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## Weak Links in the BEE Chain? Procurement, Skills and Employment Equity in the Metals and Engineering Industries

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# **Weak Links in the BEE Chain? Procurement, Skills and Employment Equity in the Metals and Engineering Industries<sup>1</sup>**

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## **Abstract**

The Department of Trade and Industry's 2003 strategy identifies black economic empowerment as being broad-based, inclusive and part of a sustainable long-term growth and development strategy. In this it is consistent with the 2001 Black Economic Empowerment Commission report, the ANC 2002 conference resolution and ultimately the ANC's Reconstruction and Development Programme of 1994. The racially constituted workplaces in South Africa under apartheid, and the implications such as in terms of skills development, were identified as obstacles to better industrial performance in the mid-1990s. This paper uses the case of the metals & engineering industries to examine the actual nature and extent of BEE across the dimensions of ownership, procurement, employment equity and training. It does this by assessing firm level information on industry responses to the different ways in which pressure has been brought to bear, drawing on extensive firm interviews and data in the metals industry to examine the relationships between BEE concepts, provisions and firm responses in practice. The pressures for BEE include legislation and regulatory provisions governing employment equity, skills development and procurement, as well as industry charters to which these industries have been subject due to the large proportion of their output is sold to mining companies, as well as to State Owned Enterprises such as Eskom and Transnet.

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<sup>1</sup> This is a revised version of a paper presented at the workshop 'To BEE or not to BEE: South Africa's Black Economic Empowerment (BEE), Corporate Governance and the State in the South', at the Danish Institute for International Studies Copenhagen, 25-26 June, 2006. We thank all the attendees at the workshop for comments and suggestions. We gratefully acknowledge the financial support of the Friedrich Ebert Stiftung Foundation, and the involvement of the National Union of Metalworkers of South Africa in the research process. We thank Ganief Bardiën and Neo Chabane for their collaboration in the research on which this paper is based. The study would also not have been possible without the participation of the 25 firms interviewed.

## 1. Introduction

The metals and engineering industries make up a sizeable portion of manufacturing activities in the South African economy.<sup>2</sup> In many respects, these industries were at the heart of the apartheid industrial model, as they developed to supply products for mining, energy, infrastructure and defence (see Fine and Rustomjee, 1996). In addition, the industries include those, such as steel manufacturing, with important downstream linkages from minerals and energy. Large firms, including multinational engineering and automotive firms, dominate the landscape in terms of ownership, market power and employment (FRIDGE, 2003).

Most of the economic rents derived from the value-added activities in these sectors flow to foreign owners and white households, reflecting the dominance of large firms, the ownership in them and the profile of employees.<sup>3</sup> Black people are almost entirely limited to semi- and unskilled labour (FRIDGE, 2003). And, as in other more labour-intensive sectors, black workers have borne the brunt of job losses in the face of increased global competition, corporate restructuring and the rationalisation efforts of state owned entities.

At the same time, successive ANC governments have promoted black economic empowerment since winning the first democratic election in 1994. These measures have included procurement, employment equity and skills development legislation, as well as Charters for the Mining and Liquid Fuels industries. More recently, government has developed a Broad-Based Black Economic Empowerment strategy and related Act.

These provisions have major implications for the metals and engineering industries. Leaving aside auto manufacturing, the key local markets for metals and engineering firms remain the infrastructure State Owned Enterprises (such as Eskom and Transnet in electricity and transport respectively), local government, mining and liquid fuels. This means that BEE provisions acting on these major markets impact on the metals and engineering industries, especially through procurement measures.

In addition, increased training and widening the pool of employees who could be promoted through breaking down the apartheid 'colour bar' was viewed as key to achieving higher productivity and sustained manufacturing growth (Joffe et al., 1995). Apartheid era authoritarian workplace regimes and rigid hierarchies along racial lines seriously impeded communication and problem-solving in factories (Webster and von Holdt, 2005; von Holdt, 2003; Joffe et al., 1995). A capital-intensive growth path under apartheid also reflected the interests of relatively better educated white workers in these capital-intensive sectors, as well as in state-owned enterprises and non-traded activities. The apartheid 'colour bar' on the promotion of black workers therefore compounded the trade and industrial policies advantaging the targeted capital-intensive activities and impeding the growth of broader-based manufacturing (Seekings and Natrass, 2006). Artisan skills developed by black workers were not necessarily recognised by employers and even when training was provided it was job-specific and did not lay the basis for career advancement or mobility (MERG, 1993; Joffe et al., 1995) Skills development and

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<sup>2</sup> Taken to include basic iron & steel, basic non-ferrous metals, metal products, machinery & equipment, electrical machinery, auto and other transport equipment, these industries accounted for 33 per cent of manufacturing value-added and 35 per cent of employment in 2005.

<sup>3</sup> See Machaka and Roberts (2003) and Roberts (2005) for the skewed development of these industries in South Africa.

employment equity can therefore be viewed as part of the whole package of measures, in the interests of improved industrial growth and development.

Despite being at the heart of South African industry there has been no specific empowerment charter or provisions for the metals and engineering industries. BEE also tends to be discussed merely in terms of ownership of major companies and there is little research which assesses the state of black economic empowerment at the firm or industry level, despite there clearly being different pressures, such as those associated with different markets. The study addresses issues of procurement, employment equity and skills development, rather than ownership and equity alone.

The remainder of this section describes the methodology employed and the problems experienced during the study, followed by a brief discussion of definitions of empowerment. Section two then examines the drivers of BEE in the metal sector. Section three gives a descriptive analysis of the interview findings. Section four draws together the analysis of the patterns observed and the influence of different empowerment measures.

### ***Methodology***

Data was collected for 25 firms through interviews using a structured questionnaire. In addition, interviews were held with industry associations. The firm questionnaire covered information on: firm background; ownership; markets and products; procurement; employment equity and skills development; the BEE policy of the firm; the challenges and obstacles BEE represents to the firm; and corporate social responsibility initiatives undertaken by the firm. Minor modifications were made to the questionnaire after initial pilot interviews.

All of the firms considered were unionised and located in Gauteng Province, based on a list provided by the National Union of Metalworkers of South Africa, who were co-sponsors of the study.<sup>4</sup> The firms were also selected on the basis that they are considered “designated employers” in terms of the Employment Equity Act No. 55 of 1998. In terms of the Employment Equity Act a “designated employer” means:

- a. A person who employs 50 or more employees;
- b. A person who employs fewer than 50 employees but has a total annual turnover that is equal to or above the applicable annual turnover of a small business in terms of the Schedule 4 of this Act;

Letters requesting firm participation were generally addressed to management in the human resources and procurement functions in the firms, including the designated senior manager(s) assigned to drive employment equity in terms of the Employment Equity Act and the skills development facilitator(s) appointed in terms of Skills Development Act No 97 of 1998. Following intensive follow-up, of the 147 firms contacted 25 agreed to participate. Firms were in general fairly evasive about participation. BEE is clearly still viewed as a contentious issue by most firms, and regarded as an issue that only senior to executive management levels are qualified to deal with.<sup>5</sup>

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<sup>4</sup> The trade union did not select the firms, however, but provided a list of firms in the Gauteng region which were organised by the union. The union is by far the largest in the metals and engineering industries and is an affiliate of the Congress of South African Trade Unions.

<sup>5</sup> Inquiries were often passed around a firm with, in general, decision-making being deferred to the most senior level.

Firms also cited the lack of clarity and uncertainty from government about BEE for not participating in the study. During the study government released yet another set of empowerment regulations, the so-called “codes of good practice”. Some firms wanted time to study these first before considering participation in the study. This could also be seen as a diversionary tactic by firms to avoid participation in the study.

Institutions associated with the motor manufacturing industry pointed out that their members with multinational links are awaiting “codes of good practice” for multinationals from government. However, a large proportion of the 25 firms investigated were multinationals.

We broadly conclude, however, that the set of firms studied represent firms that are more progressive in their approach to black economic empowerment.

In addition to the firm interviews, the Employment Equity Act of 1998 compels all designated employers to submit employment equity reports. A designated employer that employs fewer than 150 employees must:

- a. Submit its first report to the Director-General within 12 months after the commencement of this Act or, if later, within 12 months after the date on which that employer became a designated employer; and
- b. Thereafter, submit a report to the Director-General once every two years, on the first working day of October.

A designated employer that employs 150 or more employees must:

- a. Submit its first report to the Director-General within six months after the commencement of this Act or, if later, within six months after the date on which that employer became a designated employer; and
- b. Thereafter, submit a report to the Director-General once every year on the first working day of October.

In terms of the legislation these reports are considered public documents; and for a nominal fee are available from the Department of Labour (DoL). Firms have, however, not always complied. The DoL publishes a yearly registry of all the firms that submit EE reports timeously.<sup>6</sup> The DoL captures all the EE reports submitted for a particular year before December of that year, which means if a company submits its EE reports after December they will not be on the registry and, once compiled in December, the list is not updated. This means if a company’s name does not appear on the registry for a year they might have submitted their report later than December or they did not comply with legislation. For some of the firms that are used in the paper that did submit EE reports, there are queries on the legitimacy and accuracy of the data reported. An improvement in submissions of EE reports since 2002 can however be observed. A greater number of firms complied with EE regulations in 2004 compared to 2002 in terms of on-time submission. Of the 25 firms studied here, employment data for 2002 and 2004 could only be assessed for 13 firms. Training data was only available for seven firms in 2002, and hence we only evaluate the data for 2004 (when it was available for 18 firms).

With regard to skills development, in terms of the Regulations to the Skills Development Act No 97 of 1998 an employer in consultation with the workforce must appoint at least

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<sup>6</sup> Firms are expected to submit depending on their size before or on the 1<sup>st</sup> of October of each year.

one skills development facilitator (SDF). Besides acting as an advisor to the employer regarding employee skills development, the skills development facilitator is also responsible for assisting the employer with drawing up Workplace Skills Plans (WSPs).

In order for a firm to claim back the Skills Development Levy, it has to develop Workplace Skills Plans; these plans are submitted to the relevant Sector Education and Training Authority (SETA) in the form of a grant application. It is unclear if these documents are considered public documents. However, the grant application forms drawn up by the metals and engineering industries training authority (MERSETA) requires a worker representative to sign the application forms. This signature by the worker representative(s) implies an approval of the Workplace Skills Plan. But, most shop stewards complained that they are rarely consulted on the drawing up of these. Some shop stewards alleged that the very first time they see the workplace skills plans are when they are presented to them for signature. This amounts to firms asking shop stewards to rubber-stamp WSPs without proper consultation as required by the Act. Of equal concern is the fact that most shop stewards did not have any copies of the documents they were requested to sign. During the whole study only two firms supplied copies of the WSPs they have submitted to MERSETA. For this reason it was decided to make use of Section E on skills development of the Employment Equity reports for the purposes of skills analysis.

Interviews were also held with trade union shop stewards. The interviews provided a check on the information being provided by firm management on actual steps taken. It also emerged that employers largely do not consult shop stewards about the employment equity and skills development plans despite the stated provisions in the Acts to do so.

### ***Understanding and defining black economic empowerment***

Despite the high profile of black economic empowerment in South Africa there is still great uncertainty and ambiguity as to what BEE entails and what it means to be empowered. It is important therefore to be clear about how BEE is defined. Is economic empowerment about the removal of barriers to advancement? Is it the ability to exercise economic freedom and/or access educational and skills development opportunities?

Development and empowerment can both be argued to be processes of expanding the freedoms and opportunities that people enjoy. Empowerment can be defined as a process of enhancing feelings for self-efficacy among organizational members by identifying conditions that foster powerlessness and removing them through formal organizational practices (Conger and Kanungo, 1988). Friedman (1992) sees empowerment as an alternative development path that places emphasis on the improvement in the conditions of the lives of, and the livelihood of, an excluded majority. He believes in empowerment as an aim to humanize the system that has shut out the majority with the long-term goal of transforming society and the structures of power.

The Reconstruction and Development Programme clearly identified focused Black Economic Empowerment policies as necessary to deracialise business ownership and control and to ensure effective participation of black people and women in the mainstream economy. It included special emphasis on tendering procedures, training and non-discrimination (see Ponte et al., 2006). Black economic empowerment has also been identified in government's industrial policy as a key objective, while DTI's Broad Based Black Economic Empowerment strategy and the Act of 2003 also place BEE at the centre

of government's policies for industry. Black economic empowerment is an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities (Department of Trade and Industry 2005).

A broad definition of BEE is also consistent with the Black Economic Commission (BEECom) established in 1997. The Commission was, amongst other things, tasked with setting guidelines for monitoring the implementation of the national BEE strategy, assessing obstacles thereof, and defining black economic empowerment. The BEECom refers to demand-side and supply-side strategies of the colonial government. The demand-side refers to the saturation of the white consumer market, while the supply-side refers to labour costs not adapting to skill shortages due to the 'colour bar' on advancement of black workers and the dependence on imported machinery. It emphasises that strategies of empowerment should have responses that target both demand-side and supply-side aspects. The Commission defined BEE as a comprehensive strategy that seeks to allow access to productive assets and ensure that those assets are indeed productive (BEECom, 2001). It further aims to promote opportunities for blacks and increase their levels of participation in the ownership, management and control of economic activities.

As a tool for empowerment, BEE as described by the Commission focuses on the creation of jobs, rural development, urban renewal, poverty alleviation, land ownership, skills and management development, education, meaningful ownership, and access to finances for households for the purposes of conducting business. This list is extensive, however, for our purposes it is only necessary to highlight the importance of skills, employment equity and the security and quality of employment. This can be contrasted with a narrow definition of BEE usually associated with the development of a class of black capitalists.

Employment is at the heart of the effective participation in the economy by the majority (see Sen, 1984 and 1999). Moreover, it depends on the incomes earned, and the nature and security of that employment. A major focus of our research is thus the extent to which provisions with regard to procurement, ownership, skills development and employment equity have indeed altered firm decision-making and the employment outcomes observed. As noted above, improved training and the greater mobility of black workers had also been identified as key to overcoming apartheid obstacles to more extensive manufacturing development beyond a narrow set of relatively capital-intensive sectors (Joffe et al., 1995).

Sen (1999) identified five means towards achieving freedom (political freedoms, economic facilities, social opportunities, transparency guarantees and protective securities). The most relevant instruments of freedom for this paper refer to the ability of people to access economic resources for the purpose of consumption, production or exchange (economic facility) and the arrangements society makes for education and health care to substantially free individuals to live improved lives (social opportunities). Better education and training have a positive association with higher earning and hence economic freedom. Therefore, development requires the removal of major sources of "unfreedoms" such as poor economic opportunities, the lack of skills development and the opportunity to actively participate in the labour market. Elsewhere Sen highlights employment as one of three main ways to achieve redistribution of assets (Sen, 1983). The other two are an equity plan, where individuals are entitled to a share of the commodity, and the usage of subsidies to make it cheaper to access targeted goods.

Sen's stance on entitlements and the need to distribute them to those that are disadvantaged embodies the rationale under the concept of broad-based empowerment. It recognises the need to constructively address constraints such as the low participation in the labour market that was constructed through the structured exclusion of black people from economic power that began in the late 1800s with the first colonialist dispossession of the land, continued throughout the 20<sup>th</sup> century with the first Mines and Works Act of 1911, Land Act of 1913 and the subsequent Apartheid laws enacted after 1948.

The legacy of apartheid has left a huge divide in the South African economy, where the white minority still effectively has economic power while the black majority remains poor and subordinate. The empowerment of black people as envisaged by empowerment legislation is therefore a necessary step toward redressing the legacy of apartheid and putting the country on a sustainable growth path. Empowerment seeks to address the apartheid legacy through BEE codes and legislation that aim to address equitable employment opportunities, skills development, procurement from black enterprises, equity transfer as well as providing incentives for the creation of a black entrepreneurial class. The outcomes of such legislation and other steps depend largely on the responses of private businesses.

## **2. The impetus for BEE in the metals and engineering industries**

In addition to the skills development and employment equity legislation that apply to all industry, the metals and engineering industries have specifically been impacted by the Mining and Liquid Fuels charters, and the Preferential Procurement Policy Framework Act of 2000. This is particularly the case for firms for which the mining and liquid fuels sectors, and government and SOEs, are important markets. While metals and engineering industries were central to the apartheid industrial development model, these industries have therefore also been some of the first to face direct pressures for change. However, these industries have also been subject to far reaching pressures for restructuring under liberalisation of the economy.

We briefly summarise the main provisions of these charters and legislation before mapping out the major patterns under restructuring.

### *Charter for the South African Petroleum and Liquid Fuels Industry, 2000*

- Capacity building: Improve and build skills in collaboration with SETAs.
- Private Sector Procurement: Adopt supportive procurement policies to facilitate and leverage the growth of the companies of Historically Disadvantaged South Africans (HDSAs).
- Public Sector Procurement: Government will through its tendering processes give effect to supportive procurement policies towards HDSA.
- Refining capacity: Making capacity available to HDSA companies through toll refining agreements, and including HDSA companies as joint venture partners in any expansions or upgrades.

### *The Mining Charter, 2002*

- Human Resource Development: Provide scholarships to promote mining related educational advancement, offer every employee the opportunity to become functionally numerate and literate, and develop systems through which empowered groups can be mentored.
- Employment Equity: 40 percent HDSA participation in management within five years of the inception of the charter; focus training on HDSA; 10 percent participation of women in the mining industry within 5 years.
- Procurement: Give HDSA preferred supplier status; commit to progressively procuring from HDSA; reflect the genuine value added by the HDSA; and encourage current suppliers to form partnerships with HDSA.
- Financing mechanism: assist HDSA in securing finance.
- Beneficiation: Identify the current levels of beneficiation and indicate the extent to which these can be grown.

### *Preferential Procurement Policy Framework Act of 2000*

The act provides for preferences in the procurement of government and state-owned enterprises in favour of Historically Disadvantaged Individuals (HDIs) and small, medium and micro enterprises (SMMEs). According to the evaluation system for tenders, preferences are applicable to all tenders, irrespective of the amount. An 80/20-point system is applicable for tenders up to R500 000, while a 90/10 point system is applicable for tenders above R500 000. For the former, the 80 focuses on prices differences between bidders and 20 points are awarded based on the empowerment characteristics of the tender and for achieving specified Reconstruction and Development Programme (RDP) goals. For tenders with a value above R500 000 a maximum of 10 points can be scored for empowerment characteristics and for achieving specified RDP goals. These goals can include the promotion of SMMEs, promotion of enterprises located in a specific province, region, municipality or rural areas, the empowerment of the work force through skills development and the upliftment of communities. The Minister of Finance is mandated with the implementation and monitoring of the procurement system.

Since 1996 a maximum of 11.1 per cent preference has been allowed for HDIs who tendered for building and construction contracts administered by the Department of Public Works, while a maximum of 13.6 per cent preference was allowed for equity ownership by HDIs and women for contracts with a value up to R2 million. No preferences were allowed for contracts above R2 million.

### *Employment Equity Act of 1998*

The primary aim of the Act is to promote and achieve equity in the workplace, by encouraging equality of opportunity across all workers and through affirmative action stipulation. The Act applies to all employers, workers and job applicants, with the exception of the National Defence Force, National Intelligence Agency and the South African Secret Service.

Chapter 3 of the Act deals specifically with addressing equitable employment in the workplace through affirmative action measures. The requirements for affirmative action apply to:

- employers with 50 or more workers, or whose annual income is more than the amount specified in Schedule 4 of the Act;
- municipalities;
- organs of State;
- employers ordered to comply by a bargaining council agreement; and
- any employer who volunteers to comply.

Affirmative action measures are measures intended to ensure that suitably qualified employees from designated groups are equitably represented in all occupational categories and levels of the workforce.

A designated employer must conduct an analysis of employment policies, practices, procedures, and working environment so as to identify employment barriers that adversely affect members of designated groups. The analysis must also include the development of a workforce profile to determine to what extent designated groups are under-represented in the workplace.

A designated employer must prepare and implement a plan to achieve employment equity, which must:

- have objectives for each year of the plan;
- include affirmative action measures;
- have numerical goals for achieving equitable representation;
- have a timetable for each year;
- have internal monitoring and evaluation procedures, including internal dispute resolution mechanisms; and
- identify persons, including senior managers, to monitor and implement the plan.

In terms of reporting, an employer who employs fewer than 150 employees is expected to submit its first report to the DoL within 12 months after the commencement of the Act, and thereafter every 2 years on the first working day of October. An employer who employs 150 or more employees, must submit its first report 6 months after the commencement of the Act, and thereafter every year on the first working day of October.

In addition the act requires of employers to assign one or more senior managers to ensure implementation and monitoring of the employment equity plan and firms must make available necessary resources for this purpose.

#### *Skills Development Act of 1998 and the Skills Development Levies Act of 1999*

The principal aims of the Skills Development Act are to:

- provide an institutional framework to develop and implement national, sector and workplace strategies to develop and improve the skills of the South African workforce;
- integrate those strategies within the National Qualifications Framework contemplated in the South African Qualifications Authority Act, 1995;
- provide for learnerships that lead to recognised occupational qualifications;
- provide for the financing of skills development by means of a levy-grant scheme and a National Skills Fund;
- provide for and regulate employment services; and
- provide for matters connected therewith.

The objectives specifically identify improving the employment prospects of persons previously disadvantaged by unfair discrimination and to redress those disadvantages through training and education, and ensuring the quality of education and training in and for the workplace.

These objectives can be met through:

- (a) the establishment of an institutional and financial framework comprising of the National Skills Authority, the National Skills Fund, the skills development levy-grant scheme as contemplated in the Skills Development Levies Act, Sector Education and Training Authorities (SETAs), labour centres, and the Skills Development Planning Unit.
- (b) Encouraging partnerships between the public and private sectors of the economy to provide education and training in and for the workplace.
- (c) Co-operating with the South African Qualifications Authority.

The Skills Development Levies Act applies to all employers except the public service, religious or charity organisations, public entities that get more than 80% of their money from Parliament, and employers whose total pay to all their workers is less than R250 000 per year and who do not have to register according to the Income Tax Act

The Act requires employers to pay a skills development levy from the 1 April 2000 at a rate of 0.5 percent of the leviable amount<sup>7</sup> and from the 1 April 2001 at a rate of 1 percent of the leviable amount. An employer must pay the levy not later than seven days after the end of each month to the relevant Sector Education Training Authority (SETA) in which the employer falls, who will pay the levies collected over to the Commissioner of the South African Revenue Services. All the levies, interest and penalties collected by the Commissioner must be paid to the National Revenue Fund. 20 percent of the levies, interest and penalties paid to the Commissioner is allocated to the National Skills Fund and the remaining 80 percent is allocated back to the SETA after the Director General is satisfied that the SETA complies with the Skills Development Act

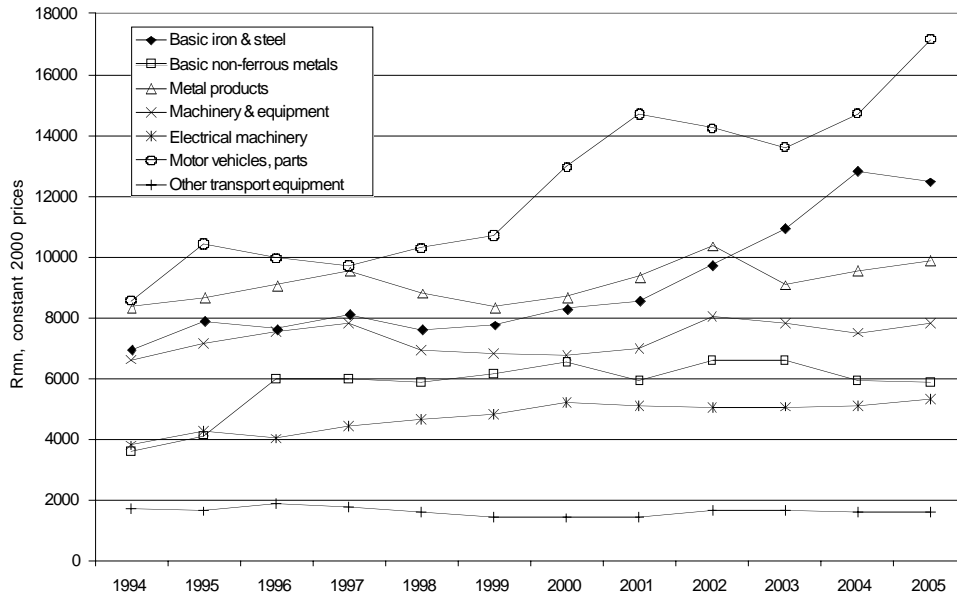
### ***Liberalisation and industry restructuring***

The provisions for BEE, including skills development, have been implemented over a period of major industry restructuring as the South African economy was liberalised (Roberts, 2005). Many sub-sectors within metals and engineering have performed poorly in terms of output (value added), while almost all have shed labour (Figures 1 and 2). However, motor vehicles and basic iron & steel have performed relatively better in terms of output.

**Figure 1. Value-added in metals and engineering industries**

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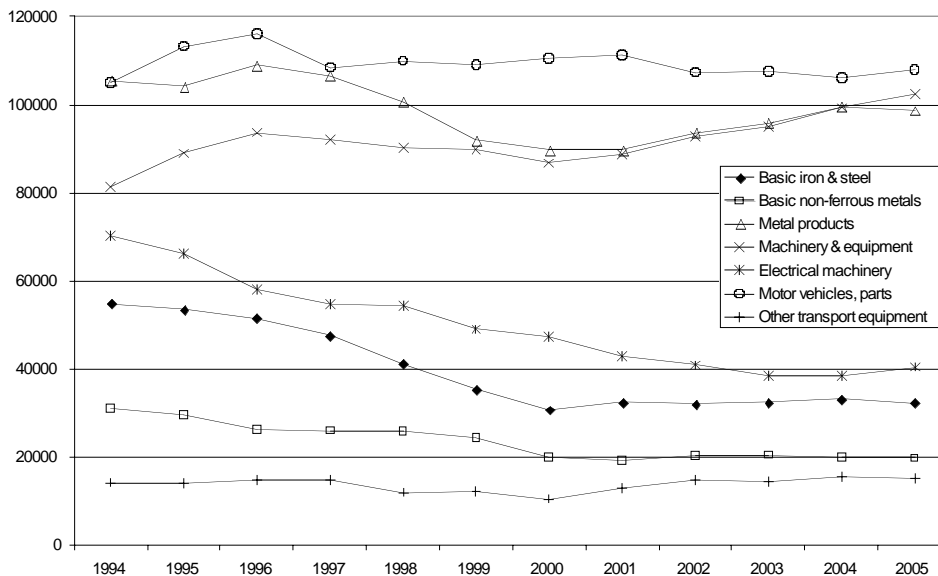
<sup>7</sup> The total amount of remuneration paid or payable by an employer to its employees during any month and excludes any amount paid to any person for pension, payable to a learner in terms of a contract of employment as defined in the Skills Development Act.



Source: Quantec

The employment losses have been significant, with only some recovery of employment in recent years, particularly in metal products and machinery & equipment (Figure 2). The retrenchments in manufacturing have largely been of low skilled workers, with liberalisation being biased towards the demand for capital and high skilled labour (Edwards, 2005).<sup>8</sup>

Figure 2. Employment in metals and engineering industries



Source: Quantec

Employment in motor vehicles & parts has been relatively stable, coupled with strong output growth, indicating very substantial improvements in productivity. Other sectors

<sup>8</sup> When examining semi and unskilled workers it is found that tariff liberalization negatively affected the demand for these workers the most (mandating a decline wages of 47 per cent in semi and unskilled manufacturing jobs) (Edwards, 2005: 24). By comparison liberalization was found to benefit capital and skilled workers.

have experienced restructuring and job losses with relatively poor output performance (with the exception of basic iron & steel). Overall, this suggests substantial restructuring has been undertaken in response to the challenges of liberalisation, including making substantial improvements to labour productivity. To understand whether and how this has related to addressing the apartheid legacy in employment and training, and firm responses to the government interventions described above, we examine a set of firms in the metals and engineering industries.

### **3. The reality of empowerment – firm responses to the aspirations and regulations**

After a brief overview of the firms studied, we assess the research results in terms of ownership, procurement, employment equity, and skills and training.

#### *Overview*

The majority of the firms interviewed were categorised as large (having more than 250 employees). The remaining eight firms are of medium size, having between 50 and 250 employees. At the time the interviews were conducted the firms interviewed employed a total of 36 350 workers. Eight of the firms were in the auto sector (including components and tyre manufacture) while two firms are state-owned enterprises. (See Appendix Table 1 for a summary of the information from respondent firms.)

The firms include both local and foreign owned firms. Six have significant ownership stakes held by black empowerment entities, but none is majority black-owned. The markets served cover a broad spectrum, including firms supplying SOEs and the mining and liquid fuels industries.

#### *Ownership*

In considering ownership, thirteen firms were hundred percent locally-owned while nine were entirely foreign owned, with the remainder having a mix of foreign and local ownership. This reflects the high levels of internationalisation, especially in the auto sector, where both assemblers and first tier component manufacturers are generally part of multinational groupings. In other sub-sectors of metals and engineering South African firms have strong international linkages, which include, but extend beyond, ownership (see also Walker, 2005). These linkages reflect the importance of technology in machinery & equipment and in manufacturing of components with high specifications.

Only six firms were black empowered<sup>9</sup> and only one firm is listed on the Johannesburg Stock Exchange. The firms considered to be black empowered were mostly influenced by their relationship with industry empowerment charters (for example, the mining and petroleum charters) or by the Preferential Procurement Act and sales to government and/or State Owned Enterprises (SOEs). However, for one firm the BEE ownership was motivated by the need to source input supplies (of scrap metal) from SOEs.

In four cases the sales of black equity were designed to just reach the 25.1 per cent target for being 'empowered'. However, this includes a firm for which reaching the target

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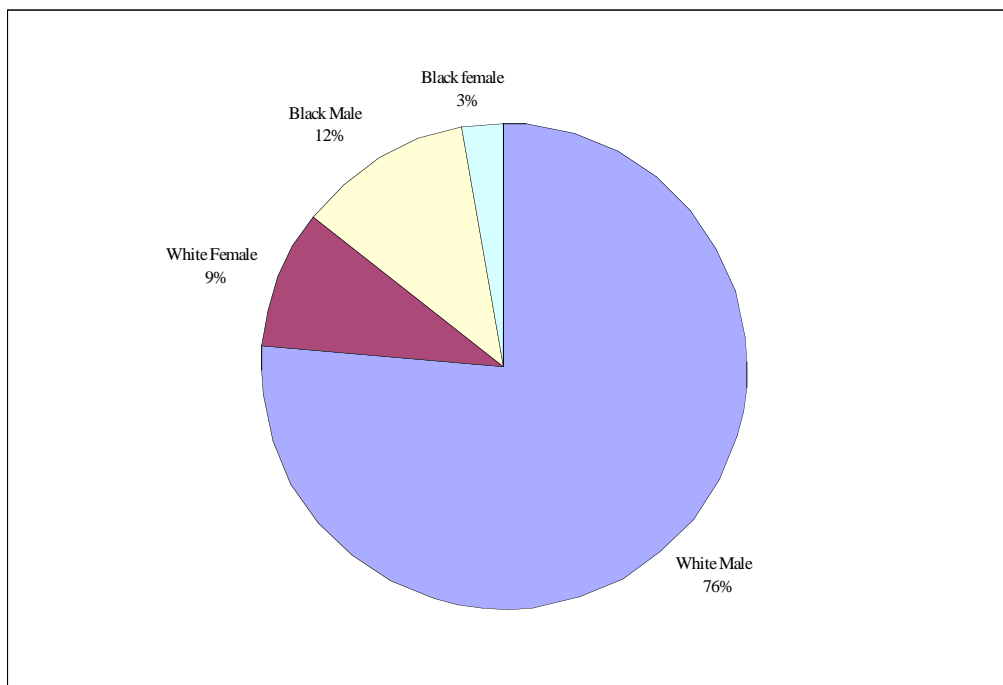
<sup>9</sup> At least 25.1% owned by black persons, this includes Africans, Indians and Coloureds.

required an owner identified as being ‘black influenced’ to be added-in (to increase the existing 20 per cent black ownership).<sup>10</sup>

In addition, the black ownership in the firms studied does not include the major emerging black conglomerates such as Mvelaphanda, Safika, Shanduka, ARM and Kagiso. The BEE ownership consists of a mixture of employee ownership schemes and smaller BEE groups.

When we examine the composition of the company boards it is clear that, even with six of the 25 firms being black empowered, the boards overwhelmingly remain dominated by white males (Figure 3). As expected, in the black empowered firms there is a greater representation of black men and women, but in these firms, white males still account for 47 per cent of board members, white females account for 23 per cent, with just 24 per cent being black males and only 6 per cent black females. In short, even in black empowered firms the boards are entirely unrepresentative.

**Figure 3. Participation at board level by race and gender, all firms studied, 2005**



As might be expected, black people and women in general are very poorly represented on the local boards of foreign owned companies. Just 9 per cent of board members are black males and there are no black females at all.

***Procurement and demand-side pressures***

Nine firms interviewed directly supply significant proportions of output to SOEs and/or government. Seven firms supply directly to the mining sector and six to the petroleum sector, both of which have existing empowerment regulations set by legislation.

<sup>10</sup> The significantly black influenced owner also cites receiving an ‘A rating’ from Empowerdex in their BEE credentials.

Interestingly foreign-owned firms are more likely to sell to SOEs and the mining and petroleum sectors than locally-owned firms. This is due to foreign firms dominating the capital equipment and technology input markets in South Africa. Four of the six black empowered firms that were interviewed have direct relationships with industries that are governed by BEE charters.

Five of the firms supply more than 60 percent of their output to one firm. Two of these supply auto assemblers, one supplies Telkom, one supplies an electrical equipment manufacturer and one is an SOE. Here the customer could leverage its bargaining power to discipline a supplier to adhere to certain practices and provisions, that is, BEE legislation or regulations. This depends on the balance of power between the supplier and the buyer. For example, in one case a firm indicated that preferential procurement has no impact because it is a monopoly supplier.

This is reflected in a more widely observed pattern. Very few firms that supply to government departments, state-owned enterprises, or the mining and petroleum sectors, were negatively affected or lost business contracts to their competitors because of non-compliance to BEE standards. Only two firms reported losing contracts to empowered competitors – one case in the auto sector and one in mining/construction.

The weak impact from procurement is particularly the case with foreign-owned firms, because there is ambiguity as to how current BEE legislation relates to them. In addition, firms that supply highly technical inputs are shielded from BEE imperatives since competitive pressures are severely limited. However, an equipment manufacturer did complain about losing market share to local firms importing cheaper equipment. In addition, there is one case of a firm (not identified as empowered) establishing an empowerment subsidiary for the sole purpose of dealing with government.

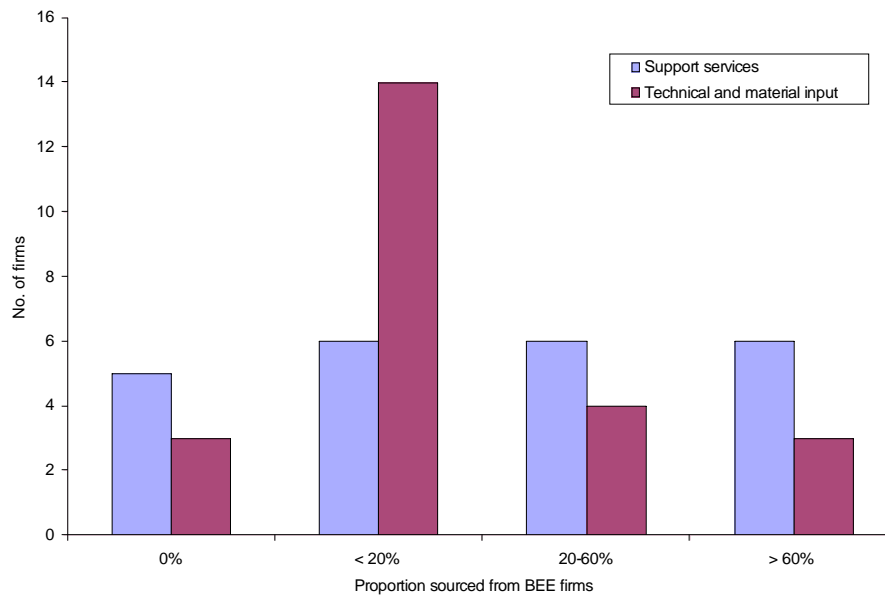
Notwithstanding the very limited moves so far, there is apparently increasing pressure on firms to report their BEE status. For example firms supplying the construction industry sector indicated that the industry charter that is currently under consideration would force them to address black economic empowerment.

Where there are no charters endorsed or no codes of good practice published, as is the case for multinational corporations, firms appear to adopt a wait and see approach rather than proactively engage in issues of empowerment, including employment equity and skills development.

#### *Procurement of firms studied*

In the case of the inputs of goods and services purchased by the firms themselves, there has been a move to buy from BEE firms, especially in the case of services. Twelve firms interviewed source more than 20 percent of their support services from BEE firms while seven firms purchase more than 20 percent of technical and material inputs from BEE firms (Figure 4). One firm identified using Empowerdex to rate possible suppliers, although this firm was not immediately sensitive to procurement concerns in the form of a charter or SOE/government procurement.

**Figure 4. Proportion of support services and technical input source from BEE firms**



In general, BEE firms supply the non-essential support services such as security, gardening, catering and cleaning. In the case of technical and material inputs those sourced from BEE firms tend to be basic materials such as scrap metal inputs for a foundry. Firms reported that in the metals sector there are simply no independent BEE firms that have the capabilities to do the research, design and engineering of intermediate and final goods.<sup>11</sup> In a rare case where a motor component producer managed to source a technical part from a BEE firm, the changed specification of the part requested by the OEM was found to be beyond the scope and capabilities of the BEE supplier. The component manufacturer had no choice but to source the part elsewhere from a non – BEE firm.

Of the firms interviewed four have outsourced their support services to former employees. Although the outsourcing of non-core activities to former employees from designated groups could aid black enterprise development, in certain instances firms conduct these activities to undermine the existing employer-employee relationship. In one case a firm is operating covertly within the confines of another firm. In another case a firm continuously out-sources activities to a former employee (not from a designated group) to the detriment of its own workers.

The ambiguity and problems in what is identified as ‘empowered’ is immediately evident when the products sourced is probed further. The three firms claiming to source in excess of 60 per cent of technical/material inputs from BEE firms all rest their claims on incorrect or dubious grounds. One is in fact sourcing from Mittal Steel. Mittal is apparently claimed as an empowered supplier on the grounds of ethnicity, with no reference to the impact of apartheid. The second firm is sourcing from BHP-Billiton, and incorrectly recording it as empowered. The third sources its products from Trident Steel, part of the Aveng industrial grouping, formerly part of the Anglovaal conglomerate and now controlled by institutional investors. In other words, these respondents either mistakenly or wilfully misrepresented their own purchases. Given that these are large firms and that

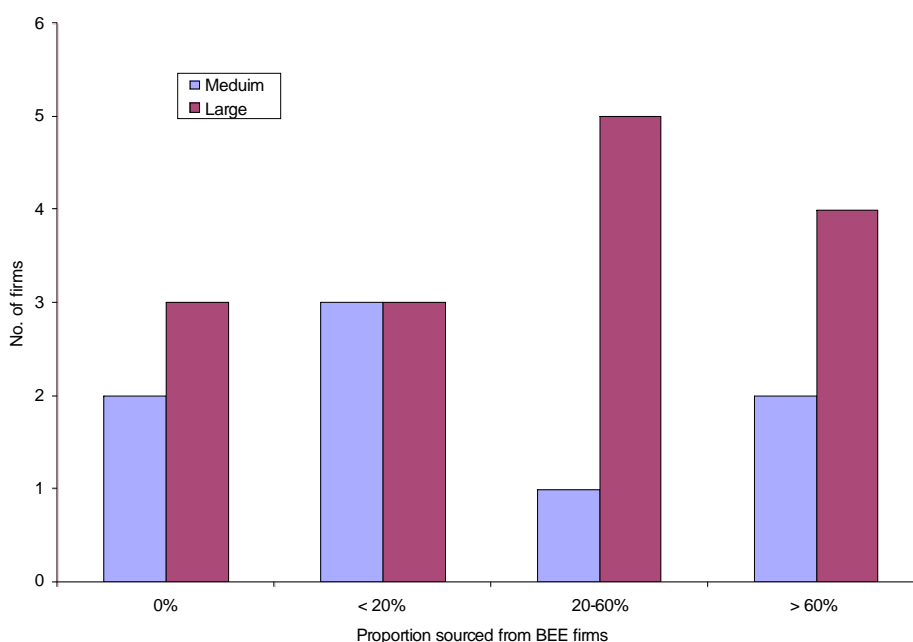
<sup>11</sup> This is similar to observations in Chabane (2006).

procurement is an important part of DTI’s planned scorecard, this raises important doubts about its implementation.

Notwithstanding these important caveats, there is little difference between foreign companies and local companies in sourcing services and/or inputs from BEE suppliers. For foreign-owned firms the impact of the Preferential Procurement Act, and the mining and petroleum charters, were reported as key considerations given the importance of the SOE, mining and petroleum markets for these firms. Procurement was viewed as a way to present a BEE image where ownership could not change. Alternatively, there is simple business sense in sourcing services from BEE firms, as these are activities with low entry barriers that are outsourced to reduce costs.

Of the firms interviewed large firms were more likely to source more than 20 percent of their support services from black businesses compared to medium size firms (Figure 5). But, there was no such difference in the sourcing of inputs, with medium firms just as likely to source significant proportions from BEE firms as large firms are.

**Figure 5. Proportion of support services sourced by firm size**



Surprisingly, the two SOEs captured in the study were not doing very well in sourcing inputs from BEE firms despite being governed by the Preferential Procurement Act. Reasons given include the unavailability of competent BEE firms to supply highly technical inputs. Black empowered firms seem to fare much better in sourcing technical input from other black empowered supplier firms, but this appears from investigation to be as much to do with (mis)representation of the credentials of the suppliers. Firms with a 25.1 per cent or more black shareholding are sensitive about their empowerment profile as one of their competitive characteristics and seek also to maximise the apparent purchases they themselves make from BEE firms.

In general for the firms interviewed, procurement decisions are usually made by a procurement executive, financial executive, and chief executive or managing director. These decisions are largely implemented by mid to junior level managers and buyers. In medium firms an owner-manager usually implements and makes the procurement decisions. In most of the firms interviewed procurement decision-makers were white males. Only in three of the firms interviewed were the procurement decision-makers black.

Seven of the firms interviewed indicated that a procurement or transformation committee makes procurement decisions taking BEE into consideration. Of these firms, two are state-owned enterprises and three are considered black empowered. A further one of the firms is a multinational, which has relatively progressive BEE policies. For example, it has a dedicated unit that focuses exclusively on BEE issues in the workplace. In other words, even the large locally-owned firms (which are not empowered in terms of ownership) do not have such structures for their own procurement. The exception is a wholly-owned family business with a dedicated management committee responsible for procurement issues, comprising one white male and three blacks, including a shop steward.

Most of the firms thought that price, quality and technological capability were the defining procurement trends of the past decade. Only a few firms highlighted the importance of BEE. In selecting potential suppliers most firms consider price and quality the most important followed by technological capability. Eleven firms rated price as the most important criteria while three applied an equal weighting to price and quality. Five firms rated quality as most important.

Price becomes less important where more technical products and related activities are sourced. Firms indicated that having an accreditation to an international quality system, for example, International Standards Organisation, is important for continued business. This is so, particularly when supplying to Original Equipment Manufacturers (OEMs). These accreditation requirements by firms to potential suppliers act as a barrier to entry for start-up BEE firms. For some firms affected by industry charters and the Preferential Procurement Act, BEE is increasingly becoming a consideration with their customers. Future procurement decisions will definitely be informed by compliance to BEE legislation. Many firms thought that quality, ability to deliver and technological know-how will still supersede any BEE conditions.

Most firms interviewed consider the ownership component of BEE as the most important criteria in considering the BEE status of a supplier. With the exception of a few large firms most firms consider checking the BEE status of their suppliers as a cost issue and claim not have the resources to conduct comprehensive BEE audits.

Supplier development programmes are potentially important if BEE procurement is to be part of a broader network of competitive suppliers. In this regard, over half of the firms studied did have supplier development programmes. The firms thus clearly recognise the importance of their supplier network in their own performance. But, as highlighted above, this is not generally associated with developing black businesses. BEE procurement is generally limited to services, where barriers to entry are low and firms can easily compete on their BEE credentials in addition to other characteristics, while offering an outsourcing option that lowers the costs of the service at the expense of lower wages and increased insecurity on the part of those employed in these activities. Procurement relationships

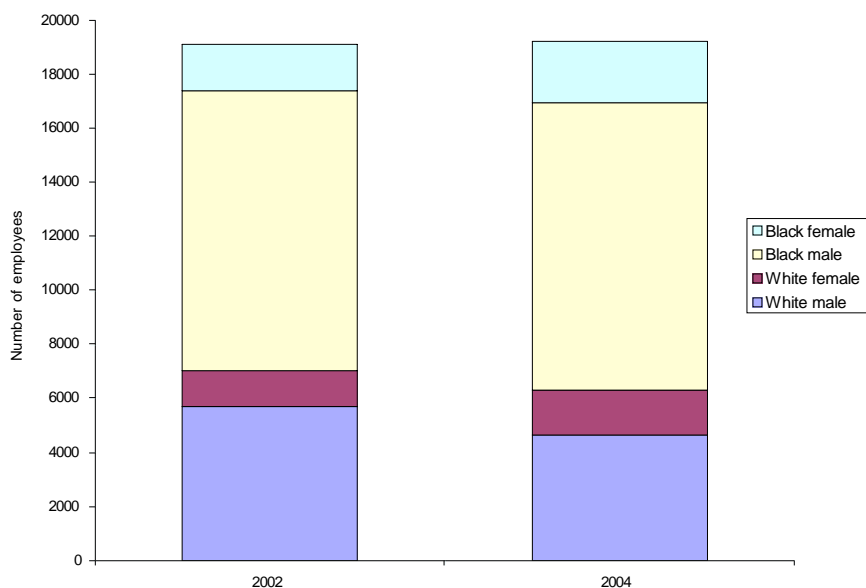
have not, from the sample of firms studied, been part of enabling the growth of black-owned small and medium firms.

### ***Employment equity***

In terms of the Employment Equity Act all the firms interviewed were designated employers. Despite having more than 600 employees and being a large supplier to local government, one of the firms interviewed has never submitted an employment equity report since the legislation was introduced. In one case a firm has reduced its employment from over 1000 employees to less than 150 employees, which alters the firm’s filing responsibilities in terms of the Act. In an opposite scenario a firm has almost doubled its employment from 36 employees to 69, which also had implications for its filing responsibilities.

Figure 6 provides an overview of the employment profile from 2002 to 2004 for the firms studied with data available. African males are the largest single group, due (as illustrated below) to their share in semi and unskilled categories. The share of African females, while low, has increased over the period, although again this is due to changes in the unskilled category.

**Figure 6. Employment profile of firms for 2002, 2004**



Of the firms interviewed fourteen reported having employment equity committees or forums tasked with the implementation, monitoring and evaluation of employment equity plans. The committees generally have representation from management, labour and other designated groups identified in the Act. Usually, the human resource manager or director chairs such meetings. The remaining firms reported that the CEO, plant manager or human resource manager does the implementation, monitoring and evaluation of employment equity plans.

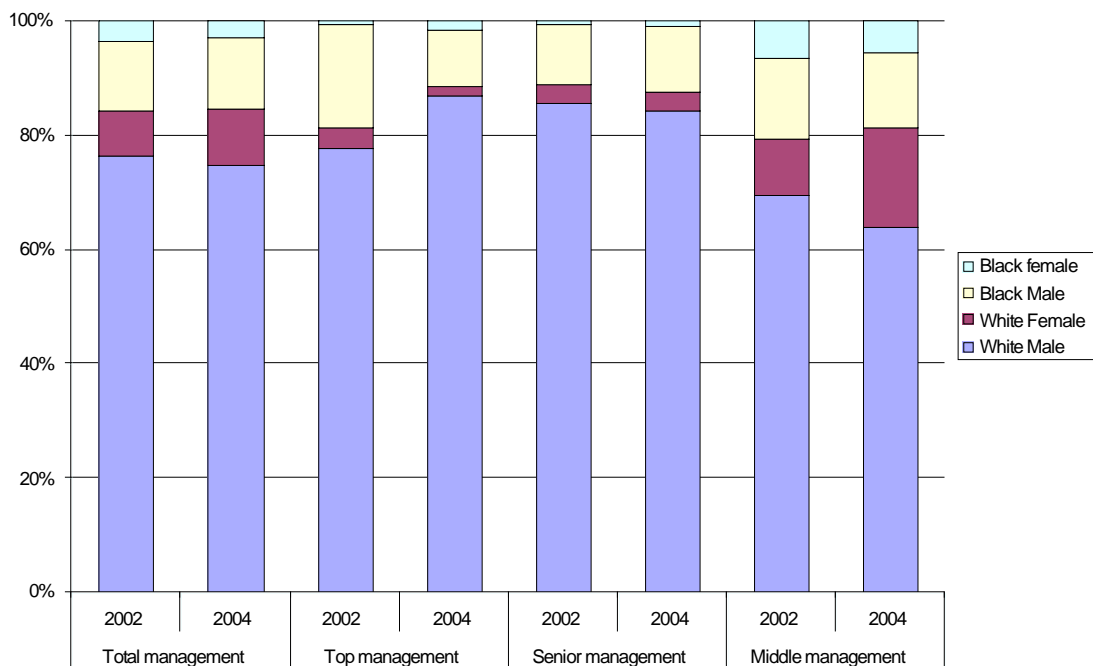
Interestingly of the firms interviewed most of the human resource managers were black males. This could be due to various reasons: including that black managers will better be able to ‘deal with’ issues of industrial relations, employment equity, and BEE. Another reason could be that being appointed to human resources has no real influence on the operational decision-making structure of the firm, and so is where firms choose to appoint black managers.

Not surprisingly an observation of the study was that black managers were more likely to respond positively to participate in the study.

*Management level*

In this historically male dominated sector, female representation is very poor across the different occupation levels. White males still dominate the decision-making structures of the firms in the metals sector with very insignificant black representation. In total management<sup>12</sup> white males constitute close to eighty percent, followed by black males (below twenty percent) and overall female representation at about 10 percent (Figure 7). Black female representation in management positions remains incredibly low. The proportions are almost identical for local and foreign owned firms.

**Figure 7. Management profile, average across firms**



When management is disaggregated further it becomes evident that at top management black representation has in fact been *declining* over the period, with black male representation falling to 10 per cent in 2004. Black representation is hardly higher at senior management level, typically functional managers with significant decision-making

<sup>12</sup> Total management consist of the top three occupational levels as reported in the Employment Equity Reports. The EE Act requires that firms listed on the JSE change the demographics of their top management (directorship level). This however could not be assessed for the firms taking part in the study because, as highlighted previously, only one of the interviewed firms was listed on the JSE.

powers. Clearly very little has been done to employ previously disadvantaged individuals in decision-making positions during the period being studied.

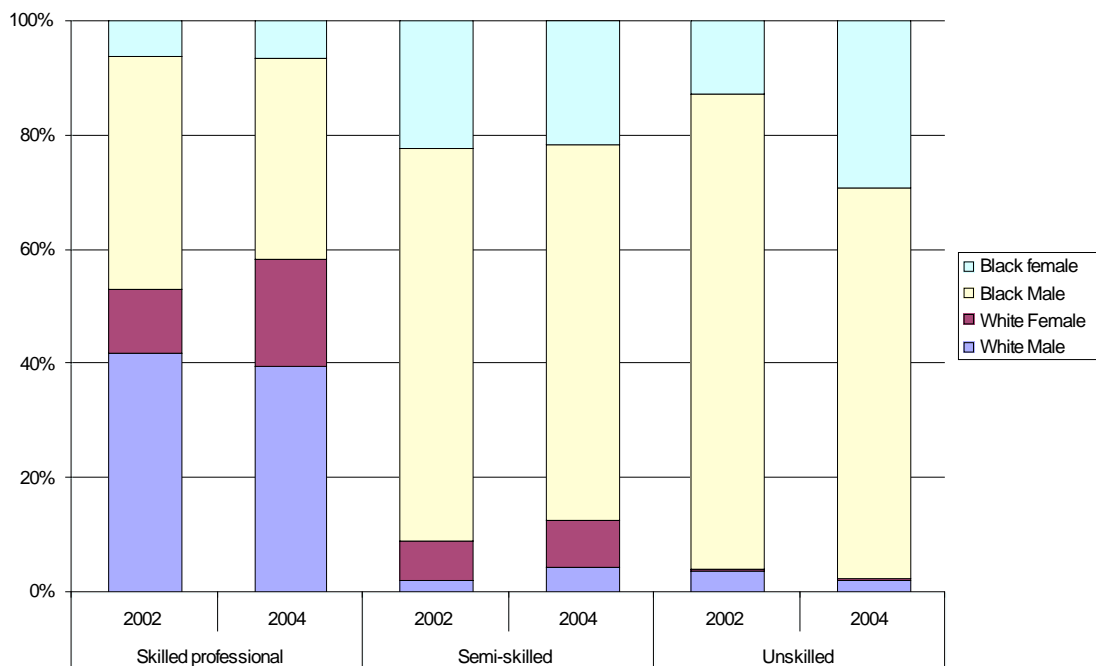
The effective exclusion of black people from decision-making in firms was confirmed in the interviews. And, despite the desire of the legislature for a genuine process of empowerment, at least one of the local firms interviewed openly admitted to using their black female director as a front in securing contracts with government departments.

Only at middle management level has the proportion of white males declined slightly (although remaining overwhelmingly the largest). Here their positions appear to have been taken by white females.<sup>13</sup>

*Technical level*

At the level of skilled professionals, white males slightly outnumber black males (Figure 8). The relative significance of whites at this level is expected given the historical educational advantages afforded to whites under apartheid's job reservation laws. In addition, the share of black technically skilled employees has seen a *decline* from 2002 to 2004, with an increase in the share of white females.

**Figure 8. Profile from skilled to unskilled, average across firms**



Foreign owned firms are *more* representative at this level than locally owned firms. Foreign owned firms had an average of 52 per cent black employees in skilled professional positions in 2004, compared to just 36 per cent for locally owned firms.

Not surprisingly, black males have the greatest representation among the semi- to unskilled level given the legacy of apartheid. There has been little change since 2002 in

<sup>13</sup> Although specifically this change is largely due to one firm doubling the number of white females reported in middle management from 50 in 2003 to 107 in 2004.

the semi-skilled positions. However, the share of black women has more than doubled in the unskilled category.

Overall, employment equity appears to have gone backwards when we examine employment at the different levels of seniority and skill in the firms studied here. While perhaps surprising, especially in firms agreeing to participate in such a study, it is consistent with data for the private sector as a whole. Over the period from 1996 to 2004, the share of Africans in senior management *declined* while the share of Coloured/Asian combined increased substantially (albeit from a small base) and the share of whites increased slightly (Makgetla, 2006).<sup>14</sup>

Firms interviewed cite skills constraints amongst designated groups as the biggest challenge they face in meeting their employment equity targets. Firms also reported the poaching of qualified and trained black staff as interfering with employment equity plans. This exacerbates the natural tendency of firms to under-invest in training, however, it assumes that firms are engaged in meaningful training linked to achieving employment equity targets in the first place.

Three of the firms interviewed cited very low or no staff turnover as an obstacle to implementing employment equity. For some firms the process of appointing black candidates was presented as particularly challenging as the interviewees indicated they had difficulty in supporting the appointments to the white employees who formed the majority at that level. This protection by white managers and skilled groupings of their position is consistent with other detailed factory studies in engineering industries. Bezuidenhout (2005) finds that key elements of the apartheid workplace are replicated in the post apartheid era, with an 'upward floating colour bar'.<sup>15</sup> This allows for some flexibility, such as in appointing black HR managers, but even here was often accompanied by re-specification of responsibilities to move key decision-making up the management hierarchy.

A wider issue is with poor, and inward-looking, management who lack capacity and seek to protect their position (Bezuidenhout, 2005; Dickinson, 2005).<sup>16</sup> A similar observation was made in our study by a senior manager who attributed obstacles to improved work-practices to his own middle and lower (white) management. One way in which management seeks to reconstitute their authority has been through increasing 'precarious' employment (Webster and von Holdt, 2005), that is, by progressively moving the workforce onto short-term and more flexible contractual arrangements.

### ***Skills & training***

Skills development and training are key components of empowerment. Without skills upgrading, very limited changes can be achieved in terms of equitable employment of HDIs. Therefore in assessing the impact of BEE on a sector it is important to examine what has been done in terms of skills development.

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<sup>14</sup> The calculations are based on data from the Statistics South Africa October Household survey for 1996 and Labour Force Survey for September 2004.

<sup>15</sup> Bezuidenhout draws the term from Burawoy's studies of the Zambian copper mines (Burawoy, 1972; 1985).

<sup>16</sup> See Webster and von Holdt (2005) for a collection of studies highlighting the slow pace of change of the apartheid workplace.

As indicated under the methodology section, training could only be assessed based on information available from 18 firms in 2004. This restricted examining who is being trained in terms of race and gender and at what occupational categories. In addition to the inconsistency of reporting employment and training data, section E of the EE report that reflects training data does not take into account the fact that one individual may receive multiple training opportunities. For example, an operator on the factory floor could receive some artisan-related training, adult basic education, and health and safety training, but is counted as three persons who received training.

Despite these severe data constraints, limited conclusions can be drawn from the training data for 2004 obtained from 18 firms. The numbers trained in 2004 were equivalent to 48 per cent of all employees in the firms studied. The averages differ somewhat by race. The average by race and gender show that black men received more training in 2004, at 77 percent, followed by white males and black females (61 percent). On average white females received the least amount of training.

Of the six firms that are black empowered, training information for 2004 was only available for three of them. It is interesting to note that in two of the black empowered firms training opportunities were more available to white employees than black employees. And, in the remaining BEE firm white males received multiple training opportunities compared to blacks. This seems to suggest that, despite black ownership, very little has been done to filter empowerment through to the workplace in terms of providing training opportunities, confirming the narrow perspective in implementing BEE adopted by firms.

Inferences on the type of training that blacks received can be drawn from the face to face interviews that were carried out. In one instance, the HR manager (white female) made it very clear that training for the predominantly black factory workers is restricted to their daily operations. She made an example of the union requesting training in basic computer skills / literacy but said the firm refused because it is not a competency required for their job on the factory floor and that the firms will not train a forklift driver how to use a computer because he does not need to know this. In another instance the HR manager (white male) indicated that the firm had two black workers, whom they took through technikon training and management courses but as soon as they reached the level of junior management were poached by other firms that doubled their salaries. This has led to reluctance to train black workers in especially fields such as engineering and related skills. A large equipment manufacturer who spends about one percent of its payroll on training indicated that less than five percent of training budget is spent on HDIs because the majority of them are the low end of the organisational structure and the kind of training programmes that they are put on are most in-house and not expensive. The white male workers, however, because they are mainly in the middle and upper level of the organisational chart, are sent for more advanced and thus more expensive training.

Twelve firms interviewed have *not* appointed a skills development facilitator despite it being a requirement of the Skills Development Act. At least one firm cited the outsourcing of their human resources function as a reason for not appointing a skills development facilitator. In some firms the human resource manager performs the skills development function. Others reported that the training manager was tasked with this function.

#### 4. Weak links? Empowerment in practice

The study presents a sobering picture. Indeed it can be argued that far from links in broad-based black economic empowerment being strong or weak, they appear almost non-existent. This must be set against the obvious point that skills development and employment equity are integral to addressing the far-reaching legacy of apartheid in industry and in setting a broader-based economic growth and development trajectory.

The metals and engineering industries were chosen due to the purchase of direct and indirect 'levers', in the form of SOE and government procurement and the various charters, on firms. The operation of these levers is meant to be linked to broad-based aspects of empowerment. In addition, the fact that these firms are unionised would suggest additional pressure acting on them to implement skills development and employment equity given the provisions in the legislation for organised labour to be consulted. However, here also the findings are that the links are weak or non-existent aside from limited evidence that it has been a factor in firms being 'empowered' in terms of equity. Unsurprisingly, important suppliers to government, mines and SOEs ignore the pressures where they have bargaining power in the supply relationship. The effectiveness of procurement as a lever requires rivalry between firms on BEE criteria, and for implementation to be properly monitored.

In the firms' own procurement spend a picture of BEE as a managing of perceptions and public relations emerges. Important suppliers identified as being empowered turned out not to be so, again raising questions about the effective measurement and monitoring of performance on BEE criteria. Sourcing of services from BEE firms appears to coincide with the trend to outsourcing and contracting of non-essential services such as cleaning and catering, which also has the effect of weakening the bargaining power of (mainly) black labour. Conversely, supplier development programmes are widespread, but not linked to developing a wider supplier base with greater black participation.

Our findings on employment equity reveal almost no substantive improvement, and black representation at top management has declined notwithstanding a marginal increase in the proportion of black females. At the skilled professional and semi-skilled levels there has also been a decline in the proportion of black employees. This is almost entirely due to a substantial increase in the proportion of white females, suggesting that firms have sought to increase the representation of those classified as historically disadvantaged through the promotion of white females.<sup>17</sup> Only at the unskilled level has black representation increased, driven by an increased share of black females. This is the level at which greatest moves have been made towards using labour contracting arrangements, meaning more precarious employment. Such arrangements, while being used by firms to reduce labour costs, also militate against investment in training.

In terms of skills development, black males appear to have a higher probability of having received training than other groups. But, on closer inspection, this related mainly to elementary training, carried out on-the-job, such as health and safety. This represents a continuation of the patterns observed under apartheid, noted above (Joffe et al., 1995; MERG, 1993). And, there was no evidence of a link between employment equity and training. Furthermore, the black empowered firms (defined in terms of ownership) are no more likely to be progressive in these terms. Also of significance are the findings of

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<sup>17</sup> This interpretation was confirmed by a senior representative of the main industry association.

simple non-compliance with the employment equity and skills development legislation in a large number of cases.

These patterns are all the more concerning given that skills have been highlighted once again as one of the most important challenges for the government's recently adopted Accelerated and Shared Growth Initiative for South Africa (ASGISA). Investing in training was also strongly related to better firm performance in recent research on industrial development (Machaka and Roberts, 2006; CSID, 2005).

This all raises the complex underlying question as to why have firms have responded in this way. One answer lies in the intense pressures for industry restructuring which firms in this sector have been subject to. The firm strategies are generally consistent with firms adopting a defensive approach to liberalisation, maintaining the hierarchical and authoritarian management structures while seeking to cut costs (as also found by the contributors to Webster and von Holdt, 2005). The substantial employment reductions in the sector described at the outset is also consistent with a relatively weak bargaining position for trade unions on concrete issues of empowerment and transformation in the workplace. An important caveat, however, is that the results represent the broad patterns across the firms studied, and there is some diversity within the group.

Another set of explanations relate to the fact that, notwithstanding the raft of legislation, government attention with regard to empowerment has perhaps been more focused on ownership, and particularly ownership in the commanding heights of minerals and resources. And, attention in the running of State Owned Enterprises has been largely focused on their corporatisation and privatisation. While this has gone along with changing the senior management of these SOEs to ensure it is more representative, it does not follow that the new management necessarily has strong incentives to leverage their procurement power for BEE when their own performance is being monitored based on the simple bottom line.

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