pact makes it very difficult for the Supplier Development function to engage in a “partnership” with one supplier in order to facilitate the development programme.

In her article “Compliance too taxing” Judy Hudson (Finance week, 28 Jan 04) the author argues that compliance to the various taxation requirements is counter productive to the prosperity of SMME suppliers. The following quotes are a good summary of the article *“SME’s should concentrate on creating jobs rather than filling out forms”* and *“Present arrangements require all businesses to act as unpaid tax collection agents for Government.”*

She ends the article off by saying that the ultimate aim should be to reduce the compliance burden to allow SME’s to get on with the job; after all, they are South Africa’s best hope for job creation. Cronje et al, cited earlier in this document, supports this fact.

Charles Godfrey, partner in charge of Deloitte & Touche’s business equity initiative (Finance week 12 Feb03: 46-46) warns against the proliferation of charters that will complicate matters even further for companies wanting to operate in different industries. He recommends partnerships between Government and the business, funders and trainers.

Lynda Loxton quotes a survey done in Oct 2004 by the American Chamber of Commerce on 65 US firms employing 100 000 people (US firms express concerns over BEE – 14 Dec 2004). This study revealed that the concern over crime and personal safety in South Africa have been overtaken by the fear of being forced into BEE deals. 74% of respondents indicated that localised equity ownership negatively affected investment decisions. It is thus very important that equity ownership is not driven at the cost of foreign investment, which in turn leads to job creation. Clear goals and objectives would go a long way in putting foreign investors at ease.

Burt et al (2003:54) further lists the following characteristics as common to many well-run diversity programs:

- Top management support;
- Goals;
- Monitoring;
- Training;
- Support;
- Contracts;
- Feedback;
- Diversity co-ordinators;
- Evaluation, and
- Corporate culture

Without the above in place, diversity programs will not run smoothly and energy will be wasted in the wrong areas. The current practice in Eskom of continually adding suppliers to the database makes it very difficult to give every supplier training, monitoring and or a contract.

Cronje et al (2004: 237) lists the following important laws or acts that are applicable to business in South Africa. If it is not difficult enough to try and make, market and sell his product, an entrepreneur needs to ensure full compliance to the following:

- Insolvency Act 24 of 1936;
- Merchandise Marks Act 17 of 1941;
- Pension Funds Act 24 of 1956;
- Business Names Act 27 of 1960;
- Income Tax Act 58 of 1962 as amended;
- Capital Gains Tax (Section 26A of the Income Tax Act);
- Sales and Service Matters Act 25 of 1964;
- Usury Act 73 of 1968;
- Companies Act 57 of 1978;
- Copyright Act 98 of 1978;
- Protection of Business Act 99 of 1978;
- Credit Agreement Act 75 of 1960;
- Close Corporations Act 69 of 1984;
- Consumer Affairs (Unfair Business Practices) Act 71 of 1988;
- Banks Act 94 of 1990;
- Value Added Tax Act 89 of 1991;
- Aliens Control Act 96 of 1991;
- Trade Marks Act 194 of 1993;
- Designs Act 195 of 1993;
- National Road Traffic Act 93 of 1996;
- National Small Business Act 102 of 1996;
- Counterfeit Goods Act 37 of 1997;
- Non-profit Organisations Act 71 of 1997;
- Compensation Act 89 of 1998;
- National Environmental Management Act 107 of 1998;
- Promotion of Access to Information Act 2 of 2000;
- Promotion of Equality and Prevention of Unfair Discrimination Act 4 of 2000;
- Protection Disclosures Act 26 of 2000 (Whistle – blowers);

- Electronic Communications and Transactions Act 25 of 2002;
- Occupational Health and Safety Act 85 of 1993;
- Compensation for Occupational Injuries and Diseases Act 130 of 1993;
- South African Qualifications Authority Act 58 of 1995;
- Labour Relations Act 66 of 1995;
- Basic Conditions of Employment Act 75 of 1997;
- Employment Equity Act 55 of 1998;
- Skills Development Act 97 of 1998;
- Skills Development Levies Act 9 of 1999, and
- Unemployment Insurance Act 63 of 2001.

An opportunity exists for training on, if not simplification of, the above acts to new suppliers. The need for suitable, well-trained Eskom staff to give advice is critical to the success of any development program.

Rogerson (Chapter 10:284-285), in his research towards the problems facing rural SMME's, found the following disadvantages that rural SMME's have compared with their urban counterparts:

- Rural SMME's operate in a sea of poverty and unemployment – 69% of households in rural areas are poor compared to 27% in urban areas;
- In comparison, a higher proportion of survivalist SMME's operate in rural areas than urban areas. This also leads to limited opportunities for growth and employment;
- They face a backlog in infrastructure development. Only 13% of households in rural areas have water and electricity;
- They operate in an environment where wealth flows out to larger urban centres;
- Remote areas lead to reduced markets, and
- Little institutional support as compared with their urban counterparts.

This finding is relevant to the study in that it highlights the need to handle rural suppliers differently to the suppliers based in the larger cities or commercialised areas.

McGarth (Chapter 5:62-63) found the following in his research:

- Only 1 in the sample of 100 companies interviewed attributed their own skills to mentoring by experts;
- 51% of respondents indicated that they had sufficient skills to improve their business performance. 78% of respondents in the construction industry thought their skills were sufficient;
- Respondents felt that marketing skills are not important. The reason for this, the researcher feels, is because the enterprises do not understand enough about marketing;
- Owners in the construction field listed skills in the handling of finances, staff and tendering among their greatest concerns;
- Many owners interviewed stated that they attended formal training sessions. The knowledge that they gained, they cascaded down to their staff via on the job training. The researcher, however, warns against skill dilution over time with this practice;
- Most owners interviewed stated that they could not spare the time for them or their employees to attend formal training. A lack of funds was also provided for reasons why training does not take place; they can either not pay for the training or cover lost production. In a company with five employees it is very difficult to operate when two employees are attending training;
- On the job training is by far the most popular form of training;
- A number of studies across Africa found that informal training cannot introduce new skills and technology into an enterprise.
- A large number of respondents showed an almost complete ignorance of SETA and their workings;
- A small number of entrepreneurs indicated that they found registering with the SETA problematic; either the SETA was uncooperative or lacked the knowledge to answer their questions;
- Only 9% of the entrepreneurs reported having received any grants from their SETA. This was in the wholesale and retail sector and was for costs associated with food allowances while on training, and
- The main reason for not claiming grants was a lack of knowledge.

Nieman (1999:3) stresses the need for the diversity of South Africa in terms of people, cultures, languages and religion to be considered when developing and presenting entrepreneurship education and training interventions. Government, individuals, NGO's and CBO's are cited as the main role players in the provision of training to entrepreneurs.

One of the key arguments in research of the failure of skills development has been the lack of policy adherence - McGarth (2003:57-58). The author continues to say that what makes things worse is the state of the institutions that are supposed to take the fragmented policy and turn it into practice. The following findings are listed in the article:

- State departments and support agencies – poor performance, lack of consistency in policy and role clarity seem to be the order of the day;
- Wide range of support and provider institutions. The article suggests that progress has been made in this field with the establishment of the SETA's, the increase in the number of service providers as well as the merging of technical colleges. There has been little in the way of co-operation across South African education, training and enterprise development organisations, and
- Organisations designed to represent small businesses have been slow to emerge, especially if compared to other African countries. The most visible sign of failure has been the abandonment of the 1995 White Paper's proposed National Small Business Council

2.5 Various Perspectives on the BEE Program

In an article that appeared in the Enterprise magazine (April 2003:14) by Malcolm Ray the author draws a direct link between an unstructured BEE policy and the enrichment of a few Blacks and the marginalisation of many. Alex Erwin is quoted as saying that the current BEE deals up to now have favoured a few Black and White suppliers, the Broad Based Black Economic Empowerment (BBBEE) policy is intended to broaden the empowerment base to small businesses. Mr Erwin goes on to say that one way of growing (developing) a small supplier is to give them the opportunity to take part in business.

The latest BBEE policy views black business development as an integral package of measures to promote the country's national socio-economic agenda. Empowerment has as its aim the transfer of shares from white to black to go hand in hand with development of SME's and job creation.

Of interest is the comment that large BEE's have failed to support SME's, a weakness of the recent empowerment experience. Mr Moshapalo is quoted as saying that many such companies have taken their money out of the country to London and New York. He says that we need to seriously look at supporting SME's that are genuinely committed to staying and contributing to growth and development

In Finance Week (20 Oct 2004:40) the CEO of Sanlam is quoted as saying that current legislation and practices place too much emphasis on ownership rather than addressing the aim of empowerment, that of correcting the distortions of the past. Mr van Zyl believes empowerment should stretch over all the spheres – from buying and investment to personnel and social investment.

In Finance week (4 Aug 04:17), Stephen Mulholland warns against losing more skills and entrepreneurs through instructions to share the results of their efforts with others, simply based upon skin colour. This statement is made in light of the fact that, according to the author, "raw census figures" were used to base BEE policies on. What he means by this is that figures such as "Black as a percentage of total population" were used to determine job allocation targets, whereas "Blacks as a percentage of the economically active population" would have been a more accurate and realistic target. This is said against a background that there are many people either too young or too old to be actively involved in the mainstream economy of the Country.

Finance week (5 July 02:35) Andy Brown, the Director Department of Trade and Industry warns against setting quotas in BEE as this might force role players to merely comply with figures rather than promoting real issues such as skills transfer and human resources development.

In the Finance week of 30 July 2003, Colin Reddy the director of empowerment at The BusinessMap foundation says that smaller white owned businesses are very important role players when it comes to skills transfer, job creation and the number of black staff employed.

Lionel October, Deputy Director General of the Department of Trade and Industry said that one of the main principles underpinned by the Government's BEE strategy is firstly increasing the number of beneficiaries that can benefit from empowerment and secondly skills development and enterprise development. Mr October was quoted by Finance week (10 Sept03: 23) from his speech made at the GIBS (Gordon Institute of Business Science) forum.

In an article "New Tourism BEE Charter Welcomed" in the Finance CustomWire 09 May 05, the Southern African Association for the Conference Industry (SAACI) expresses their excitement towards the fact that the charter does target small businesses. The reason for this is that the minister (of tourism) noted concerns that the charter might have had negative effects on the tourism industry.

The above findings and statements highlight the need to continuously measure and adapt BEE programs in order to ensure that maximum benefit is derived from it. Should a specific initiative prove not to address the intentions or needs, it must be adapted or stopped.

David Furlonger, in his article Black Economic Empowerment – Looking forward to Natural BEE (Financial Mail 08 August 2003) quotes Siemens as saying that they are not interested in companies with figurehead black equity, nor those where skills are not transferred to black employees.

Greta Steyn, in her article in the Finance week of 13 April 2005 refers to a study done by Webber, Wentzel, Bowens for Finance week. The following bulleted points are taken from the report (compares figures of 2003 with 1996 figures):

- The per capita shareholding of blacks has decreased;
- The report suggests that SA is not making any progress on the empowerment front, stating that the key to true empowerment lies in the creation of formal sector jobs. This will enable blacks to become members of pension funds;

- Members in pension funds will increase indirect black shareholding in listed organisations where such pension funds own shares in the listed company;
- The number of formal jobs has decreased, thus decreasing the number of blacks that are members of pension funds. 16,4% of blacks were employed in 1996 versus 13.7% in 2003;
- Though the value of shares held by blacks in JSE listed companies has increased, the number of people that own the shares has in fact decreased, and
- The report asks the question whether legislation (BBBEE, Employment Equity Act and Labour Relations Act) has not been counterproductive in that it has increased the inequality of wealth.

Saki Macozoma, Cyril Ramaposa, Patrice Motsepe and Tokyo Sexwale make up South Africa's leading quartet of black businessmen. The Economist (vol 373:44) quotes Mr. Macozoma as saying that there are not yet enough black businessmen among which such opportunities could be spread. He is quoted as saying that the only practical and effective instrument that will reduce white dominance of the economy is the move of chunks of it into the hands of a few, like himself.

The article further states that "others" want to scrap race based policies altogether. Rather than argue about the distribution and sharing of wealth people of all races should be encouraged to create more wealth and jobs.

Watson Ladzani, an academic at Technikon South Africa, is quoted as saying, "*there is a view, within all racial groups, that BEE has benefited an elite that is connected to the ruling ANC*". Gqubule and Duma (Neither Black nor White - Institutional Investor – International Edition Sept 04)

The authors of that article further quote Les Maasdorp, a director at ABSA Bank as saying that BEE is more than equity ownership. He sees the BEE Act as an "*insurance policy against the narrow enrichment that happened in Russia*"

Yvonne Stafford, in her article "Economic Empowerment in Inner City Communities" that appeared in the New York Amsterdam News of 19 Feb 2004, refers to the current failure rate

amongst black businesses in America. She attributes this to “failed empowerment”, saying that they need to change the “economic development” upside down and look at their culture for solutions to the situation. Ms Stafford remarks that they should go back to basics and practice “Ujamaa” (Co – operative economics). The “slogan” of Ujamaa is “*To come together to build and maintain our own stores, shops and other businesses and to profit from them together*”. Two of the affirmations that seem very relevant are:

- I will reach out to others with co-operation, and
- I will use my talents in co-operation with the talents of others so together we may prosper.

The Oppenheimer family is quoted in an article “Promoting BEE via tax breaks” (Business Africa, 1-15 October: 5) as saying that in the short to medium term government should focus on rewards for supporting BEE rather than focussing on the risks.

This is a form of Appreciative Inquiry (J Magruder Watkins and D Cooperrider, *Appreciative Inquiry: A Transformative Paradigm* 2000:1). Appreciative Inquiry is an articulated theory that rationalises the habit of positive thinking rather than negative (Glass half full versus glass half-empty). Social science research has proven the power of generative images to create a world of hope and prosperity.

Tax breaks are also mentioned by the Oppenheimer family - companies moving fastest with BEE would receive the biggest incentives whilst those not making progress with BEE should be penalised. Iraj Abedian, an economist at Standard Bank, however warns that the country’s skills shortages are much more important constraints that need urgent attention.

South Africa Quarterly Forecast Report, 2004, 1st Quarter. Chapter 1: Political Outlook. This article states that the Governments BEE programme is more likely to have an impact on the Black middle class with a relatively small impact on the lower skilled where the most pressing need is education and training on a large scale.

Sven Lunsche (2005) states in his article in the Financial Mail that Eskom has one of the most impressive credentials when it comes to BEE. He quotes an expenditure of R8bn out of a total

of R18bn on BEE companies in the 2004 financial year. He further quotes Mr Mamorare, the Commercial General Manager as saying that the database consisted of 9000 active SMME's, some of which have been developed by Eskom and rely almost exclusively on work from Eskom. This statement could raise the question as to the sustainability of these companies should they not win a future tender with Eskom. The author of the article raises the question whether the BEE programme has been successful, as many critics believe a business like efficiency has not been infused amongst the supplier base. In this statement he supports the fact that many of the SMME's still rely heavily on State Owned Enterprises for the bulk of their work.

In the 2004 financial year Eskom spent 52% of all discretionary spend on BEE suppliers. Discretionary spend is defined as all money leaving Eskom, excluding monies paid to Eskom Enterprises Divisions as well as Primary energy (coal, water and nuclear fuel). The 52% equates to R5bn. Mr Mamorare is quoted in the article "Effective Tool For Change" as saying that 60% of this money went to SMME suppliers, R800m on BWO's alone. (Sven Lunche 2004).

The percentage split in terms of spending for the Transmission Division will be dealt with in another chapter of this document.

In his article Siyabonga Ndabezitha (2005), Business Unity SA (Busa) is quoted as saying that the new code of practice released by trade and industry is moving away from measuring equity ownership only by realising that empowerment, transformation and economic growth are all interlinked.

Busa cautions against not considering diversity between businesses and their differing sizes. Making a code too inflexible could lead to practices that might hurt the economy. They further propose a system of bonus points for small companies to prevent such companies having to maintain more than one scorecard. This they say will not stifle entrepreneurship amongst small businesses.

In her article, "Black Empowerment, Still Not Happening", Duma Gqubule (1999) warns against only looking at the raw figures of listed companies when assuming that BEE has

worked. She states that although (at the time) 25 of the 682 listed companies are black controlled, and a further 87 have black influence, this has to be considered in light of the fact that most of the funding for those companies come from SPV's. To quote her, "*the financial institutions have only leased these assets to us. They will soon be coming back to reclaim possession of what is theirs*". This would make a case for development of SMME companies even greater. In an SMME the Black owner can own the equity shares in his company and no one can lay claim to that.

Government is confident about the aims and principles of BEE, the mechanism however is an area that still needs to be addressed. Potential investors do not like the uncertainty, business owners complain about the unrealistic targets but at the end of the day the BEE programme is paying off dividends in the form of a booming property market, record car sales and widespread consumer spending. The effect of BEE can also be seen in the emergence of a class of Black capitalist barons as well as a growing Black middle class (Williams and Theobald (2005)

Patrick Wadula (2005) quotes Brenda Madumise, the chairperson of Khomelela, as calling for an index to measure the economic up-liftment amongst woman in South Africa. There is a lack of statistics around this area she says (Eskom has started to report BWO spend). The fact that 52% of the population are woman, with half of them living in the rural areas would be the challenge to any BWO programme. The dynamics around moving people from the place that they grew up in has to be seen against the potential improvement in their lives, should they become economically active.

Of just as much importance is the fact that 21% of women over the age of 20 were illiterate. Using these percentages in conjunction with the Statistics SA census figures for 2001, reveals that South Africa could be sitting with more than 5 million illiterate, economically active (age group 20 to 64) women.

Rogerson (Chapter 9:132-133) draws the attention to the fact that South Africa's SMME economy includes Small, Medium and Micro Enterprises. This is in contrast to the norm where focus is either placed on micro and small or small and medium enterprises. The South African definition thus includes a large survivalist sector. It is thus important to distinguish

between three categories of enterprises, as the way they are treated should be different. The three categories, according to Rogerson, are:

- *The survivalist sector.*
 - These operate in the informal economy;
 - Usually they are unemployed due to limited prospects of employment;
 - Income falls short of minimum standards;
 - Little capital invested;
 - Minimal skills' transfer
 - Insignificant prospects for growth into a viable small business enterprise, and
 - An estimated 2.5 million businesses exist in this sector.

- *The micro enterprises.*
 - Owner, family members and at most four employees;
 - Frequently escapes formalities associated with business registration and licensing;
 - Usually basic business skills or training are required;
 - Many of these micro businesses can change into viable formal small business, and
 - 800 000 businesses amongst micro and Small and Medium Enterprises are existent.

- *Small and Medium enterprises.*
 - These form the basis of the formal SME economy;
 - Small enterprises have between 5 and 100 workers;
 - Medium enterprises have between 100 and 200 employees;
 - Usually owner operated and managed;
 - Operate from fixed premises, and
 - Bears all the trappings associated with formality.

Based upon the above, it is important for Eskom to recognise the class of enterprise it wants to support and direct focus on. Although the Eskom policy refers to SMME (Small, Medium and Micro enterprises) it essentially has as its aim to support the Small and Medium enterprises. Clearer communication regarding this fact could lead to less confusion and inappropriate expectations amongst micro and survivalist operators. This comment is supported by Rogerson (chapter 9:133) where the writer states that the majority of Micro

enterprises will remain poor, being trapped in casual jobs with little prospect of escaping the struggle of a meagre survival.

McGarth (Chapter 5:57) found in his research that the prospects for enterprises motivated by push factors (unemployment, poverty, etc) are far less than those for enterprises motivated by pull factors (business idea, entrepreneurial motivation, etc). Those motivated by push factors are likely to populate the survivalist end of the market.

Rogerson (Chapter 9:132-133) further draws distinction between the group of established formal SME's and the group of emerging SME's as follows:

- *Established / formal SME's*
 - Largely white owned (sometimes Asians)
 - Operates in urban areas, particularly in larger cities

- *Emerging SME's*
 - Mainly under Black or Coloured ownership
 - Operates in urban townships, informal settlements and rural areas

Today, more than 1000 universities, technikons and colleges are presenting courses in entrepreneurship. In 1975 the figure was 50, 117 in 1979, 263 in 1983 and 416 in 1986. (Nieman, 1999:5) citing Timmons and Kent.

Rogerson (2004:765-766) in his review on the last 10-year's performance found the following: (*Note: During late 2004 the DTI has released a new focussed strategy in response to the disappointments that have arisen from the experience over the period 1994 to 2004*)

- Few figures available about the impact and performance of government support on the economy as a whole;
- There is a notable discrepancy between Ntsika figures and StatsSA figures, i.e. Ntsika reports between 1,1 to 1,2 million SMME's (2001) whereas StatsSA estimates approximately 2,3 million people with at least one VAT registered business;

- Most SMME's are micro or survival enterprises that contribute little to the national employment creation. The medium sized enterprises are the most dynamic in terms of creating jobs – Berry et al (2002);
- The number of SMME's is by no means an indicator to the number of the jobs created as a result of the government's programme;
- A potentially useful indicator of success would be the number of SMME's that have shown signs of survival and long term growth, as indexed by the expansion in the number of their employees;
- Net employment growth in jobs within the SMME economy is as a result of the growth in the number of SMME's rather than the expansion of existing SMME's in terms of the number of employees – Kesper (2001:177), Chandra et al (2001) and Berry et al (2002:27);
- Employment creation in the micro economy plays a particularly important role in terms of income generation and poverty alleviation. This is not necessarily due to any government programme or intervention but rather a default option for household survival – born out of the poor performance of any formal intervention by government and other role players – Dorfling (2001:93) and Driver et al (2001);
- The following groups have been beneficiaries:
 - Larger SMME's – Berry et al (2002:43);
 - Exporting or high growth SMME's, and
 - Urban based SMME's.
- There is a lack of knowledge or access to support services – Berry et al (2002:38);
- There is a need for clear priorities or development objectives from government; these are cited as “reasons for failure”. The government's priorities are:
 - Economic – competitiveness;
 - Welfare – poverty alleviation, and
 - Political – Black Empowerment – Rogerson (1999), Qualmann (2000), Dorfling (2001:109) and Kesper (2002).
- Government's support has focussed on formal small and medium sized enterprises with a corresponding relative neglect of survivalist enterprises – Rogerson (1999);
- Clear priorities within groups need to be set, be it:
 - more efficient promotion activities towards the more productive SMME's, or

- to assist survivalist, mainly black run endeavours better - Berry et al (2002:97);
- Rogerson (2004:781) ends by making the following key conclusions concerning data inadequacies and the performance of government's SMME support programme for the period 1994 to 2003:
 - Official data on the actual number of SMME's, performance and impact on the drive are scarce and generally weak;
 - Indicators on the success of SMME's in terms of growth regarding employment opportunities are absent;
 - Data on growth in enterprise numbers as an index of the success of government's programmes are unreliable;
 - There is no useful spatial data on the SMME economy;
 - Little contribution of SMME's towards employment creation as most SMME's do not grow, and
 - Existing government programmes have favoured medium and small enterprises, neglecting micro and survivalist enterprises.

Nullis (2005) quotes Jeurgen Schrempp, the CEO of DaimlerChrysler as saying that government should communicate its policies around Black Economic Empowerment better to the outside world. This will help clear up any uncertainties and help to promote South Africa as a potential investment country. The current feeling among investors is that there might be a risk in South Africa because of Black Empowerment.

In a study done by the Business Report (Mzwandile Faniso, Parastatals Faced With Reality Of Fronting, Business Report, 18 April 05) amongst various Parastatals it was found that fronting, even though unethical, is so difficult to detect that state owned enterprises are finding it extremely difficult to detect. The writer claims that fronting could thus well be with us for years to come.

The study found that Eskom was the only state owned enterprise that had a definition for fronting, this being:

“A company becomes a front when, amongst other things, black partners are given shares without paying for them, the black company uses the non black surrogate company’s infrastructure without paying for it and the black partner makes no meaningful contribution to the day to day running of the company”

According to the study the current method of checking a shareholder’s certificate might not be very effective.

Brichi (2004), summing up the 89th Annual International Supply Management Conference, states that inclusion of minority suppliers (BEE suppliers in South African context) is becoming the latest trend. The company, ChevronTexaco is quoted as showing a \$1.8 bn savings, through strategically sourcing over 30 key commodities, including those from diversity suppliers. ChevronTexaco deployed the following processes for the inclusion of diversity suppliers:

- Insuring that diverse suppliers were included in early source lists;
- Selecting sourcing strategies that aligned with supplier diversity strategies;
- Negotiating aggressively with diversity suppliers following RFI / RFP stages, and
- Developing supplier management and integration processes and KPI’s to ensure successful and sustainable inclusion of diversity suppliers following the strategic sourcing process.

ChevronTexaco further drives second tier support of diversity suppliers in that they encourage their main suppliers to cost effectively sourced goods and services from such suppliers.

The above success at ChevronTexaco is important for Eskom and South Africa as it proves the ability of BEE suppliers in taking part in strategic supplies, and not merely taking part in non tactical activities.

2.6 Conclusion

Chapter two is devoted to the review of literature available from various authors on the subject of the study.

A lot is being said about Black Economic Empowerment in South Africa, but one theme seems to keep emerging – that BEE has not truly managed to realise government’s objectives for the program, i.e. job creation, eradication of poverty and skills transfer.

Good practices, pitfalls, focus areas as well as general opinions of various authors and studies have been considered during this chapter.

The literature reviewed will be considered during the remainder of the dissertation. This will be done in an attempt to incorporate prior lessons learned in terms of both improvement opportunities as well as pitfalls.

Chapter three will focus on the research methodology.

CHAPTER 3 – RESEARCH METHODOLOGY

This chapter details the methodology used by the author to obtain data in support of, or against the perspective that the BEE program was not 100% effective in Eskom Transmission in terms of fostering sustainable businesses.

As stated in Chapter one, the subject of this study can be seen as a complex system in that it contains a large number of elements with many interactions between these elements. On the one hand one would have suppliers who have a desire to engage in business with Eskom Transmission and maximise profits. On the other hand you have Eskom employees who need to ensure the best value for money to Eskom, yet at the same time adhere to Eskom's policies regarding procurement from black suppliers. A third element is the South African government's drive to support BEE in an attempt to eradicate poverty, create job opportunities and allow for skills transfer to previously disadvantaged individuals.

The fact that the current state evolved over a long period of time further adds to the complexity of the system.

Extensive use of books, journals, magazines and articles were made. The literature review was not limited to South Africa only but information from other countries was also studied.

Firstly, the current Supplier Management Process in Eskom Transmission would be interrogated and mapped out in an effort to try and identify shortcomings.

A multi-method empirical survey was used in the form of electronic questionnaires, interviews with suppliers as well as the interrogation of the SAP database. Not only did the questionnaire allow for structured questions to be posed to respondents, but it also kept the response time to a minimum. Email would allow the responses to be returned within two weeks. Although a response rate of around 30% was expected, based on previous experience, a 19% response rate materialised with this study. Structured questions further ensured focus in answers received.

A balance had to be obtained in the surveyed population. For that purpose responses were sought from various Transmission employees in different phases of the supply chain, as well as different geographical areas. A number of people from other Divisions in Eskom were then also included in the study.

Lastly, the SAP database information was included to depict some statistics and support some of the findings of the survey. SAP database information was mostly limited to the period 2002 to 2005.

This approach, literature review, analysis of current situation, survey and database interrogation would provide an opportunity to develop a holistic view of the system and its components.

This study was made possible through the researcher's participation in the Supplier Management section as manager and advisor over a number of years.

3.1 Analysis of Current Supplier Management Practices in Eskom Transmission

In an attempt to fully understand the problem an in depth analysis of the current supplier management practices was carried out in Eskom Transmission. This was done through consultation with the process owners as well as from the author's own personal experience in the section over a number of years. The QASM Business Management System was also reviewed and added to the findings.

3.2 Questionnaire Design

The questionnaire was designed with the aim of establishing the current practice, as well as the viewpoints of various role players on the development and success of SMME/BWO suppliers. Structured questions would allow focused replies from respondents.

A rehearsal was done with the questionnaire by sending it to 10 selected people in the Transmission Commercial environment. Responses to the draft questionnaire were used to finalise the questionnaire used for survey purposes. The response rate to the dry run was 50% for a response time of three days given.

The questions aim to address the three key areas of the program, those being:

- **People** – Eskom’s policy on the procurement from black suppliers is very sensitive in that it gives preferential treatment based upon race. The author further suspects that most people implement and adhere to the policy mainly because it affects their own pockets at the end of the day – in the form of bonuses, etc.
- **Processes** – The current processes should be tested to ensure that it promotes the support of the BEE program with minimal energy wasted on ineffective and inefficient processes. An example of this would be the current Eskom policy that states that all suppliers should be given the opportunity to be listed as a supplier. This creates expectations amongst suppliers in that inclusion into the database is often seen as a guaranteed invitation to tender. The SAP database interrogation will further support this perspective.
- **Systems** – Eskom Transmission has, together with the rest of Eskom, implemented SAP as its ERP system, and thus relies upon SAP to manage the supplier database, including the BEE program requirements. Shortcomings in the system, in the author’s experience, is the fact that the system is not very user friendly and retrieving information from the system is often difficult, resulting in users bypassing the system.

The questionnaire was disseminated amongst Eskom Transmission employees involved in various processes of the supply chain. All employees included in the list have in some or other way involvement with BEE suppliers, be it contracting, project management or recipients of the service / product. The targeted audience further represents all the provinces in South Africa.

To allow the author to compare Eskom Transmission results of the survey with other Divisions in Eskom the questionnaire was further disseminated amongst relevant role players in the other Divisions of Eskom.

The numbers look as follows:

Area	No send out	Responses
Transmission Commercial	24	} 19
Transmission Projects / end users	52	
Transmission Grid end users	26	
Other Eskom Divisions	28	6
Total	130	25

Table 2 – Electronic Questionnaire Statistics

3.3 Interviews

Interviews were performed on selected SMME and BWO suppliers to assess the views of relevant suppliers on the effectiveness of Eskom's policy on procurement from Black suppliers. Specific emphasis has been placed on the Transmission implementation of the policy. All interviews were conducted by the author, at the supplier's premises. Questions included in the interview sheet are thus aimed at trying to establish opinions as well as to understand the worldviews of individuals.

Interviews were included in the research as the suppliers play an integral part of the process, being one of the key role players. Their expectations might also differ from the intentions of the Eskom policy.

The results of the interviews are all subjective and are based on the opinions of the interviewees. Past experiences, as well as expectations that were not met, might have had an effect on the responses by suppliers.

3.4 SAP Database Analysis

The SAP database was examined by analysing various data sets related to the BEE programme for the years 2002 to 2005.

Limitations in the SAP database were acknowledged and therefore some assumptions were made based upon the author's experience with the BEE programme as well as Supplier Management in Eskom Transmission.

3.5 Conclusion

Chapter 3 of the dissertation focussed on the research methodology used to generate the data for analysis. An inclusive method of data collection was used in order to gain the views of all role players as well as explore all inputs to the system.

Chapter four will focus on the findings of the survey and analysis of said data.

CHAPTER 4 – FINDINGS

Chapter 3 focussed on the Research design and the reasons for selecting the various methods of information gathering and research. This chapter details the findings of the survey in the following categories:

- Current Transmission supplier management process with its various stages
- Responses from Eskom Transmission, as well as other Divisions to the electronic survey performed - questionnaires.
- Synopses of the interview findings
- Results of the SAP database analysis

Significance of findings is highlighted throughout the chapter where imperative. Analysis of the findings is included in this chapter of the dissertation.

4.1 Supplier Management in Eskom Transmission

The author's extensive experience in this Department as well as interviews with the process owner and staff were used to capture the current Supplier Management process in Eskom Transmission. The processes are divided in accordance to the Transmission QASM Business Management Manual, and are represented as follows:

4.1.1. Department Structure

The responsibility for supplier management and evaluation lies with the Quality Assurance and Supplier Management Section (QASM). The QASM manager reports to the Supply Chain Manager who in turn reports to the Commercial Manager. The entire function resides under the Finance and Business Support Department, under

leadership of the General Manager Finance. The General Manager Finance reports directly to the Divisional Executive Director.

The organisational structure for QASM is reported as follows:

E3

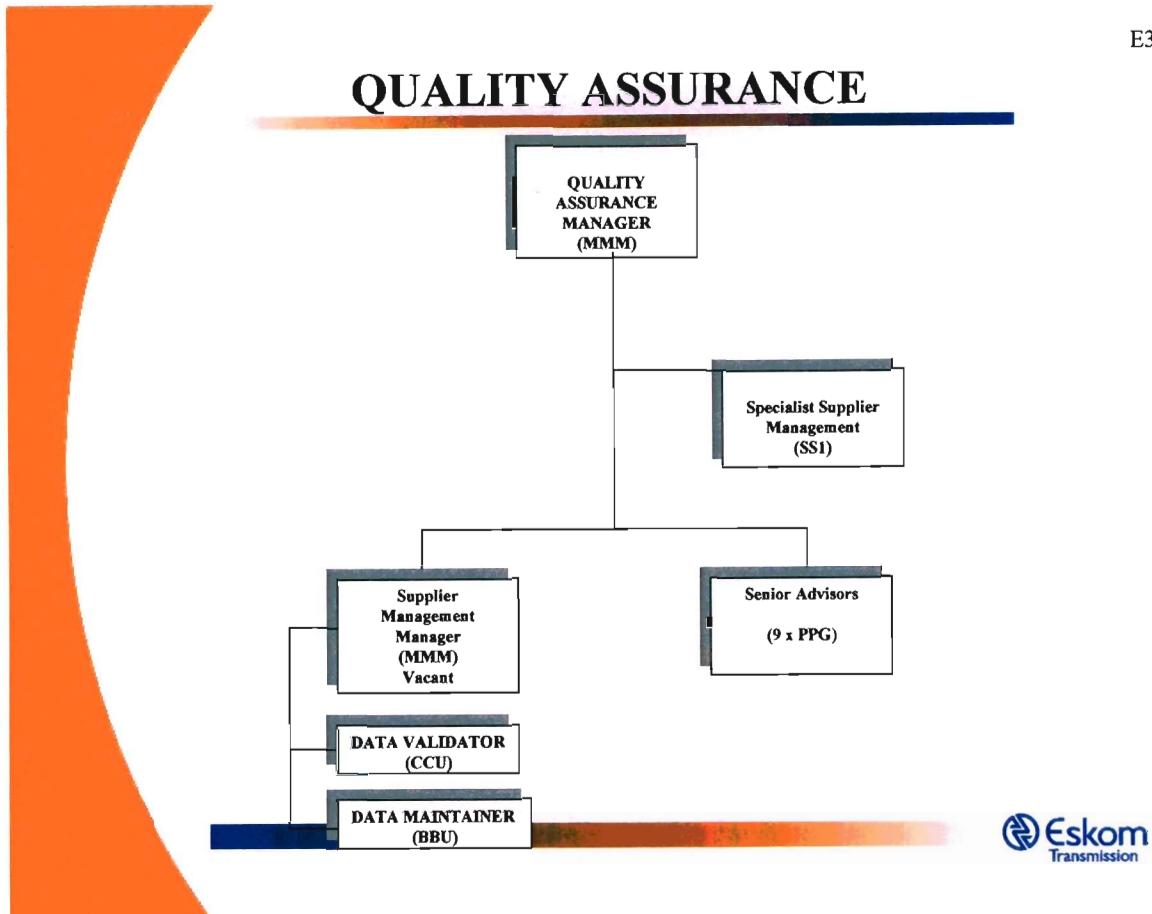


Figure 4 – Structure for QASM Section in Transmission

4.1.2 Supplier Pre Assessment

Suppliers wishing to be listed on Eskom Transmission’s database need to submit a completed supplier application form. This is a standardised form used throughout Eskom. In addition, prospective suppliers have to submit the following documentation: (Taken from the supplier application form)

- Company Registration Documents;
- ID Documents of directors/owners/members/ shareholders;

- Financial statements / letter from auditors indicating maximum size or business capability;
- Current VAT certificate (where applicable);
- Current TAX clearance certificate (original document);
- Copy of Commissioner of Occupational Injuries and Diseases (COID) registration certificate;
- Any other registration certificate pertaining to the relevant industry, e.g. ECB (Electrical Contractors Board);
- Company Organogram, showing Holding and Subsidiary company / companies, as well as operating divisions. Ownership / shareholding that this company holds in any other company /companies needs to be indicated;
- Companies claiming Black Empowerment as per Eskom Holdings Limited's definitions, to further submit the following:
 - Close Corporations to attach an Association Agreement;
 - (Pty) Ltd's to attach Shareholders Agreement, Memorandum of Association as well as Share Certificates;
 - Non Registered businesses to attach a Partnership Agreement;
 - (The above documents to stipulate Management responsibilities, Profit sharing, Liabilities / responsibilities, Management contribution, Protection in case of death, etc.)*
 - Letter from the bank, stating all signatories.

Upon receipt of the submission the Data Validator will do a pre assessment on the submission. This is then screened for obvious omissions as well as applicability to Eskom Transmission's business. Should a prospective supplier be required in the business the Data Validator will follow up with such a supplier on any outstanding information. At this point the industry that the prospective supplier operates in is determined and noted on the form.

Only in exceptional cases would the Data Validator refer to his / her counterparts in other Divisions for any information pertaining to possible previous assessments on a

specific supplier. It is only when a supplier is urgently required by an end user that this would be done.

4.1.3 Database Listing

Prospective suppliers are listed in the Eskom Transmission supplier database as “potential” supplier, indicating to end users in Eskom Transmission that there is a supplier in the marketplace that has indicated his ability to provide the required service, product or works. At this stage the claimed business indicator (BI) of such a supplier is also captured.

Suppliers are linked to the industry or market that they operate in, with reference to a standard SAP listing of approximately 340 such industries or markets. At this stage the listing is done as “Pending” for all suppliers that require assessment or suppliers claiming any form of Black empowerment status. For off the shelf, non-BEE suppliers a “Listed” status will be used.

An example of a BWO supplier that supplies stationery would thus appear in the SAP system as follows:

BWO - Z0P - OFFPSTATIONERY

The significance of the code is as follows:

- **BWO** Black Woman Owned
- **ZOP** Pending status
- **OFF** indicating Office Supplies
- **P** indicating product (available options are Product, Service and Works)
- **STATIONERY** indicating the detail. If the description of the detail is longer than the allowable characters, the description would be abbreviated.

Information captured is verified and all submitted documentation electronically filed in a central database / storage facility.

The following flowchart is taken from the QASM Section Business Management System and covers both the Pre assessment as well as Database Listing stages:

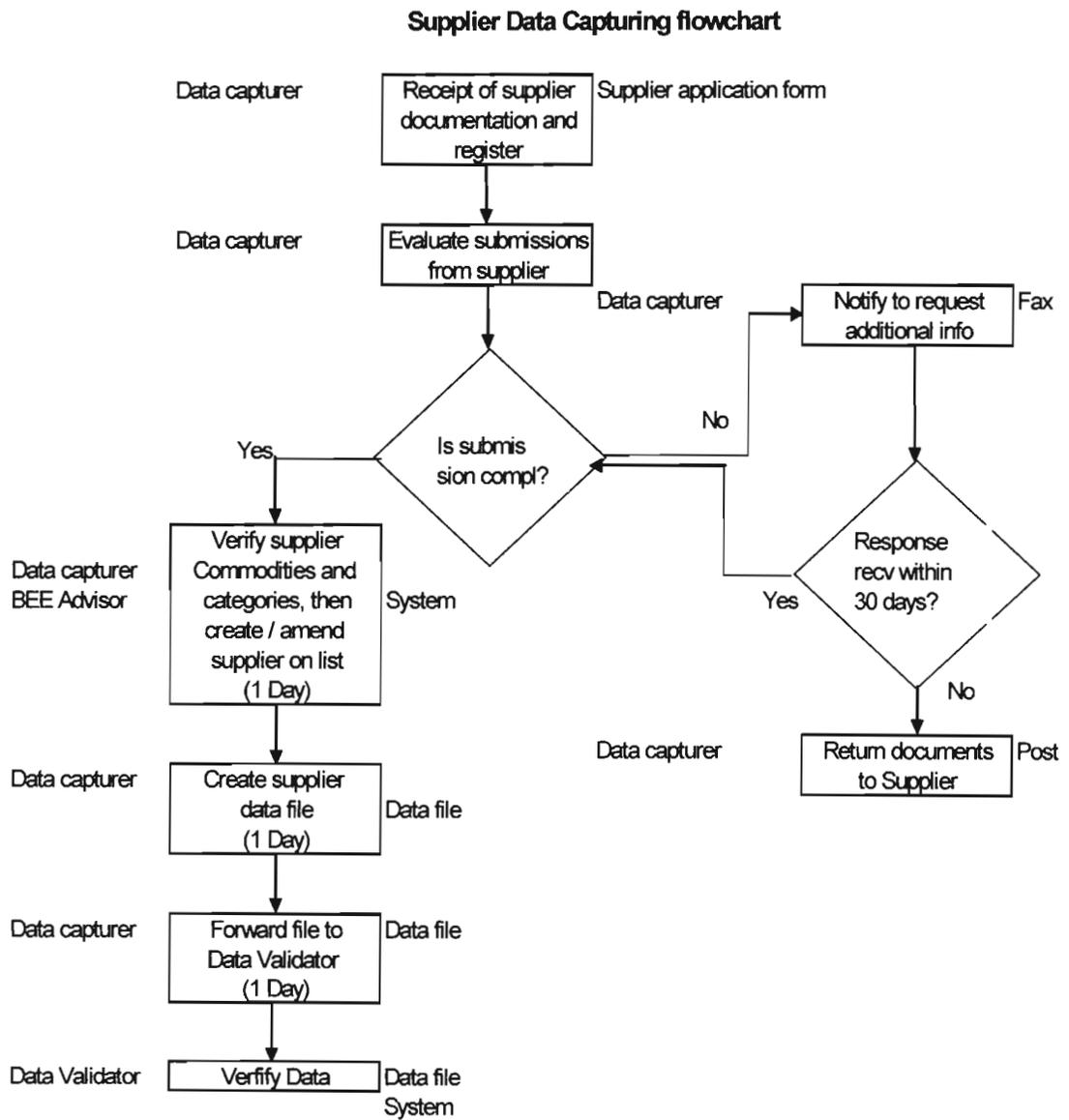


Figure 5 - QASM Process on Database Capturing

4.1.4 Supplier Assessment

When a need arises for the services of a “Pending” supplier, the QASM section will mobilise and set up an appointment to perform the assessment. These are done in accordance to Eskom procedure ESKPVAAZ6 – Supplier Management Guide and ESKADAAX1 - Supplier Management in Eskom. The Senior Advisors assume the responsibility for assessments in the Division.

The following disciplines are included in the assessment process, as applicable:

- Commercial;
- Financial;
- Quality Assurance;
- Technical;
- Environmental;
- Safety, and
- Human Resources.

Assessments are co-ordinated by the QASM section, involving various specialist functions as appropriate. The involvement of such specialist functions is determined by the assessor at the time, taking into consideration his or her own experience and confidence level with the market or industry that the company operates in.

Assessments further consider the ownership of the company, with specific emphasis on Black Economic Empowerment status. At this stage all suppliers are treated equal in terms of Quality assurance, Technical capability, etc.

During a survey that was done during the week preceding 18 April 2005, Mzwandile Fanisco reports, in the Business report of 18 April, that the current practices by parastatals in establishing ownership is inefficient, thus allowing for fronting to take place. Mzwandile continues to say that it is not easy to prove the authenticity of a meaningful contribution by a black partner. The survey included Eskom, Transnet and Telkom.

The current assessment process is not standardised across the section or across different assessors as each individual has developed his / her own process, based upon prior experience as well as expertise.

The function relies on experienced people as well as their experience, on the day of the assessment, with the supplier. Often, if the assessor is not prompted to ask a question through something he or she sees or hears he might miss an opportunity to ask the relevant questions. The transparency of the process is often questioned.

The assessment process focuses on equipment and infrastructure, with little or no regard for previous experience in the field of operation. References, if given, are rarely followed up.

The existence of formal quality and environmental systems rather than the implementation thereof is acknowledged. Listing is often denied due to a lack of a formal quality management system, even if the supplier has internal control procedures.

Upon completion of the assessment the assessor will draft a report for approval by the QASM manager, not directly involved with the actual assessment. He would generally only look for obvious omissions or shortcomings in the report.

The status of the supplier is at this stage changed in the SAP system to reflect the findings and recommended status of the supplier. Suppliers can either be qualified or unqualified following the outcome of an assessment. Qualification is divided into seven different levels, indicating the size or capability of a supplier – this is done to minimise the risk to Eskom by allowing suppliers to operate in an environment that is applicable, or for similar sized suppliers to compete against each other.

The seven different levels of qualification in SAP supplier master is coded as ZQ1 to ZQ7, with ZQ1 being the lowest level of qualification in a particular industry and ZQ7 the highest.

Supplier listing is upgraded or downgraded following feedback from end users after contract execution or after a re - assessment. Re - assessment dates are determined at the time of the initial assessment or as determined by the business.

Supplier database listing does not guarantee that a supplier is used by the relevant buyer / end user as intended. The implication of this is that once a supplier is qualified, or listed, for any product or service, such a supplier can be invited to tender for the supply of any product or service. In practice it was also found that buyers would invite suppliers to tender, with little or no regard to their current listing status in terms of size and / or capability.

The current control measures to overcome this are the squad meetings as well as the tender committee submissions that are signed by a representative from Supplier Management – the idea being that these checks will be performed at this stage. The risk however, is that it might be too late in the process – the buyer could have already communicated with the supplier in terms of price matching, etc. An expectation has thus already been created.

The following flowchart is taken from the QASM Section Business Management System and covers the Supplier assessment process:

Supplier assessment flowchart

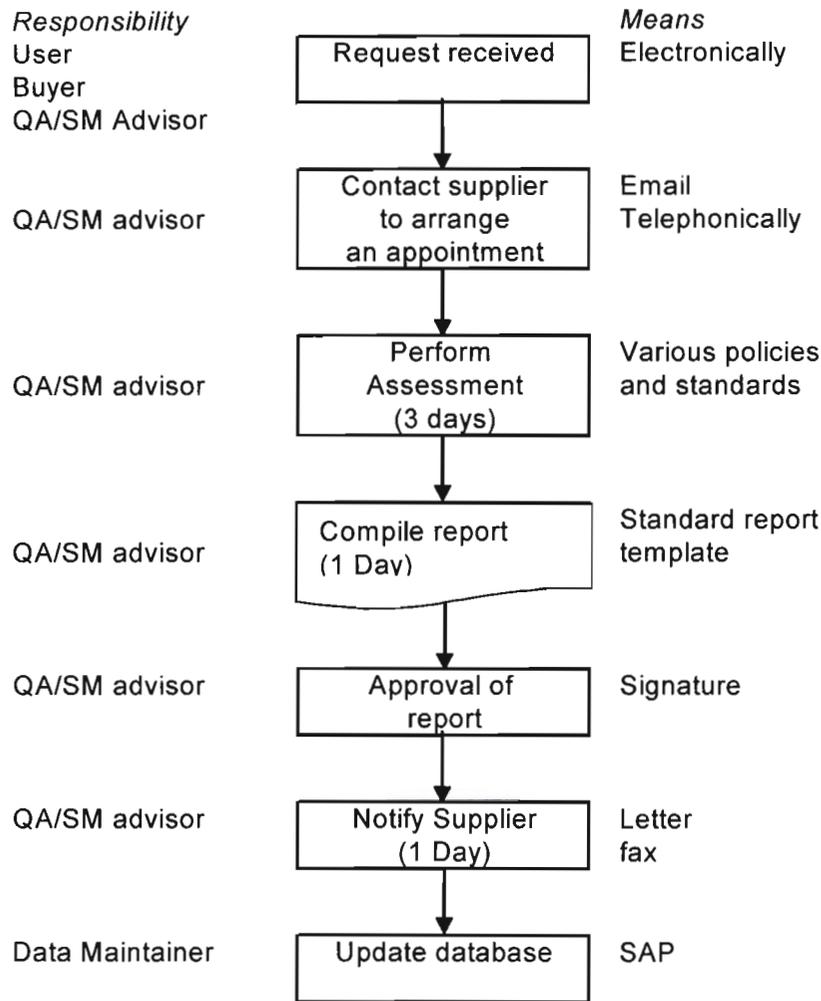
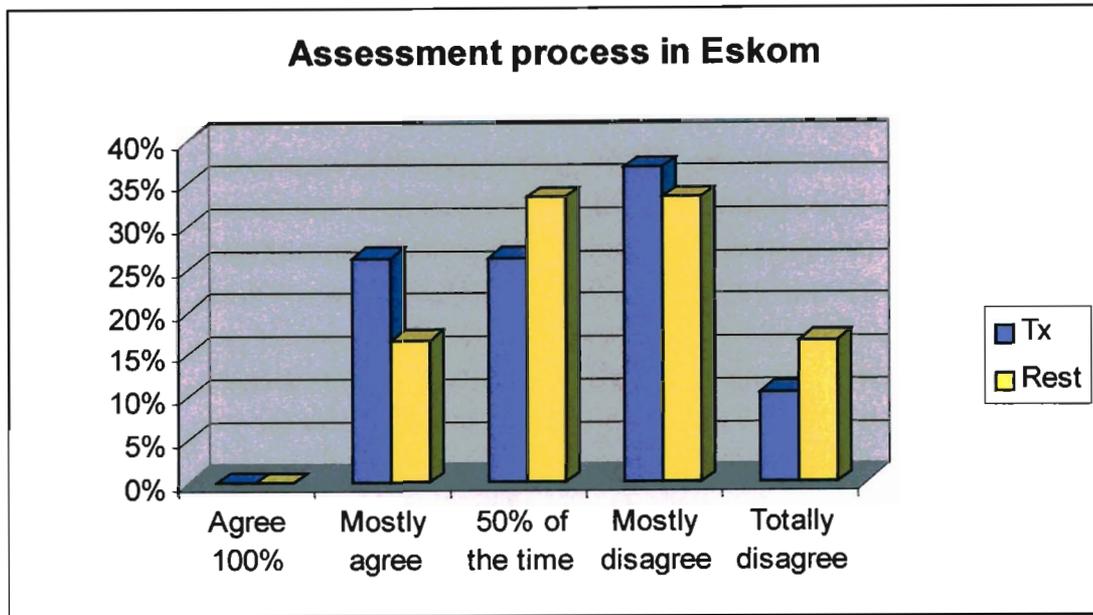


Figure 6 - QASM Procedure for Supplier Assessment

The survey conducted in this research, in the form of a structured questionnaire, gave the following perspectives on the effectiveness of the current assessment process in ensuring that only capable suppliers are listed in the database:



Graph 1 – Survey Results on Assessment Process

From the results of the survey it is clear that a perception exists amongst supply chain staff, in Transmission as well as the rest of Eskom, that the current assessment process inadequately covers the relevant aspects to ensure listing of capable suppliers only.

4.1.5 Supplier Development in Eskom Transmission

Eskom’s policy ESKADAAT 6 Rev 4 (2002) calls for Supplier Development under the following circumstances: (extract from the policy)

“ ...

- *While supporting Black Suppliers in any sector of the economy, Eskom will concentrate its developmental efforts on Black Suppliers in the manufacturing, construction and mining/extraction sectors of the economy and providers of professional consulting services.*
- *A small Black business should not be denied listing as a supplier due to lack of a formal environmental policy and quality management systems. Where construction, manufacturing or maintenance is involved the supplier will have to*

be qualified as to capability. In either case development assistance may be required.

- *Where Eskom deems it necessary the Corporate and Group/Divisional Black Supplier Program Managers and other supplier development functions will, over and above the support described in the following paragraph, provide developmental assistance, primarily to Black Suppliers in the manufacturing, construction and mining/extraction industries and professional consulting businesses. This assistance will be limited to 100% BWO and Black owned and managed suppliers.”*
- *The developmental assistance will be at Eskom’s discretion and may encompass among other things the following:*
 - *Giving advice and guidance, and arranging for training, in areas such as quality, financial, procurement, marketing, environmental and production management;*
 - *Assistance with negotiating financing arrangements with financial institutions, though not investing Eskom funds;*
 - *Assisting with negotiations to obtain materials at competitive prices from suppliers, or alternatively to draw free-issue materials from Eskom;*
 - *Co-ordinating industrial/production engineering assistance to improve productivity;*
 - *Assisting with strategy setting to ensure that the supplier develops and does not build dependency on Eskom for its survival, and*
 - *Start-up facilitation in industries where there are no BWO or Black suppliers, without investing Eskom’s funds.*
- *The support program entails:*
 - *Setting aside, for BWO and/or SME’s only, certain tenders in part or in whole. Large BEE and other firms will not be allowed to tender;*

- *Setting aside, for BEE's only, certain tenders in part or in whole. Other firms will not be allowed to tender;*
- *Negotiating with BWO or SME's only, using estimated costs as the basis.*
- *Permitting price matching as stipulated in the enquiry;*
- *Providing Tender Advice Centres or similar functions to provide assistance and training on how to tender;*
- *Arranging for expedited payment, i.e. within 15 days of receipt of invoice, to BWO, SME and start-up Black Suppliers without deduction of settlement discount and irrespective of what Eskom's standard forms of contract stipulate... ”.*

As at August 2005 Eskom Transmission only had 11 suppliers linked to the Development Business Indicator of which only one is a BWO, the remainder are all SMME. All these suppliers were changed to “Developing” prior to 2003. The SAP system is thus not used to track any development assistance to suppliers.

The fact that the Development indicator is not used further results in BWO and SMME suppliers being allowed to take part in price matching, etc benefits for as long as they are listed as such – not for the two years as stipulated in the policy.

It is noted that the QASM section in Transmission does not have a process in their Business Management System to cover the Supplier Development Process.

4.1.6 Squad Meetings

The purpose of the squad meeting is to allow a cross functional team to consider all the factors related to a specific contract, including, but not limited to the selection of suppliers from the source list. The source list being the list obtained from the SAP system of all the suppliers appropriately qualified to provide the required service, product or works.

Such squad meetings are co-ordinated by the commercial function and include representatives, as applicable, from the following disciplines:

- Commercial;
- Quality Assurance;
- Technical;
- Supplier Management;
- Safety, and
- Environmental.

Supplier information that is considered during the squad meetings are capability, existing workload, risks in terms of non performance, etc of the suppliers on the source list.

It was reported that squad meetings are not always enforced. Some buyers only call for squad meetings for “large” contracts and others almost never have squad meetings.

4.1.7 Contracting with Suppliers

Following the squad meeting the commercial documentation is prepared and Request For Quotation (RFQ’s) sent out to the suppliers on the tender list.

Upon receipt of the tenders the commercial department will evaluate the submissions received. The only development mechanism that might then be applied is price matching in terms of the policy.

Once the most suitable supplier has been selected the adjudication process is followed and the contract is awarded to the successful supplier. This process is standard for all suppliers, irrespective of the business indicator and / or size of a business.

At this stage RFQ's are supposed to be maintained in SAP. Prices offered, reasons for non-response, etc are captured in SAP.

During the contract execution phase the QASM section's only involvement with the supplier would be to inspect and release the equipment from their works – as applicable.

As a result of inaccurate, or no demand management, a large number of contracts are enabling contracts rather than a contract with fixed quantities. Enabling contracts are not ideal in that they do not allow newly established businesses to do accurate forecasting in terms of usage of the contract and cash flow forecasting is near impossible. It is also very difficult for such suppliers to take on additional work whilst under contract with Eskom. Enabling contracts can further not be used as security with funding institutions for any loans.

4.1.8 Supplier Performance Evaluation

At the time of implementation of SAP in Transmission, during 1998, the functionality for supplier evaluation was set up in SAP. The system would measure and evaluate a supplier on the following criteria:

- Price
 - Actual price compared to the market price
 - Price variance between current and previous orders
- Delivery
 - Variance between need date and delivery date
- Quality
 - Manual input field
- Service
 - Manual input field

Due to a number of factors the SAP functionality for supplier evaluation could not be used. Some of the factors, that the author could determine, are:

- Not all services, works and material are codified in SAP, making it very difficult, if not impossible to compare material / services with each other;
- RFQ's are not always maintained in SAP, thus no historical data is available on the market price, and
- The manual input fields for both Quality and Service requires a level of discipline to maintain that was found lacking in the business.

Between 1998 and 2003 very few, if any, suppliers were either offered development assistance or suspended from the database as a result of poor performance. Poor performance was also only reported verbally, making it impossible to take action on.

During 2004 the Supplier Management section of Transmission started with the development of an evaluation sheet that could be used for the recording and capturing of performance data on suppliers for identified services.

The management of this form is totally manual with the Data Validator having the responsibility to issue and follow up the return of the evaluation sheets.

Due to the magnitude of the exercise, with an average of 3489 orders per month (for 2005), the scope of evaluation had been limited to construction related activities only.

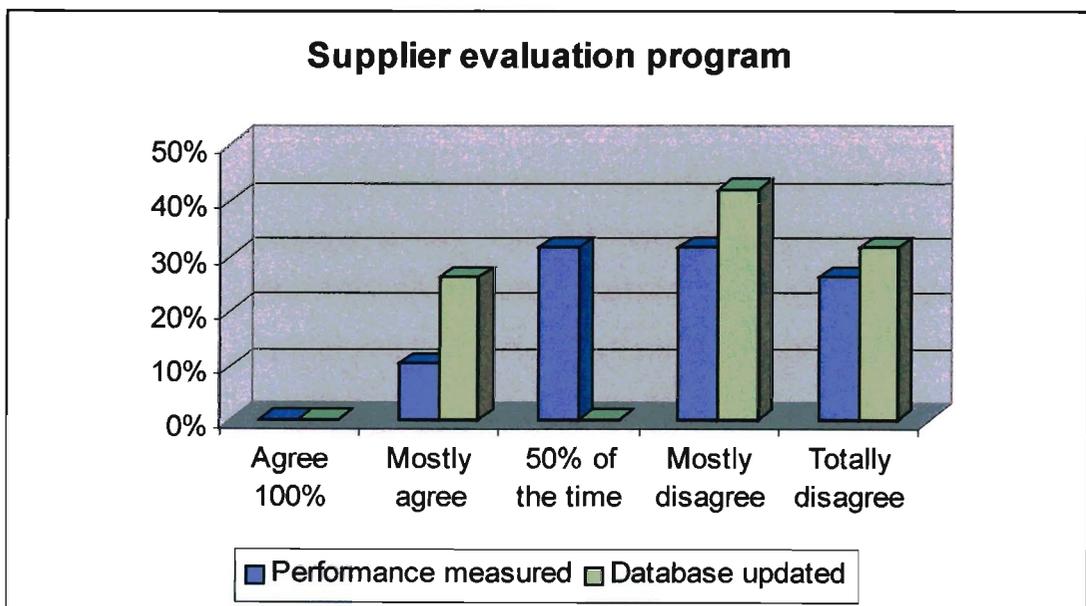
Status of the current system:

- Response rate is in the region of 35%, mostly only after the third follow up has been made;
- Verbal feedback on a supplier's performance does not tie up with the findings of the feedback;
- Actual performance also does not always match the feedback. In a recent incident the contract of a BWO supplier had to be terminated due to consistent under

performance on a specific contract, the overall rating however given by the project managers, for this supplier was 85%;

- The evaluation is limited to the construction industry only. This was a conscious decision at the time, in an effort to systematically implement a very large and complex process;
- The process is time consuming to manage due to the manual nature of all the activities;
- Its impact on the supplier selection process is limited due to the fact that results of the evaluation do not reflect in the SAP system. It is only during the squad check process that the buyer would be made aware of a supplier’s performance, and
- To date the information gathered from the evaluation process has not enabled the Supplier Management section to affect any changes to a supplier’s status.

The survey conducted as part of this research highlighted the following perspectives amongst supply chain staff in Transmission of the effectiveness on the supplier evaluation process:



Graph 2 – Supplier Evaluation Process in Transmission

Although there is a perception that at least some form of vendor performance evaluation is done, the overwhelming perception is that whatever evaluation is done

does not affect a supplier's status in the database. This could be as a result of the evaluation process being relatively new in the Division, or because only Project managers are currently targeted with the completion of evaluation sheets. Other end users and buyers not involved with construction related contracts are thus not involved with the process.

Supplier performance evaluation is crucial to any developmental drive. If the performance of a supplier is not measured then areas for improvement cannot be identified.

4.1.9 Key Performance Indicators (KPI's)

The Eskom policy on the procurement from Black suppliers calls for the measurement and reporting of only two KPI's, these being:

- The amount of money spend on the BEE program. This includes costs associated with development of new suppliers, and
- Money spend on the procurement of goods and services from BEE and BWO suppliers. This figure is expressed in both monetary terms as well as a percentage of the total discretionary spend.

It was however found that only the latter KPI is measured and reported on.

As BEE and SMME figures are further combined into one for the purposes of reporting, the amount of money spend on SMME suppliers is overshadowed by the large amounts spent on BEE suppliers. Any efforts to increase the SMME spend is diluted by one payment of a few million Rand on one BEE supplier.

The effect of the above is that focus is placed on money spend with, rather than development of suppliers. This finding is supported by a number of people, as detailed in the literature review chapter.

4.2 Responses to Questionnaires

The responses to the questionnaires from Transmission staff were separated from those received from the rest of the business. The purpose being that the author attempted to compare the Transmission results with that of the rest of Eskom.

Transmission:

19 targeted people responded from the 102 questionnaires sent out. Of the 19, 16 were from Gauteng and 1 each from North West, Free State and the Western Cape. The geographical spread was expected as the procurement and supplier management functions for Transmission are centralised in Eskom Megawatt Park, Sunninghill, Gauteng.

Other Divisions in Eskom:

The responses from the rest of Eskom look as follows: 6 out of 28 responded, 3 from the Generation Division, 2 from Distribution and 1 from the Corporate Division. Geographically 3 were from Gauteng and 1 each from Free State, Mpumalanga and the Western Cape.

Once again, the higher response from Gauteng based staff was expected due to the head office function of Eskom residing in Gauteng.

The limitation that only 6 respondents represent the responses from the rest of Eskom was considered during the evaluation of the outcomes of the survey.

An analysis of the responses follows.

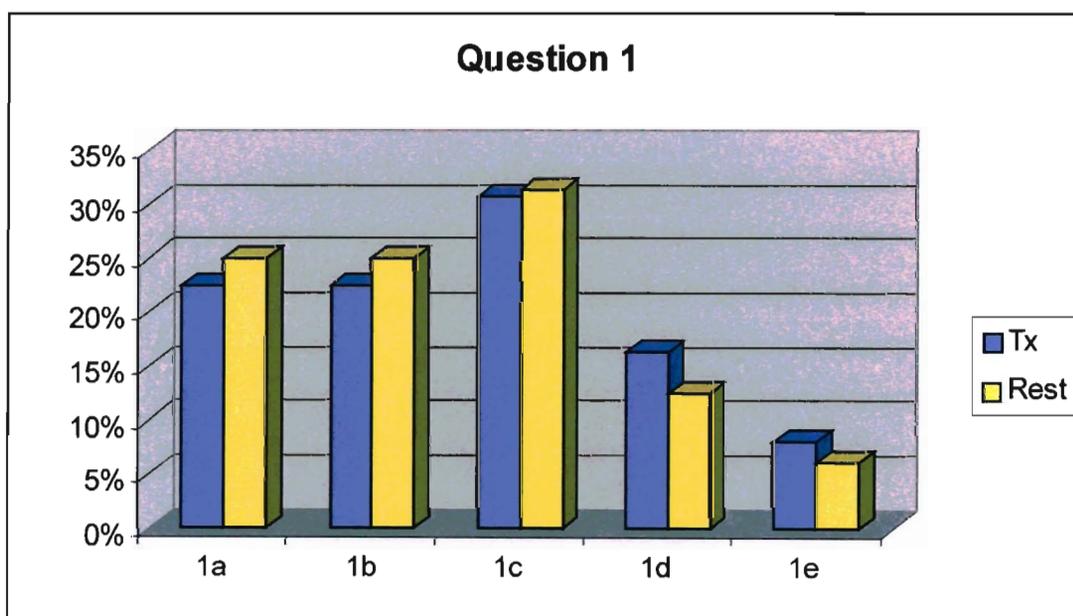
4.2.1. Reasons for Supporting SMME and BWO Companies

The question was included to test the respondents on the reasons for supporting SMME and BWO suppliers. The following options were given and respondents requested to select the three most appropriate options.

Question Number	Selection of options
1a	It allows previously disadvantaged people to take part in the mainstream economy of South Africa.
1b	It allows for skills transfer, job creation and the eradication of poverty in South Africa.
1c	Eskom' s policies requires me to do so.
1d	It affects my Performance Appraisal and thus my performance bonus.
1e	Suppliers are being selected, by others, on my behalf.

Table 3 – Questionnaire, Question 1

The response to the question is depicted in the following graph:



Graph 3 – Reasons for Supporting SMME and BWO Companies

Although it is comforting to note the relative high support of the first two options, 31% of respondents chose 1c as the most applicable option. Option 1c was also selected by most as the primary reason for supporting SMME and BWO suppliers.

The low support of option 1e indicates that supply chain staff does not pass responsibility to others, a fact that should be noted with excitement.

The fact that more respondents indicated that they support SMME and BWO suppliers because it was called for by policy, rather than it affecting their pockets through performance bonuses, indicates a culture of good governance in Eskom.

The results of the survey amongst supply chain staff from other Divisions echoes the findings of the Transmission survey.

The implication of this finding is that Eskom would have to continue with its policy on procurement from Black suppliers, as it remains the driving force behind the support of the BEE program. Focussed KPI's would lead to support in the targeted areas.

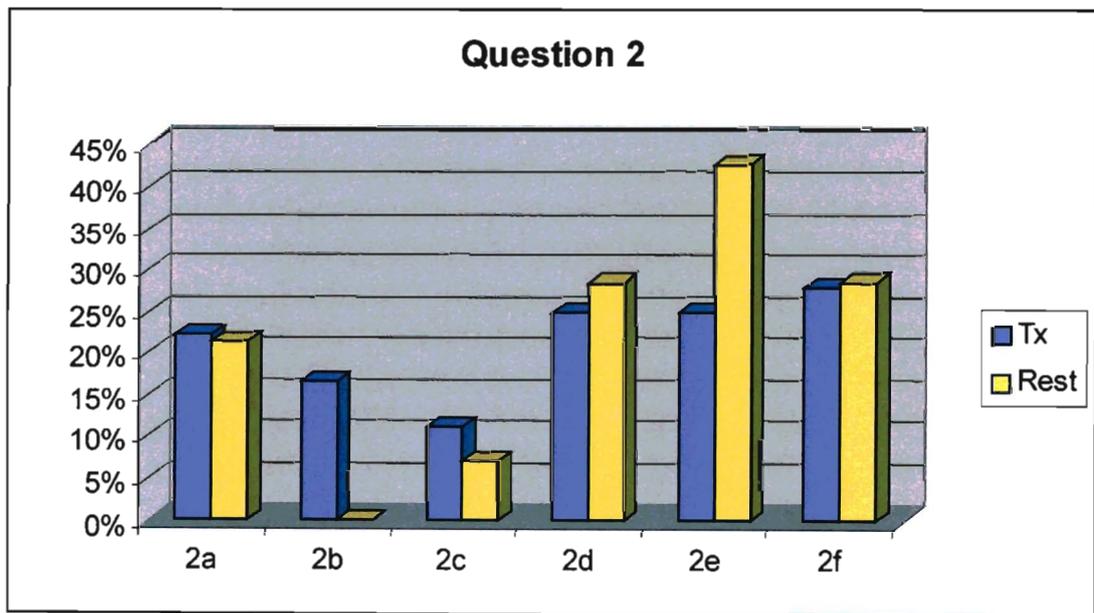
4.2.2 What has the Eskom Policy on Black Supplier Procurement Managed to Achieve?

This question would test the perspective of the respondents on the success of the BEE program in achieving the following:

Question Number	Selection of options
2a	Creating sustainable Black owned businesses.
2b	Eradicating poverty in South Africa.
2c	Creating jobs in South Africa.
2d	Creating front companies that "use" black owners to gain contracts.
2e	Creating agents that merely pass the product/service on from a traditional supplier.
2f	Enriching a few elite Black people in South Africa by passing all the business to them

Table 4 – Questionnaire, Question 2

The following graph summarises the response:



Graph 4– Achievement of BEE Program

The perceptions of the respondents are clear in that the current BEE program failed in its intended mission, i.e. that of creating jobs and eradicating poverty in South Africa (Question 2b and c).

It would appear that enrichment of a few black people as well as non value-adding agents are amongst the achievements of the BEE program. This perspective supports the findings of others – see literature review.

The importance of this finding is a need to focus more on job creation – which will lead to the eradication of poverty (questions 2b and c) – in the BEE program.

The current measurement, that of money spend with BEE suppliers only, creates an opportunity for agents to emerge as no distinction is drawn between manufacturers and agents in the award of business (Question 2e).

4.2.3 Success of the BEE Policy in Relation to the Market

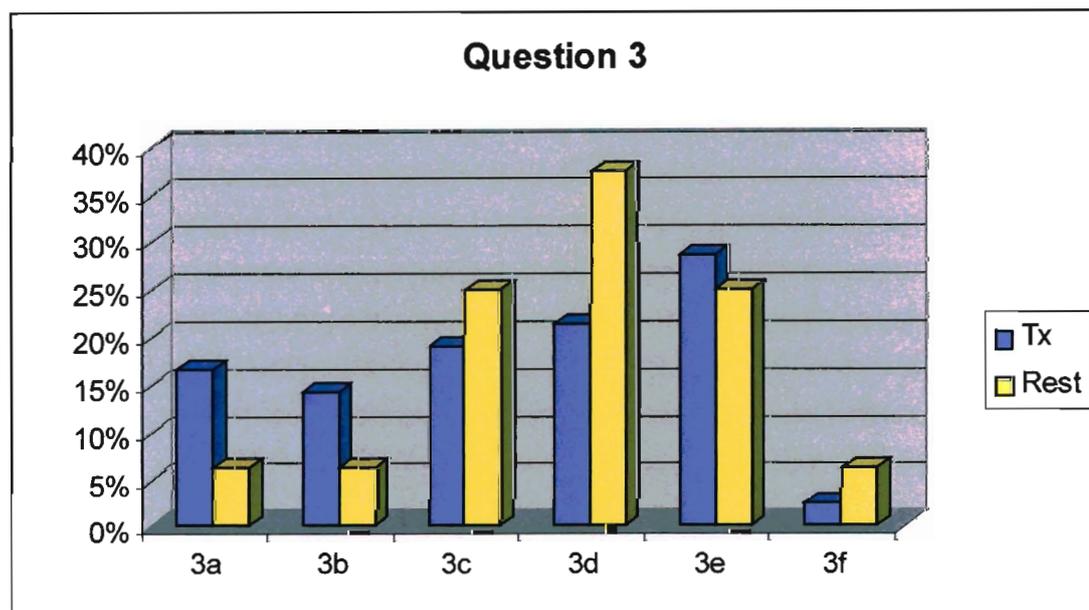
As with previous questions, the respondents were requested to select the three most applicable statements from the list provided. The intention was to gauge perspectives on the success of the BEE program in various markets / industries.

The options available were as follows:

Question Number	Selection of options
3a	Supply of imported products / agents.
3b	Local manufacturing.
3c	Agent for local manufacturers.
3d	Service providers.
3e	Contracting.
3f	Professional services.

Table 5 – Questionnaire, Question 3

The responses are illustrated as follows:



Graph 5 – Success of the BEE Policy in Relation to the Market

Contracting in Transmission (3e) came out as the most successful industry for the BEE program. This has to be seen against the backdrop of the current expansion program in Transmission, resulting in a number of contracts being awarded in this field.

If one separates the Distribution responses from the rest of the respondents then contracting would have come out the highest as well, indicating that contracting, in the view of most respondents, is the most successful industry for SMME and BWO suppliers. Distribution also makes use of a number of contractors to do electrification to areas not currently serviced by Eskom.

Combining the rest of Eskom into one category brings option 3d out as the most successful category – service providers.

The finding is informative in that it highlights the fact that local manufacturers do not seem to be successful in creating SMME and BWO entities. Manufacturing typically provides more stable jobs than contracting where labour is hired as and when required. Could it be that the stringent requirements for manufacturers prevent SMME and BWO suppliers from entering this market? Typically the infrastructure costs required to start a manufacturing business are far greater than a contracting business where a vehicle and a few tools and equipment are all that is needed to start a business. Contracting, however, is an area of high risk to Eskom from both a Safety and Environmental point of view, where suppliers work on Eskom sites rather than off site. Eskom thus, in many cases, carries the responsibility for safety of contractors' employees.

Manufacturers typically fall in the BEE category, with an annual turnover in excess of R25m. This phenomenon should be exploited in strategy setting.

4.2.4 Perspective on the Responsibility for Supplier Development

Questions 4 and 5 were included to gauge the perspectives on the responsibility for the development of suppliers. Question 4 asked respondents to indicate who **is** responsible for developing suppliers and question 5 who they felt **should be** responsible for the development of suppliers.

Supplier Management refers to the section responsible for the creation, assessment and management of suppliers – in Transmission the QASM section. Quality assurance refers to a specific section or department in a division. Although both these functions are integrated in Transmission under QASM, the two responsibilities are still seen by many as separate from each other.

Options available to the respondents were as follows:

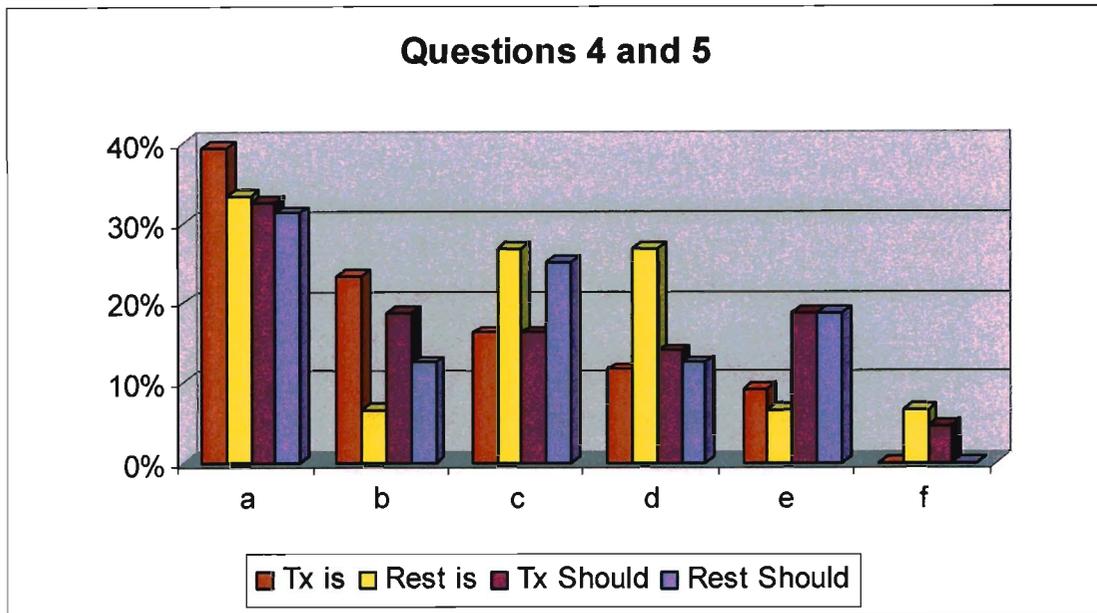
Question Number	Selection of options
4a/5a	Supplier Management.
4b/5b	Quality Assurance.
4c/5c	Procurement Department.
4d/5d	End user / requisition officer / Project Manager / site supervisor.
4e/5e	Suppliers are responsible for their own development.
4f/5f	Other: Please specify _____

Table 6 – Questionnaire, Questions 4 and 5

The respective responses to the two questions are summarised in the following graph:

Legend:

- **Tx is** – Who respondents think is responsible in Transmission;
- **Rest is** – Who respondents think is responsible in the rest of Eskom;
- **Tx Should** – Who the respondents think should be responsible in Transmission;
- **Rest Should** – Who the respondents think should be responsible in the rest of Eskom.



Graph 6 - Perspective on the Responsibility for Supplier Development

The overwhelming responses from both Transmission as well as other Divisions were that Supplier Management is, and should be responsible for the development of suppliers. (a)

The selection of Quality Assurance (b) in Transmission should be seen against the backdrop of the merging of Quality Assurance and Supplier Management.

The procurement department in other Divisions appears to be more involved with the development of suppliers, both in terms of current practice as well as a perception of who should be (c). This could be due to the centralisation of both the Procurement as well as Supplier Management functions in one building in Transmission, compared to a decentralised function of Procurement, and a centralised Supplier Management function in the rest of the Divisions.

Almost 20% of all respondents indicated that suppliers should be responsible for their own development (e).

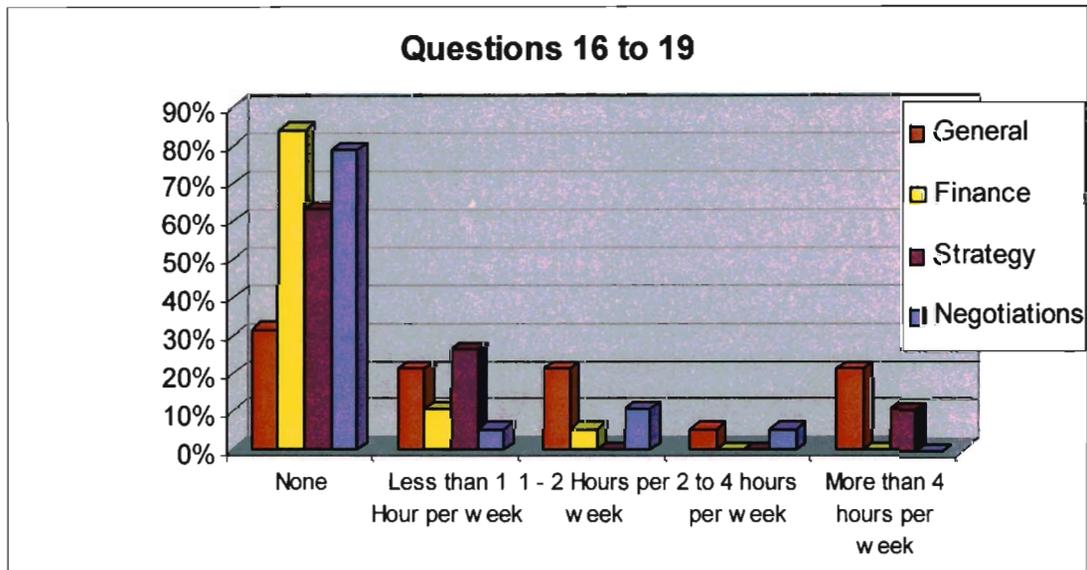
The response to question 5f – other, were that all of the functions, a to e, should take responsibility for supplier development.

Questions 16 to 19 of the questionnaire requested respondents to indicate, on average, the amount of time spent per week on the following aspects of supplier development:

- Giving general advice and guidance;
- Assisting with financing arrangements;
- Assisting with strategy setting, and
- Assisting with negotiations to obtain material at competitive prices

It must be noted that all of the above are elements of supplier development covered in the Eskom BEE policy.

The responses to the 4 questions are as follows:



Graph 7 – Time Spend on Supplier Assistance

From the figure above it is clear that very few respondents in the supply chain actually spend any time on the four elements of supplier development as detailed in the Eskom BEE policy.

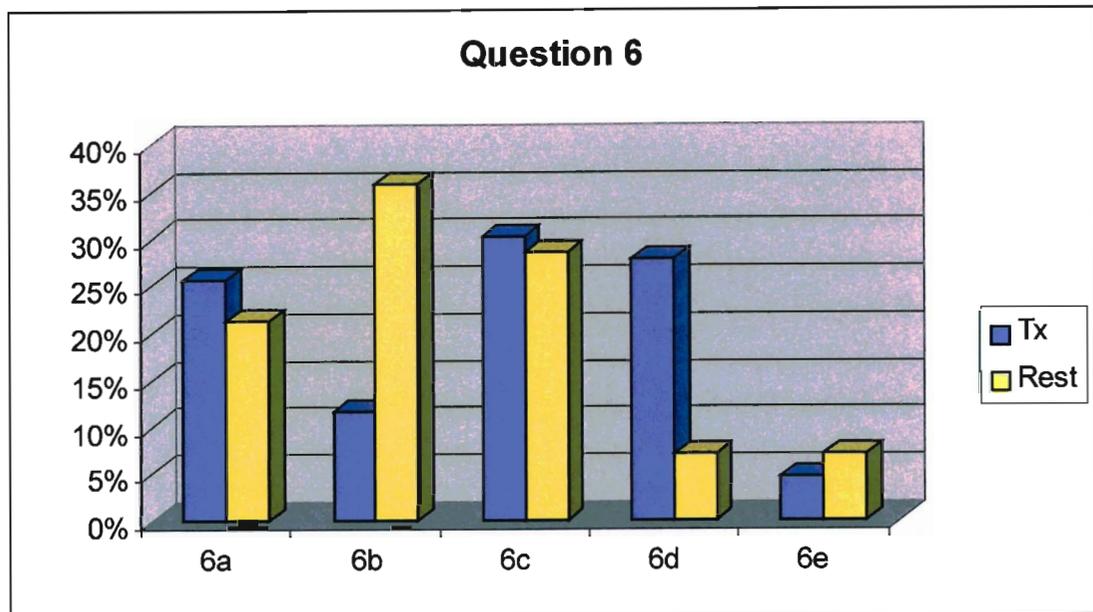
4.2.5 Perspectives on joint ventures

Joint ventures are business entities where a traditional white owned company partners with a black owned supplier to contract with Eskom as a Black Empowered supplier. The perspectives of the respondents about this development mechanism is summarised as follows:

Question Number	Selection of options
6a	It creates fronting opportunities for traditional business owners to continue contracting with Eskom.
6b	It allows for skills transfer to the Black Partner / shareholder and is thus effective.
6c	It has the ability to allow for skills transfer but the implementation monitoring thereof is incorrect.
6d	The Black partner is usually not involved with the contract, benefiting financially only.
6e	It should not be allowed as it is difficult to monitor actual skills transfer.

Table 7 – Questionnaire, Question 6

Responses from Transmission as well as the rest of Eskom in graphical form:



Graph 8 - Perspectives on Joint Ventures

The responses could be divided into two categories,

- Joint ventures are or could be an effective mechanism for skills transfer (6b and c), and
- Joint ventures create fronting opportunities with the black partner not always involved in the joint venture. (6a and d)

Transmission staff, although indicating that joint ventures create fronting opportunities, did acknowledge the mechanism's ability to allow for skills transfer. Very few respondents indicated that joint ventures should not be allowed for in the policy.

It is thus important that the negative aspects surrounding joint ventures be recognised and addressed in the BEE policy and that mechanisms be developed to identify fronting and non value adding or non involved partners.

4.2.6 Perspectives on Price Matching

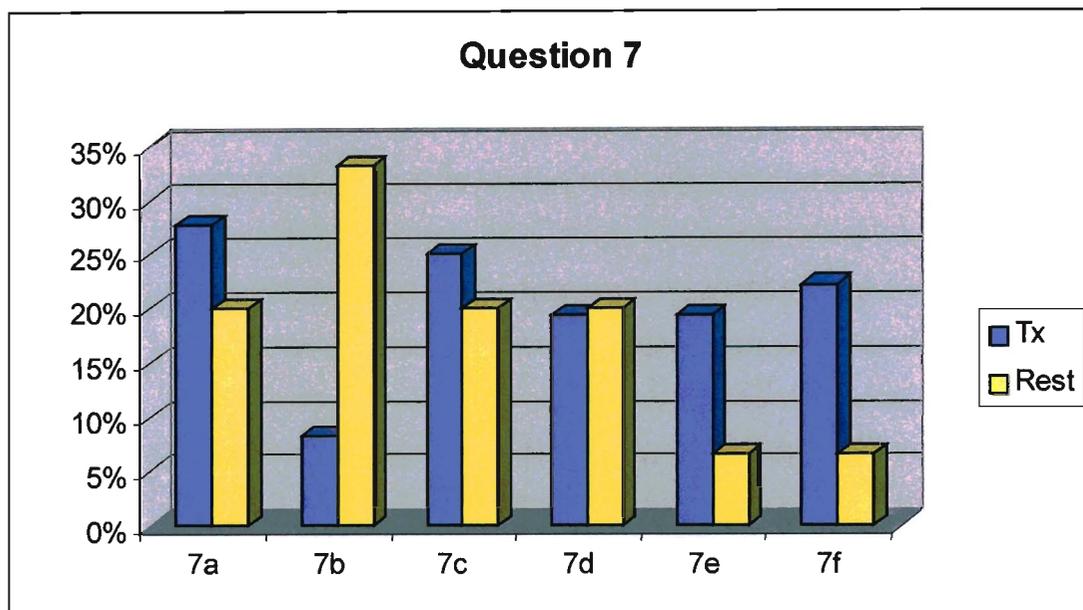
Price matching is a mechanism of allowing a higher tender to match the price offered by a lower tender. Price matching is one of the mechanisms included in the Eskom policy to assist BWO and SMME suppliers.

Options available to select from were as follows:

Question Number	Selection of options
7a	It is an effective mechanism to allow SMME /BWO suppliers to win contracts.
7b	It is an effective mechanism to allow development and growth of SMME / BWO suppliers.
7c	It can be effective but limits should be set for price matching / guidelines should be provided.
7d	It has the potential to be effective but it is incorrectly applied.
7e	It should not be used as a tool for development as it impacts on competitive spirit.
7f	Its use should be limited to low value, low risk applications.

Table 8 – Questionnaire, Question 7

Respondents from both Transmission as well as the rest of Eskom responded as follows:



Graph 9 - Perspectives on Price Matching

There appears to be two different views on price matching, that of Transmission respondents and that of the rest of Eskom. Transmission appears to have more negative views on this mechanism compared to the more positive views on the rest of Eskom.

When looking into this occurrence it would appear that Transmission applies price matching different to the rest of Eskom. In Transmission price matching is done on 100% of a contract whereas other Divisions would only allow price matching for a predetermined portion of the contract. The rest of Eskom also gives more consideration to job creation, etc. of a supplier who stands in line to price match, compared to Transmission where very little consideration is given to these factors. Transmission almost automatically applies price matching where a BWO tendered higher against a SMME, BEE or OTH company. These facts surfaced during informal chats that the author had with procurement staff in an effort to understand the two varying perspectives.

There is strong support for better control over the mechanism, in terms of maximum allowable percentage difference as well as clear guidelines for the implementation of price matching. Price matching should not be allowed to benefit agents and distributors over manufacturers as this would be counteractive to job creation.

4.2.7 Perspectives on set asides

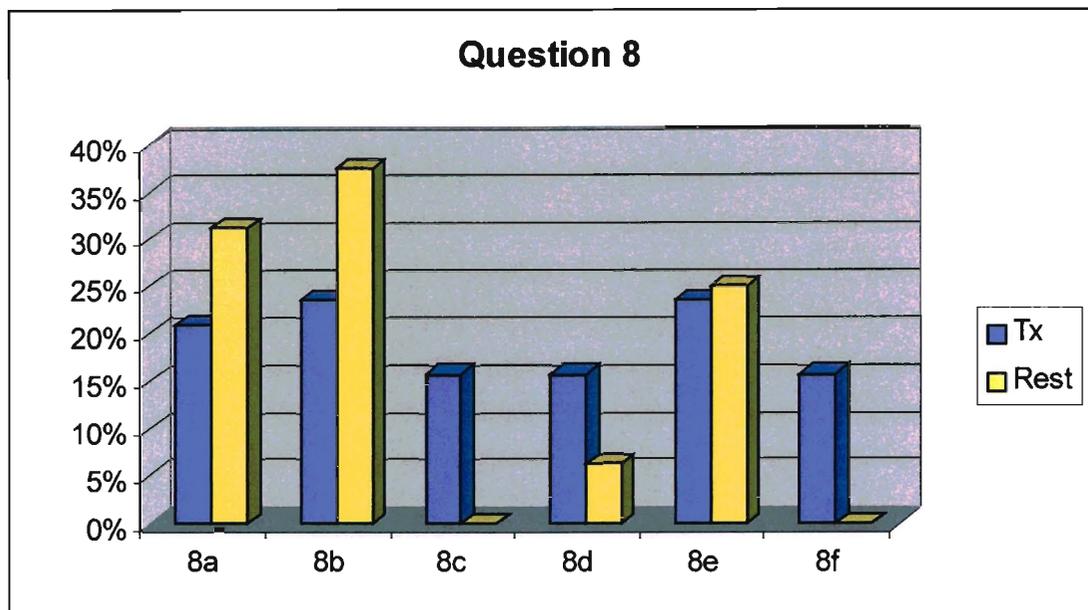
Set aside is another of the mechanisms allowed for in the Eskom policy to support SMME and BWO suppliers. Essentially set asides is when the business makes a conscious decision to limit the supplier base for a specific product or service to SMME or BWO alone.

As before, the options given to respondents were as follows:

Question Number	Selection of options
8a	It is an effective mechanism to allow SMME /BWO suppliers to win contracts.
8b	It is an effective mechanism to allow development and growth of SMME / BWO suppliers.
8c	It protects SMME and BWO suppliers from the real world commercial environment.
8d	It is a necessary support program to protect SMME / BWO from the larger, established suppliers.
8e	Limited for a 2 year period to allow SMME / BWO's to be exposed to the commercial world.
8f	It should not be used as a tool for development as it impacts on competitive spirit.

Table 9 – Questionnaire, Question 8

Respondents responded to these options as follows, in graphical format:



Graph 10 - Perspectives on Set Asides

As with the price matching mechanism, Transmission respondents appear to be more negative towards the set aside mechanism than the rest of Eskom. The rest of Eskom responded by selecting 8b as the most appropriate option – that set asides allows for growth and development of SMME and BWO suppliers.

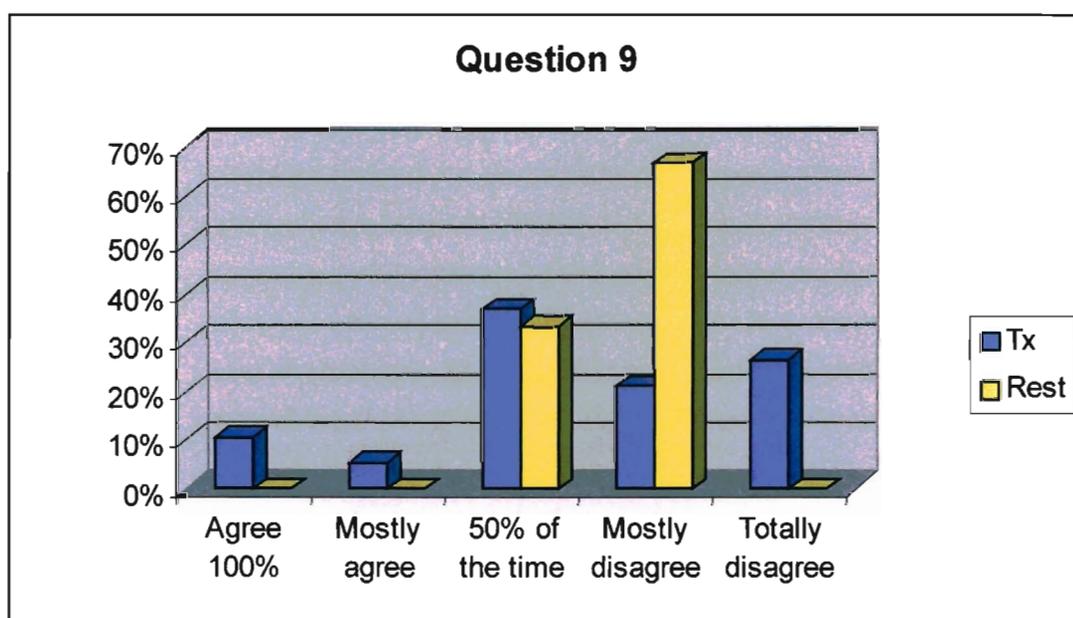
In Transmission the effectiveness of the mechanism was acknowledged, but respondents had less strong opinions on the ability of the mechanism to allow for growth and development. The selection of 8c and 8f is an indication of the caution that Transmission respondents felt towards setting aside selected contracts.

As with other mechanisms allowed in the policy, the control over the application as well as guidelines should be clear and unambiguous.

4.2.8 Perspectives on End User Involvement with Assistance to Suppliers

As the execution of contracts are under the control of the end user / project manager it stands to reason that assistance to SMME and BWO suppliers, in a contracting situation, needs to be provided by them. Question 9 of the questionnaire aimed at gauging the perspectives of the respondents with respect to this issue – considering that end users formed part of the target audience of the survey.

The response from both Transmission and the rest of Eskom is as follows:



Graph 11 - End User Involvement with Assistance to Suppliers

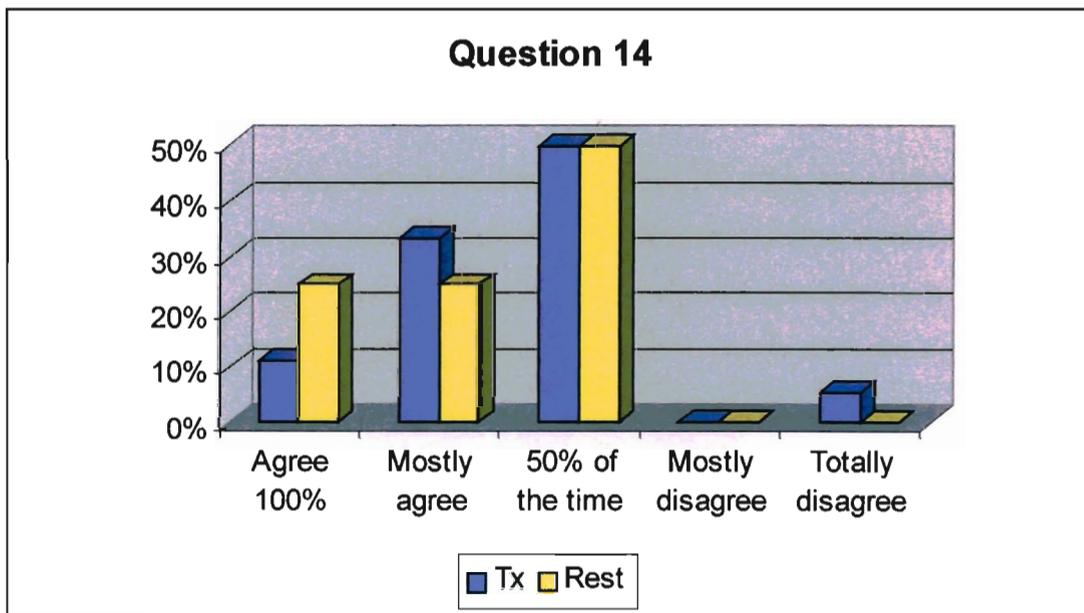
From the responses it is clear that end users are not adequately involved with the provision of assistance to SMME and BWO suppliers. The wider spread in the Transmission responses could be as a result of end users being biased or are of the opinion that they do provide assistance to SMME and BWO suppliers.

Focussed KPI's, directed towards assistance to suppliers, could provide incentives for end users to get more involved with assisting SMME and BWO suppliers.

4.2.9 Perspective on the general capabilities of SMME and BWO Suppliers

The general point of view from supply chain staff in Eskom is that SMME and BWO suppliers are, in general, capable of taking part in Eskom contracts. This positive attitude would facilitate efforts to improve the current structure or the process of dealing with, handling of and reporting on SMME / BWO suppliers and their performance.

Question 14 of the questionnaire posed the question in a way to test the respondents' beliefs.



Graph 12 - *Perspective on the General Capabilities of SMME and BWO Suppliers*

Only 1 respondent out of the entire survey felt that SMME and BWO suppliers are not capable at all to take part in Eskom's contracts.

4.3 Synopsis of Findings during Interviews

Three suppliers were selected for the interview. They were selected based on a search done in the SAP database, one SMME that has had very few Transmission orders since registration as supplier with Transmission in 2001, two BWO's, one appearing to be very successful in terms of orders and the other one less successful. This would allow for a broad view from the supplier base.

Some background to the suppliers interviewed:

- **Supplier A - SMME**
Started business in 2001, following the closure of his first business. Before running his own business the owner was formally employed. Had very few orders from Transmission since registration in 2001.
- **Supplier B – BWO**
Started this business in 1997 after selling another business – the owners indicated that they needed a change. This is a husband and wife operation.

This supplier has been registered with Transmission since 2004 during which time they had a R1m enabling contract for 12 months. The value of this contract was depleted within 6 months.

- **Supplier C – BWO**
This supplier has been in operation since 1997 and registered with Transmission during 2003. This is also a husband and wife operation, the husband left his formal employment to start the business and his wife joined him when the Eskom BWO drive started. Prior to that she was a housewife.

This supplier has a R1m enabling contract with Transmission for a period of 12 months. With only 3 months left on the contract the remaining contract value is still about R850 000.

4.3.1 Points of View on Job Creation

Supplier A bought a running concern in 2001 with around 18 people. They currently employ 30 people. As this supplier spends most of its resources working on Eskom contracts, as sub contractor to Eskom Enterprises, it can be argued that the growth in employees is a direct result of their association with Eskom.

Supplier B started in 1997 with a husband and wife team only. At the time that they registered with Transmission in 2004 they employed 65 full time employees. This figure has since grown to 75. This increase in staff numbers, according to the supplier, was to address the requirements of the enabling contract that they won with Transmission in December 2004.

Supplier C began the business with 21 full time employees. When their major customer was liquidated they were forced to scale their operations down, so much so that at the time they registered with Transmission in 2002 the company consisted out of a husband and wife team only. They currently employ 4 full time staff members to service their enabling contract with Transmission.

4.3.2 Obstacles to Operating a Small Business from a Business Owners Point of View

None of the companies interviewed indicated any of the legislative requirements as being problematic to them. All three suppliers have appointed accounting firms to handle those affairs on their behalf. The only issue was the costs that this adds to their operations.

One major concern that was raised by all was the issue of marketing their businesses and expanding their customer base.

A common thread with all three suppliers is that Eskom is one of their major customers. Responses ranged from “Quite large” to 40% and 50% respectively.

Even supplier A, that has had very few orders directly with Eskom Transmission, works almost exclusively as subcontractor to Eskom - through Eskom Enterprises.

Supplier C, that has had less than R200 000 worth of business from Eskom - for 2005, has indicated that Eskom makes up 50% of their customer base. This supplier identified labour related issues as the most complicated ones to handle on a day to day basis.

4.3.3 Expectations from BEE suppliers in Terms of the BEE Policy

One interviewee responded as follows: “It is like having a child that we (Eskom) cannot sustain”, implying that Eskom gives advice, lists the supplier, contracts with the supplier and then expects the supplier to manage on their own.

Supplier B indicated that they had invested large sums of money to get the necessary infrastructure in place. As Eskom’s entry requirements are very strict they had no option but to go this route. The contract awarded to them does not allow them to recover the costs. There is thus an expectation that the value of the contract awarded should be in line with the initial investment.

It has to be noted that this supplier was approached by Eskom Transmission to fulfil a need. They had to diversify and invest in equipment in order to meet this need.

Supplier A questioned the rationale behind Eskom contracting with Eskom Enterprises when Eskom Enterprises sub contracts 100% of the work to them in any event. This supplier has identified this practice as ineffective for the following reasons:

- It adds cost to the process;
- Longer turnaround time due to extended supply chain;
- Sub contractors rarely get feedback on their performance as this is cushioned by Eskom Enterprises, and

- Sub contractors do not get full insight into the Eskom Transmission needs or specifications.

All suppliers indicated a need for regular performance feedback as well as information sharing sessions where Eskom not only share upcoming projects - or opportunities, but also to educate suppliers on Eskom requirements and Environmental and Safety issues.

4.3.4 Perspectives on how Eskom's conditions of contract assist or hinder business owners in running their business.

Supplier A highlighted the fact that they operate as a sub contractor to Eskom Enterprises as hindering progress, as detailed in section 4.3.3

Both suppliers B and C indicated that their enabling contracts are problematic. Supplier B had to staff up and focus resources to service a contract where funds were exhausted in less than half the initial time. Supplier C on the other hand had geared themselves up to service a R1m, 12 month enabling contract, only to experience a situation where the average usage of the contract was less than R20 000 per month.

Enabling contracts hinder development in the following ways:

- Cannot be used as security against bank loans;
- Difficult, if not impossible to do planning;
- Cash flow forecasts are difficult, and
- Suppliers are wary to take on additional work as they need to keep resources available to service the contract.

4.3.5 General experience in dealing with Eskom

All suppliers indicated that once the initial contact had been made things were relatively painless. What they found confusing was the need to register independently with each Division of Eskom.

The assessment criteria were questioned. Supplier B indicated that he was forced to invest large sums of money into infrastructure before he could be qualified. However one of his oppositions that were also awarded the same contract had no resources in place at the time of the contract being awarded. This supplier, according to supplier B, sub contracts 100% of his work out to a white owned international company.

Issues of concern could be summarised as follows:

- Confusing registration process – various points of entry for different Divisions;
- Inconsistent assessment criteria;
- Inconsistent requirements amongst various Divisions of Eskom;
- No feedback on unsuccessful tendering, and
- Although suppliers dealing with Eskom directly reported a 14 day payment cycle in general, payment from Eskom Enterprises where payment is typically in excess of 30 days.

4.3.6 Views on Training Opportunities

All suppliers acknowledged the need for continual training and development, not only for staff but for themselves as business owners as well. The idea of having their staff placed within Eskom for a period of time appealed to everyone interviewed. This outweighs classroom lectures which are seen as very costly with little value in terms of practical application of knowledge gained.

4.3.7 Opinions on Eskom employees

There was an overwhelming feeling that Transmission staff are committed to the BEE programme. Staff at all levels, get involved with suppliers in giving advice, guidance and assistance. Transmission staff at the various sites were particularly praised for the way in which they interact with suppliers.

4.3.8 Improvement suggestions from the supplier's point of view

In conclusion, suppliers were prompted to make suggestions towards the improvement of the current way in which Transmission deals with its suppliers. Suppliers responded as follows:

- Supplier A indicated that Eskom should deal directly with suppliers and not through Eskom Enterprises – especially in cases where 100% of the work would be sub contracted to them in any event;
- Supplier B suggested longer terms contracts, with fixed quantities, to cover initial capital outlay, and
- Supplier C highlighted the need for regular performance appraisals of contracts as well as information sharing sessions with suppliers.

4.4 Results of SAP Database Analysis

Unless otherwise stated, all data extrapolated from the Eskom SAP database took place between April and September 2005.

4.4.1 Current Status of SMME and BWO Suppliers in SAP

As at September 2005, Eskom Transmission had 2473 SMME and BWO suppliers listed in the database.

In order to understand the supplier ranking in SAP, it is important to give clarity to the various listing statuses. Definitions of the various statuses assigned to suppliers in SAP are as follows:

Status	Description	Long text
Z0P	Pending	Supplier included in database but not assessed as yet - cannot be used for business - supplier blocked
ZUQ	Unqualified	Supplier does not meet minimum criteria in order to qualify for use by Transmission. Blocked in system and cannot be used
DEV	Developing	Supplier identified as requiring development assistance
ZOL	Listed	Supplier of off the shelf products that does not require any qualification
ZQ1	Qualified - level 1	Qualified supplier, lowest level in a particular industry
ZQ2	Qualified - level 2	Qualified supplier, second level
ZQ3	Qualified - level 3	Qualified supplier, third level
ZQ4	Qualified - level 4	Qualified supplier, fourth level
ZQ5	Qualified - level 5	Qualified supplier, fifth level
ZQ6	Qualified - level 6	Qualified supplier, sixth level
ZQ7	Qualified - level 7	Qualified supplier, highest level of qualification in a particular industry
DEL	Deleted	Supplier marked for deletion due to duplications in the database or due to supplier not in existence any more

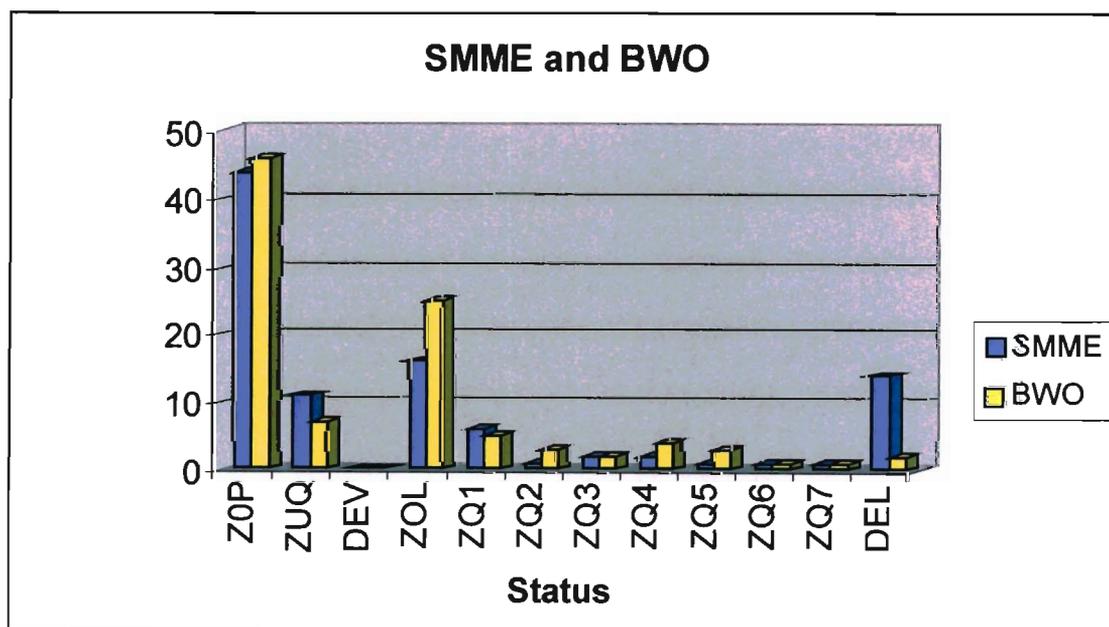
Table 10 – SAP Statuses for Suppliers

The current listings of SMME and BWO suppliers in SAP, as well as their respective statuses are as follows:

	BWO	BWO	SMME	SMME
	Number	%	Number	%
Z0P	299	46%	810	44%
ZUQ	45	7%	210	11%
DEV	0	0%	8	0%
ZOL	162	25%	300	16%
ZQ1	33	5%	105	6%
ZQ2	19	3%	23	1%
ZQ3	15	2%	32	2%
ZQ4	24	4%	34	2%
ZQ5	21	3%	11	1%
ZQ6	8	1%	26	1%
ZQ7	7	1%	21	1%
DEL	13	2%	247	14%
Total	646	100%	1827	100%

Table 11 – Listing of SMME and BWO Suppliers in SAP

The following Figure depicts the spread of SMME and BWO suppliers across the supplier database in SAP as at 05 Sept 2005 in graphical format, clearly showing the high levels of suppliers in the Pending and Listed categories.



Graph 13 - Spread of SMME and BWO Suppliers Across the Supplier Database in SAP

The spread of the SMME and BWO suppliers is relevant for the following reasons:

- A high percentage of suppliers in the “Pending” category (44% for SMME and 46% for BWO). This could be the result of Eskom’s policy that allows any supplier the opportunity to register as supplier, yet due to the number of suppliers already on the database such suppliers often never get assessed and are thus never invited to tender. The policy creates expectations amongst the SMME and BWO market, which is difficult to meet.
- The second highest percentage of suppliers falls within the “Listed” category (16% for SMME and 25% for BWO). This indicates that the majority of SMME and BWO suppliers that get contracts with Eskom Transmission operate in a market which is not critical to the business; such suppliers do not get assessed prior to listing – apart from verification of ownership.
- The relative high percentage of deleted suppliers in SMME compared to BWO suppliers market can be attributed to the fact that Eskom has been driving the SMME initiative for much longer than the BWO initiative. Suppliers marked for deletion either does not operate any more, or it could be a result of cleaning up of duplications that exists in the database. The author could not manage to get a split between the two and thus do not consider the findings to be significant.
- Unqualified suppliers amongst SMME and BWO’s accounts for 11% and 7% respectively. This is significant if compared to the suppliers qualified in the database for services, products and works. If one considers the number of suppliers that applied for qualification then the “Unqualified” suppliers make up 83% and 35% respectively for SMME and BWO suppliers that applied for qualification. The reason for the higher percentage of unqualified suppliers amongst the SMME suppliers is two - fold. Firstly due to the more mature SMME drive compared to the BWO drive and secondly due to the fact that, relatively speaking, more SMME suppliers enter a market where they need to be qualified compared to BWO suppliers.
- Only 14% of SMME suppliers and 19% of BWO suppliers are qualified to be included in the database for products, services or works requiring accreditation. The spread of suppliers in each of the qualification levels appears to be fairly

evenly distributed, but only 28 suppliers are qualified to the maximum level for a particular industry.

- Of the potential active suppliers (Z0L, ZQ1 – 7 and DEV), 22% SMME's and 34% BWO's were active, on average, per month.

4.4.2. Top 20 SMME and BWO Suppliers - Comparison of 2004 with 2002 Information

Eskom Transmission consistently spends around 80% of its money on 20 suppliers. This phenomenon is evident in every monthly report run on BEE performance for Transmission. For this reason, as well as the difficulty in extrapolating the relevant data from SAP, the analysis was limited to the Top 20 suppliers in the SMME and BWO categories respectively.

The following table lists the number of SMME and BWO suppliers and compares the 2004 status with 2002 information. "Created as" refers to suppliers that claimed SMME or BWO status when they initially approached Transmission to be listed in the database as supplier. "Converted from" refers to those suppliers that changed ownership and thereby their Business Indicator.

Comparison of 2002 and 2004 statistics		
	2002	2004
Created as SMME	9	8
Created as BWO	2	10
Converted from OTH to SMME	11	12
Converted from OTH to BWO	1	1
Converted from OTH to SMME to BWO	5	5
Converted from SMME to BWO	12	4
100% BAC owned SMME	5	4
100% BAC female owned BWO	0	1

Table 12 – 2002 and 2004 SMME and BWO Statistics

The most noticeable change lies in the number of BWO suppliers among the top 20 that was created as BWO from the start. In 2002 only 2 of the BWO suppliers were created as BWO, in 2004 half (10) of the BWO suppliers started off as such.

Of note is the high number of suppliers that were converted from OTH to SMME, OTH to SMME to BWO and SMME to BWO. A large percentage of these suppliers have been registered as suppliers to Eskom Transmission long before the BEE programme, and managed to stay on the database by changing business partners. This is especially true of the 5 suppliers that converted from OTH to SMME to BWO; the same 5 suppliers that appear in this category in 2004 were also there in 2002, albeit with a different Business Indicator.

Of the initial 5, 100% Black owned SMME suppliers in 2002, only 1 remained among the top 20, the other 3 are suppliers that were included into the database at a later stage. Only 2 of the remaining 5 suppliers remained in the top 50, with substantially lower contract values in 2004 compared to 2002.

Significance of the findings:

- A small number of SMME and BWO suppliers started their companies as 100% BAC owned, the rest were all traditional OTH suppliers that converted into SMME or BWO suppliers through some or other form of changes in shareholding. Although this practice is in line with Eskom policy, the potential for fronting exists in such businesses and thus needs to be closely monitored.
- The same 5 suppliers that converted from OTH to SMME to BWO appear among the top 20 every year since 2002. These suppliers have been supplying Eskom Transmission for years; the BEE programme's ability to change the face of its supply base among the top 20 suppliers is thus limited.

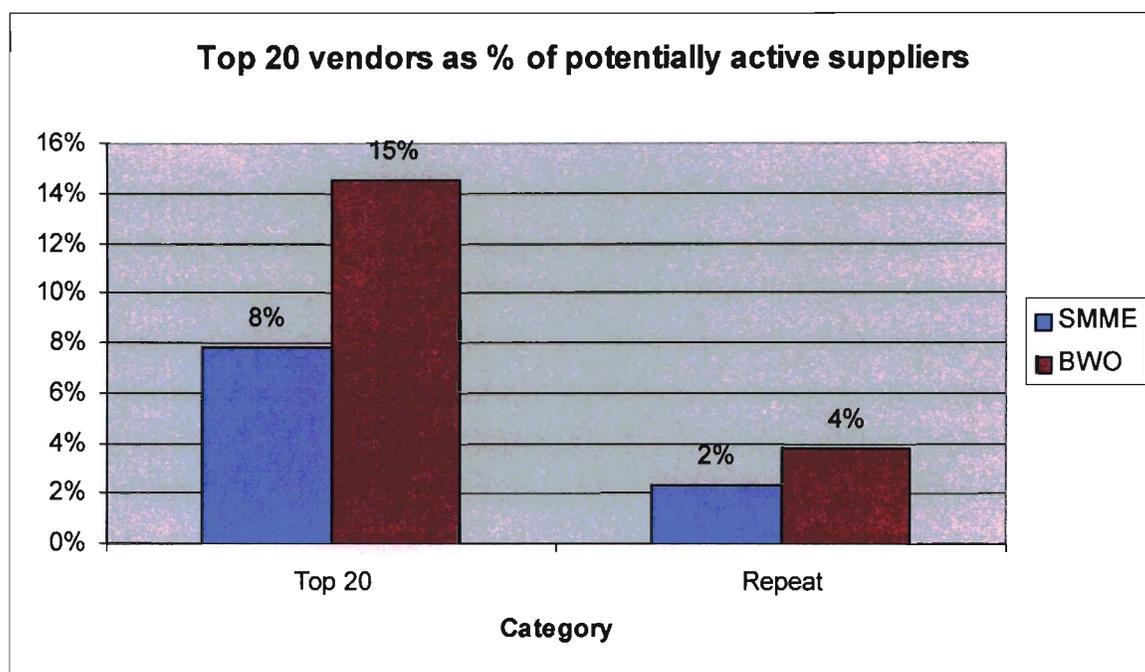
SMME

- 11 of the 44 SMME suppliers in the top 20, for the period 2002 to 2004, consistently appear in this category.
 - None of the 11 SMME suppliers qualify for development assistance, either due to ownership not being 100% BAC or due to them having been registered on the Eskom database for more than 2 years.
 - Of the 44 SMME's that appear in the top 20 over the period, 12 are 100 % BAC owned.
 - These 12 suppliers operate in the following markets:
 - 2 car sales;
 - 1 servitude clearing;
 - 1 travel agent;
 - 2 consultants;
 - 2 manufacturing, and
 - 4 construction.

BWO

- 13 of the 42 BWO suppliers that appear among the top 20 for the period analysed, appear in this category every year;
 - None of the BWO suppliers qualify for development assistance, either because of ownership in the company being less than 100% BAC or due to the fact that these companies have all been listed with Eskom Transmission for more than 2 years.
 - Only 2 of the BWO suppliers in this category are 100% owned by a BAC female,
 - The one supplier is a caterer and the other an agent for imported products.

The following figure represents the SMME and BWO suppliers as a percentage of potentially active suppliers, with the same business indicator, in the database. Potentially active suppliers are suppliers that are listed, qualified to any of the 7 levels or has a developing status in SAP.



Graph 14 – Top 20 SMME and BWO Suppliers as % of Potentially Active Suppliers

The above figure highlights the following:

SMME

- 8% of potentially active SMME suppliers appear among the top 20 SMME suppliers;
 - 44 of the potential 560 active SMME suppliers appear among the top 20
- 2% of the active SMME suppliers continually appear among the top 20 every year – 13 suppliers.

BWO

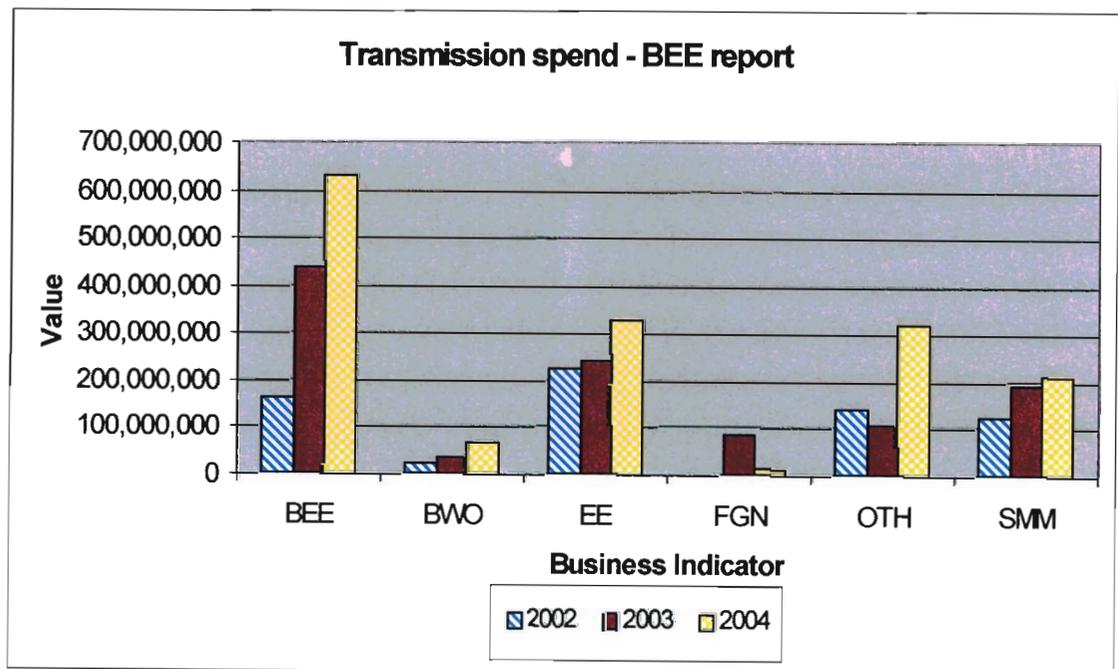
- 15% of potential active BWO suppliers appear among the top 20 BWO suppliers;
 - This equates to 42 of the 289 potentially active BWO's among the top 20
- 4% of the active BWO suppliers appear among the top 20 every year – 11 suppliers.

The following findings are significant:

- There are only 24 SMME and BWO suppliers that continually win substantial Eskom Transmission business year after year;
- None of the suppliers that operate in the market where Eskom Transmission spend the majority of its money qualify for development assistance;
- Of the top 20 suppliers 12 SMME and 2 BWO suppliers are 100% BAC owned, the rest have shareholding that consists of white as well as BAC ownership, and
- Any development assistance on the current supplier base will be directed at suppliers that compete for 20% of Eskom Transmission’s business (based on value).

4.4.3. Reporting of BEE Spend

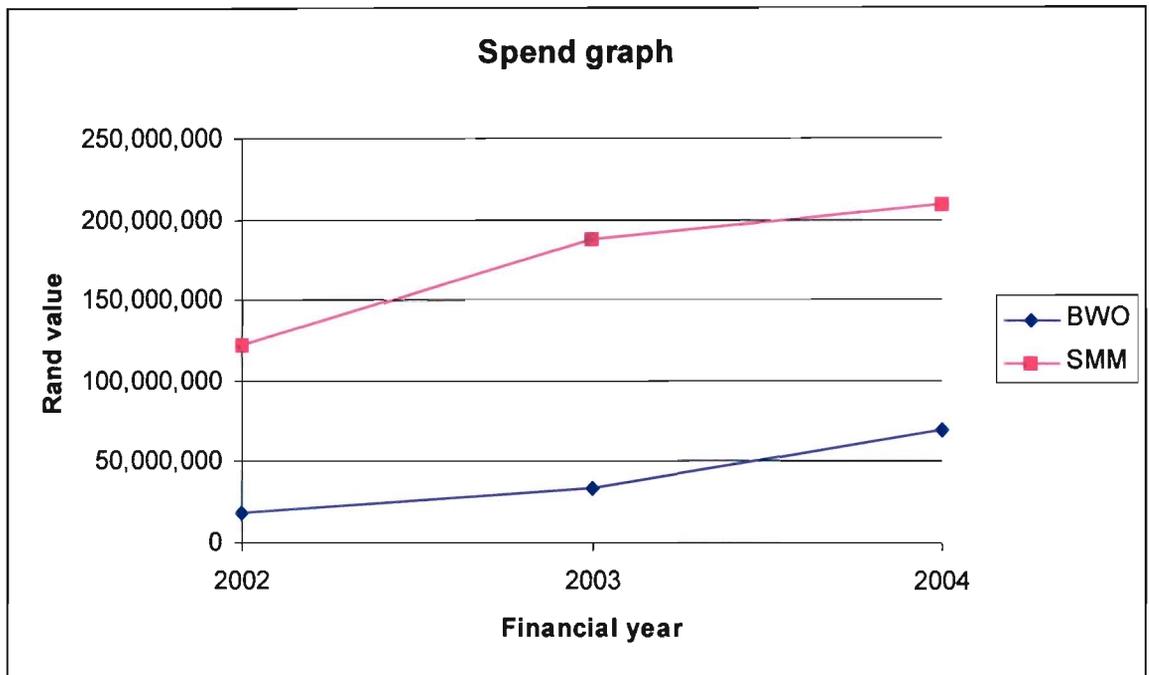
The Eskom Transmission spend analysis reported for the period 2002 to 2004 is as follows:



Graph 15 – BEE Figures Reported for Period 2002 to 2004

The figure above represents the entire Eskom Transmission spend for the period 2002 to 2004.

The following graph singles out the SMME and BWO spend from the overall BEE spend, and represents the data in a line graph format.



Graph 16– SMME and BWO Spend for 2002 to 2004

The following is noted on the two figures:

- The consistent growth in all areas is relative to the increase in the overall spend in Transmission;
- The BEE and OTH spend seems to be unaffected by the current BWO drive in Eskom;
- The growth in the SMME spend has tapered off, whilst the BWO spend has picked up – indicating that when the focus shifted from SMME to BWO, from a policy point of view, so did the support of such suppliers;
- The growth in the BWO category is at the cost of the SMME category only, and
- The above finding is supported by the current BEE / BWO performance in Transmission, as reported by the QASM section. The following table represents

the percentage of spend, per Business indicator, reflected as a percentage of discretionary spend.

	2002	2003	2004	2005 YTD (end Aug 05)
BEE	36%	51%	50%	51%
SMME	28%	22%	17%	10%
BWO	4%	4%	6%	17%

Table 13 – BEE Spend as % of Discretionary Spend

The support of BEE suppliers seems largely unaffected by the current BWO drive in Eskom, remaining almost constant since 2003. The SMME sector seems to have shrunk considerably at the cost of an increase in BWO support. The overall support of the combined SMME and BWO target market shows a decrease from 32% in 2002 to 26% in 2003 and 23% in 2004. The year to date figures for 2005 shows an increase to 27% which appears to be positive and a move in the right direction. This could however be contributed to the conversion of one frequently utilised SMME to BWO during this period.

Significance of the findings:

Although the spend on overall BEE suppliers, in general, has shown a steady increase over the years, the significant decline in the support of SMME suppliers stresses the need to keep the focus on the programme in terms of reporting. The current reporting system, that of combining SMME with the overall BEE figures, does not highlight this occurrence among SMME suppliers.

4.4.4. Active Suppliers

Due to the SAP database’s inability to track the number of suppliers (per Business Indicator) at any point in time in the past, 2004 statistics are indicated as follows:

2004	SMME	BWO
Suppliers on database	1827	646
RFQ	204	120
Purchase order placed*	206	137

* The PO’s placed are not necessarily in direct response to the RFQ reported – it could be from RFQ’s of the previous year.

Table 14 – Active Suppliers for 2004

- During 2004, of the 1827 SMME suppliers, a total of 204 were requested to quote and 206 received any Transmission orders, and
- During the same time 120 of the 646 BWO suppliers were requested to quote whilst 137 received any Transmission work.

4.5 Conclusion

Chapter four focussed on the findings of the research, with specific emphasis on the current practice in Transmission, the views from various role players in the Transmission supply chain, findings from interviews conducted amongst selected suppliers as well as the results of the database interrogation.

Significant findings that need to be addressed further are as follows:

- The Supplier Management function forms part of the Quality Assurance section, with employees having overlapping roles and responsibilities. Burt et al (2003:516) suggests that the responsibility for development of suppliers has to be a dedicated role. The various aspects of the supplier management function could well be construed as supplier

development activities. The survey findings further indicate that the business sees the Supplier Management section as being responsible for the development of suppliers.

- Ineffective practices in determining ownership of a company claiming BEE status. This finding is supported by Mzwandile Fanisco in the Business report of 18 April 2005.
- All suppliers claiming BEE status get assessed by the QASM section, irrespective of the type of business or where the business is situated, leading to delays in assessing companies as well as unnecessary costs.
- Non standardised and unstructured processes of supplier assessment, both across Divisions of Eskom but also within the QASM section of Transmission.
- SAP database limitations with respect to listing of a supplier
 - No indication of percentage ownership of a supplier;
 - No indication of the nature of the business, i.e. manufacturer, agent, distributor, etc;
 - Limited use (updating of) the qualification level of a supplier, and
 - Qualification for one product or service does not prevent the end user from using the supplier for the supply of other products or services.
- Supplier development is all but non existent in Transmission;
- Squad meetings are not enforced, leading to limited use of this mechanism;
- Supplier performance evaluation is in its infancy and needs to be given dedicated attention to expand and grow;
- The current KPI's for measuring the performance of the BEE programme is inefficient and ineffective. This can be seen in the decline of SMME support by Transmission at the time that the focus was shifted to BWO suppliers. Large amounts of money spend on BEE suppliers also overshadows any SMME and BWO support;
- Support of the BEE programme in Eskom is still driven by policy;
- The BEE programme has not been totally successful in achieving the intentions of the Government policy, i.e. job creation, the eradication of poverty and skills transfer;
- The current method of dealing with small suppliers is not conducive to growth and development, and
- The current status of SMME and BWO suppliers in SAP indicates the following:
 - Expectations are being created, that Transmission cannot meet, with the large number of suppliers on the database that never get invited to tender;

- Large number of “over the counter” type of suppliers compared to manufacturers, contractors, etc. The latter being the areas where skills transfer is most prevalent. Job creation opportunities are also higher;
- The supplier base appears to be stagnant in that the same suppliers continually appear as the top suppliers, with limited new entrants;
- The BWO drive is showing signs of success, at the costs of SMME suppliers – the relative growth in the BWO sector is almost equal to the decline among SMME’s.

CHAPTER 5 –RECOMMENDATIONS AND CONCLUSION

This chapter of the dissertation will focus on the concluding remarks and endeavours to make some recommendations towards changing current practices in an attempt to improve the effectiveness of the BEE programme as it is implemented in Eskom Transmission.

5.1 Summary of Key Recommendations

- Draw up a guide for distribution to all potential suppliers, listing the prerequisites in terms of Eskom as well as legislative requirements;
- Enhance current SAP database to allow for the identification of manufacturers, agents, distributors, etc, as well as information such as date of listing, percentage ownership and number of employees;
- Link all suppliers to the relevant market that they claim to be able to operate in;
- Improve the approach to the current assessment process by recognising the need to treat suppliers of different products and services differently, and eliminate current duplications in the process;
- Supplier assessment must be done against a set scorecard;
- Based on the outcome of the assessment process, and the information in the scorecard, design a development programme for each applicable supplier;
- Set up a dedicated supplier development team in Eskom, if not in Transmission;
- Squad meetings has to be mandatory for all contracting involving SMME and BWO suppliers;
- Give due consideration of the supplier base to the contracting methods used when engaging with such suppliers;
- Devise a strategy that will spell out how suppliers in different industries should be treated in terms of relationships and level of input from Eskom;
- Develop the supplier performance evaluation process in Transmission further, to the point that it can be used to influence the tender list as well as identify development needs;

- Enhance the current KPI's by changing the focus from a purely monetary performance system to a measurement system that would ensure improvement in the current programme.

5.2 Detailed Recommendations

Recommendations made in this chapter are based upon the review of literature in the market, as well as information gathered from practitioners, suppliers and the SAP database findings. The experience of the author in the field has also played a role in the recommendations.

The recommendations are presented in the following sequence:

- Pre - assessment process;
- Database listing;
- Assessment process;
- Supplier development;
- Squad meetings;
- Contracting with suppliers;
- Supplier performance evaluation, and
- Key performance indicators.

5.2.1 Pre - assessment Process

All potential suppliers enquiring or expressing a desire to become a supplier to Eskom could be directed to Local Business Service Centres (LBSC) for initial advice (Rogerson (Chapter 9:138)). Going this route would allow potential suppliers to get information and advice of a general nature, not merely Eskom Transmission focussed information. These Service Centres could also act as a filter to Eskom in that they could identify suppliers required by Transmission and advise suppliers not required by

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Eskom about alternative markets. It is thus suggested that Transmission makes contact with these centres in an attempt to set up a working relationship.

This would minimise the situation where sometimes uninformed advice could be given to potential suppliers – at this point the communication between potential supplier and Eskom Transmission is done through an administrative person.

A guide could be established, listing all the prerequisites in terms of registrations, adherence to various Acts and Laws, Quality requirements, etc. Such a guide could be further enhanced by listing all the relevant operating Divisions in Eskom as well as their contact details. The old saying that “Power is knowledge” is applicable here, the more information given to a potential supplier at this stage, the better equipped the supplier will be to ensure compliance to requirements. The need for information in terms of prerequisites as well as contact details has also been observed by the author over a number of years at the annual BEE exhibition hosted by the Eskom Development Foundation. At these exhibitions the Eskom commercial stand is continuously inundated with people enquiring about the process of registration, entry requirements, etc.

This is also the stage where suppliers enquiring about listing should be advised about the relevance of its market to Eskom Transmission. It serves no purpose allowing a supplier to go through the entire process if the products or services offered by such a supplier are not required by the business. This situation not only creates expectations among the suppliers but also clogs up the database with suppliers that are not required. The relevance of this is supported by the findings of the SAP database analysis in this survey – more than 45% of SMME and BWO suppliers that have been listed are still “Pending” in the system with no business from Transmission.

5.2.2 Database Listing

Database listing should be strictly according to the SAP listing - detailing the products and or services that the supplier indicated that it could provide. In a database of literally thousands of suppliers this is the only way that an end user can identify a supplier, short of knowing the supplier off hand.

A further shortcoming of the system, that of not being able to identify manufacturers, agents, distributors, etc. needs to be addressed. This could be done through the expansion of the current SAP list of industries and markets, or “Class list” as it is known in Transmission. By indicating the status of a business it will allow the function to identify opportunities for development assistance as well as the use of mechanisms such as price matching and set asides in future enquiries.

Other indicators that have to be developed in SAP, and applied when listing a supplier, are the following:

- Date of listing – to allow any assistance to be limited to the 2 year development period as detailed in the Eskom policy;
- Percentage ownership of a company – the Eskom policy calls for development assistance to be limited to 100% BAC owned entities, and
- Number of employees – if job creation is going to be taken seriously then support programmes (set asides and price matching) should not be applied at the cost of job creation.

5.2.3 Assessment Process

Suppliers of different goods, services and works need to be treated differently when it comes to the listing and assessment process. Itumeleng Mahabane (Financial mail 06 Feb 2004) states that empowerment is all about managing risks; this can be directly

translated to risks associated with the impact it could have on the network or financial risks to Eskom Transmission.

The current process in Transmission is that the supplier management section assesses every supplier claiming any form of Black Empowerment status. Not only is this a costly exercise but it is also time consuming. When a supplier is out of town the section will normally hold back on performing an assessment until such time as they have built up a need to do three or more assessments. This is done in an attempt to save costs on the travelling and accommodation, yet the costs of possible delays in the procurement process as a result of this does not get calculated.

The only reason that the author could establish why suppliers claiming Black Empowerment status are assessed, for ownership, is a result of auditors requiring a copy of the assessment report on file. The format of the report or the fact that an actual visit was performed, however, is not a set requirement. The recommendation in this case is an office based assessment for suppliers of low risk, low value products which would result in a report detailing the steps taken, and findings made, from such an office based assessment. Use could be made of tools such as the database provided by KreditInform (KI) to verify claimed ownership of a business. The KI database is directly linked to that of the registrar of companies, thus allowing the user direct access to the latest information. The information at the registrar of companies indicates ownership as presented to them at the time of a company registering as a legal entity; it does not capture payment for shares or actual involvement of any shareholder. For this reason physical assessments would still need to be conducted for suppliers in the higher value, higher risk categories.

The above recommendation, if implemented, would free up resources to focus on higher risk, higher value supplier assessments, which are currently being conducted under pressure due to the high volume of assessments.

The following table could be used, as a tool, to establish the level of input and effort that Eskom Transmission Supplier management section should be putting into the

assessment process. The table is by no means comprehensive, but intended as a point of departure for further development.

Assessment Criteria

V a l u e	High	e.g. Photocopier rental, vehicle suppliers <i>Regular customer</i> Assessment: BEE advisor only to confirm ownership Review: Extended review period	e.g. Power Transformers, Current transformers Assessment: Extensive assessment involving specialists, including Finance Focus: Management skills Strategy and planning skills Project Management skills Human relations skills Financial and marketing skills Review: Relative short review period, suggested no more than 12 months <i>Partner</i>
	Low	e.g. Office consumables, general suppliers <i>Shopper</i> Assessment: Paper based only, using Kredit Inform database to confirm ownership Review: only when a change in ownership comes about	e.g. Insulators, Line hardware Assessment: multidisciplinary team with Technical and Quality assurance Focus: Management skills Strategy skills Project Management skills Human relations skills Review: Suggested review period between 12 and 24 months <i>Special Customer</i>
		Low	High
Impact on Business			

Adapted from International Purchasing & Supply Chain Management, Course book module 16

Figure 7 – Assessment Criteria for Suppliers

Shopper, Regular Customer, Special Customer and Partner refer to the way Eskom Transmission should be seen and treated by the supplier once they become listed in the database as supply to Transmission:

- **Shopper** – a price focussed relationship is formed where Eskom looks at the best price for a product, if it is available at a lower price somewhere else, Eskom will change supplier.
- **Regular Customer** – the focus here should be on the product rather than price alone. In case of unsatisfactory service or product Eskom should engage in conversation with the supplier to try and resolve the issue. If unsuccessful, Transmission should find an alternative supplier.

- **Special Customer** – the focus in this group should be on Eskom Transmission as a customer rather than the price and product alone. Transmission should be getting personalised attention from the supplier. Long term relationships should be fostered from the suppliers' side as well.
- **Partnership** – Eskom should be looking at a value-focused relationship from the supplier in this category. Suppliers should be transparent and accessible to Transmission. Co - development of products takes place and the supplier should advise Transmission on areas where Transmission requirements add costs to the process. Cost benefits are to be shared among the parties.

Supplier assessments should further be done against a fixed or predetermined balanced scorecard. The detail of the scorecard should be sufficient to allow the function to determine any shortcomings on the side of the supplier.

The following list of criteria should be used in developing a scorecard for supplier assessments:

- Working environment;
- Working conditions;
- Workforce capability;
- Production capabilities;
- Reliability of production equipment;
- Production scheduling and quality control systems;
- Process and technological capabilities;
- Ethical practices;
- Trade union / worker relationships;
- Financial status;
- Equity ownership;
- Procurement and supplier development;
- Skills transfer;
- Employment equity, and
- Corporate social investment.

The above criteria are all covered in the short course on supplier evaluation techniques, advertised on www.iqpc.com and is also discussed in the article “Making Empowerment work” by Lalu (2004)

An added benefit of using a scorecard would be that it makes the process transparent, allowing the supplier the opportunity to address any shortcomings and to allow Eskom to make an informed decision about the level of qualification that a supplier should be afforded in SAP. As an example one could say that a supplier scoring an overall of 60% or below should be unqualified, up to 70% will give a ZQ1 status and so on. Real figures should be calibrated once implemented to ensure that the correct levels have been set.

In order to ensure total transparency as well as ensure a uniform system, Eskom could consider contracting the service of assessments around ownership out to external companies that specialise in this field, i.e. Empowerdex. Such an agreement would go a long way towards standardising BEE ownership criteria in South Africa.

5.2.4 Supplier Development

For tracking and monitoring purposes it is important that once a supplier has been identified as requiring development assistance its business indicator in SAP be changed to reflect the developing status (DEV).

Supplier development should be done proactively on identified suppliers (Burt et al (2003:514) rather than only focus on trying to fix mistakes made by the supplier during the execution of a contract.

The scorecard used during the assessment process could be a useful tool in identifying suppliers that need development as well as identify the type and extent of development needed. The results of the supplier performance evaluation process would further highlight any developmental needs during the execution of contracts.

The development of suppliers should be a structured process with clear goals and measurements. When considering the best practices in Supplier Development as per Burt et al (2003:516), it would be suggested to implement the following in Eskom Transmission:

- Create a dedicated supply development team – with access to specialist functions;
- Focus should be on helping a supplier to develop itself rather than spoon feeding a supplier, and
- Analyse the situation to determine the underlying causes of failures – fix the cause and not the symptom.

More dedicated supplier development should be done in Eskom Transmission. The Plan-Do-Check-Act (PDCA) Cycle or the Deming cycle, as it is commonly known could be used as a basis for this drive. This process is in line with the ISO 9000 Quality assurance standard as well as in support of the supplier development process as per Burt et al (2003:522). The PDCA cycle also supports the Cronje et al (2004:481) Operations Model for improvement.

For the programme to be sustainable one would need participation from all role players involved in the process.

Plan – Do – Check - Act Cycle

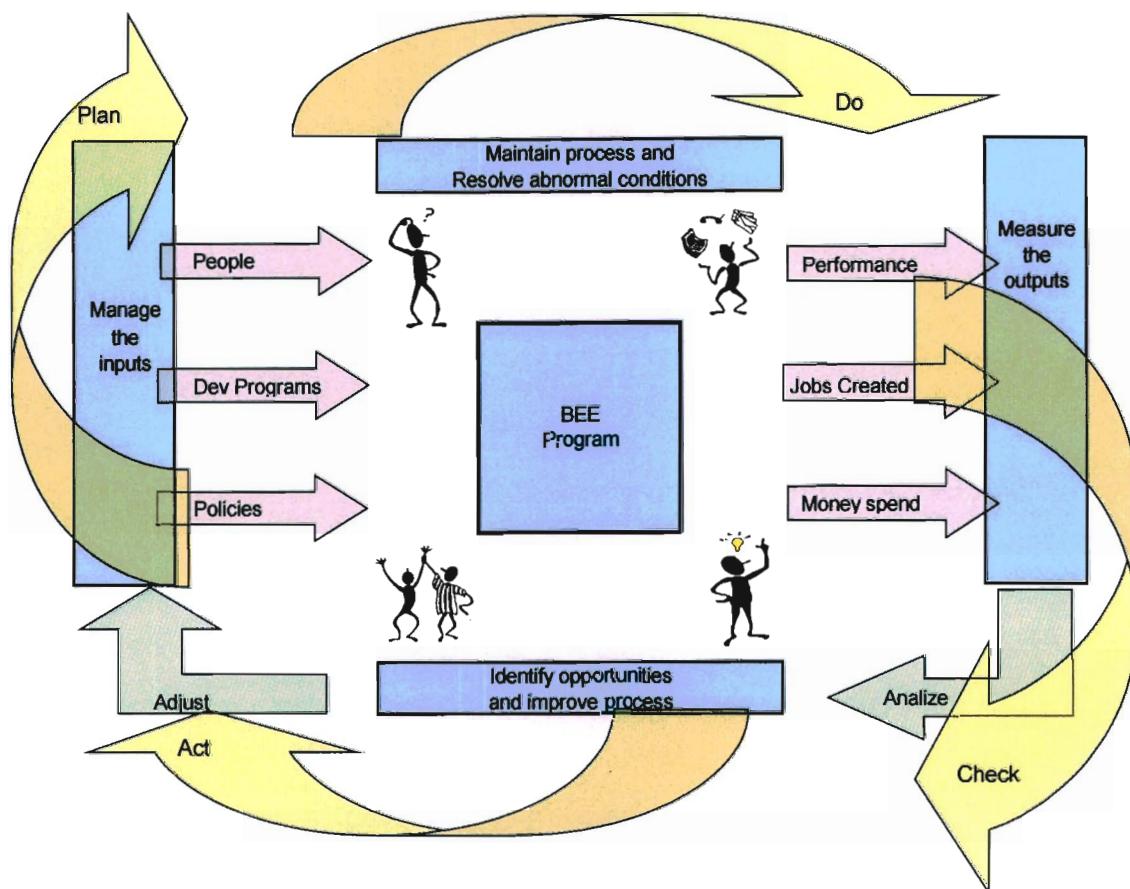


Figure 8 – PDCA Cycle of the Development Process for Suppliers.

As this methodology is in line with ISO 9000 requirements it should not be foreign to Eskom Transmission employees. Eskom Transmission is currently in the process of implementing a Business Management System, based upon ISO 9000, with a target date for listing early 2006.

Once a supplier has been identified as requiring development assistance, the PDCA cycle should be initiated for the specific supplier. Results of the assessment scorecard should play a vital role in the determination of suppliers as well as areas of improvement. Results from the supplier performance evaluation process would provide feedback into the process during the “Check” cycle.

A recommended plan would thus look as follows:

Phase 1 – Plan

In this phase the Eskom team would sit with the supplier to determine what needs to be done and addressed in the development of the supplier.

Expectations and limitations need to be clarified to prevent situations where the supplier, for example, might have expectations that cannot be met by Eskom. These could be financial assistance for the procurement of equipment, raw material, etc. Even the expectation of a contract at the end of the development period, although probably a natural step, should not be a given.

Sign off on the plan should be achieved at the end of this phase and non adherence to the programme by the supplier should lead to removal from the programme.

Phase 2 – Do

During this phase the plans agreed upon in phase one are executed. Execution should not merely be a case of jumping into the deep end but rather a process that consists of:

- Awareness – make the supplier aware of the process that will be followed as well as any tools that might have to be implemented.
- Analysis – both parties develop a thorough understanding of the supplier. This could entail observing workers during the execution of the duties phase, visiting sites, etc.
- Goal setting – Honda uses the SMART goal setting method as most appropriate for this phase of the process. **S**pecific, **M**easurable, **A**chievable, **R**ealistic and **T**imely (cited by Burt et al (2003:528). Each goal should thus be clear with KPI's that are both achievable and realistic. It is of no use to expect a small supplier with 5 employees to obtain ISO 9000 listing in 6 months.

- Development improvement ideas – These ideas could come from within the supplier's organisation or from Eskom, in the form of process engineers, Quality Assurance specialists, etc.
- Implementation plan – The formulation and documentation of the plan.
- Implementation – the actual work gets done in this part of the DO phase.

Cronje et al (2004:144) stresses the importance of setting goals, saying that goals help everyone to understand where they are going, it affects other aspects of planning and it serves as motivation to people, especially if they are rewarded for achievement. Lastly, Cronje et al states that goals provide a benchmark for performance measurement and control, saying that you cannot measure achievement if there are no clear goals.

Phase 3 – Check

It is important to continuously monitor not only the progress, but also the effect of the improvement plan. If an improvement idea proves not to achieve the expected outcomes, it needs to be acknowledged and the activity seized. It is, according to Honda, important to celebrate success at this stage as this encourages future improvement initiatives. The results of the supplier performance evaluation process would give input into the process as to the effect of the improvement of ideas.

Phase 4 – Act

Lessons learned need to become practice in the business. The data collected, and lessons learned, should be maintained for future improvement initiatives by Transmission.

Support programmes such as price matching and set asides, both aimed at allowing new emerging suppliers to get into the market, must also be seen as development assistance mechanisms. These tools or mechanisms should be subjected to the same criteria as other forms of assistance as detailed in this chapter. The implication of this

is that price matching and set asides will only be allowed for the identified period, and not a general, open-ended rule as is currently the practice.

The development assistance to suppliers should be limited to the two-year period as specified in the current Eskom policy. This will allow other suppliers the opportunity to get assistance and two years should be sufficient for any supplier to develop to a level that they could operate in a market without any “protection”.

Re - instate supplier seminars or forums, focussed on improvement initiatives, technical advice, quality assurance, cash flow, etc. (Burt et al (2003:516))

The level of investment from a development and assistance point of view should be in relation to the benefits that such a supplier would have on the economy as a whole.

It is essential to note that the scope of the Eskom BEE programme is not intended to provide assistance to the micro level of supplier. This is the responsibility of the Eskom Development Foundation (ESDEF), whose goal it is to address Eskom’s Corporate Social Investment through the improvement of the quality of life of previously disadvantaged South Africans. ESDEF forms the platform for assistance to the micro level of business owners who just cannot enter the Eskom commercial arena - the focus of this study. (*Source – Eskom Annual report 2005*)

Developmental efforts should further be focussed on manufacturing and construction suppliers as their chances of survival are far greater than those in the wholesale and retail sector (McGarth Chapter 5:56).

The developmental programme could be enhanced to go beyond the borders of SMME and BWO suppliers. If figure 7 under “Supplier assessments” is used as a guide then one could decide to provide developmental guidance only, within the boundaries of the policy, to SMME and BWO suppliers in the “Shopper” and “Regular customer” categories. Any supplier in the “Special customer” and “Partner” categories should be considered for developmental assistance as changing suppliers in these categories could have a negative impact on Transmission’s business. (Burt et al (2003:514))

5.2.5 Squad Meetings

Squad meetings should be convened for any contract involving SMME or BWO suppliers. The Supplier Management function should use this platform for the following:

- Identify suppliers on the source list, together with current commitments;
- Draw tender list of potential suppliers for the contract – including any current developmental candidates;
- Identify any areas of concern related to the technical specifications, payment terms, etc that could have a negative impact on a business, and
- Pro-actively address above concerns – set the ball rolling in terms of developmental assistance, plan and allocate internal resources.

5.2.6 Contracting With Suppliers

It is important that different criteria be applied when dealing with suppliers in different markets, depending on the monetary value and / or the impact that they might have on Eskom Transmission's business.

As with the previous table, the following table is not a comprehensive list of options available to Eskom Transmission, but rather meant as a discussion document for Supply chain staff to engage in whilst developing a comprehensive set of criteria.

Contracting with suppliers

V a l u e	High	<p>Engage in discussions with supplier if unsatisfactory service, but Change supplier if current supplier does not perform Apply price matching Inform suppliers through forums and general communications</p> <p style="text-align: center; color: red;">Regular customer</p>	<p>Invite and use experienced suppliers with sound track record Extensive supplier development assistance Refrain from applying price matching Focus on wasteful activities Use to develop or coach smaller supplier/s with proven track record to develop into large supplier</p> <p style="text-align: center; color: red;">Partner</p>
	Low	<p>Change supplier if current supplier does not perform Limit development support to minimum Review procurement procedure for low value orders Simplification of tender submissions Apply price matching</p> <p style="text-align: center; color: red;">Shopper</p>	<p>Provide technical assistance to suppliers Invite and use suppliers with prior experience and track record Allow suppliers to work in the Eskom environment for a period</p> <p style="text-align: center; color: red;">Special Customer</p>
		Low	High
		Impact on Business	

Adapted from International Purchasing & Supply Chain Management, course book module 16

Figure 9 – Contracting with Suppliers

Shopper, Regular Customer, Special Customer and Partner refer to the way Eskom Transmission should be seen by the supplier throughout the relationship:

- Shopper** – in this category Eskom Transmission looks at price and convenience. Should the product be available elsewhere at better prices, Eskom changes supplier. Contracts set up in this category would be mainly for convenience and cost benefits. Developing suppliers could be contracted for a period of time to allow them to use the contract as security for financing, etc, thus allowing them to grow the business. A simple example of this is a supplier of toilet paper. If Eskom Transmission buys from the supplier on an as and when basis the supplier has to buy toilet paper from a manufacturer or wholesaler. If Eskom contracts with the supplier for two years to provide the product on a continuous basis the supplier could go to the bank and borrow money against the contract to purchase a machine that could make toilet paper.

- **Regular Customer** – the focus here should be on the product rather than price alone. In case of unsatisfactory service or product Eskom should engage in conversation with the supplier to try and resolve, failing which Eskom changes supplier. Contracts set up in this category are for convenience, cost benefits as well as continuation of services. An example in this category would be a cell phone service provider. The impact of changing supplier could have a negative impact on the rest of the business if everyone involved continually had to change cell phone numbers; however it will not directly affect the Transmission network.
- **Special Customer** – suppliers in this group are expected to focus on Eskom Transmission as customer and not price or product alone. Transmission should be getting personalised attention from the supplier. Suppliers should foster long term relationships with Transmission and not be looking for maximum profits over as short a period as possible. Contracts set up should be for cost benefits, convenience and continuation of service but more importantly to foster long term relationships. A change in supplier could entail more than inconvenience or lack of supply. A change in supplier typically would mean separate spares with its associated costs, new training programmes for maintenance staff, etc. All of these factors affect the Total Cost of Ownership (TCO) to Transmission.
- **Partnership** – This category is all about a value-focused relationship between supplier and Eskom Transmission. Transmission should be looking at transparency and flexibility from these suppliers. Relationships should be set up with the aim of co - development of products and the supplier should be advising Transmission on any cost added elements in the scope of work, specifications or requirements. Costs benefits should be shared amongst both parties.

The above methodology would not only be applicable to Black Empowered suppliers but all suppliers in general. The significance thereof to SMME and BWO suppliers is that they could grow and develop from “Shopper” to “Partnership”.

From the research, it was discovered that the types of contracts that Transmission use when engaging with SMME and BWO suppliers need serious consideration. A typical example that was found more than once is the enabling contracts that Transmission uses when they cannot accurately determine requirements. For a small supplier to

allocate resources to service a contract, if in the event a draw down happens, it is an inefficient and ineffective situation. Such a supplier cannot take on additional contracts as they might find themselves in a situation where they cannot service the enabling contract as well as the additional commitments. It is argued that the squad meeting be used to determine the contracting method that has to be considered for the specific tender.

Mbanjwa (2003:44) has also found that construction management or “affirmative construction” be allowed for smaller contractors to take part in the larger construction projects. Affirmative construction refers to a term used by Thebe Bovis South Africa when they break up large construction related contracts into smaller work packages. Transmission could learn from them as this is an area of resistance experienced from the business to date.

5.2.7 Supplier Performance Evaluation

The current supplier performance evaluation process in Transmission has taken a leap forward from where Eskom has been until recently. It is however recommended that the template be revised to incorporate the learning since its inception. An area of performance that has been neglected to date is the performance of a supplier in terms of matters related to the BEE programme, i.e. does the company develop PDI's, does visible skills transfer take place or does the Black partner take part in the day to day running and operations of the business?

The process of supplier performance evaluation should also be automated - as it is currently a fully manual system. The author acknowledges that the current system was implemented as a result of frustrations with SAP not being able to provide the functionality, yet the learning to date should enable the process to be enhanced into an automated system.

Benefits of an automated system would be:

- Increased scope of evaluation;
- Ease of use;
- Saved time and resources;
- Increased responses in terms of role players;
- Auto tracking of responses;
- Quicker turnaround time with the processing of responses, and
- Link to the SAP supplier master to affect a suppliers' status where applicable

The results of the evaluation further need to be shared with the affected supplier in order to remain transparent as well as allow the supplier the opportunity to address any shortcomings.

Supplier performance evaluation results are vital for developing suppliers and need to be fed into any development programmes that might be applicable to a specific supplier.

Results of the supplier performance evaluation process would allow for the population of a database that could be used for the identification of common threads amongst suppliers that need to be addressed in order to improve, not only the current BEE programme but Supplier management in general.

5.2.8 Key Performance Indicators (KPI's)

Although the current KPI should be kept for reporting performance of the overall programme, it is the opinion of the author, and supported by others, (Alex Erwin and Mr Moshapalo – Enterprise Magazine (April 2003), Van Zyl in Finance week (Oct 2004), Colin Reddy (Finance week (July 2003), Lionel October (Finance week (Sept 2003) Gretha Steyn (Finance week (April 2005), etc) that the KPI's need to be

enhanced to include more relevant measures. The following measures are recommended for inclusion into the BEE programme in Eskom Transmission:

- Number of suppliers still in business after its 1st year, 2nd year, 3rd year, etc – indicating sustainability;
- Amount of money spend on procurement from SMME and BWO suppliers independently from money spend on the overall BEE programme;
- Money spend on the formal development of suppliers / time spend on the development of suppliers;
- Numbers of jobs created through the support of the BEE programme;
- Number of price matching opportunities applied and the percentage difference in tendered price;
- Performance of BEE suppliers, in terms of their second tier SMME / BWO support needs to be measured, tracked and reported on. As this form of SMME / BWO support is in direct response to Transmission's business with such BEE's it is an indication of SMME / BWO involvement in the programme, and
- KPI's set for different industries could allow the overall KPI to be more realistic and achievable. Burt et al (2003:528) lists the following attributes for goal setting as most important: **Specific, Measurable, Achievable, Realistic and Timely**. A 50% of discretionary spend target in the office supply industry could be a low target whereas a 30% target for the supply of imported (not locally available) products could be unachievable – or could lead to the establishment of non value adding agents.

The recommendation to keep the current KPI's as part of the reporting is in line with the notion of Appreciative Inquiry. Watkins et al (2000), in an article on Appreciative Inquiry, highlights the importance of seeking and finding images of the positive rather than the negative. Appreciative Inquiry is an articulated theory that rationalises the habit of positive thinking rather than negative. Social science research has proven the power of generative images to create a world of hope and prosperity. To this end it is recommended that the current method of reporting BEE performance should be maintained, for reporting outward from Eskom Transmission.

A positive message on Eskom's performance, with respect to BEE, is important in a country recovering from many years of oppression. Reporting on secondary levels and in more detail could cause more harm to the program in that it might not be understood correctly and thus construed as ineffective and failing in its cause.

Internal reporting however, to be broken down into more detail - as discussed - to ensure that focus is not lost.

5.3 Conclusion

The purpose of the study was to consider the current implementation of the Eskom BEE programme, with specific focus on the prevailing policy on Procurement from Black suppliers in Eskom Transmission. The effectiveness of the programme in fostering sustainable businesses was examined through the use of a multi – method empirical survey. This survey included electronic questionnaires sent out to supply chain staff, interviews with suppliers, SAP database analysis as well as critical analysis of the current supplier management practices in Eskom Transmission. The hypothesis that the BEE programme did not fully realise sustainable businesses were confirmed by this study.

The study further attempted to make some recommendations in terms of changing the way that various activities are currently performed and should not be seen as the final solution to the situation but rather as the start of a process to develop practices that would improve the current situation.

5.4 Way Forward

Eskom has undoubtedly seen many successes since the implementation of its policy on procurement from black suppliers. This is evident in the high percentage of its discretionary spend that goes towards Black Economic Empowerment companies. To quote the Eskom Chief Executive, Mr Thulani Gcabashe in the Eskom Group- Abridged Audited Financial Results for the 15-month period ended 31 March 2005, "*Eskom spent R10,3 billion on*

procurement from black economically empowered companies (2003: R6,8 billion and Eskom spent R1,1 billion on procurement from black women-owned companies (2003: R517 million)”

The above figures are by no means small amounts and indicate the level at which Eskom is willing to manage its risk whilst dealing with new, sometimes inexperienced suppliers. The recommendations made, however are aimed at further improving the program by extending it to more of the small suppliers that have not yet managed to fully gain from the program. This, the author believes, will go a long way in creating sustainable businesses that would address the three main aims of the Governments BEE programme, that of job creation, skills transfer and eradication of poverty.

It is suggested that the business, in conjunction with the corporate custodian of the policies and BEE programme as a whole, establish a working group to consider the recommendations and possible implementation. At the same time systems might have to be changed to accommodate the proposals, examples being that one would have to have different Business Indicators for different types of suppliers. Agents and distributors need to be distinguishable from manufacturers. The number of employees of a SMME or BWO supplier also needs to be captured, and maintained in the database.

Although outside the boundaries of Eskom Transmission, it is further proposed that the Supplier Management Function be controlled from a centralised point to ensure:

- Standardised implementation and application of the policies across all Divisions of Eskom Holdings;
- Minimise, if not eliminate, duplication in the assessment process;
- Use resources more efficiently and effectively through utilising local supplier management staff to perform the assessments rather than Transmission centrally located staff having to travel to remote areas, and
- Pool development efforts within Eskom, thus eliminating duplicating or conflicting efforts.

The BEE program as a system should be considered in terms of the continual improvement process – PDCA cycle. This will ensure continual tracking on performance of the program and adjustments can be made accordingly. Perhaps one of the main shortcomings of the existing program is the lack of continual updating thereof. This is evident in the fact that the current policy on “Procurement from Black Suppliers” dates back to 2002.

Benefits of continual review and adjustment would be:

- Identifying loopholes in the policy and closing it in time;
- Adjusting focus with changes in market;
- Identify shortcoming with current processes and addressing it;
- Include changes in Government policies as they come about, and
- Incorporate learning from experience.

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APPENDICES

Appendix 1 – Electronic Survey Questionnaire

Return to: H Langenhoven Fax 086 653 1008 or email: henk.langenhoven@eskom.co.za
fax to email

QUESTIONNAIRE - Effectiveness of Eskom's BEE programme in fostering sustainable businesses

Your geographical location

Please tick the appropriate block

Gauteng	<input type="checkbox"/>	Western Cape	<input type="checkbox"/>	Limpopo	<input type="checkbox"/>
Mpumalanga	<input type="checkbox"/>	Northern Cape	<input type="checkbox"/>	North West	<input type="checkbox"/>
Eastern Cape	<input type="checkbox"/>	Freestate	<input type="checkbox"/>	Kwazulu Natal	<input type="checkbox"/>
Your Division	<input type="checkbox"/> Gx	<input type="checkbox"/> Tx	<input type="checkbox"/> Dx	<input type="checkbox"/> Sx	

Please select the three most applicable statements, i.e. 1 - Primary, 2- Secondary and 3 - Tertiary

1	I usually support SMME and BWO because:	
	a It allows previously disadvantaged people to take part in the mainstream economy of South Africa	<input type="checkbox"/>
	b It allows for skills transfer, job creation and the eradication of poverty in South Africa	<input type="checkbox"/>
	c Eskom's policies requires me to do so	<input type="checkbox"/>
	d It affects my Performance Appraisal and thus my performance bonus	<input type="checkbox"/>
	e Suppliers are being selected, by others, on my behalf	<input type="checkbox"/>
2	I believe that Eskom's policy on Black Supplier Procurement has been successful in :	
	a Creating sustainable Black owned businesses	<input type="checkbox"/>
	b Eradicating poverty in South Africa	<input type="checkbox"/>
	c Creating jobs in South Africa	<input type="checkbox"/>
	d Creating front companies that "use" black owners to gain contracts	<input type="checkbox"/>
	e Creating agents that merely pass the product/service on from a traditional supplier	<input type="checkbox"/>
	f Enriching a few elite Black people in South Africa by passing all the business to them	<input type="checkbox"/>
3	I believe that Eskom's policy has been most successful in the following industries / markets	
	a Supply of imported products / agents	<input type="checkbox"/>
	b Local manufacturing	<input type="checkbox"/>
	c Agent for local manufacturers	<input type="checkbox"/>
	d Service provider	<input type="checkbox"/>
	e Contracting	<input type="checkbox"/>
	f Professional services	<input type="checkbox"/>
4	As far as you know, who IS responsible for the development of SMME and BWO suppliers in your Division?	
	a Supplier Management	<input type="checkbox"/>
	b Quality Assurance	<input type="checkbox"/>
	c Procurement Department	<input type="checkbox"/>
	d End user / requestor / Project Manager / site supervisor	<input type="checkbox"/>
	e Suppliers are responsible for their own development	<input type="checkbox"/>
	f Other: Please specify _____	<input type="checkbox"/>
5	Who, in your opinion, SHOULD BE responsible for the development of SMME and BWO suppliers?	
	a Supplier Management	<input type="checkbox"/>
	b Quality Assurance	<input type="checkbox"/>
	c Procurement Department	<input type="checkbox"/>
	d End user / requestor / Project Manager / site supervisor	<input type="checkbox"/>
	e Suppliers are responsible for their own development	<input type="checkbox"/>
	f Other: Please specify _____	<input type="checkbox"/>
6	My opinion on joint ventures is that:	
	a It creates fronting opportunities for traditional business owners to continue contracting with Eskom	<input type="checkbox"/>
	b It allows for skills transfer to the Black Partner / shareholder and is thus effective	<input type="checkbox"/>
	c It has the ability to allow for skills transfer but the implementation monitoring thereof is incorrect	<input type="checkbox"/>
	d The Black partner is usually not involved with the contract, benefiting financially only	<input type="checkbox"/>
	e It should not be allowed as it is difficult to monitor actual skills transfer	<input type="checkbox"/>
7	My opinion on price matching is:	
	a It is an effective mechanism to allow SMME /BWO suppliers to win contracts	<input type="checkbox"/>
	b It is an effective mechanism to allow development and growth of SMME / BWO suppliers	<input type="checkbox"/>
	c It can be effective but limits should be set for price matching / guidelines should be provided	<input type="checkbox"/>
	d It has the potential to be effective but it is incorrectly applied	<input type="checkbox"/>
	e It should not be used as a tool for development as it impacts on competitive spirit	<input type="checkbox"/>
	f It's use should be limited to low value, low risk applications	<input type="checkbox"/>

8 My opinion on set asides (allowing only SMME / BWO to tender or negotiating with SMME / BWO suppliers only):		
a	It is an effective mechanism to allow SMME /BWO suppliers to win contracts	<input type="checkbox"/>
b	It is an effective mechanism to allow development and growth of SMME / BWO suppliers	<input type="checkbox"/>
c	It protects SMME and BWO suppliers from the real world commercial environment	<input type="checkbox"/>
d	It is a necessary support program to protect SMME / BWO from the larger, established suppliers	<input type="checkbox"/>
e	Limited for a 2 year period to allow SMME / BWO's to be exposed to the commercial world	<input type="checkbox"/>
f	It should not be used as a tool for development as it impacts on competitive spirit	<input type="checkbox"/>
Please select the most appropriate answer, from your experience, for each of the following statements. Select only one		
9 End users are sufficiently involved in providing assistance to SMME and BWO suppliers		
a	Agree 100%	<input type="checkbox"/>
b	Mostly agree	<input type="checkbox"/>
c	50% of the time	<input type="checkbox"/>
d	Mostly disagree	<input type="checkbox"/>
e	Totally disagree	<input type="checkbox"/>
10 The assessment process sufficiently covers all aspects necessary to ensure that only capable suppliers are listed		
a	Agree 100%	<input type="checkbox"/>
b	Mostly agree	<input type="checkbox"/>
c	50% of the time	<input type="checkbox"/>
d	Mostly disagree	<input type="checkbox"/>
e	Totally disagree	<input type="checkbox"/>
11 Structures are in place to assist me in making the correct decision on the appointment of a SMME / BWO supplier		
a	Agree 100%	<input type="checkbox"/>
b	Mostly agree	<input type="checkbox"/>
c	50% of the time	<input type="checkbox"/>
d	Mostly disagree	<input type="checkbox"/>
e	Totally disagree	<input type="checkbox"/>
12 Performance of SMME and BWO suppliers are adequately measured and monitored		
a	Agree 100%	<input type="checkbox"/>
b	Mostly agree	<input type="checkbox"/>
c	50% of the time	<input type="checkbox"/>
d	Mostly disagree	<input type="checkbox"/>
e	Totally disagree	<input type="checkbox"/>
13 Feedback on past performance of SMME/BWO suppliers is used to update the vendor database		
a	Agree 100%	<input type="checkbox"/>
b	Mostly agree	<input type="checkbox"/>
c	50% of the time	<input type="checkbox"/>
d	Mostly disagree	<input type="checkbox"/>
e	Totally disagree	<input type="checkbox"/>
14 I believe that SMME and BWO are generally capable to take part in Eskom Transmission contracts		
a	Agree 100%	<input type="checkbox"/>
b	Mostly agree	<input type="checkbox"/>
c	50% of the time	<input type="checkbox"/>
d	Mostly disagree	<input type="checkbox"/>
e	Totally disagree	<input type="checkbox"/>
15 In general, how effective do you think Eskom's policy on Procurement from Black Suppliers are?		
a	Effective 100% of the time	<input type="checkbox"/>
b	Mostly affective	<input type="checkbox"/>
c	Effective 50% of the time	<input type="checkbox"/>
d	Mostly not affective	<input type="checkbox"/>
e	Not affective at all	<input type="checkbox"/>
16 On average, how much time do you spend on giving advise and guidance to SMME and BWO suppliers?		
a	None	<input type="checkbox"/>
b	Less than 1 Hour per week	<input type="checkbox"/>
c	1 - 2 Hours per week	<input type="checkbox"/>
d	2 to 4 hours per week	<input type="checkbox"/>
e	More than 4 hours per week	<input type="checkbox"/>
17 On average, how much time do you spend on assisting SMME and BWO suppliers with financing arrangements?		
a	None	<input type="checkbox"/>
b	Less than 1 Hour per week	<input type="checkbox"/>
c	1 - 2 Hours per week	<input type="checkbox"/>
d	2 to 4 hours per week	<input type="checkbox"/>
e	More than 4 hours per week	<input type="checkbox"/>

Appendix 2 – Electronic Survey Capture Sheet for Transmission Respondents

Number	GP	Tx	1a	1b	1c	1d	1e	2a	2b	2c	2d	2e	2f	3a	3b	3c	3d	3e	3f	4a	4b	4c	4d	4e	4f	5a	5b	5c	5d	5e	5f	6a	6b	6c	6d	6e	
1	gp	tx	1	2	3			2			1	3		3			2	1		1	3			2		3			2	1	1		3	2			
2	gp	tx	1	3	2						1	2	3		2	1		3		1	2	3				2	3			1		2	1	3			
3	gp	tx	3		1	2					2	3	1	3			2	1		3	2		1				3	2	1		2	3	1				
20	gp	tx	2			3	1	2	3		1						1	3	2			2	1	3			1		3	2		2	3	1			
5	gp	tx			1	2	3	1				2	3		3	1	2				2	1							2	1			2	1	3		
21	gp	tx	1									1				1				1						1									1		
7	gp	tx		1	2			1	2						1	2				1	2		3			1	2		3				1	2			
8	nw	tx	3	2								1				1				2							3						1	2	3		
9	gp	tx			1	2	3					1	2	3		2	1	3			3	2	1			2	3	1				1	2	3			
10	gp	tx	1	2	3			2	3	1				2	3			1		1	2			3		1	2		3				1	2	3		
11	gp	tx	2	1	3			3	2	1					2		3	1		1	2	3				1	2	3					1				
12	fs	tx	2	1	3			1		2				3	2			3	1		1	2	3			2	1	3				3	1	2			
13	gp	tx			1								1				1			1						1				2				1			
14	gp	tx			1	2	3				1	2	3			1		2		1						1		2	3			1			2	3	
15	wc	tx	1										1				1			1						1						1					
16	gp	tx		3	1	2					1			1						1						1								1			
17	gp	tx		3	1	2					1	2	3	3		1	2			1			2	3		1			2	3		2	1	3			
22	gp	tx	1	2	3			1	2	3								1		1	2										1	1				2	
23	gp	tx		1	2	3			1		2		3	3		2		1		3			1	2			1	2	3				1	2	3		
1			6	4	7	0	1	4	1	2	7	2	3	1	1	6	3	8	0	13	0	3	2	0	0	10	2	1	0	3	2	6	4	5	2	1	
2			3	4	3	6	0	3	3	1	2	5	0	2	3	2	3	2	1	1	9	1	2	1	0	3	4	1	3	3	0	4	1	5	3	0	
3			2	3	5	2	3	1	2	1	0	2	7	4	2	0	3	2	0	3	1	3	1	3	0	1	2	5	3	2	0	1	0	3	7	1	
Total			11	11	15	8	4	8	6	4	9	9	10	7	6	8	9	12	1	17	10	7	5	4	0	14	8	7	6	8	2	11	5	13	12	2	

Capture sheet for Transmission Respondents, Question 1 to 6

Number	GP	Tx	7a	7b	7c	7d	7e	7f	8a	8b	8c	8d	8e	8f	9a	9b	9c	9d	9e	10a	10b	10c	10d	10e	11a	11b	11c	11d	11e	12a	12b	12c	12d	12e	
1	gp	tx	3	1	2					2		1	3					1				1			1							1			
2	gp	tx	1			2	3			1	3		2				1				1				1							1			
3	gp	tx			3		1	2			1		3	2							1				1								1		
20	gp	tx	1			3		2		3		1	2										1		1								1		
5	gp	tx	3				1	2	3		2			1				1					1				1						1		
21	gp	tx						1				1						1				1				1							1		
7	gp	tx					1							1	1							1			1							1		1	
8	nw	tx				3						3					1					1				1							1		
9	gp	tx			2	1		3			1		3	2			1						1			1							1		
10	gp	tx	3		1	2			1	2			3					1			1				1								1		
11	gp	tx	2	1	3				2	1	3						1				1				1								1		
12	fs	tx		3	2			1		3		1	2				1				1				1						1			1	
13	gp	tx				1				1							1						1			1								1	
14	gp	tx	1		2	3			1		2			3				1					1			1								1	
15	wc	tx	1						1									1			1				1							1			1
16	gp	tx	1						1						1								1		1										1
17	gp	tx	3				1	2	3				2	1				1					1		1									1	
22	gp	tx			1		2			1		1						1			1					1							1		1
23	gp	tx			1		3	2	1	3			2			1					1				1		1								1
1			5	2	3	2	4	2	5	4	2	5	0	3																					
2			1	0	4	2	1	5	1	2	2	0	5	2																					
3			4	1	2	3	2	1	2	3	2	1	4	1																					
															2	1	7	4	5	0	5	5	7	2	1	8	4	6	0	0	2	6	6	5	
Total			10	3	9	7	7	8	8	9	6	6	9	6																					

Capture sheet for Transmission Respondents, Question 7 to 12

Number	GP	Tx	13a	13b	13c	13d	13e	14a	14b	14c	14d	14e	15a	15b	15c	15d	15e	16a	16b	16c	16d	16e	17a	17b	17c	17d	17e	18a	18b	18c	18d	18e	19a	19b	19c	19d	19e	
1	gp	tx				1		1						1					1			1					1				1							
2	gp	tx				1	1							1						1			1	1					1						1			
3	gp	tx				1				1						1					1		1					1						1				
20	gp	tx		1				1						1							1			1								1					1	
5	gp	tx				1		1					1					1					1						1					1				
21	gp	tx					1			1				1					1				1					1						1				
7	gp	tx		1				1					1							1			1					1						1				
8	nw	tx					1								1			1					1					1						1				
9	gp	tx				1				1					1				1					1			1							1				
10	gp	tx				1		1						1							1			1								1				1		
11	gp	tx				1				1				1							1		1						1						1			
12	fs	tx		1				1						1						1			1					1						1				
13	gp	tx				1				1					1				1				1					1							1			
14	gp	tx					1					1				1			1				1					1							1			
15	wc	tx		1				1						1				1				1						1							1			
16	gp	tx				1				1						1				1			1						1							1		
17	gp	tx					1			1					1					1			1						1							1		
22	gp	tx		1				1						1						1			1						1							1		
23	gp	tx					1			1					1				1				1						1							1		
1																																						
2																																						
3																																						
			0	5	0	8	6	2	6	9	0	1	2	9	6	2	0	6	4	4	1	4	16	2	1	0	0	12	5	0	0	2	15	1	2	1	0	
			13a	13b	13c	13d	13e	14a	14b	14c	14d	14e	15a	15b	15c	15d	15e	16a	16b	16c	16d	16e	17a	17b	17c	17d	17e	18a	18b	18c	18d	18e	19a	19b	19c	19d	19e	

Capture Sheet for Transmission Respondents – Question 13 to 19

Appendix 3 – Electronic Survey Capture Sheet for Other Respondents

Number	GP	Tx	1a	1b	1c	1d	1e	2a	2b	2c	2d	2e	2f	3a	3b	3c	3d	3e	3f	4a	4b	4c	4d	4e	4f	5a	5b	5c	5d	5e	5f	6a	6b	6c	6d	6e
26	mp	gx	2	3	1			1			3	2				1	2	3		1	3		2			1	3		2			2		1	3	
27	gp	sx	1	2	3					1		2	3			3	1	2		1		3		2		1		3		2		3	1	2		
4	fs	gx	3	2	1			1			2	3			1		2	3		1		2	3			1		2	3			3	2	1		
6	gp	gx		1							1	2	3			1	2								1			1					1			
18	wc	dx	3		1	2					3	1	2	2		1	3			1		2	3			2		3		1			2	1		3
19	gp	dx			1	2	3	1				3	2				3	1	2	1		2	3			2	3			1			1			
1			1	1	4	0	0	3	0	1	1	1	0	0	1	3	1	1	0	5	0	0	0	0	1	3	0	1	0	2	0	0	3	3	0	0
2			1	2	0	2	0	0	0	0	1	3	2	1	0	0	3	1	1	0	0	3	1	1	0	2	0	1	1	1	0	1	2	1	0	0
3			2	1	1	0	1	0	0	0	2	2	2	0	0	1	2	2	0	0	1	1	3	0	0	0	2	2	1	0	0	2	0	0	1	1
Total			4	4	5	2	1	3	0	1	4	6	4	1	1	4	6	4	1	5	1	4	4	1	1	5	2	4	2	3	0	3	5	4	1	1

Capture Sheet for Other Respondents – Question 1 to 6

Number	GP	Tx	7a	7b	7c	7d	7e	7f	8a	8b	8c	8d	8e	8f	9a	9b	9c	9d	9e	10a	10b	10c	10d	10e	11a	11b	11c	11d	11e	12a	12b	12c	12d	12e
26	mp	gx	1	2		3			1	2			3				1						1					1						1
27	gp	sx				1	2	3	2	1			3					1				1			1									1
4	fs	gx		3	1	2			1	2				3				1					1			1						1		
6	gp	gx		1						1							1				1				1									1
18	wc	dx	1	3	2				1	3				2				1				1			1					1				
19	gp	dx	2	1	3				2	1				3				1					1				1							1
1			2	2	1	1	0	0	3	3	0	0	0	0																				
2			1	1	1	1	1	0	2	2	0	0	1	0																				
3			0	2	1	1	0	1	0	1	0	1	3	0																				
															0	0	2	4	0	0	1	2	2	1	0	3	1	1	2	0	1	1	2	2
Total			3	5	3	3	1	1	5	6	0	1	4	0																				

Capture Sheet for Other Respondents – Question 7 to 12

Number	GP	Tx	13a	13b	13c	13d	13e	14a	14b	14c	14d	14e	15a	15b	15c	15d	15e	16a	16b	16c	16d	16e	17a	17b	17c	17d	17e	18a	18b	18c	18d	18e	19a	19b	19c	19d	19e	
26	mp	gx			1								1					1				1					1					1						
27	gp	sx					1			1			1							1			1						1									
4	fs	gx				1			1						1						1				1				1									
6	gp	gx					1	1					1									1	1					1										
18	wc	dx			1								1						1				1						1									
19	gp	dx				1				1			1							1			1					1										
1																																						
2																																						
3																																						
			0	0	2	2	2	1	1	2	0	0	1	4	1	0	0	0	2	2	1	1	5	0	1	0	0	3	3	0	0	0	6	0	0	0	0	
			13a	13b	13c	13d	13e	14a	14b	14c	14d	14e	15a	15b	15c	15d	15e	16a	16b	16c	16d	16e	17a	17b	17c	17d	17e	18a	18b	18c	18d	18e	19a	19b	19c	19d	19e	

Capture Sheet for Other Respondents – Question 13 to 19

Appendix 4 – Supplier Interview Guide

SMME / BWO - Interview guide

Effectiveness of Eskom’s BEE program in fostering sustainable businesses - implementation by the Transmission Division

1. How long have you been in business?

2. How long have you been registered as supplier to Eskom Transmission?

3. What did you do before you decided to start your own business?

4. How many employees did / do you employ:

- When you started?

- At time of registration as supplier to Eskom Transmission?

- Currently?

8. In what way does Eskom's conditions of contracting assist or hinder you in the running of your business? (Fixed contract, contract terms, duration of contract, enabling contract)

9. Describe your experience in dealing with Eskom under the following headings:

- Info on how to register as supplier (*where did you get the info?*)

- Completion of supplier application form (*where did you get the form?*)

- Assessment process (*admin / BEE advisor / technical specialist*)

- Have you been given any feedback ITO shortcomings / outcome of the assessment?

- RFQ process (*buyer / end user*)

- Have you received any communication regarding the outcome of the RFQ process, when you were not successful

- Contracting process (*end user, project manager, buyer*)

- Do you receive feedback in terms of your performance in a contract? (*Frequency*)
Do you feel this is sufficient (more or less)

- Payment process (*invoices, GR's, payments (14 days), payment clerks*)

10. How do you feel about:

- Formal class room lectures / teaching

- Practical, on the job training

- Being placed in Eskom for a period of time

11. What is your opinion about the following aspects of the people that you have dealt with / are dealing with in Eskom Transmission:

- Skills

- Knowledge

- Experience

- Attitude

12. Any suggestions towards improvement of the way in which Eskom Transmission deals with it's SMME/BWO suppliers?

13. What percentage of your business comes from Eskom?

Supplier Interview Guide

Appendix 5 – Current Supplier Evaluation Sheet in use by Transmission



Vendor performance evaluation sheet

TRM-FM-0021

REV 0

This sheet has to be completed upon completion of each contract or order related to construction work.
Only Edit numbers in BLUE

Upon completion, please return to Eskom MWP, Fax 011 800 6274, for the attention of Zanele Njova
or email to zanele.njova@eskom.co.za

Project / Contract Manager: _____

Supplier: _____ Vendor Number: _____

Order / Contract number: _____

Project description: _____

Key:	
1	Unacceptable performance
2	Bad performance
3	Acceptable performance
4	Exceptional performance

Quality Assurance

Rating of 1 - 4

% of Observations raised still open	4
% of Observations raised closed timeously	4
Quality / value of response to Observations raised	4
Adherence to Quality requirements	4
Severity of concessions approved	4
General attitude towards Quality Assurance	4
Comments:	

Environmental (EMP)

Were there any incidents on site	4
Were all incidents reported	4
Did the supplier adhere to the house keeping policy	4
What was the level of Environmental management on site	4
General attitude towards Environmental awareness	4
Comments:	

Safety

Was protective equipment and clothing used and worn at all times	4
Were there any injuries related to Safety	4
Were all incidents reported and investigated (COID Act)	4
Was the use of inexperienced/casual staff sufficiently supervised	4
Did the contractor comply to Section 16 - Duty of Employer	4
Did the contractor comply to Construction Regulation GN no R1010	4
General attitude towards Safety	4
Comments:	

Contract Management

Did they have the capacity to fulfil contract requirements	4
Have they met the delivery dates	4
Did they adhere to conditions of contract	4
Invoices submitted timeously	4
Did the supplier submit progress reports as required	4
Comments:	

Technical

Adherence to product specifications	4
Adherence to the design requirements	4
Is the completed job aesthetically pleasing	4
Was there sufficient communication on technical issues	4
General attitude towards Technical matters	4
Comments:	

Project Management

Could the standing time claims against Eskom be foreseen	4
Ability of carrying out work with minimal Eskom supervision	4
The availability and use of correct tools on site	4
Adherence to scheduled completion dates (Time management)	4
Rework due to contractor at fault	4
General attitude towards Project management related issues	4
Comments:	

Discretion:	4

Rating 0 - 100% 100

Internal:
Rate the service that you have received from Transmission Finance and Business Support

Procurement department	
Supplier Management (vendor database)	
QA department	
Logistics	
Transport (where applicable)	

Comments:

Current Supplier Evaluation Sheet in use by Transmission